

CHAPTER 5. BUILDING THE ECONOMY THROUGH SUSTAINED REFORM

5.1 OVERVIEW

The Government recognizes that the private sector is and will continue to be the engine of economic growth for PNG.

While the Government is working to improve the regulatory environment and reduce/remove impediments to doing business and investment, PNG still lags behind other similar developing countries in terms of ease of doing business. According to the World Bank's *Doing Business 2009 Report* which investigates the regulations affecting business activity, PNG is ranked 95th among the 181 economies assessed. This is the fourth consecutive year PNG has slipped down the rankings with it now even lagging behind Fiji, Vanuatu, Tonga, Samoa, Kiribati, Solomon Islands and Palau. This situation needs to be improved.

The 2009 Budget will continue to promote the Government's initiatives to undertake reforms in critical sectors of the economy through enhancing competition and maintaining a stable investment climate in order to promote private sector growth.

Further, the Government will continue to improve the efficiency, effectiveness and affordability of the public sector through reforms on public service numbers, the payroll system, best practices and transparency in financial management at all levels of Government.

The Government has taken practical steps in improving financial information and communication technology in order to support the whole of government financial management systems. Significant progress has been made in improving financial management in recent years and further reform in this regard will be explored.

In 2009, the Government will continue to pursue improvements in expenditure control through the ongoing implementation of the Public Expenditure Review and Rationalization (PERR) program. The Government recognizes the importance of continuing the district treasury roll out program and will continue with it in 2009 to provide government financial services and to complement the provision of basic services to rural areas under the enhanced District Service Improvement Program (DSIP).

5.2 STABLE INVESTMENT CLIMATE

Creating a stable investment climate is one of the key elements required to achieving a strong economy. There are number of critical cross-cutting issues which are impeding private sector growth. The major ones include poor transport infrastructure; inefficient utility service provision (telecommunications, water and electricity); high transport costs; law and order problems; and land tenure issues. Political stability and the resulting greater consistency of policies are also very important for investment growth. These issues are indeed great challenges for the Government to address to enable economic growth over time.

Over the last few years, there has been a significant improvement to the Government's fiscal and debt position due to good fiscal and macroeconomic management and the

Government's adherence to a range of medium-term policy frameworks, particularly the Medium Term Fiscal Strategy and the Medium Term Debt Strategy. Nevertheless, inflation grew to double digit levels during 2008 and this needs effective monetary and fiscal policy action to bring inflation back to more comfortable levels. In 2008, the Government has adopted a new Medium Term Fiscal Strategy (MTFS) 2008-2012, which provides the principles for allocating any additional mineral revenue to the best uses for improving PNG's long-term future. The new MTFS 2008-2012 will guide the Government's expenditure decisions when allocating additional mineral revenue. A 70:30 rule will apply in the allocation of windfall revenue – 70 per cent will be used to pre-fund future one-off additional public investments and 30 per cent to be used for public debt repayment.

The opportunities for investment in PNG are abundant. The proposed LNG projects may also bring in more potential investments if they proceed.

5.2.1 Fiscal Responsibility Act

The *Fiscal Responsibility Act* was enacted in 2006 to promote economic and financial transparency and accountability. It strengthens the medium-term framework for fiscal policies and provides guiding principles for the conduct of fiscal policy for the Government.

The Treasurer has authority under the Act to approve borrowings undertaken by Government agencies. In addition, the Treasurer will be consulted on any submission to the National Executive Council (NEC) that has financial implication for the State, prior to consideration of the submission by the NEC.

As required under the Act, the Department of Treasury has been on target in releasing the three fiscal reports: the Final Budget Outcome (FBO) report; the Budget Strategy Paper (BSP); and the Mid-Year Economic and Fiscal Outlook (MYEFO) report. All these reports were completed and released in 2008. The 2007 FBO report was completed and released in March 2008, followed by the 2009 BSP in July, and finally the 2008 MYEFO was released in July. This is a significant achievement in the Government's attempts to increase the transparency and accountability of its fiscal operations.

5.2.2 Affordable and Sustainable Wages Policy

The Government will continue to support affordable wages policies, with increases in wages linked to productivity increases.

In 2007, the Government negotiated a salaries and allowances agreement with the Public Employees' Association (PEA) after the 2004 Agreement expired. The new Memorandum of Agreement covering the three years period from 2007 to 2010 was endorsed and signed by the Government in December 2007. The productivity benefits flowing from the Agreement include a reformed Performance Based Salary Structure (PBSS) to strengthen the performance management system and address absenteeism and attendance problems by establishing attendance criteria as a prerequisite to increment progression; and introduction of flexible working arrangements, including permanent part-time employment and flexible hours of duty.

In 2008, the Government concluded negotiations with the Papua New Guinea Teachers Association (PNGTA) on the next *Memorandum of Agreement for the Determination of Salaries for Teachers* for the period 2008 to 2010. The agreement was endorsed and signed by the Government in November 2008.

Also in 2008, the Government re-established the Minimum Wages Board (MWB) to review and address the current minimum wages level. In determining a safety net for the low income earners, it is very important to consider the impact of an increase in minimum wages on the economy, particularly any adverse effects on inflation, employment and PNG's international competitiveness. The MWB has convened and conducted its hearing into submissions from the unions and employee representatives throughout the country. The final report and its recommendations is expected to be released in early 2009.

5.3 A COMPETITIVE AND DYNAMIC PRIVATE SECTOR

The Government is committed to promoting a competitive and dynamic private sector, and acknowledges the positive contributions this can have on the economy through creating employment, higher incomes and stimulate economic growth.

In 2009, the Government plans to undertake a range of activities to enhance competition and private sector growth. The structural reform and competition policy agenda for a range of key sectors is outlined below.

5.3.1 Enhancing Competition

The benefits of increasing competition are many but it is particularly important for increasing efficiency, productivity, reduces prices, improves quality of service delivery and promotes innovation. The Government realizes the benefits of competition and its impact on the economy hence will continue to undertake a number of initiatives to improve competition in key service sectors of the economy.

The Government will continue to create an enabling environment for competition by removing impediments which affect fair competition. Some of the important areas in which good progress has been made or is being made in this regard include removing monopoly powers, reducing burdensome regulation, tackling difficult licensing procedures and various other protective measures.

Since 2006, the ICCC has conducted important reviews into the aviation, coastal shipping, tourism and the telecommunications industries. In addition, comprehensive competition reviews into the General Insurance industry as well as the Wholesale and Retail trading sectors have been held with a particular focus on the level of competition and the premium and profit margins within these industries.

5.3.1.1 Telecommunications

Since the introduction of competition in the mobile segment of the industry in 2007, substantial social and economic benefits including improvements in the overall service levels have been realized within a short span of time. The number of mobile subscribers continues to grow rapidly from around one hundred thousand subscribers in 2006 to an estimated one million in 2008, with an increasing proportion of the population having access to telecommunications services. This represents a large and rapid overall improvement in market penetration of mobile services. Significant cost savings have also been realized by users of mobile services, together with a much wider geographical area of coverage.

Competition has improved efficiency and reliability of mobile phone services, lowered prices of mobile phone calls, significantly increased employment and has injected a substantial amount of capital into the economy, significantly contributing to GDP growth in recent years. The expansion of mobile phone services in PNG - from both Digicel and PNG Telikom - is

estimated to have contributed around two and a half percentage points to GDP growth in the last couple of years.

Following from the successful introduction of competition in the mobile telecommunications sector, the Government reaffirmed its commitment to the staged introduction of open competition in the telecommunications sector in combination with the transformation of Telikom into a viable and efficient competitor upon the introduction of competition.

Phase 1 has involved the introduction of two mobile licences, one of which has commenced operation. Phase 1 maintains the role of Telikom as the sole holder of a general carrier licence and exclusive rights to operate the international gateway by which telecommunications networks in PNG are connected to international networks.

Given the successful implementation of phase 1, attention will now turn to developing the timetable and reform agenda for phase 2 of the introduction of open competition in the ICT sector.

5.3.1.2 Aviation

In recent years, PNG has experienced improvements in aviation services, both in relation to regulation by the Civil Aviation Authority (CAA) but also the airline industry itself. This improvement is mainly attributed to the Government's commitment to reform of the CAA and greater competition in the aviation industry. The Government hopes to build further on these gains in 2009.

As with the code sharing arrangement between Air Niugini and Qantas, Airlines of PNG and Pacific Blue Limited have commenced a code sharing arrangement. The entry of an additional airline into PNG's aviation industry will continue to promote the benefits of competition, with reductions in the cost of fares and increased services for international travelers. This addition is expected to produce benefits for the tourism sector and will hopefully generate additional income earning opportunities for Papua New Guineans.

The Government's initiative to corporatise CAA is progressing well and has led to some improvements in the Authority's functions. Initiatives to separate the commercial functions of the CAA from its regulatory and safety functions are also making good progress. The recommendations to improve the transparency of performance of the CAA are being implemented so that a more business-focused approach, which involves transparency of performance of individual airports, can be introduced.

5.3.1.3 Electricity

Reliable and consistent electricity service provision is important for business operations and the many people who depend on it. However, frequent electricity outages cost businesses and households significantly and result in loss of production and add costs to business operations.

The Government hopes to expand the opportunity for investment to improve the provision of reliable electrical services. Accordingly, it is preparing a National Electricity Policy, which focuses on private sector participation and competition, particularly in generation activities and rural electrification.

The National Electricity Policy is being prepared by an inter-departmental task force to guide the development of this industry into the future. The 2008 Budget provided an additional K30 million for rural electrification to be allocated according to the soon-to-be finalized electricity

policy. This will be the basis for moving forward in increasing efficiency of electricity service provision.

5.3.1.4 Tourism

In 2007, the Government adopted the PNG Tourism Master Plan 2007-2017, which identifies the tremendous potential which PNG has to further develop this sector. It recognizes that tourism offers a sustainable alternative to the traditional resource based industries of PNG and as such is an investment in the long-term economic, social and environmental welfare of the country. For the first time, the Tourism Master Plan provides the basis for a comprehensive and 'whole of Government' approach to the development of the sector.

A key recommendation of the review is the separation of the policy and marketing functions of the Tourism Promotion Authority (TPA). This is to be achieved through replacement of the existing TPA with a new industry driven body to oversee and co-ordinate destination marketing, called 'Tourism PNG'. Furthermore, a Tourism Policy Secretariat has been recommended for establishment under the Ministry of Culture and Tourism to handle all policy matters. A Tourism Task Force Committee, headed by the Prime Minister, has been established to oversee the implementation of the review's recommendations.

In 2008, the Ministry of Culture and Tourism commenced a review of the institutional arrangements within its portfolio. The review aims to assess the current institutions in the portfolio (PNG Tourism Promotion Authority, the National Cultural Commission and the National Museum and Arts Gallery), their linkages, and their capacity. This is with the aim of proposing an appropriate structure which could help support and enhance the growth of tourism and culture, both at the national and provincial levels and foster a more effective partnership and collaboration between the institutions.

The ongoing reform in the tourism sector is important in complementing and supporting the Government's efforts in improving the sector.

5.3.1.5 New Reviews

The Government also plans to undertake reviews of key sectors to identify possible impediments to competition and opportunities for private sector development in various sectors.

As an independent regulator, the ICCC has an important role to play in relation to such reviews. As in 2008, the ICCC will continue to undertake further reviews of the current price regulation relating to petroleum products, sewerage and water services in 2009. The review into pricing of Water and Sewerage services will form a broader review endorsed by the Government.

The ICCC was also tasked by the Government in 2007 with undertaking a comprehensive review of competition and market conduct in the General Insurance industry. The ICCC found that there is a reasonable level of competition in the industry, with premiums reflecting to a larger extent, the market, economic and risk profile in PNG. Nonetheless, the ICCC has found serious legislative, regulatory and governance weaknesses in the industry that need to be addressed and strengthened in order to move forward. The Department of Treasury will continue to consult with stakeholders in the insurance sector to identify opportunities to address the concerns identified in the review and to seek to enhance competition and regulation in the insurance industry.

Further sectoral reviews will be identified throughout 2009 as part of the Government's ongoing commitment to competition policy and structural reform.

5.3.2 Improving Public Infrastructure

The Government is committed to building and improving public infrastructure throughout the country in 2009. In this, transport infrastructure rehabilitation and maintenance is crucial to allowing accessibility to markets, which is important for the bulk of the population in rural areas.

Accordingly the Government is committing substantial funds to public infrastructure in the amount of K954.4 million in this Budget.

These expenditures build on the substantial investment made by the Government in public infrastructure in recent years, including the total investment of K636.8 million in the 2008 Supplementary Budget and K1,082.1 million in the 2008 Budget.

Over K435 million has been allocated in the 2007 Budget and K1,378 million in the 2006 and 2007 Supplementary Budgets for infrastructure development. The Government will continue to improving public infrastructure in future by allocation more funds in this area of great need.

5.3.3 Removing Impediments to Business and Investment

Removing barriers to private sector investments is key to promoting and providing a conducive environment for private sector growth. The barriers are many, including those that are mentioned above, and range from inappropriate and overly burdensome regulation to cumbersome administrative procedures and processes.

The Government has made some progress in addressing issues in this regard, focusing on removing impediments to business in order to boost business confidence and encourage investment and growth in the economy by improving burdensome regulations that constrain business activities.

The reinvigoration of the "National Working Group" on Removing Impediments to Business and Investment in late 2008 is an important step forward for the private and public sectors to continue working as partners in identifying and addressing private sector issues. Some of the issues that have been considered and addressed previously under the National Working Group include efforts to reduce the number of days it takes to start a business, the Investment Promotion Authority's foreign investment certification process, improving employment visa services and liberalization of the foreign exchange controls. In 2009, the Government will continue to address impediments to business and investment in PNG.

In recognizing the importance of maintaining a sound financial sector, the Government continues to support and strengthen the regulatory reforms in the financial sector, especially in the superannuation industry. This will enhance effective regulation and prudential supervision of this industry by promoting and fostering improvements in governance.

5.3.3.1 Housing Policy

The Government established a Technical Working Committee tasked with developing a National Housing Policy in March 2007. The National Research Institute (NRI) was engaged as a Strategic advisor to the Taskforce and has assisted in coming up with a National Housing Policy and Strategy. The Taskforce has consulted widely in the preparation of the policy which is now awaiting NEC consideration.

The housing issue cuts across a number of key factors and these include: availability of land and security of title, the limited supply of housing, and the need for further private sector involvement in housing construction and management.

A total of K62 million was allocated in the 2007 and 2008 Supplementary Budgets and 2008 Budget towards institutional housing and housing development schemes. The Government will ensure that these funds are allocated in a sustainable manner that addresses the core housing issue related to the lack of supply of available land and houses.

A commitment to the housing issues also requires improvements in the operations and performance of the National Housing Commission. The Government is currently developing options for the review and reform of the NHC to ensure the Government's investment in housing is appropriately managed.

5.3.3.2 Tariff Reduction Program

The planned implementation of a further Tariff Reduction Program (TRP) has been delayed as a result of the international financial crisis and the sharp fall in commodity prices and large movement in exchange rates. These international developments have created a lot of uncertainty and volatility and the implementation of the TRP is now deferred until 2010. By this time, there should be a more stable environment which would be more conducive for any changes to be made to the tariff structure.

5.3.4 Public Private Partnerships (PPPs)

The Government supports and values the contribution of the private sector as an important development partner in nation building. To promote and enhance the private sector, the Government is in the final stages of formulating a Public Private Partnership (PPP) policy, which is intended to strengthen cooperation between a public institution (that is, a line agency, SOE or lower level government) and one or more private enterprises in the provision of infrastructure. The objective of a PPP is primarily to enhance infrastructure and services delivery by utilizing private sector capital, management, innovation, technology and other resources.

In April 2008, the Asian Development Bank (ADB) and the Government entered into a Memorandum of Understanding (MOU) on technical assistance to support the design of a national PPP Policy. The policy is currently being developed and following consultations is expected to be submitted for consideration by the NEC.

The PPP concept is viewed as a potential mechanism for addressing PNG's implementation and capacity constraints. The PPP model could provide the project management skills necessary to deliver projects, particularly in areas where funding has already been set aside in trusts, such as health and education infrastructure. In doing so, the PPP model provides an avenue to address some of the criticisms and impediments levelled at the SOEs.

The national PPP Policy set the guidelines to engage with the private sector on the provision of physical and social infrastructure programs in support of the Government's developmental objectives. The PPP Policy will help leverage the financial, managerial and technical resources/expertise of the private sector in the delivery and or management of such infrastructure.

There are, however, some risks associated with the PPP policy that must be carefully managed. In particular, the policy must be consistent with the government's financial management frameworks and be transparently implemented. Accordingly, these and other issues are being carefully considered as part of the policy development process.

5.4 PUBLIC SECTOR REFORMS

5.4.1 Streamlining Public Sector Resource Allocations

The Government is committed to improving and sustaining its fiscal performance through the Public Expenditure Review and Rationalization (PERR) program, which is coordinated by multi-agency Implementation Committee (PERRIC), and also involves development partners. In terms of the PERR objectives, much has been achieved to date. However, there are some aspects of the reform which are progressing slowly or are yet to take place. The Government will continue to implement this reform.

As a strategy to move forward on the next phase of the Public Sector Reforms, an external review of public sector reform programs was undertaken by the Public Sector Reform Management Unit (PSRMU). A series of seminars and discussions with various agencies and stakeholder including CACC and the National Planning Committee (NPC) took place as part of a wider consultations and awareness regarding the Public Sector Reform Strategy 2008-2012. The findings of the review have formed the basis of a Road Map on this public sector reform. The Strategy has also been refined to take into account the Government's 40 year National Development Plan.

5.4.2 Public Sector Reform Strategy

In order to complement and build on from past reforms to improve service delivery, a *Public Sector Reform Strategic Plan 2008-2012* has been developed. This plan focuses on addressing poor service delivery through two strategic goals:

- (i) Improving the delivery of basic services to districts, local level government, wards and communities; and
- (ii) Supporting service delivery by creating a high performing and affordable Public Sector, including identifying other innovative service delivery mechanisms to boost service delivery.

The first strategic objective will involve targeted actions to address key generic and sector specific impediments to service delivery at the district and community levels. The second strategic objective will involve improving core public sector systems and processes to enable the public administration to support service delivery more effectively.

The *Public Sector Reform Strategic Plan 2008-2012* is different from the past reform plans by focusing on improving service delivery at the district and community levels. This plan is one of the major pillars of the Government's *Long Term Strategic Plan 2010-2050*. The whole of government reforms to be pursued under the long-term plan will provide

opportunity for the necessary structural adjustments that are critical for effective and efficient service delivery mechanism that will improve the quality of life for our people.

5.4.3 Equitable Resource Allocations to Provincial Governments

In July 2008, Parliament approved a package of reforms to the *Organic Law on Provincial Governments and Local Level Governments* that has changed the system of intergovernmental financing, commencing with the 2009 Budget. The new system affects all provinces, except the National Capital District and the Autonomous Region of Bougainville, which are both subject to separate legislation.

The new system will continue to introduce a number of service delivery function grants for recurrent goods and services. Those continuing from the previous system include Transport Infrastructure Maintenance, Health, Education and Village Courts Function Grants. The former Block Grant is now split into an Administration Grant and an Other Service Delivery Function Grant. The Derivation Grant has now been replaced by the Agriculture Function Grant. All Local Level Governments (LLGs) will now receive either an Urban LLG or Rural LLG grant.

The key features of the new system are:

- GST will continue to be distributed to provinces according to where net inland GST is collected, but they will now receive a standard 60 per cent of actual collections from the last complete year. Provinces will also receive 100 per cent of the bookmakers' tax collected in the province.
- All income received by provinces and local-level governments will be taken into account in calculating the grants they receive from the national government.
- Provincial governments will receive service delivery function grants for goods and services. The amount of these grants will be based on need. This is designed to give more funding to those provinces which have less revenue from other sources. Once the system is fully implemented, all provinces should have the financial capacity to meet at least 70 per cent of their service delivery needs.
- Total funding available to provinces and local-level governments for goods and services will be set as a fixed proportion of net national revenue (total revenue, less volatile mining and petroleum revenue). This approach ensures that, as 'normal' revenues rise, funding to provincial and local-level governments will increase in an affordable and sustainable way.
- Additional funding will be phased in over the first five years of the new system. For 2009, this is equal to K37.5 million. During this five year transition period, no province or local level government will receive less than it did in 2008.

These changes will make the system of provincial and local-level government funding more equitable, and provide increased assistance to provincial and local-level governments towards the costs of basic service delivery.

5.4.4 District Services Improvement Program (DSIP)

The District Services Improvement Program (DSIP) is designed to improve or have basic government services throughout the entire 89 districts of the country. The program is

focused on the provision of funding towards basic infrastructure rehabilitation and maintenance at the district level.

In pursuing development priorities for PNG, the Government provided a total of K890 million from the 2007 Supplementary Budget and the 2008 Budget of which each district was allocated a one-off K10 million for priority expenditure areas.

The Government has expanded the DSIP by allocating an additional K4 million to each district in 2009 to continue pursuing its ambitious development priorities. Accordingly, a total of K356 million has been appropriated in the 2009 Budget for this expansion.

5.4.5 Improving Governance and Accountability

This year, the Department of Personnel Management (DPM) delegated certain powers and responsibilities of managing human resources to Government departments under its devolution program. These powers include: organizational structuring; selection and recruitment; contract administration; discipline; training; retirement and retrenchment. Appropriate funding will be required to ensure effective implementation of programs by the agencies.

The Government is also committed to improving governance and accountability at the lower levels of government. A MOU was signed with the European Commission to strengthen District and Local Level Governments (LLGs) throughout the country. The program will support and strengthen the functioning of Districts and LLGs for effective service delivery for broad-based socio-economic development. The program has four components:

- (i) Grant facility to strengthen capacity and development initiatives at District and LLG levels with emphasis on physical infrastructure and capacity;
- (ii) Support training and capacity building with emphasis on systems and processes and manpower skills;
- (iii) Management support to the Department of Provincial and Local Government Affairs;
- (iv) Support to strengthen governance initiatives with emphasis on supporting existing institutions including Parliamentary Committees, Ombudsman Commission and initiatives that promote good governance at the national level.

The project is expected to lead to improved capacity, accountability and an improved overall framework for effective functioning of the lower levels of government.

5.4.6 Improving Governance and Accountability of Resource Rich Provinces

The Government is concerned about direct transfers from extractive industries to provincial governments, as accountability and disclosure of accurate reporting on these transfers are lacking. Accurate reporting and transparency of these transfers and receipts at the provincial level are needed as part of monitoring purposes by the National Government and to prevent leakages from provincial accounts. As a way forward, the Government held initial discussions with donor partners on Extractive Industries Transparency Initiatives (EITI) to address these critical issues in a carefully planned and coordinated manner.

The Government is very supportive of this work in partnership with the World Bank and ADB in addressing the transparent use of transfers from extractive industries to the provinces in 2009. As part of the EITI transparency initiative, the World Bank funded Mining Sector Technical Assistance 2 Project (WBTA2) through Mineral Resources Authority (MRA) will be addressing the transparent use of transfers from extractive industries to the provinces/recipients in 2009 by posting such transfers on the MRA website (www.mra.gov.pg). All figures will be verified by the various parties prior to public release.

The MRA is in the process of undertaking consultation with provinces and recipients such as those identified under the MRA respective mining project MOAs on this disclosure requirement.

5.4.7 Civil Service Size and Payroll Reform

A key objective of the public sector reform is to reduce the size of the public service payroll. An external review of the PERR highlighted two concerns in relation to the effectiveness of payroll controls. These relate to breaches in the controls over payroll records where individuals in data entry areas can access and change records. Effective controls and management of payroll records are required.

Data cleansing of payroll in national agencies and provincial administrations remains an area of concern. The Department of Personnel Management (DPM) has plans to conduct further data cleansing of payroll in national agencies and provincial administrations ensuring that staff on strength matches with approved manpower ceilings.

5.4.8 Improving Financial Management through Integrated Financial Management System

The present legacy of the Planning and Budget System (PBS) will be replaced by the Integrated Financial Management System (IFMS) which will provide the functionality for setting hard ceilings, preparation of the annual budget, execution and maintenance, accounting and reporting which would form the General Ledger.

The system will be piloted in the Central agencies: Department of Treasury, Finance, and National Planning & Monitoring. It will then be rolled out to Works, Health and Milne Bay and to other national agencies in the National Capital District after testing and acceptance process is executed that meets the Government's functional operating requirements which were specified for this integrated system.

5.4.8.1 Medium Term Financial Management Strategy (MTFMS)

The Government has recognized the need to have an overarching Framework for Public Financial Management reform with the development of the Medium Term Financial Management Strategy (MTFMS). The development of this strategy has progressed in 2008 through a working group that conducted wide consultation with stakeholders both at the National and Provincial level including our development partners and further reform is in prospect for 2009.

Broader reform of financial management is supported by the Financial Management Improvement Program (FMIP) and via the implementation of an Integrated Financial Management System (IFMS). The IFMS will improve the present planning budget system and financial accounting and provide a mechanism for improve monitoring and reporting on public sector financial management and accountability at all levels of government.

5.4.8.2 Better Expenditure Control

The PERR program implemented by the National Government will continue in 2009 and into the immediate future in the areas of public funds expenditure control. Under this program, project 9 relates to adoption of a proper framework to better control expenditure through making some amendment to the Public Finance (Management) Act and having these applied in all public bodies that collect and hold public assets on behalf of the government.

5.4.8.3 Audit Committee and Internal Audit functions

Another major key initiative by the National Government is to improve corporate governance through strengthening and establishment of internal audit and audit committee functions. A key outcome from the effective operations of the internal audit and audit committee functions is compliance of laws, procedures and standards. The focus of both functions is to ensure effective and efficient operations of systems and processes for better management of public moneys and provision of public goods and services.

To date, 17 audit committees have been established across national departments, statutory authorities and provincial government levels. In 2008, the committees have conducted most of the scheduled meetings and it looks promising that they will improve and be more effective in the years ahead with adequate administrative and resource support. The Department of Finance is still pursuing discussions and consultation with the agencies to strengthen these functions. The initial awareness is still continuing in other Government organizations for launching of new audit committees.

5.4.8.4 Financial Reporting, Payroll and Trust Reforms

The main accounting systems of the Government of PNG managed by the Department of Finance include Payroll Accounting, General Ledgers, Payroll Maintenance and Trust Accounting from which public accounts are produced for each fiscal year annually.

The Auditor General has completed the 2006 Public Accounts and once the audit opinion is concluded, this together with the Public Accounts will be published. The audit on the 2007 Public Accounts is underway.

The Government will continue to rationalize the number of trust accounts to improve the way they are managed. Over the last two years the number of trust accounts for the public accounts has been reduced significantly, both in national and provincial departments and this exercise is ongoing. The 2006 and 2007 Supplementary Budgets, however, dictated the need for new trust accounts which were established in close consultation with the Department of Treasury, National Planning and the Prime Minister's Department.

5.4.8.5 District Treasury Rollout Program

The Department of Finance has been implementing the Government's District Treasury Rollout Program since its inception in 2004. So far fifty one (51) District Treasuries have been launched. These Districts are currently providing financial management services to the Local Level Governments, District Administrators and other stakeholders based in the Districts. They also provide public telephone services, postal services and banking services to the local communities in the districts.

The balance of thirty five (35) District Treasuries will be launched in the 2009 financial year.

A proposal to establish four (4) Regional Offices in the four regions of the country has been given funding in the 2008 Supplementary Budget. Arrangements are in place to get the Central Supply and Tenders Board to deliberate on the projects.

5.4.8.6 Non-Tax Revenue Management

Project 8 of PERR program is directed at improving non-tax revenue collection.

Work completed to date includes strengthening and streamlining reporting systems between provincial treasuries, line agencies and department headquarters. Streamlining payment processes, particularly payment of court fines, police bails between various departments and agencies.

Work to be undertaken in 2009 includes:

- Installation of Computerized Receipting System (via PGAS) in all the Provincial Treasuries.
- Development of a Revenue Training Module which will cover Revenue Management Controls under the Financial Management Manual.
- Installation of Electronic Funds Transfer at Point of Sale (EFTPOS) outlets in all the Provincial Treasuries and other revenue collecting sites.
- Opening of Receiver of Public Monies accounts in PNG foreign missions for collection and reporting of migration service fees separately.
- Appointment of Collectors and Receivers of Public Monies in other Departments to come under the direct responsibility of Department of Finance.
- Involving and networking with the Provincial Support Advisor to link departments in the provinces with the provincial treasury operations at the provincial level.
- Development of clear guidelines on: irrecoverable revenues, retention of revenues, arrears recoveries, abolishing refunds and refund procedures.
- Follow up on changes to fees and charges submissions by five (5) Departments.

5.4.9 Strongim Gavman Program (SGP)

Following a joint review of the Enhanced Cooperation Program (ECP) by the PNG and Australian Governments in 2007, the joint PNG and Australian Ministerial forum agreed to rename the ECP as the Strongim Gavman Program (SGP) in 2008, with the SGP having a greater focus of attention on capacity building.

The SGP promotes and enhances good governance, sound financial management administration and capacity building within the PNG public sector. Through the placement of skilled and experienced Australian public servants into government agencies, the program has strengthened the capacity of those agencies and enhanced bilateral ties between both governments. The program focuses on the economic and public administration, law and justice, transport and border security sectors of the PNG public sector.

5.4.10 Statutory Authorities

Statutory Authorities have responsibilities delegated to them by the national government to perform their respective governmental functions through the provision of public goods and services. The rationale behind the establishment of Statutory Authorities has been to achieve greater independence from the Government and increase efficiency in their management and service delivery roles.

However, the Government's concern for some time now has been that Statutory Authorities have not complied with the PFMA in terms of submitting their annual financial statements in a timely manner.

To ensure compliance, the government has undertaken some reviews with technical assistance from donor agencies.

The World Bank's review in September 2005 recommended amending the PFMA to improve financial management and governance of Statutory Authorities. Consequently, an inter-agency team was set up to look into these issues.

The ADB provided technical assistance to assist in this work going forward. Their report provided a number of recommendations for the reform of the governance of the Statutory Authorities including proposed amendments to the PFMA. One of the key recommendations is for the current accountability regime to be strengthened by enhancing the enforcement provisions contained in Part VIII of the PFMA, and introducing an Annual Performance Agreement (APA) to improve the accountability of Statutory Authorities to the Government.

The Final Report will be finalized and submitted to the NEC for approval and the key recommendations to be implemented.

5.4.11 Land Reforms

Clear ownership and effective management of land is central to economic development. In Papua New Guinea, the complexity involved in accessing customary land for development and the ineffective land administration system have been the major impediments to economic growth.

A National Land Development Program (NLDP) was formulated based on the National Land Development Taskforce (NLDT) recommendations to identify problems and issues relating to land.

There are four components to NLDP:

- (i) the organization reform of the Department of Lands and Physical Planning;
- (ii) reform and technical strengthening of land administration;
- (iii) customary land development; and
- (iv) Land Legislation and dispute Settlement.

The Government is committed to the implementation of the recommendations of the National Land Development Taskforce on land reform, particularly improving the process for conversion of unregistered customary land to registered customary title and then to urban development leases. This process requires substantial streamlining of current processes and requires further leadership from Government and stakeholders to see tangible improvements in land management and land availability.