

CHAPTER 6. SECTORAL POLICIES

6.1 OVERVIEW

The MTDS is the Government's overall guide to development planning and spending. The strategy was developed following extensive consultation to determine the key areas on which the Government must focus to improve the standard of living of ordinary Papua New Guineans and to ensure their basic needs are met. The MTDS sets the overarching development strategy under which sectoral policies and plans are developed specifying the most effective approach to Government intervention.

This Chapter first reviews activity under each of the seven MTDS Expenditure Priority Areas (EPAs), namely:

1. Primary and Preventative Health Care
2. HIV/AIDS Prevention
3. Basic Education
4. Development Oriented Adult Education
5. Transport Rehabilitation and Maintenance
6. Promotion of Income Earning Opportunities
7. Law and Justice

It also lists the major development expenditure items under each of the seven priority areas.

The Chapter then turns to a review of Papua New Guinea's key economic sectors, as identified in the MTDS. These are Papua New Guinea's developing renewable resource sectors and its traditional sectors:

1. Agriculture
2. Forestry
3. Fisheries
4. Tourism
5. Oil and Gas
6. Mining
7. Manufacturing

6.2 MTDS EXPENDITURE PRIORITY AREAS

6.2.1 Primary and Preventative Health Care

The National Health Plan 2001-2010, continues to serve as the overarching plan for the Government's interventions in the sector. In keeping with the overall direction of the health plan, a Strategic Plan for PNG Health Sector 2006-2008 sets the vision to work towards a common purpose of better management, effective programs and healthier communities. The strategic plan recognises the significant areas of reform outlined in the MTDS, National Health Plan and the Health Sector Medium Term Expenditure Framework (MTEF). The MTEF is intended to improve expenditure planning in the sector, through effective resource costing and allocation to the health sector priorities as identified by the National Health Plan.

The main diseases facing Papua New Guineans continue to be pneumonia, malaria, diarrhoea, tuberculosis, measles and anemia. These diseases are the leading causes of

death amongst persons under 45 years of age. Efficient preventative health care can substantially reduce the incidence of these diseases.

In 2006, close to K147 million or 8.6 per cent of the Development Budget was allocated to the Health Sector to implement its major program. In addition, a total of K95.9 million was appropriated from the 2006 Supplementary Budget, of which, K70 million was tied to the Health Sector Rehabilitation Program.

The major items in the 2007 Development Budget specific to this expenditure priority area are shown in the Table 53.

Table 53: 2007 Development Expenditure on Primary and Preventative Health (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
Capacity Building Service Centre	0.0	31.6	31.6
Health Sector Resourcing Framework	0.0	18.2	18.2
Health Sector Improvement Programme	10.0	5.6	15.6
Provincial Towns Water Supply and Sanitation	10.0	1.9	11.8
PNG Health Sector Procurement Support	0.0	10.0	10.0
District Health Improvement Programme	8.9	0.0	8.9
District Water Supply Program	8.9	0.0	8.9
East Sepik Women's and Children's Health	0.0	4.4	4.4
Health, Nutrition & Childhood Development	0.0	4.4	4.4
Demographic & Health Survey	2.0	1.9	3.9
Other	8.2	17.3	25.5
Total	48.0	95.1	143.2

Source: Department of National Planning and Monitoring

The Government will continue to implement the Health Sector Strategic Plan 2006-2008, and will focus on four public health strategic goals:

- fully immunize every child under 1 year old;
- reduce malaria prevalence in high malaria endemic districts;
- reduce maternal mortality in the districts with high maternal deaths; and
- reduce rate of increase in HIV and Sexually Transmitted Infections (STIs).

In addition, two management strategic directions are being pursued:

- to improve leadership and management in the health sector, in order to achieve the strategic goals; and
- to improve the organizational performance of the Department of Health and Provinces, to support public health.

6.2.2 HIV/AIDS Prevention

In considering Papua New Guinea's development strategy and prospects for growth and development, the Government is committed to confronting the reality of HIV/AIDS and its rapid spread throughout the country. Unless HIV/AIDS is brought under control, there will be devastating consequences for Papua New Guinea's development prospects, from both a social and economic perspective.

The recently endorsed National Strategic Plan (NSP) for HIV/AIDS 2006-2010 provides the framework for a national response to the HIV epidemic, and falls within the overall policy directives of Government. The overall goal of Papua New Guinea's NSP is to reduce the HIV prevalence in the general population to below 1 per cent by 2008, improve care for those infected and minimize the social and economic impact of the epidemic on individuals, families and communities. Thus, the focus of the NSP includes the following interventions: treatment, counselling, care and support; education and prevention; epidemiology and surveillance; social and behavioural change research; leadership, partnership and coordination; family and community support; and monitoring and evaluation.

Although there are large-scale awareness campaigns being coordinated by the National AIDS Council, the rate of new infections being reported has been growing at an exponential rate. A total of 2,887 new notifications of HIV/AIDS were received during 2005, an increase of 15 per cent on the number reported during 2004. At the end of 2005, 14,164 cases had been diagnosed in PNG since the first case was detected in 1987.

Within the 2006 Development Budget, four projects were funded which will continue until 2010. The projects are: Sexual Health Project, National HIV/AIDS Support Project, AIDS Prevention and Care, and PNG-Australia HIV/AIDS Support Programme. These projects are being led by development partners. Whilst Government counterpart funding for 2006 was significantly higher than in 2005, it was clearly low relative to donor funding. Indeed, the ratio of Government to donor funding was more imbalanced in this sector than any other MTDS EPA.

The major items in the 2007 Development Budget specific to this EPA are shown in the Table 54.

Table 54: 2007 Development Expenditure on HIV/AIDS Prevention (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
PNG-Australia HIV/AIDS Support Programme	0.0	24.1	24.1
PNG National HIV/AIDS Support Project	0.0	19.4	19.4
Health Sector Resourcing Framework	0.0	18.2	18.2
Health Support to HIV Sector	0.0	13.6	13.6
Implementation of National Strategic Plan	12.0	0.0	12.0
HIV/AIDS Prevention in Rural Enclaves	0.5	11.2	11.7
Other	0.0	10.0	10.0
Total	12.5	96.4	109.0

Source: Department of National Planning and Monitoring

In addition to increasing its interventions in 2007, the Government anticipates that more resources will be directed towards prevention and the need for a faster roll-out in the use of Anti-retroviral treatment. The implementing capacity of NACS and the willingness and ability

of Provinces, Districts and Wards to fulfill their responsibilities as defined in the Strategic Plan remain significant constraints. The development of a multi-sectoral approach to HIV/AIDS interventions since 2006 continues to address these challenges.

6.2.3 Basic Education

The National Education Plan 2005–2014 aims to achieve Universal Primary Education (UPE) by 2015. The Government's focus on UPE is consistent with the MTDS. The MTDS targets reflect the Millennium Development Goal 2 of achieving UPE. The UPE objective remains the central pillar which guides education reforms in Papua New Guinea. Under this objective, the Government aims to provide the opportunity for all children to complete nine years of basic education. The reforms are being implemented in the provinces with indicators showing evidence of increased enrolments, improved transition rates from Grades 6 to 7 and 8 to 9, suggesting improved retention. In addition, the introduction of elementary schools and phasing out of Grades 7 and 8 from high schools to primary schools should reduce unit (pupil) cost over time.

The Government recognizes that school retention, cost effective delivery of education to remote communities, and overall cost of education remain major challenges to achieving UPE.

In responding to these challenges, the Government has introduced a number of initiatives. One such initiative is the introduction of direct cash grants as education subsidy under the Schools Improvement Monitoring Grant (SIMG), where K43 million is disbursed annually for the purpose of capacity building for teachers and school infrastructure rehabilitation in remote districts.

These programs have been increased with support from development partners, with AusAID assisting four districts and the European Union a further three districts. Other assistance from donor partners includes the Basic Education Development Project (BEDP), which is targeted at achieving the reform objectives in selected provinces including Sandaun, Western, Simbu, Oro and Bougainville.

Table 55: 2007 Development Expenditure on Basic Education (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
Education Capacity Building	1.0	40.6	41.6
Basic Education Development Project (BEDP)	2.0	14.4	16.4
Least Developed Districts Programme	10.0	0.0	10.0
District Education Improvement Programme	8.9	0.0	8.9
Curriculum Reform	0.0	5.7	5.7
Education Facilities Upgrade Programme (G1-8)	5.0	0.1	5.1
Improvement to Rural Primary Education Facilities	0.0	4.5	4.5
Promoting Girls' Education	0.0	4.4	4.4
Other	0.0	4.7	4.7
Total	26.9	74.4	101.3

Source: Department of National Planning and Monitoring

Under the District Services Improvement Programme (DSIP) all 89 Districts receive an additional K100,000 for education. In 2006, these funds were used for improving accommodation for school inspectors, which is considered as a catalyst for improving the quality of education, particularly in remote Districts. However, the issue of maintaining and

sustaining District asset base remains a challenge to many District Authorities. As such, the Government intends to establish sustainable maintenance funding mechanisms, including the option to adequately reflect maintenance costs in the Budget.

The Government is also pursuing improvements in modalities of education services delivery through such mechanisms as the Sector Wide Approach (SWAp). The new education sector modality will be carefully developed learning from the experiences of other sectors.

The major items in the 2007 Development Budget specific to this EPA are shown in the Table 55.

The Government remains committed to ensuring that adequate funds are available to pay for a well-planned and well-managed increase in teacher numbers.

6.2.4 Development Oriented Adult Education

According to the MTDS, Development Oriented Adult Education will address the needs of the 50 per cent of adults who desire to enhance their functional literacy, including improved life skills in order to participate productively in the development process.

Although the Government has identified Development Oriented Adult Education as one of its EPAs, more needs to be done in order to realize this objective.

One of the few interventions under this EPA is the Employment Oriented Skills Development Project. Whilst this project has laudable intentions, the Government recognizes the need to raise management standards and improve inter-agency coordination in order to sustain the achievements beyond the project life.

The Government is seriously considering the option of outsourcing or empowering Churches, NGOs, and other civil society organisations to deliver key services to communities, consistent with the underlying principle of the MTDS in forging strategic alliances. This includes the delivery of services through partnerships with formal education systems, using vocational and technical school infrastructure and staff.

Table 56: 2007 Development Expenditure on Development Orientated Adult Education (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
Employment Orientated Skills Development	6.1	1.1	7.2
Provincial Vocational Center Capacity Building	0.9	0.0	0.9
Targeted Community Development Project	0.8	0.0	0.8
Tonoru Vocational Centre	0.0	0.6	0.6
Technical Vocational Educational Training	0.5	0.0	0.5
Tarlana Vocational Centre	0.0	0.5	0.5
POSSP (Occupational Skills and Standards)	0.3	0.0	0.3
Other	0.0	0.7	0.7
Total	8.6	2.9	11.4

Source: Department of National Planning and Monitoring

Under the 2007 Budget, the Government has introduced cost effective programs under this EPA, with a focus on improving functional literacy and building income generating skills in order to promote self help, participatory and commercially sustainable development.

The major programs in the 2007 Development Budget specific to this EPA are shown in the Table 56.

6.2.5 Transport Rehabilitation and Maintenance

Transport infrastructure plays a vital role in creating and supporting economic growth by connecting different components of the supply chain, enabling markets through bringing buyers to sellers and delivering services which facilitate economic activity. Service delivery is also essential for social development and the meeting of people's basic needs; law and order, education and health services all rely on the efficient movement of goods and people.

Papua New Guinea's infrastructure in all three transport sub-sectors of land, water and air has deteriorated to an extent that it is now considered as the largest impediment to Papua New Guinea's economic growth and development, hence the promotion of Transport Rehabilitation and Maintenance above the other EPAs in the MTDS.

The new National Transport Development Plan (NTDP) 2006-2010 proposes a more integrated approach to transport planning across all three modes of transport, encompassing financing, structural and institutional reforms, together with enhancing the cost-effective application of increased resources to the sector. A radical change in the sourcing of financing and methods for the funding of maintenance activities is warranted, involving the introduction of user charges and cost recovery measures. In addition, a series of liberalization and deregulation policies will be initiated to encourage competition. Legislation will be amended to improve the administration of the sector and performance indicators will be introduced to monitor the success of reform, thereby guiding future interventions in the sector.

Structural reforms have begun with the transfer of responsibility for infrastructure maintenance and management from traditional government organizations to smaller, more focused autonomous institutions, namely, the Civil Aviation Authority (CAA), National Road Authority (NRA) and the National Maritime Safety Authority (NMSA). However, there is a need to strengthen the management and modernize these institutions in order to cost-effectively and efficiently deliver on expected outcomes. These include the introduction of relevant regulations and adequate provisions to enforce compliance.

For the NTDP to fully realize its objectives, there are many challenges to overcome. These include, among others: accommodating an expected growth in passenger traffic; coping with the high inherent cost of transport infrastructure in Papua New Guinea due to the country's topography, climate, and risks and exposure to unforeseen natural disasters; establishing effective transport asset maintenance mechanisms; recovering years of under-investment; and integrating the development of new assets with future maintenance needs.

In the 2006 Budget, investment in Transport Maintenance and Rehabilitation increased significantly to K499.3 million, making it the largest recipient of development expenditure of all the EPAs. With K341.7 million of this share originating from Government sources (either in direct financing, tax credit scheme or loans) this was the one priority area where Government is clearly seen to be driving its development agenda, rather than allowing the lead to be taken by development partners. The 2006 Supplementary Budget pledged further funds towards this EPA with a further K235.5 million. Among the new commitments in the Supplementary Budget was a further K70 million to fund the rehabilitation of the Highlands Highway, delivering on Government's pledge to invest K225 million towards this strategic infrastructure over three years.

The major programs in the 2007 Development Budget specific to this EPA are shown in Table 57.

Table 57: 2007 Development Expenditure on Transport Maintenance and Rehabilitation (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
ADB - 5 Highlands Provinces	110.0	0.0	110.0
Tax Credits & TCS Administration	85.4	0.0	85.4
Performance Grant	0.0	66.9	66.9
World Bank Road Maintenance Project	55.0	0.0	55.0
PNG Transport Sector Support Program	1.0	51.3	52.3
District Transport Infrastructure Programme (DTIP)	35.6	0.0	35.6
National Road Maintenance Programme	20.0	0.0	20.0
Emergency Bridges Program	20.0	0.0	20.0
Gazelle Restoration Two	11.4	8.5	20.0
Highlands Highway Maintenance (KRFG)	1.0	17.8	18.8
Bougainville Trunk Road Maintenance	0.0	13.4	13.4
Construction Machinery & Workshop Facilities	0.0	13.1	13.1
ADB Maritime Navigational Aids	10.5	0.0	10.5
Commodity Roads Improvement Programme (CRIP)	10.0	0.0	10.0
Other	17.5	14.9	32.5
Total	377.5	185.9	563.4

Source: Department of National Planning and Monitoring

With significant increase in funding to the sector, the challenge confronted by the Government is the capacity of agencies to cost-effectively implement funded programs. Another challenge is the need for monitoring and evaluation to be increased to allow Government to keep track of progress and be able to address emerging issues in a timely manner. In addition, the Government is mindful that improved infrastructure resulting from increased investment should be maintained at a certain standard, and not be allowed to deteriorate over time as has been the case in the past. For instance, a significant investment in airport upgrading in the 2006 Supplementary Budget will not tackle the underlying problem of CAA's inability to generate sufficient revenue to sustain its operations.

The District Transport Infrastructure Programme (DTIP) was designed to provide cost-effective community-based solutions to road maintenance and managed at the local level.

The Government recognizes that in this program and others there are prevailing challenges to implementation and reporting. These issues are the focus in 2007 and beyond, as the Government continues to pursue its commitment to translate increased funding into tangible results.

6.2.6 Promotion of Income Earning Opportunities

The Promotion of Income Earning Opportunities in the MTDS is a response to the lack of access to gainful participation in economic opportunities. This is one of the underlying factors contributing to the low standard of living and quality of life as portrayed by unacceptable socio-economic indicators. Enhancing access to income earning opportunities is linked with tackling the major impediments to business in Papua New Guinea. In addition, further development and maturity of niche commercial and industrial markets – both

domestic and international - will be enhanced through targeted interventions under this EPA. Furthermore, broadening access to income generating opportunities is consistent with Papua New Guinea's principles of facilitating individual responsibility through investing sweat equity.

Work has progressed on a number of fronts during 2006 to tackle some of the major impediments to entrepreneurship and business development. The reforms to personal income tax in the 2006 Budget, as well as reducing the burden on workers around the average wage, sought to tackle the high marginal rates which have been cited as an impediment in attracting and retaining high skilled workers and entrepreneurs.

The revitalization of the Rural Development Bank (RDB) offers the chance of greatly enhanced access to credit for a number of labour absorptive investments, predominantly in agriculture, but increasingly in other maturing sectors such as tourism. A rigorous overhaul in the RDB's financial management, underpinned by governance reforms are continuing. The reforms are in line with RDB's business model aimed at preventing the failures of its past and to grow RDB's loanbook over time. Through the current Rehabilitation and Recapitalisation Program the Government intends to re-establish a credible and financially sound and sustainable lending program within RDB. Moves to commercialise the RDB through a license to commence deposit operations is under consideration.

On other fronts, further work is being pursued towards realising the "One Stop Shop" concept and the simplification of the certification process for foreign businesses, both championed by the Investment Promotion Authority. The realization of the "One Stop Shop" concept will be strengthened by the identification of appropriate office space to accommodate the relevant agencies and the implementation necessary legislative changes to incorporate their functions and processes. The simplification of the certification process is now being twinned with reform of rules relating to permanent residency. Care will be taken to ensure this does not allow unnecessary delays to the reform process. The Government recognizes the need to fast track these reforms in light of the findings of the World Bank's 2006 Doing Business Survey Report which shows Papua New Guinea moving down international rankings on 9 out of 10 indicators.

While official employment figures have grown strongly in the first half of 2006, the informal sector remains the major source of employment and income for those outside the subsistence sector. The Government has commenced the process of clearly articulating the policy implications of the *2004 Informal Sector Act*, apart from ensuring that the legislation is widely understood and complied with. The Government has established a Ministerial-led Inter-Agency Committee to develop an informal sector policy to complement the legislation.

The major programs in the 2007 Development Budget specific to this EPA are shown in Table 58.

Table 58: 2007 Development Expenditure on Promotion of Income Earning Opportunities (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
PNG Incentive Fund	0.0	22.3	22.3
Provincial Economic Impact Programme	10.0	0.0	10.0
Recapitalisation of RDB (Green Revolution)	6.0	0.0	6.0
Lae Cold Storage and Fish Processing Plant	0.5	5.4	5.9
PNG Geological Mapping	0.0	5.4	5.4
Coastal Fisheries Management and Development	4.5	0.0	4.5
ACIAR Research and Development	0.0	4.5	4.5
Konebada Industrial Park	4.0	0.0	4.0
Sustainable Livelihoods	0.0	3.3	3.3
Microfinance and Employment	3.0	0.0	3.0
Tourism Master Plan	3.0	0.0	3.0
Domestic Rice Production	0.0	2.9	2.9
PNG Research and Communication	0.0	2.7	2.7
Bougainville Rural Agriculture Scheme	0.0	2.4	2.4
Airbourne Geophysical Survey Project	0.0	2.2	2.2
Smallholder Support Services Pilot Project	2.2	0.0	2.2
National Livestock Rehab & Development	2.0	0.0	2.0
Other	24.5	16.7	41.2
Total	59.8	67.8	127.5

Source: Department of National Planning and Monitoring

Looking forward, the 2007 Development Budget is expected to tackle interventions under this EPA in a more coordinated manner, moving away from the numerous *ad hoc* interventions which have characterized past budgets. With the large number of agencies in this sector, the Government will continue to give greater consideration as to how it can effectively prioritise its interventions to deliver tangible gains in the sector. Prioritisation is best engendered through considerations of effective sequencing and it will be on this basis that Government will determine the most effective means of promoting economic opportunities for both urban and rural communities. The Commodity Roads Improvement Programme, which featured prominently in the 2006 Supplementary Budget, is a good example of how infrastructure improvements – a prerequisite for market access and business competitiveness – can drive income earning opportunities, upon which future interventions such as extension services, marketing, quality standards and research and development can then be built.

6.2.7 Law and Justice

Papua New Guinea has the tough challenge to address crime and corruption in all its forms, as articulated clearly in the MTDS. The present law and order situation in the country has been commonly related to marginalization as a consequence of the rapid and widespread socio-cultural transition that has taken place across the country. The types and occurrences of crime vary across communities from violence against women, tribal fights, land disputes, to the increasing incidences of fraud and corruption. The law and order situation has proven to be one of the major hindrances to private sector led economic growth, whilst also affecting quality of life in both the rural and urban communities. In a well-functioning market economy, peace and good order and a fair and effective justice system is an important

precondition to encourage savings, investments and accumulation of goods and services that would lead to higher living standards.

The Sector-wide Approach (SWAp) of the Papua New Guinea Law and Justice Sector Strategic Framework was endorsed in 2005 with the vision, "A Just, Safe and Secure Society for All". The SWAp provides an integrated system through which efforts are coordinated to ensure the appropriate distribution of resources and a unified effort in trying to improve the law and order situation. The Framework, together with the National Law and Justice Sector Policy and Plan of Action 2000 guide planning and budgeting for the sector. It is anticipated that the SWAp will improve services and reduce costs. The Framework also seeks to encourage the involvement of the community in addressing crime. Progress in the sector is measured through regular and systematic monitoring of Key Performance Indicators which together comprise a Performance Monitoring Framework for the sector.

The 2006 Budget had a large share of expenditure appropriated for ongoing operational and maintenance costs for key agencies in the sector. A major feature of the 2006 Supplementary Budget was the rehabilitation of police housing with K25 million funding and increased pay adjustments for police personnel to the tune of K8 million. These were two priority issues highlighted in the 2005 Police Study Report. A further K9 million was allocated for upgrading of regional Court Houses in the 2006 Supplementary Budget.

The major programs in the 2007 Development Budget specific to this EPA are shown in Table 59.

Table 59: 2007 Development Expenditure on Law and Justice (Kina Millions)

	2007 GoPNG	2007 Donor	2007 Total
Law and Justice Sector Programme	21.6	61.3	82.9
Law and Justice Initiative (ECP)	0.0	18.1	18.1
District Law and Justice Program	8.9	0.0	8.9
Border Management & Transport Security	0.0	8.7	8.7
Community Policing	0.0	2.4	2.4
Justice Advisory Group	0.0	4.5	4.5
Other	0.0	0.6	0.6
Total	30.5	95.6	126.1

Source: Department of National Planning and Monitoring

In 2007, the Law and Justice sector focus will build on the achievements made in the sector over the years as outlined in the Sector Strategies Framework. A major initiative under the Framework is the Law and Justice Sector Program which was initially implemented in 2004 and will continue through to 2009. Focus in 2007 will reinforce support to the five sector goals including improved policing, safety and crime prevention; increased access to justice and just results; improved reconciliation, reintegration and deterrence; improved accountability and reduced corruption; and improved ability to provide law and justice services.

One of the challenges that has continued to affect the sector has been the need for improved monitoring and evaluation. In response, the establishment of a sector monitoring system including Key Performance Indicators enables the Government to determine where interventions should be best directed and whether they are achieving their desired outcomes.

The recent declaration of a State of Emergency in Southern Highlands Province, in response to deteriorating law and order situation and entrenched corruption in the administrative machinery of the Province, is a reminder that the issues in this sector are deep-rooted and require consistent attention over a long period of time.

6.3 ECONOMIC SECTORS

6.3.1 Agriculture

Agriculture plays a significant role in realising the broad-based development strategy articulated in the MTDS, providing income and employment opportunities for the vast majority of the Papua New Guinea population.

With the majority of the country's population living in the rural areas, increasing population growth places a growing burden on the agricultural production systems. The need to address this and other related impediments faced by the agriculture sector requires a holistic approach to planning, budgeting, coordination and implementation in the sector. The decentralisation of functions and powers under the Organic Law on Provincial and Local Level Governments and the policy shift to allow corporatization of agricultural commodity bodies led to disjointed planning and coordination in the sector. Failure to address the impediments facing the sector has resulted in stagnation and fragmentation of the sector.

The challenge remains as to how the significant potential of the sector can be harnessed, thereby increasing its contribution towards the 5 per cent GDP growth targeted in the MTDS and in doing so, reducing poverty and enhancing the quality of life of the rural majority.

The Government is addressing these challenges on several fronts. At the policy level, the Government will introduce the National Agriculture Development Plan (NADP) 2007-2012 after consultations with a wide range of stakeholders in early 2007. The Plan intends to respond to the constraints affecting the sector by outlining appropriate interventions to be pursued over the medium term.

Included in the NADP will be an implementation plan specifying the priority interventions for the sector. Whilst work on this is nearing completion, the Government recognizes the need to better resource and sequence its interventions judging by the limited impact and success of many previous agriculture interventions. The Government also accepts that efficiency gains can be realised through increased coordination and collaboration amongst key stakeholders within the sector, particularly between the National Department of Agriculture and Livestock and the commodity and agricultural research organisations, the provincial divisions of primary industries, development partners and the private sector participants.

The most significant intervention by Government to complement the major investments in the agriculture sector is the substantial increase in funding to transport infrastructure maintenance, aimed at enhancing better access to markets and improved delivery of agriculture goods and services, especially to rural farming communities.

That said, the nature of the industry means that in some cases there is a case for direct Government intervention in order to facilitate major agriculture impact projects. K40 million of the windfall gain has been allocated for this purpose, with the distribution of funds to be determined in accordance with the NADP.

The commitment of Government to the sector is also demonstrated by direct interventions through the design and implementation of innovative programs including the Commodity Roads Improvement Programme (CRIP), Provincial Economic Impact Programme (PEIP), Recapitalisation of the Rural Development Bank (RDB) and co-financing of the Micro-finance

and Employment Project and the Smallholder Support Services Pilot Project (SSSPP) with the Asian Development Bank (ADB). Other interventions are aimed at promoting domestic rice production, and enhancing food security and improving agriculture research and development.

The Government continues to emphasise the need for agricultural research to be needs-based and market-driven. The research institutions are encouraged to build linkages with extension agents so that new and innovative technologies can be accessed by the farming community.

The RDB is envisaged to play a significant role in facilitating the access to credit by ordinary Papua New Guineans and industry players. The recapitalisation of the Bank has led to major investments in the agriculture sector, such as the Smallholder Oil Palm Development in Morobe Province in partnership with Ramu Sugar, Cattle Farming also in Morobe and Cocoa Plantation Rehabilitation in East New Britain Province.

6.3.2 Fisheries

Papua New Guinea is a maritime country with an exclusive fisheries zone representing some 2.4 million square kilometres, the largest in the South Pacific. The fisheries zone includes an extended reef system, numerous islands and an extensive coastline. These present substantial economic opportunities but is in itself an enormous challenge for maritime surveillance and control.

At present, the private sector participates in a range of diverse fisheries activities including inland river fisheries, aquaculture, beche de mer or sea cucumber, reef fisheries, prawn trawling and large-scale deepwater tuna fishing. The range of industry participants includes artisanal communities, medium sized domestic prawn and tuna long line operators and large international purse seine fleets in the deepwater tuna fishery.

The total market value of Papua New Guinea's catch is currently estimated at K450-K600 million although information on the real value of artisanal fisheries is difficult to obtain since it is predominantly an informal sector activity and cyclical factors and price movements - especially tuna - cause huge value swings from year to year. The Government believes that there is significant potential to increase the economic value and returns to Papua New Guinea of fisheries resources through better management and development programs.

The sector is focusing on strategic areas to improve the returns from the sector including: improved market access for fishery and marine products in the coastal communities; increase downstream processing of tuna; improved fishery and marine product quality; improved research development and information dissemination; and institutional capacity building at the provincial and lower levels to improve coastal fisheries management.

The Government, in collaboration with development partners, funded a number of major interventions in the fisheries sector in 2006. Much of the emphasis currently lies in improving sector infrastructure, with the most significant intervention being the planned development of a Marine Industrial Park in Madang. Preparatory work continued throughout 2006 on this initiative, with the establishment of the Industrial Park now surveyed and fully costed.

Another major infrastructure project is the establishment of four new fish markets under the European Union Coastal Fisheries Development project. Preparatory work is ongoing for the markets in Port Moresby and Lae, while those for Buka and Kavieng, are awaiting re-tendering after initial contracts were terminated. Through this same project, fifty boats were procured and dispersed under loan arrangements. Meanwhile, the development of a

Tuna Longline Wharf in Lae under the Coastal Fisheries Management Project and the Cold Storage and Fish Processing Plant, supported by the Chinese Government, are both at the tender stage.

Away from infrastructure, efforts are being undertaken to develop human capacity in the sector through training exercises conducted under the Coastal Fisheries Management Project and through the German funded initiative to develop tertiary education training in fisheries science. Significant attempts have been made to expand access to credit within the sector through the European Union project. A successful pilot project was conducted with the Fishermen Island community off Port Moresby and loan facilities have now been established in New Ireland and Milne Bay, though roll out has been slower than planned in other coastal provinces due to the absence of established micro-finance institutions.

Work is also underway to overcome ambiguity regarding Papua New Guinea's maritime boundaries to determine how Papua New Guinea's current Exclusive Economic Zone should be re-defined to ensure conformity with the United Nations Convention on the Law of the Sea. This will enable and maximize Papua New Guinea's sovereign rights and jurisdiction in the exploitation and management of the seas and meet requirements under the Rules of Origin arrangements, which enable duty free export to European Union markets.

6.3.3 Forestry

A key pillar of the MTDS is the Government's pledge to encourage and empower Papua New Guineans to fully utilize their resources for income generation. As host to the world's second largest tropical rainforest, this policy applies to Papua New Guinea's forestry sector.

The Government is mindful that to maximise the returns from the forestry sector it must improve governance, enforce sustainable practices including diversification of forest-related investments, eradicate illegal logging, eliminate corruption and effectively administer landownership issues, including management of landowner expectations. Despite these challenges, tax revenue from the forestry sector represents an increasingly important component of the tax base, with duties of around K150 million expected in 2006. This follows a steady rise in the volume of log exports with approximately 2.5 million cubic metres expected in 2006, which is approaching the peak levels experienced in 1997. Meanwhile, anecdotal evidence suggests that monitoring of log exports is improving compliance to global and local industry standards. The Government will continue to examine ways to improve compliance in this sector.

With ten new logging projects currently in the pipeline, activity in the sector can be expected to remain buoyant over the immediate future. Diversifying from logging to other forestry-related activities such as reserves and eco-tourism will further increase the economic returns from the industry and also promote sustainability of the sector. Reforestation and plantation which renders the sector sustainable, remains undeveloped in Papua New Guinea and showed little sign of taking off. Downstream processing activities such as sawmills, furniture, flooring and mouldings have the potential to grow and the latest venture in the Central Province is evidence of this.

The Government continues to explore opportunities that will create incentives for the gainful protection of Papua New Guinea's forests. The incorporation of natural rainforest under the Kyoto Protocol's carbon trading mechanism remains a global agenda of Government. Papua New Guinea has established itself as the key advocate in this movement at the global level. Simultaneously, efforts are being made to pursue the "Millennium Development Goal 7" initiative, which similarly seeks to incorporate economic opportunities with environmental sustainability. The proposed establishment of a National Clean Development Mechanism Authority to prepare Papua New Guinea for such ventures remains on the Government's

agenda. A major challenge, however, is the issue of land security and the land tenure system.

6.3.4 Tourism

The tourism sector has great potential in Papua New Guinea, as identified in the MTDS. Papua New Guinea is a haven of exotic beauty in its natural flora and fauna, unique environment and physical topography, and diverse cultures. It is increasingly becoming a popular niche tourism market in diving, surfing, trekking, bird watching and cultural exhibitions. The Government will continue to develop the tourism industry to create income earning opportunities for many of the country's rural population who are talented and skilled artisans, artists and smallholders supplying products and services to motels and guesthouses. In doing so, the Government is mindful of the negative perceptions linked to the law and order situation, and high travel costs. Other challenges include the ineffective coordination of sector interventions and inadequate marketing of Papua New Guinea as a tourism destination.

In 2006 the Government began supporting the model tourism provinces, focusing on Madang, Milne Bay, Eastern Highlands, New Ireland and East New Britain Provinces. Tourism Plans for these provinces have been completed and launched, with the focus in 2007 on implementation of these plans. The sector continues to benefit from amendments made to the *Income Tax Act* to provide double deduction for overseas tourism costs incurred from 1st January 2006 onwards. The change in the *Income Tax Act* provides a subsidy to tourist operators who promote their products in overseas markets. By allowing for accelerated depreciation, the Government has provided further incentives to hotels, restaurants and other recreational tourism facilities.

Momentum behind the sector's reform has gained pace in 2006. The Government has received the final report of the Tourism Master Plan 2007-2017, with the theme "Growing Tourism as a Sustainable Industry". The overall goal of the Master Plan is to "increase the overall economic value of tourism to the nation by doubling the number of tourists on holiday in Papua New Guinea every five-years and maximizing sustainable tourism growth for the social and environmental benefit for all Papua New Guineans".

The Master Plan targets reform across five focal areas, namely marketing, product development and investment, transport and infrastructure, human resource development, and institutions and industry partnerships. From the Master Plan, a number of projects have been formulated, which will be pursued over the duration of the Plan. The challenge for Government is to further reprioritize and sequence these projects in such a way as to maximize and accelerate their impact.

The focus in 2007 is to begin the implementation of the Master Plan.

6.3.5 Oil and Gas

Since 1990, the oil and gas sector has played a key role in Papua New Guinea's development. In recent years the sector has contributed an average of 10 per cent of the country's GDP and 25 per cent of its export earnings.

As a complement to the established oil sector, the MTDS recognises the need to support gas commercialisation. Moreover, gas has the potential to become Papua New Guinea's most valuable natural resource.

Over the medium to longer term, the Government is confident that Papua New Guinea will host a major gas commercialisation industry. Indeed, under the forthcoming White Paper on Gas Commercialisation, the Government is targeting the following developments:

- The export of gas to Australia under the Papua New Guinea Gas Project;
- The development of a Liquefied Natural Gas (LNG) industry;
- The development of a gas-based petrochemical industry;
- The development of a gas-fired rural electrification programme; and
- The promotion of an energy-intensive minerals processing industry, such as aluminium smelting.

The Papua New Guinea Gas Project is the Government's preferred foundation project to underpin the gas commercialisation industry. In addition to the substantial direct benefits that will be generated for Papua New Guinea, the Gas Project will also put in place the backbone infrastructure that will help underwrite investment in other gas commercialisation opportunities, such as the development of a petrochemical industry at the Konebada Petroleum Park.

Significant progress has been made in 2006 in relation to preparing for the Gas Project, with Front-End Engineering and Design substantially complete. A final investment decision takes place in the first half of 2007, which could see the first gas export in 2010.

The increase in petroleum exploration activity resulting from fiscal incentives introduced in 2003 is continuing. Increased exploration expenditure has been observed, and significant interest has been generated by the 2006 offshore licensing round, which was Papua New Guinea's first competitive petroleum licence bidding round. Following a complete review of bids, licences will be awarded during 2007.

In addition to fully supporting the Papua New Guinea's Gas Project, including through an anticipated equity holding, the Government is taking measures to ensure the success of the domestic downstream processing industry. A White Paper drafted in 2006 has further developed the concept, while progress has been made on the establishment of the Konebada Petroleum Park, which is expected to house a range of petrochemical industries. Furthermore, owners of gas reserves have entered into a number of arrangements to assess the viability of specific petrochemical proposals to be located at the Park.

The Government remains committed to actively participating in the commercial development of PNG's significant gas reserves. In 2005, K400 million was set aside to purchase a substantial part of Papua New Guinea's equity stake in the PNG to Australia Gas Project. An additional K100 million of the windfall gain has been allocated for this purpose. This will further reduce the interest and costs associated with financing this equity stake and will give the Government greater flexibility in sourcing the remainder of its funding needs for the project.

6.3.6 Mining

The mining sector continues to be promoted as a major export revenue earner for Papua New Guinea. The sector is responsible for over 50 per cent of Papua New Guinea's exports. The country hosts a number of world-class mining operations and remains highly prospective in mineral deposits. The Government's attractive policy and fiscal incentives combined with the current high mineral prices provide Papua New Guinea with the opportunity to continuously increase exploration for future mining development, as well as fast track the process of commencing new mining operations.

The recent rapid increase in exploration activities demonstrates that Papua New Guinea continues to have the potential to attract new investors into the mineral sector. Two major deposit surveys are currently being carried out in the Highlands under the European Union Mine Sector Support Programme. These include an airborne geophysical and a ground geological survey to identify mineral potential in the country. These two surveys aim to provide new information which the Government will use to promote further exploration in the mineral sector thereby helping to sustain the country's mining industry.

Recent developments include the further diversification of the industry with the proposed extraction of nickel and cobalt at Ramu by the Metallurgical Chinese Corporation. Other new developments are taking place in Hidden Valley, Simberi and Sinivit. The Ramu Project started preliminary constructions in the fourth quarter of 2006 while the access road to the Hidden Valley Mine has been completed to allow for mine construction to commence in the first quarter of 2007.

Despite positive developments in the sector, key challenges remain which the Government must continue to address. These include:

- The delay in operationalising the Mineral Resource Authority (MRA);
- The need to fulfil Government's obligations under the existing mining projects' Memoranda of Agreement;
- The continuing shortfall in skilled manpower; and
- Rising costs affecting the industry, especially petroleum products.

New exploration activities and the development of new mines are being pursued to sustain the country's mining industry. The establishment of the MRA is an important institution for the continuing success of the sector.

The outlook for the mining sector in the longer term is promising, with several other projects at various stages of development. In 2007 and beyond, Freda and Woodlark Mining Projects will be moving towards development. New developments such as Yandera and Molybdenum copper deposits in Madang will be carefully monitored by Government to progress their development. Meanwhile, Nautilus Minerals of Australia is examining the feasibility of developing Papua New Guinea's first sub-sea mining project in the Bismark Sea. The Government views this as an exciting new mining development as it represents the world's first ever sub-sea mining of a sulphide mineral.

6.3.7 Manufacturing

The Government seeks to increase the value of exports produced by Papua New Guinea's manufacturing sector, focusing on the downstream processing of raw materials originating from Papua New Guinea's extractive industries. The strategy for increased industrialisation is to remain commercially driven and to target Papua New Guinea's areas of current and emerging competitive strength.

The role of Government is to ensure an enabling environment that will allow local industry to take maximum advantage of new opportunities as they emerge in the global market, as well as the promotion of foreign investment which can provide both jobs and tax revenue. And yet fostering such an environment remains a formidable challenge for Government, with a number of structural impediments - law and order, physical infrastructure, education and training, the domestic shipping industry and public utilities – cited as impediments by the Papua New Guinea manufacturing industry.

Despite these challenges, there is evidence of expanding production capacity and the development of new product lines, resulting in a continued increase in formal employment in the manufacturing sector in 2006. This growth is almost entirely dependent on the tradable sector, where preferential access – with the Melanesian Spearhead Group and the EU – provides the most profitable markets.

The expansion of existing business ventures as opposed to the emergence of new entrants is evidence of the impediments that are seen to exist by foreign firms considering investing in Papua New Guinea.

Meanwhile, Papua New Guinea's manufacturing growth looks set to diversify, with the potential development of a LNG and petrochemical industry as a key component of the Gas Commercialisation Strategy, the growth in down-streaming in both fisheries and forestry and the potential development of downstream activity in the Palm Oil industry with the generation of biofuels, which may offer a wide range of products, some of which can be marketed domestically, including to Papua New Guinea's marine communities.