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Cover Report: CONFLICT OF INTEREST?

IFC's US\$140m splash in BSP

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It wasn't too long ago that a partnership between the World Bank and its sister organisation the International Finance Corporation (IFC) in the deregulation of the telecommunications sector in some countries in the region was frowned upon.

Critics called it a 'conflict of interest'. Through multi-million dollar loans, the IFC—the World Bank's private sector financing arm—was funding the Pacific expansion of Irish-owned Digicel.

At the same time, the World Bank was offering policy and technical assistance to governments in the region interested in opening up their telecommunications market.

Words like “double standard” and “inappropriate” were used to describe their involvement in the Pacific's telecommunication market.

The World Bank's Country Director for Papua New Guinea, Timor-Leste and the Pacific at the time, Nigel Roberts, had to defend the organisations' involvements as independent of each other.

“The process we're involved in on the World Bank's side has nothing to do with the private investment that IFC staff are involved in,” Roberts told ISLANDS BUSINESS in January 2008.

The World Bank's role in giving policy advice and/or technical assistance in policy matters was delivered at the request of governments in the region, Roberts further stressed. It was not something the World Bank forced down their throats.

Telecom companies in the region, however did not buy Roberts' explanation. They continued to view with cynicism the advance by the World Bank, IFC and Digicel, and believed it would not augur well for the few companies in the region that were locally-owned, like those in the telecom sector.

A senior official at one national telecom company even went so far as to say that the partnership push was unethical, given that IFC was bankrolling an operator to enter a market that it would have otherwise considered not commercially viable to operate in.

“Our Telekom considers it inappropriate for the World Bank to be going around the Pacific Islands promoting competition in the telecommunications sector and at the same time providing finance to Digicel through IFC to perhaps influence them to enter markets that it would otherwise not consider,” Marty Robinson, CEO of Solomon Islands' incumbent telecom operator Our Telekom told ISLANDS BUSINESS at the height of what became a deep concern shared amongst telecoms in the region.

“We have contacted the World Bank on this matter and have not received any formal reply. This matter should now be raised at the World Bank's ethics committee,” Robinson added. Two years down the line, it appears the spectre that haunted telecom operators in the region has emerged once again.

This time, it is hovering on the now very widely publicised US\$140 million purchase by IFC of a 10 percent stake in the PNG-headquartered Bank South Pacific (BSP).

Hot debates surrounding the sale had flared in PNG well before it was formally announced in

June by the PNG government and IFC.

That the PNG government would sell to IFC part of its shares in BSP as part of this sale process was apparently not stomached well.

Concerns were raised on two levels: one: on why the government would sell its shares in an obviously growing business, and to sell at a discount at that. And two: the involvement of IFC and the World Bank in the sale.

“It is an insane decision,” wrote one critic in a PNG blog.

“When PNGBC (Papua New Guinea Banking Corporation) and BSP merged (in 2002), PNGBC was insolvent. Now after privatisation and 100 percent PNG-based ownership, it is making record profits annually—which the state benefits from as it held 25 percent of the shares. Why would he sell?”

The writer’s question was directed at Minister for Public Enterprise Arthur Somare, whose ministry is in charge of the Independent Public Business Corporation (IPBC).

The IPBC holds in trust most state-owned commercial assets, including the PNG government’s direct shareholding of 23.49 percent in BSP.

This shareholding would be reduced to 18.49 percent at the completion of the sale, as government would sell off five percent to IFC.

Another critic, PNG’s Opposition leader Sir Mekere Morauta, came out strongly to question why the sale had been made a six-cents-per-share discount.

“If the Minister (Arthur Somare) wanted to sell BSP shares, it could have been sold a year ago when the market price was at K1.30—it even hit K1.40 in 2008. Had it been sold before at K1.30, IPBC would have received K275 million, not K133 million,” Morauta told a local newspaper.

Indeed, the BSP share price just before the IFC sale—BSP is listed on the Port Moresby Stock Exchange—had taken such a nosedive that it was a cause for concern to at least one major shareholder, NASFUND.

In an analysis of the super fund’s BSP exposure, CEO Rod Mitchell believed the BSP shares, at 69 toea per share, were 20 percent undervalued.

With the IPBC/IFC sale being transacted at 63 toea per share, the IFC, as far as share prices go, could not have entered BSP at a more opportune moment.

While the PNG government went on record to defend the sell down of its BSP holding, what had others worried is how, much like what happened in telecommunications, the IFC and the World Bank seemed to be making “an orchestrated move” into the region.

“I always doubt the World Bank and its associate policies for our development plans. I hope it is not another monster preparing to take over our lives,” wrote another critic.

“Why should IPBC sell its BSP shares to IFC, another arm of World Bank? The World Bank has already done damage by advising the government to sell the former PNGBC. It is privatised and open to market. The World Bank is buying BSP shares and eventually will own it. For me, the World Bank’s policies are sinister and cunning in nature,” the critic added.

In commercial terms, it is the IFC that is making the purchase.

But the fact that this, being its “largest investment in the Pacific region to-date,” is also coinciding with a proposal to admit the World Bank into the Pacific Islands Forum as an observer member, has given even stronger munitions to critics of the World Bank/IFC’s Pacific push.

Pacific push

“It is worrying that while the IFC is funding commercial operations like BSP and Digicel, its affiliate the World Bank is seeking a very strategic positioning through its desire to be granted an Observer Status in the Pacific Islands Forum,” another critic told ISLANDS

BUSINESS.

“The question that comes to mind is whose interest will the World Bank be protecting when it offers its so-called policy assistance to governments in the region.

“Naturally, I am very suspicious about this kind of approach and would urge governments to exercise caution and not sell their countries by blindly putting in place policies just because they are the recommendations of the World Bank.”

Documents obtained by ISLANDS BUSINESSs on last month’s Forum Officials Committee meeting show that on the agenda was the committee’s action to recommend to Forum Leaders “that the World Bank be invited to become an observer to the Forum.”

“In March this year, the World Bank, through their East Asia and Pacific Region Office in Sydney with responsibility for Timor-Leste, Papua New Guinea and Pacific Islands Operations, requested that they be considered for official Observer status to the Forum in 2010, and in future Pacific Islands Forum meetings. The Forum Secretariat believes it would be appropriate to invite the World Bank to become an observer,” Forum papers said.

Gaining such a status at the Forum would give the World Bank closer access to governments in the region as well as policy directions collectively discussed by them at the leaders’ level. If the nomination were granted, the World Bank would not be alone in being an observer member of the Forum. But the difference between it and other organisations that have observer status—these being the Asian Development Bank, Western and Central Pacific Fisheries Commission, United Nations and the Commonwealth Secretariat—is that the others have no direct commercial undertakings in the region.

This is the sore point that has generated cynicism in some quarters, and has led to some critics holding the view that regional governments are increasingly at the influence now of their donor partners and their demands.

Yet another critic was obviously irked by the move to admit the World Bank into the Forum. “I think they should just stay out. The reason is that the Forum should be a forum to deal freely with issues impacting Pacific islanders, it has become so crowded now that we should not make it more complicated than it already is,” he told ISLANDS BUSINESS.

What the BSP sale to IFC entails

The sale of 10 percent of BSP to IFC and the IFC Capitalisation Fund involves two major transactions: the issue of new shares by BSP and the sell down of the PNG government’s shares in BSP, held in trust by the Independent Public Business Corporation (IPBC).

In June, PNG Prime Minister Sir Michael Somare announced the approval by the National Executive Council of the sale of five percent from IPBC’s 23.49 percent to IFC. This will reduce IPBC’s shareholding in BSP to 18.49 percent.

In a separate but related transaction, BSP also agreed to issue new shares to IFC Capitalisation Fund, giving IFC a five percent equity.

This will take IFC’s overall interest in BSP to the required 10 percent level. Together, the transactions are worth US\$140 million (K370 million).

In addition to the share purchase, the IFC is providing a long-term US\$30 million senior loan to BSP, to assist with what is expected to be an unprecedented push by the bank into the development of Medium, Small and Micro Enterprises (MSMEs) in countries outside PNG.

A senior loan is said to be a high-class loan that gives the creditor priority over debtor’s assets.

“In the event of a default or bankruptcy, the senior creditors get paid first,” was the definition on smartmoney.com. The IFC said this is its “largest investment in the Pacific region to-date” and that it would support the development of medium, small and micro-enterprises in PNG and the Pacific.

The PNG economy expects a pick-up in rural and urban business activities when the natural gas project—a venture between ExxonMobil and local parties—begins production in 2014 as planned. BSP has aligned itself to take

advantage of this growth.

Concerns aside however, IFC's investment in BSP is expected to have far-reaching impact upon development in the Pacific, especially in efforts being put into the development of Medium, Small and Micro-Enterprises (MSMEs) not just in PNG but in the Pacific as a region.

When asked by ISLANDS BUSINESS if, now with a stronger IFC presence in MSME development through BSP, governments in the region should expect the World Bank to lobby for policies in favour of the development of this sector, IFC declined to comment.

It instead pointed out the need for such a synergy as an IFC/BSP partnership.

"For small and mid-size businesses in PNG, access to finance is a key constraint," IFC said in response to questions sent by the magazine.

"It is estimated that PNG has approximately 13,000-20,000 registered SMEs. Most of these companies have great difficulty gaining long-term financing, and many operate in areas where banking services are minimal. BSP is currently working towards enhancing its operations to better cater to this market; however, the high operational costs associated with such a product offering need to be assessed in tandem with the benefits to both the bank and such a client base."

"By IFC providing long-term capital, BSP will be able to improve its capacity to provide SME lending and extend its reach to meet these customers' needs. At the end of 2009, BSP had a total of 1100 SME loans, which it hopes to increase to 2,500 by the end of 2014.

Additionally, through product diversification and by bolstering their presence in the region through branch expansion, BSP will be better positioned to assist SME development across the Pacific," the IFC said.

Its investment in BSP, it added, "supports IFC's overall strategy of focusing on financing projects in the world's poorest countries, and, in particular, extending financial services to customers who may otherwise not be able to obtain the financing needs to do business or improve living standards."

Time only will tell what this partnership will deliver to the development of Pacific economies and how it will impact upon the lives of ordinary Pacific islanders.

One thing however is certain: with plans to go big on mobile telephone technology to deliver its banking services to rural and remote areas, BSP could well be to the Pacific's banking and finance industry what Digicel has become to the Pacific's telecommunication markets—a catalyst for much needed competition and change.