CHAPTER 5. GROWING THE ECONOMY THROUGH SUSTAINED REFORM

5.1 OVERVIEW

The economy continues to grow strongly, with 2008 marking the sixth successive year of growth. This success is attributed to sound macroeconomic management, sustained reform and favourable global economic conditions. The economic progress in recent years needs to be sustained through further structural reforms and fiscal discipline.

PNG had made real progress in building a stable investment climate that has been achieved through stability in the political process and the Government's adherence to prudent fiscal and monetary policies.

To sustain economic growth, the Government is committed to promoting private sector growth. It will continue to address impediments to business and investments, improve competition in key sectors of the economy, open up the economy to markets and investment and improve public infrastructure.

The Government will continue to undertake critical public sector reforms, conduct sectoral reviews and corporatize state owned enterprises, remove impediments to investment, thus creating opportunities for further competition and private sector growth.

The 2008 Budget is framed upon an improving economy, political stability and a stable economy. It is guided by the Medium Term Fiscal Strategy (MTFS) outlined in Chapter 9. The Budget will continue to promote the Government's reform agendas in critical sectors through:

- Maintaining a stable investment climate;
- Enhancing competition and promoting private sector growth; and
- Improving efficiency, effectiveness and affordability of the public sector.

The Government will continue to pursue its reforms in relation to public service numbers and the payroll system. The Government is also committed to implementing best practices and transparency in financial management at all levels of government. It has taken significant steps in improving financial information and communication technology. These improvements were undertaken to support whole of government financial management systems. Substantial inroads have been made into improving financial management over the past years and further reform is in prospect.

The 2008 Budget will continue with improvements in expenditure control through the Public Expenditure Review and Rationalisation (PERR) program. It will continue to rationalize the number of trust accounts.

The Government recognizes the importance of continuing the district treasury roll out program. The program will continue in 2008 to provide government financial services and to complement the provision of basic services to rural areas under the enhanced District Service Improvement Program (DSIP).

Poor financial management, lack of transparency and governance are areas that still need to be addressed. A review was undertaken in 2005 and the process has been on-going. The Government will continue to address these issues in 2008. The Government has increased the amount and quality of public reporting, with the publication of the Final Budget Outcome and Mid Year Fiscal and Economic Outlook.

An initiative to be undertaken in 2008 will be the land reforms and the 2008 Budget allocates K28 million for this task. Poor management of land has been a hindrance to economic progress and investment. Some progress has been made in establishing the National Land Development Program to deal with land related issues**.**

5.2 A STABLE INVESTMENT CLIMATE

A stable investment climate is necessary for strong and sustained economic growth. Political, policy or macroeconomic instability can all make it difficult for businesses to plan and to make a well-reasoned assessment of the likely risk and returns on their investment. Under these conditions businesses will require a very high return on investment or, in many cases, will not invest at all.

PNG has made considerable progress in building a stable investment climate. The current Government has completed its full term and is now into its second term following a successful 2007 National Election. Political initiatives such as the enactment of the Organic Law on the Integrity of Political Parties and Candidates and the progressive introduction of Limited Preferential Voting (LPV) have improved stability of the political process.

The LPV system was used for the first time in the 2007 National Elections in PNG which resulted in a successful election outcome in terms of being free from post-election related conflicts and troubles. It was also a very positive development in that the 2007 National Election was conducted without a blow-out in Government expenditure that had been associated with some previous elections.

Stability in fiscal policy has improved, with the Government introducing, and adhering to, a range of medium-term policy frameworks, particularly the MTFS and the Medium Term Debt Strategy. The Government has also handled the challenge associated with windfall revenue arising from the commodity price boom well.

Macroeconomic stability has been improved through disciplined fiscal and monetary policies. Prudent macroeconomic policy settings have led to lower inflation and interest rates, and a more stable exchange rate. Appropriate wages policy has seen wage increases that are moderate and affordable. Prudent debt management has led to a more stable and less risky debt profile. Nevertheless, stronger economic growth and the commodity price boom is giving rise to inflationary pressure and this needs to be closely monitored.

In September 2007, the international credit rating agency, Standard and Poor's upgraded PNG's long-term foreign currency rating to B+ and its long-term local currency rating to BB- and the outlook was described as stable. The upgraded rating for PNG reflects improvement in the sovereign fiscal and external balance sheets and improved political stability.

The stable outlook on the ratings reflects PNG's improved economic prospects and is good for investor confidence as it has further raised PNG's creditworthiness in the global arena.

5.2.1 Prudent Fiscal Management

The 2007 Mid Year Economic and Fiscal Outlook (MYEFO) Report projected a budget surplus for 2007 of K1.2 billion, instead of a small deficit forecast in the 2007 Budget. This anticipated surplus was largely due to higher than estimated revenue collections, due mainly to high commodity prices. In October 2007 the Government announced a Supplementary Budget, which allocated substantial funds to investments in public infrastructure and in areas of the Government's priorities, and to meeting outstanding State obligations.

The Supplementary Budget in 2007 continued to support the Government's MTDS priorities with more than 75 per cent of the additional funds allocated to these areas. The expenditure items fall into three broad categories: MTDS priority projects; reducing outstanding State obligations; and other recurrent spending.

The 2007 Supplementary Budget targeted the following:

- Supplementing recurrent expenditure K197 million
- Pre-funding public investment
    - Rehabilitating public infrastructure K240 million
    - New public infrastructure investment projects K356 million
    - Major improvements in infrastructure K297 million
    - Reducing superannuation liabilities K250 million
    - Repaying public debt K297 million

It is important that additional windfall revenue in 2007 and 2008 is not allocated in such a way that it becomes embedded in ongoing expenditure. This would make it difficult to manage recurrent expenditure in the future when revenues return to more normal levels. Rather, through the maintenance of fiscal discipline over ongoing expenditure, windfall gains are available to invest in the future of our nation. Funds used for the reduction of debt and other liabilities will free up future funds and reduce the vulnerability of the Government's financial position. The Government's debt situation has declined to 34.9 per cent of GDP in 2007 which is heading towards a more sustainable position.

On the revenue side, the Government has implemented the second round of tax cuts in 2007 that were announced in the 2006 Budget. The mining levy has been phased out completely as planned. The 2008 Budget further reduces tax impediments to business and provides personal income tax benefit with the greatest proportionate tax relief to low income earners.

Consistent with the 2007 Budget, an independent review of the Tariff Reduction Program was undertaken. The recommendations of the review are being considered and the Government will be announcing further tariff reforms once it has decided on the recommendations to be adopted.

In allocating additional mineral revenue over and above the original budget ceilings, the 2008 Budget maintains prudent fiscal management by allocating them to priority and one-off activities in nature. It has also taken care not build these revenues into ongoing expenditure. Details of these are provided in Chapter 2.

5.2.2 Fiscal Responsibility Act

To strengthen the medium-term framework for fiscal policies, the *Fiscal Responsibility Act* was enacted in August 2006. The Act contains a set of fiscal principles, which are to be applied through each Government's term of office. These principles are about sound fiscal management and implementation of the Government's Budgets. The Act stipulates that:

- Government agencies have regard to the provisions of the *Public Finances (Management) Act 1995* and the Financial Instructions issued under Section 117 of that Act;

- The Treasurer be consulted on any submission to the National Executive Council (NEC) that will have financial implication for the State, prior to consideration of the submission by the NEC; and

- Government agencies not be permitted to borrow funds without the prior approval of the Treasurer.

The Act also stipulates the release of three key fiscal reports each year. The reports include:

- A Final Budget Outcome Report;
- An Annual Budget Strategy Paper; and
- A Mid Year Economic and Fiscal Outlook Report.

As required by the Act, all three reports were completed and released in 2007. The publication of these reports represents a significant milestone in the Government's attempts to increase the transparency and accountability of its fiscal operations.

5.2.3 Affordable and Sustainable Wages Policy

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

In late 2004 the Government negotiated a salaries and allowances agreement with the Public Employees' Association (PEA). The agreement was for a one-off payment and ongoing increases of 4 per cent per annum for three years. This was in addition to existing increment increases.

The 2004 Agreement expired in November 2006 and a new agreement covering the period 2007 to the end of 2009 has been negotiated with the PEA and was completed in October 2007. However, at the time of writing, the new agreement is yet to be endorsed by the NEC or signed with the PEA. In general terms, the proposed new agreement provides for wage increases which are expected to be mainly delivered over the three year agreement period via a proposed reformed increment structure. Criteria for increment advancement have been altered in an effort to tackle chronic absenteeism, poor attendance and under performance.

The affordable wage outcomes have been achieved by providing a range of improved non-wage benefits for public servants that can be provided at reasonable cost to Government. The proposed agreement also includes significant reforms that will enhance flexibility for both the Government and employees.

The proposed agreement is macroeconomically responsible in an environment of rising underlying inflation and will assist to reduce personal emolument expenditure as a percentage of total Government expenditure.

5.3 IMPROVING EFFICIENCY, EFFECTIVENESS AND AFFORDABILITY OF THE PUBLIC SECTOR

5.3.1 Streamlining Public Sector Resource Allocations

People have aspirations of higher living standards and improved well being, however these aspirations are hampered by poor public service delivery mechanisms. The scope of the Government's activities in PNG is very broad, with many of its operations not being adequately resourced. The Government's operations need to be streamlined and reduced, so that any savings derived are spent on priority activities.

As part of the aim to improve on service delivery, the Government undertook a review of the public sector agencies and their functions. The public sector review was undertaken by the Public Sector Reform Working Group (PSRWG) and the working group completed its report (the Rightsizing Report) in September 2005.

The NEC endorsed the principles and objectives of the Rightsizing Report in 2006. The Government deferred consideration of the Report's recommendations for abolishing or merging departments and functions until after the 2007 General Election. The rightsizing report will be considered again by the Government and a decision will be reached. Meanwhile, other recommendations of the Report are being pursued, notably those for rebalancing resources within each agency from administration to front-line service delivery, and from personnel remuneration to goods and services.

The ongoing programs under the public sector reforms are: the Functional and Expenditure Reviews, the Public Expenditure Review and Rationalization, Financial Management Improvement Program, the Service Improvement Program and the Capacity Building and Institutional Strengthening Program.

The Government's reform program is a five year rolling program and the current strategy will expire at the end of this year. The Public Sector Reform Management Unit (PSRMU) is now working on the new Road Map for public sector reform for 2008-2012 that encompasses wide ranging reforms of the public sector. Under the umbrella of this Road Map, the Rightsizing (merging and abolishing of departments and agencies) exercise will be continued in 2008. Both submissions (the Road Map and Rightsizing) are awaiting NEC's approval.

The 2008 Budget will continue to embrace the principles of the MTDS by concentrating recurrent resources in the priority areas of basic education, primary health, law and justice and infrastructure. The Government will also continue to identify savings from non-core areas to be spent on priority areas.

5.3.2 Equitable Resource Allocations to Provincial Governments

In mid 2006 the NEC agreed to a package of reforms to the *Organic Law on Provincial Governments and Local Level Governments* that would have changed provincial resource allocation for the 2008 budget. However, Parliament did not pass these reforms before the 2007 general election. The new Government has approved the re-introduction of the amendments to the Organic Law. It is expected that these amendments will be introduced in the November 2007 session of Parliament and that the new system will commence in the 2009 fiscal year.

The changes to provincial resource allocation introduced in the 2004 Budget have remained in place for the 2008 Budget – namely Function Grants, Block Grants, Derivation Grants, Staffing and Teachers' Grants, Rural Local Level Government Grants and Town Services Grants. Any funding for provincial and local-level governments above the 2007 level after allowing for increasing costs has been distributed to provinces on the basis of their needs.

The reforms being proposed by the National Economic and Fiscal Commission (NEFC), apply the principle in the NEFC's July 2005 *Report on the Review of Intergovernmental Financing* – that funding for service delivery in provinces should be matched as closely as possible to the actual cost of supplying those services, assessed for each province according to its circumstances.

The key features of the proposed new system will be:

- GST will be distributed to provinces, as now, according to where net inland GST is collected based on 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, except for taxes they raise themselves, 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 phased in, each province will have a similar financial capacity to meet its service delivery needs.

- Funding for urban and rural local-level governments will also be based on their needs.

- It is expected that some additional funding will be phased in over the first five years. During this period, no province will receive less in grants and GST than it did the year before the new system started.

These proposed changes will equalize the system of provincial and local-level government funding, and focus on meeting the costs of basic service delivery.

5.3.3 District Services Improvement Program (DSIP)

The DSIP's objective is to ensure that people are empowered by providing an opportunity for the majority to be engaged meaningfully in the development process and enhance their wellbeing. Taking part in the development process by the people should improve their quality of life and establish a sustainable standard of living for themselves and their children. The program was designed to have basic government services in each district.

The program is being implemented nationwide, and is focused on the provision of funding towards maintenance and upgrading of existing facilities at the district level. This means services are now brought to the door steps of the large bulk of the population and this will have the potential to generate high social and economic returns.

The national departments, government agencies and statutory bodies will be involved in the provision of basic services. Statutory bodies and business arms of the Government such as Post PNG, PNG Power, Telikom, the Water Board, various commodity boards, and Bank South Pacific will assist Government in providing services as part of their community service obligations.

The indicative annual contributions for each district is based on a Kina-for-Kina matching of funds and shall be as follows:

- Members of Parliament K50,000
- Provincial Government K50,000
- National Government K100,000

Development partners such as donors are also expected to assist in financing.

The program is being implemented over a five year time period from the remainder of 2004 to 2008. The overall coordination is done by an Inter-agency Program Management Committee, with the Departments of National Planning and Monitoring, Works and Provincial and Local Level Governments taking the lead. The National Government's annual contribution to the program is K30.7 million.

The Government highly regards this program as a catalyst to economic growth and thus allocated an additional K356 million to the districts in the 2007 Supplementary Budget.

The Government has substantially increased funding to this program in the 2008 Budget by allocating an additional K534 million to the provinces.

5.3.4 Improving Governance and Accountability

A merit-based appointment system for departmental heads, provincial administrators and heads of statutory authorities has been put in place. This merit-based appointment system is intended to ensure more stable leadership across the public sector and improved accountability for the performance of government departments and agencies.

Continued support will be provided in the 2008 Budget for oversight agencies, including the Ombudsman Commission, the Office of the Auditor General and the Parliamentary Public Accounts Committee. These agencies provide external oversight of the public sector, supporting transparency in policies and processes, and strengthening accountability and compliance. The work of these agencies complements the reforms to internal controls in government departments and agencies.

5.3.5 Improving Governance and Accountability of Resource Rich Provinces

The Government is concerned about direct transfers from extractive industries to provincial governments, as some of those who receive transfers are not only underestimating these in their provincial budgets but are not always using them for productive purposes. A number of provinces where extractive industries are located and substantial transfers have occurred over the years are unable to show evidence of any improved level of development.

Currently, royalties paid by resource companies go directly to provincial governments and landowners as provided for by legislation and specified under Order Memorandums of Agreement. The accountability mechanisms for the transfer of these funds from resource companies to provincial governments are weak. Thus, there is a need for more accurate information and transparency of these transfers and receipts. This would assist both in the use of resource envelopes to provincial governments and for monitoring purposes by the National Government.

Initial discussions were held with the donor partners, particularly the World Bank on the Extractive Industries Transparency Initiative as a possible way to increase the transparency of payments for provincial governments. The Government is very supportive of this initiative and agrees that the provinces' ability to program and budget, as well as national ability to monitor would be aided by greater clarity on resource envelopes, intergovernmental transfers and line ministry budgets for expenditures at the provincial level.

The Government and its partners share the view that accurate information on resource transfers and receipts would help prevent leakage from provincial accounts. These are critical issues that need to be addressed in a carefully planned and co-ordinated manner, taking into account lessons from the application of the Extractive Industries Initiatives concept in other countries.

The Government is very supportive of this and will work in partnership with the World Bank and ADB in addressing the transparent use of transfers from extractive industries to the provinces in 2008.

5.3.6 Civil Service Size and Payroll Reform

Over the last four years, personal emoluments on average accounted for 40 per cent of total recurrent expenditure while goods and services accounted for only 33 per cent of recurrent expenditure. Trends over the years have shown that the annual appropriation to personal emoluments in the public sector have continued to rise.

Concerns over the public sector payroll dominating recurrent spending are not new. More effective control of public sector pay was seen as enabling re-direction of funds into growth promoting activities and priority areas. However, control over payroll does not appear to have improved in the intervening years. There has been limited past success in curbing public expenditure on salaries and wages through retrenchment, recruitment freezes and proposed pay cuts. Despite numerous reports and associated interventions, the impost on the budget from the public sector payroll is subject to tenuous control.

A key factor contributing to the excessive growth in staff numbers and cost has been lack of pressure on departments to keep within their budget appropriation for payroll. Control over payroll is a problem in the public sector and if not attended to could pose a serious threat to budget management and fiscal sustainability over the long term.

The Concept Payroll System has been installed in most public sector agencies and all provincial administrations. Even though the new Concept Payroll System has been installed, there appears to be breaches of the system. The breaches of the appointment process also appear to be a problem, and this is also having an adverse impact on controlling the public sector payroll. While existing measures through the Inter-Departmental Payroll Committee and to some extent through payroll monitoring are assisting, recent experiences have shown that a more effective system is needed.

5.3.7 Improving Financial Management

The Government has made substantial inroads into improving financial management over the past two years and further reform is in prospect. 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 transform the present planning and budget system and financial accounting and improve monitoring and reporting mechanisms for public sector financial management and accountability at all levels of government.

One of the challenges recognized by the Government is the need to have an over arching Public Financial Management reform strategy and work is underway through discussion and consultation to produce a Medium Term Financial Management Strategy. The Medium Term Financial Management Strategy will be provided to NEC as a draft for the consideration of Government, so that when approved, it will have a similar status to other NEC endorsed Medium Term Strategies.

Work is continuing on the roll out of an integrated Financial Management System. This will replace a situation where systems are not integrated but are linked. That is, the present Planning and Budget System (PBS) which executes the annual budget appropriated by the National Parliament is downloaded into the Treasury Management System (TMS) for expenditure monitoring and managing the annual public accounts.

Under the current arrangement, daily accounting transactions are uploaded which are processed through the stand alone PNG Government Accounting System (PGAS). This data will be migrated into the IFMS to be used as one single General Ledger.

In addition, as part of Government’s overall plan to improve the integrated approach, it is intended to integrate the present Concept payroll and the Commonwealth Secretariat Debt Recording Management System (CS-DRMS) into IFMS to enable a single General Ledger to deliver whole of Government financial statistics. At present the legacy systems (PBS, TMS & PGAS) that are stand-alone do not provide whole of Government financial statistics.

Under the improved financial management of the Government, there is a plan to implement a uniform budget classification and chart of accounts to improve planning and budget that is linked to the Medium Term Development Strategy (MTDS) and accounting managed through a single General Ledger which will have Government Financial Statistics (GFS) reporting capability.

The IFMS will enable managers to manage, because they will have the available data and a system which is more responsive in time than the current non-integrated systems.

The challenge for Government is to ensure there is capacity building and skills transfer with sufficient staff trained to maintain and sustain the operation and management of the IFMS into the future. In addition, training officers have been identified to design, prepare and deliver training modules to key users and end users for the pilot site and non-pilot sites.

5.3.7.1 Better Expenditure Control

The Government is continuing to implement the Public Expenditure Review and Rationalization (PERR) Program. In particular, work has begun on PERR Project 9 which aims to provide a framework for the oversight and governance of statutory authorities. This work involves amending the Public Finances (Management) Act (PFMA) to clarify the application of the important accountability frameworks to all public bodies holding public assets or collecting public funds on behalf of the State. This work will ensure public bodies are subject to appropriate governance and accountability arrangements.

To improve expenditure controls in government agencies, Financial Controllers and Audit Committees were appointed to big spending departments, including Defence, Police, Foreign Affairs, Health, Education, Correctional Services and Petroleum and Energy. Thirteen Audit Committees have been established in national departments and statutory authorities as at June 2007.

As part of this exercise, amendments to the PFMA were sought to improve procurement and spending by public entities. In relation to this, section 39 of the PFMA was amended to allow the overhaul of the Central Supply and Tenders Boards (CSTB). The CSTB is now operating under the new Act, with all Provincial Supply and Tenders Board adhering to CSTB. With the amendments to the PFMA, this should improve expenditure controls within public entities.

5.7.3.2 Improving Financial Information and Communication Technology

Significant improvements to “Finance Information & Communication Technology” (ICT) infrastructure were undertaken during 2007. These important improvements were undertaken to support whole of Government financial management systems. This includes whole of Government payroll system, budgeting system (PBS), accounting system (TMS/PGAS), Integrated Financial Management System (IFMS), and other ancillary systems.

The installation of the major infrastructure improvements are:

- Enterprise Server and Storage Systems;
- Metropolitan Area Network (MAN);
- New Finance Data Centre; and
- The improvement of ICT Infrastructure Security

In addition to the above, the Department of Finance successfully carried out its operational duties to maintain and support all Government financial management systems (Payroll, PBS, TMS, PGAS, IFMS, etc.), and carried out capacity building and training of its ICT officers to support the ICT infrastructure and information systems.

2008 will be a period of consolidation and tuning the ICT infrastructure to better support whole of Government financial management systems, this will include:

- upgrade payroll system;
- stabilise PBS and TMS;
- stabilise PGAS;
- upgrade Finance HQ network to consolidate Finance Data Centre;
- rollout and commission of MAN to Departments;
- rollout and implement Citrix thin clients with the MAN;
- improve disaster recovery capabilities;
- enhancing blade servers to support additional users;
- enhancing the storage area network (SAN); and
- capacity building and training.

5.3.7.3 Rationalising Trust Accounts

The Government continues to rationalise the number of trust accounts to improve the way they are managed. Over the last two years the number of trust accounts in the public accounts has been reduced significantly, both in national and provincial departments and the exercise is ongoing. The 2006 and 2007 Supplementary Budget Trusts have been streamlined and with close consultation with the Departments of Treasury, National Planning and Prime Minister's Department have finalized the process for implementation of these funds.

5.3.7.4 Financial Reporting, Payroll and Trust Reforms

The Finance Department functions include the Payroll Accounting, General Ledgers, Trust Accounting and Accounting Frameworks.

The Public Accounts for the fiscal years 2004 and 2005 Public Accounts have been prepared and submitted for tabling in Parliament. Quarterly financial accounts for whole of government for 2003, 2004, 2005 and 2006 have been gazetted in the past year. The 2006 Public Accounts are finalized and the Audit is now underway. The Department is anticipated to move to comply with IFAC IPSAS[2] Cash Reporting Standard in preparation of Public Accounts as well as data cleansing of all balance sheet accounts to support migration of data to the IFMS and implementation of IFMS Accounting Modules.

In 2006, the Financial Management Manual (FMM) was launched and more than 2,000 copies of the Manual have been distributed to National Departments, Provincial Treasuries and Provincial Administrations. Further, the Department has also distributed 3,000 soft copies of the Manual and the Central Supply and Tenders Board Good Procurement Guide.

[2] IFAC IPSAS – IFAC International Public Sector Accounting Standards

Payroll monitoring is high on the agenda, with functional responsibility for Payroll Monitoring & Threshold Analysis and Reporting undertaken by the Finance Department. Implementation of online access of GoPNG payroll for National Departments and Public Bodies as well as implementation of tighter controls for batch processing of payroll variations has been undertaken, including improved investigation methods for historical payroll claims. Payroll has increased the use of Electronic Funds Transfer as a mode of payment for payroll, reducing the number of cheque payments and the associated processing costs.

Work is currently in progress in getting government line agencies to be computerized and use the National Government Accounting System PGAS. This is to ensure proper monitoring of trust accountability, management, control and reporting.

5.3.7.5 District Treasury Offices Roll Out

The District Treasury Office Roll Out is an important initiative of the Government and is being undertaken in accordance with the Organic Law on Provincial and Local Level Government. Section 112 of this law makes it mandatory for the establishment of District Treasuries. The aim of the roll out is to provide government financial services and to complement the provision of basic services to rural areas under the District Service Improvement Program (DSIP).

The Government continues to recognise the importance and sustainability of the District Treasury roll out program. It is desirable that the program continues in 2008, but the administration of the program is currently inadequate. The Government, through the Department of Finance has formulated a strategy in 2007 to ensure that the program is sufficiently administered.

To date, a total of 19 provinces have been covered and district treasury offices established in each district. About K52.0 million has been spent on the District Treasury Roll Out Program. The 2007 Supplementary Budget allocated K20.0 million for additional funding for existing district treasury offices and establishment and opening of Enga province district treasury offices.

For the District Treasury Roll Out Program to be fully implemented and functioning in the 89 districts nation wide, the Government has estimated a total cost of K53 million.

5.3.7.6 Non-Tax Revenue Management

Project 8 of Public Expenditure Review Rationalization is directed at improving non-tax revenue collection. Under this project, Revenue Division of the Department of Finance is continuously working on identifying issues and gaps in the revenue collection processes. The line departments are now more conscious of the regulatory controls applying to fees and charges and the importance of adhering to these controls. While progress has been made on fees and charges being recorded and credited to the Consolidated Revenue Fund, there are still strategies needed to bring in collections with minimum losses from various elements.

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

Other initiatives to be undertaken in 2008 to further improve revenue collection are the following:

- Development of a Revenue Training Module which will cover Revenue Management Controls under the Financial Management Manual;

- Installation of Computerized Receipting System in all the provincial treasuries;
- Installation of EFTPOS outlets in all the provincial treasuries and other revenue collecting sites. This will greatly reduce the danger associated with handling and transferring of cash;
- Appointment of Collectors and Receivers of Public Monies under the Department of Finance;
- Involving and networking with the provincial support assistant to link departments in the provinces with the provincial treasury operations at the provincial level;
- Developing an information pamphlet on frequently asked questions on Non-Tax Revenue;
- 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 are now with the State Solicitor's Office. Efforts are continuing to get other line departments to make their submissions relating to their current fees and charges as well as other initiatives.
- Integrate non-taxation revenue requirements into the IFMS. This includes the provision of a complete database of all non-tax fees and charges which is a continuing process. This includes a comprehensive break-up of all existing fees and charges for all line departments and agencies. This will greatly enhance the Revenue Division's ability to monitor revenue collections at all levels of government. These will make the forecasting of non-tax revenue easier and more reliable.

5.3.8 Enhanced Cooperation Program (ECP)

Under the joint initiative of the PNG and Australian Governments, the Enhanced Cooperation Program (ECP) continued throughout 2007. The program focuses on efforts to promote and enhance law and order, good governance, sound financial management administration and capacity building within the PNG public sector. The program has been beneficial to participating government agencies and also enhanced bilateral ties between both governments. The program focuses within the economic and public administration, legal, and border protection and transport security sectors in the PNG public sector.

The PNG and Australian Governments have undertaken to jointly review the ECP Program in 2008. The outcome of this review will determine the next level of support or any improvements for the future program.

5.3.9 Statutory Authorities

The Government is concerned that financial management and governance within many of the statutory authorities is weak. Poor financial management and governance is at odds with the higher aim of government policy pertaining to fiscal sustainability and expenditure adjustment. While the PFMA provides for statutory authorities to submit financial statements to the Government annually, it appears that this is not often done.

The Government therefore intends to remedy this situation, and the process has begun with a review undertaken by the World Bank in September 2005. The review concluded that the main accountability systems exist but in practice their application is weak. The main causes of these problems are the large number and small size of statutory authorities, which make it difficult for the Auditor General and the Public Accounts Committee to effectively monitor their operations. In addition, assessments of these entities are inadequate even though current regulations allow for this under the PFMA. Accountability frameworks and models also differ widely among statutory authorities.

A component of PERR activity aims to improve expenditure control and realize savings by providing an improved framework and governance of statutory authorities. Within the overall aim of this project activity, the PERR Implementation Committee in consultation with development-partner stakeholders has undertaken to review the relevant provisions of the PFMA to ensure statutory authorities are held accountable for their operations. It will be necessary to review the individual Acts of statutory authorities to ensure consistency with the PFMA in relation to financial management, transparency and good governance, and to ensure proper fiscal oversight and budgetary controls are in place. Technical assistance has been sought from the Asian Development Bank to help undertake this review.

5.3.10 Land Reforms

It has been recognised over the years that poor management of land has been a major impediment to economic growth. The current process began with Land Summit in 2005.

Following the land summit, the Government introduced the National Land Development Program. The program focuses on land administration, land dispute resolution mechanisms and freeing-up customary land for development purposes.

Some progress has been made with the National Land Development Taskforce recommending the establishment of a single land court to deal with all land related issues and a Land Development Program Implementation Unit (LDPIU) to plan and manage the implementation. The NEC recently endorsed the establishment of the single land court and the work on it will continue into 2008. The committee is outsourcing the work of the program implementation unit to a private company. A private firm was engaged in July 2007 to provide costing and other related work for the unit. The Government is committed to the land development program and work will continue on this project into 2008 and beyond.

The 2008 Budget allocates K28 million to finance land reforms.

5.4 COMPETITIVE AND DYNAMIC PRIVATE SECTOR

Private sector growth is the key to job creation, higher incomes, and is a driver of economic growth. Through private sector development and competition, lower prices and better services for consumers and a more productive use of resources can be achieved. Strong institutions, a stable and enabling macroeconomic environment, appropriate regulation and efficient provision of public services are required to support private sector development.

The Government is committed to private sector growth and continues to work towards addressing impediments to businesses and investments, improving competition to key sectors, opening the economy to potential markets and investment, improving public infrastructure and supporting rural activities.

The Independent Consumer and Competition Commission (ICCC) is working to improve and enhance competition in a range of important industries. The public sector is also undergoing a range of reforms which will create opportunities for a more dynamic private sector, through sectoral reviews and the corporatization of state owned enterprises. Greater investment in public infrastructure will also assist with the growth of the private sector.

However, impediments to private sector growth remain and need to be addressed. Issues of law and order, corruption, land tenure issues, poor public service delivery, poor infrastructure and road maintenance, poor services from utilities, limited telecommunications and electrification remain as significant constraints on private sector development. These issues must be tackled in order for the private sector to grow and prosper.

5.4.1 Improving Competition

Increasing competition, efficiency and productivity in the economy spurs innovation, reduces prices, and improves quality of service delivery. Acknowledging that competition can contribute to economic growth and service delivery, the Government is taking a number of significant steps to improve competition throughout the economy.

The State's role in this process is to create an enabling environment for businesses to enter a market. This can involve removing impediments, such as monopoly powers, burdensome regulation, difficult licensing procedures and various other protective measures**.**

The ICCC was tasked with conducting important reviews into the aviation, coastal shipping, tourism and the telecommunications industries in 2006.

In 2007, ICCC was tasked to undertake comprehensive competition reviews into the General Insurance industry as well as the Wholesale and Retail trading sectors, with a particular focus on the level of competition and the premium and profit margins within these industries.

5.4.1.1 Telecommunications

In recent times significant progress have been made towards better telecommunication links**.** The ICCC has concluded the tender process for mobile competition and has issued new licences to two successful bidders in March 2007. These companies are Digicel PNG Limited and Green Communications Limited. Digicel has already commenced operations while Green Communications is expected to officially launch its operations before the end of 2007.

To ensure that there is fair and even handed competition among the new mobile operators and the incumbent operator, the ICCC has structured appropriate access guidelines, including an appropriate accounting separation guideline for Telikom to separate its mobile business from its fixed line and other businesses. The Telikom regulatory contract was also reviewed to reflect the change in circumstances in the industry.

Since the introduction of competition in the mobile segment of the industry, 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 over the last year is estimated to have broadly doubled to be around 315,000. This represents a large and rapid overall improvement in market penetration of mobile services - which is continuing to grow rapidly. Significant cost savings have also been realized by users of mobile services, together with a much wider geographical area of coverage.

The entry of Digicel into the market has: improved efficiency and reliability of mobile services; lowered prices of mobile phone calls (which are purported to have fallen by around 50 per cent); significantly increased employment (which is reported to be in excess of one thousand) and has injected a substantial amount of capital into the economy. People in the rural areas of PNG are now accessing and enjoying more affordable mobile services brought on by competition. The expansion of mobile phone services in PNG - from both Telikom and Digicel – is estimated to be contributing around 0.7 percentage points to GDP growth in 2007. With the addition of GreenCom's expected rollout, the contribution of mobile phone expansion to GDP growth is expected to continue in 2008.

The Government has proposed a change in its Information and Communications Technology (ICT) policy to adopt vertical separation and only permit retail services competition. The implications of this change of policy are being examined.

The introduction of mobile phone competition in 2007, thereby ending Telikom's 50 year monopoly, is a significant milestone which will have far-reaching economic consequences. This is because telecommunication is an input into other businesses and performs an enabling function throughout the economy.

The introduction of competition in key sectors of the economy will create the impetus for wider competition in the national economy, and consequently assist private sector development. More competition provides great hope for PNG as the benefits of competition will flow to the majority of the people.

5.4.1.2 Aviation

Following the ICCC's comprehensive review into the aviation industry in 2006, the ICCC identified that the current code sharing agreement between Air Niugini and Qantas Airways on routes to and from Australia had the potential to substantially lessen competition. As a consequence of this finding, and an application from Air Niugini for renewal of the code share arrangement, a joint review of the arrangement has been established between the ICCC and the International Air Services Commission, the Australian Commission responsible for oversight of the airline industry. The ICCC's draft determination is expected to be released before the end of 2007.

Nevertheless, the international aviation sector now has two players and some international fares have fallen substantially. The tourism sector has begun to grow and, if sustained, this will mean additional income earning opportunities for people in rural areas.

The corporatisation of the Civil Aviation Authority (CAA) is an issue still to be resolved, including the transfer of assets and liabilities from the State to the CAA. Initiatives to separate the commercial functions of the CAA from its regulatory and safety functions are progressing. This would allow supervision of its commercial/market approaches or use of market power.

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.

5.4.1.3 Shipping and Stevedoring

The ICCC commenced a review into the stevedoring industry in 2006. The final determinations will soon be released and among other things, is expected to include a new pricing arrangement to be based on efficient cost recovery, inclusive of a reasonable rate of return to reflect the risk borne by the industry. The proposed transfer of price regulation to the ICCC will also ensure appropriate monitoring of this important sector. These reforms, once implemented, will ensure a more cost effective stevedoring sector.

The review of coastal shipping, completed in 2006, made important recommendations to reform the Ministerial licensing advisory arrangements to remove any conflict of interest.

5.4.1.4 General Insurance

The ICCC was tasked by the Government to undertake a comprehensive review of competition and market conduct in the General Insurance industry. These reviews will assist the development of stronger institutions, appropriate regulations and efficient provision of public services, all of which are necessary to support private sector development. 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 going forward.

5.4.1.5 De-regulation of Certain Declared Goods

The ICCC also reported on the sundry goods inquiry. This review found that the current price regulation on most declared foods were unnecessary, as it was evident that there is a reasonable range and choice of these goods available for consumption. Competition was found to exist in these sectors, and hence the ICCC recommended removal of price regulation on batteries, butter, coffee, margarine, milk, poultry products, soap and tea. The de-regulated goods will now have their prices set and determined entirely by the market.

5.4.1.6 Electricity

Electricity outages are frequent and cost business and households millions of Kina in loss of production and add costs to business operations. This has been a longstanding concern for the private sector.

Introducing full competition in this industry is not a desirable action due to the nature of the industry and the economic and geographical circumstances. However, some progress has been made. In early 2007, the ICCC issued licences to PNG Sustainable Energy Limited, a subsidiary of PNG Sustainable Development Program, to be an electricity provider to be involved in the generation, distribution and retailing of electricity services in certain designated areas and towns in the Western Province.

An inter-departmental task force was established by the Government to develop a comprehensive industry policy to guide the development of this industry into the future. The 2008 Budget has provided an additional K30 million for rural electrification to be allocated according to the soon to be released electricity policy.

Inefficient and sub-standard provision of services by State owned utility enterprises have been a longstanding issue for business. However, a start has been made in the telecommunication sector. The provision of more efficient and affordable essential services, still needs to be addressed and this is still a work in progress.

5.4.1.7 Tourism

In 2006, the Government, through the ICCC and the Tourism Promotion Authority (TPA) requested that a comprehensive review of the tourism industry be undertaken and that a tourism master plan be developed, containing proposals for fostering the development of the industry. The final report and recommendations of this review were submitted to the Government in September 2006, and were formally adopted for implementation in May 2007.

A key recommendation of the review is the separation of the policy and marketing functions of the 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 to be established 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 recommendations.

This ongoing reform in the tourism sector follows the announcement in the 2006 and 2007 Budgets of significant taxation concessions to this sector.

5.4.1.8 New Reviews

The ICCC has also been requested to undertake a review of the current pricing arrangement of Eda Ranu (the water authority) with a view to assessing their actual capital expenditure committed between 2005 and 2009 which was reflected in their tariffs. Depending on its findings, adjustments could be made to the pricing arrangements including the applicable tariffs.

The ICCC has commenced a review into the Public Motor Vehicle and Taxi fares currently applied in PNG. The final determinations will soon be released and will detail the pricing mechanism for buses and taxi fares which will be reflective of efficient costs incurred with a reasonable rate of return for the investment.

5.4.2 Improving Public Infrastructure

The poor state of public infrastructure continues to be an impediment to business. In particular, the poor state of roads is preventing accessibility to markets, particularly in rural areas.

The Government has made substantial commitments to improve public infrastructure. Airline infrastructure received a substantial boost in funding in the 2006 Budget, and K30 million has been provided towards the replacement of Air Niugini's fleet. An additional equity injection of K40 million has been committed by the Government, through the General Business Trust managed by the IPBC, for the purchase of an additional B767 aircraft.

The Government has prioritized improving services to rural areas, with significant funds being provided to improve rural electrification (with K30 million provided in the 2008 Budget) and rural telecommunications services, respectively. These services will see improved power and communications in the 20 least developed districts in PNG.

Opportunities for greater private sector investment in the generation of electricity continue to be examined. The Government has established an Electricity Policy Taskforce which is exploring options in this area and is currently working towards the development of a policy focused on improved efficiency and competition in the electricity sector.

Major capital investment projects are also underway in other Government-owned utilities. Eda Ranu, for instance, is scheduled to undertake K56.4 million in capital expenditure on an annual basis from 2005 to 2009. This capital works program is currently under review by the ICCC.

The Government acknowledges the importance of improving and maintaining public infrastructure by allocating K893 million for the 2007 Supplementary Budget. K240 million was provided for infrastructure maintenance, K356 million to support the District Service Improvement Program (DSIP) and K297 million to fund major improvements in infrastructure.

This has continued in the 2008 Budget with the Government allocating a total of K1,027.1 million for the additional work on improving and maintaining public infrastructure across the nation. The following outline shows these allocations from the 2008 Budget.

2008 Budget

Prefunding of Public Investment

- District Service Improvement Program (with two new DSIP's of Transport and Agriculture) — K534 million
- Konebada Petroleum Park infrastructure- — K 50 million
- National Infrastructure Development Program- — K196 million

Additional Priority Expenditure

- National Roads (additional to Development Budget) — K 50 million
- Rural electrification — K 30 million
- Tertiary institutions — K 30 million
- Public Housing — K 27 million
- Lae Roads — K 25 million
- Central City — K 20 million
- Border Development — K 20 million
- Technical schools maintenance — K 20 million
- Madang marine park — K 15 million
- South Bougainville feeder roads — K 4.1 million
- Lutheran university — K 3 million
- Buka-Arawa Rd — K 3 million

The funds will be placed into trust funds as spending on the projects involved will be spread over time.

5.4.3 Improving the Regulatory Environment and Removing Impediments to Business and Investment

Appropriate, but not overly burdensome, regulation is an important complement to market development. The Government's policy is to continue with the reform measures introduced in the 2006 and 2007 Budget, focusing on removing impediments to business and investment.

The Government is continuing its efforts to remove impediments to business in order to encourage certainty, confidence, investment and growth in the economy. The Government is determined to allow the private sector to deliver economic growth by addressing regulatory impediments that currently constrain business activities.

The "National Working Group" on Removing Impediments to Business and Investment was set up by the Government several years ago to look at ways to lower the cost of doing business. This has had valuable results, such as efforts to reduce the number of days it takes to start a business. Similarly, the Investment Promotion Authority's foreign investment certification process, which deals with applications from foreign enterprises wishing to do business in PNG, after being initiated in 2006, will be strengthened in 2007.

The Government, through the National Working Group, will continue to address impediments to business and investment in PNG with a view to strengthening competition and where necessary, improving regulation. The Government has taken note of recent concerns about counterfeit products, which the import/export sub-committee of the National Working Group is considering.

In 2008 the Government is displaying its commitment to reducing impediments to business and investment with the removal of several stamp duties which it views as impeding business activity. The following stamp duties will be abolished in 2008:

(i) Agreement or Contracts for Loans;
(ii) Loan Securities, Mortgages and Foreign Securities;
(iii) Credit Arrangements;
(iv) Hire and Credit Purchase Agreements;
(v) Bills of lading;
(vi) Incorporating of Companies;
(vii) Insurance policies; and
(viii) Debits tax

However, PNG still lags behind other similar developing countries in terms of ease of doing business, according to the World Bank's latest report on Doing Business 2008. PNG ranked 84th among the 178 economies and even lagged behind Fiji, Vanuatu, Tonga, Samoa, Kiribati, Solomon Islands and Palau according to the document that investigates the regulations affecting business activity. This situation needs to be improved.

Regulatory supervision in the financial sector continues to be fine-tuned, especially in the superannuation industry. The Superannuation *(General Provisions) (Amendment)* Bill 2007 was passed by the Parliament in April 2007 to amend the Superannuation (General Provisions) Act 2000. These amendments enhanced effective regulation and prudential supervision of the superannuation industry. Some of the changes are about enforcement of employers' obligations, withdrawals of members' contribution to finance housing, and requirements for superannuation funds to make annual reports and disclosures to members.

The Department of Treasury and the Bank of Papua New Guinea will further review several related issues, including extension of superannuation coverage to the self employed and the informal sector, group cover life insurance, and the three-month waiting period for mandatory contributions. Consultations will be held among stakeholders to address the above outstanding issues.

5.4.3.1 Housing Policy

Following from the above-mentioned work in relation to land issues, a National Housing Policy Taskforce has been established by the Government. There is a clear relationship between the availability of land and security of title and a functioning housing market, and the private sector more generally.

The National Housing Policy Taskforce will formulate policy for the housing sector under the chairmanship of the Secretary of Treasury. The National Research Institute, which had earlier conducted a study into land reform, has been engaged to advise on this work.

This work will depend on the implementation of land reform, including improving the process for conversion of unregistered customary land to registered customary title, and then to urban development leases. This process requires substantial streamlining. Improvements in the registration of title and title issuing processes are also essential.

In the 2007 Supplementary Budget, the Government allocated K10 million to support institutional housing, K15 million for housing development and K15 million for an urbanisation program.

In the 2008 Budget the Government has further pre-funded the housing development with another K27 million which builds on the substantial commitment that Government has made to this area in the 2007 Supplementary Budget.

5.4.3.2 Improving the Openness of the Economy

Substantial reforms undertaken in, and since, 2005 towards freeing up flows of capital, labor, technology, goods and services into and out of the country, continue to benefit the PNG economy. Progress in opening up the market to direct investment flows continues, bringing much needed funds and skills into PNG.

5.4.3.3 Tariff Review

The Government commissioned a review into the current tariff policies in 2007. This work builds on the substantial reduction in tariffs undertaken in recent years. The recommendations of the 2007 Review are being considered and the Government is expected to be announcing the details of a further scheduled tariff reform in 2008, for implementation in 2009.

5.4.3.4 Gas Commercialization

The Government remains committed to the commercial development of our country's significant gas reserves. In this regard, the Government re-allocated K500 million in the 2007 Supplementary Budget and has further pre-funded another K100 million from the 2008 Budget for the State's future equity in the gas commercialization project. The funds will be put into a trust account to be utilized for this purpose.

A pro-active approach by the Government is needed in this sector but it should be one which ensures that commercial considerations shape the projects pursued in the gas and petroleum sector in the coming years.

Therefore, the Government will continue to play a facilitating role, offering private participants the opportunity to compete with each other to expedite the development of the gas sector. This means that there will be opportunities in this sector for investment.

Given the obligations that exploration and development companies have under various laws, the Government will continue to monitor developments and ensure that private parties meet their commitments and, consequently, that the interests of people are well served.

During 2007, a number of initiatives to commercialize the natural gas reserves have occurred. With the shelving of the PNG Gas Pipeline to Australia project, several proposals for alternative ways to develop the stranded gas fields in the southern part of PNG were proposed.

Apart from smaller project proposals for downstream activities, two proposals for Liquefied Natural Gas (LNG) projects were submitted to the Government. They are the Liquefied Niugini Gas Ltd LNG project and PNG LNG project.

The Liquefied Niugini Gas Ltd project is led by InterOil Ltd, Merrill Lynch and Global Pacific LNG. They have tabled a draft project agreement with the State and negotiations are progressing on fiscal terms and technical terms, especially on some of the concessions that they are seeking. The project involves building an LNG plant and a pipeline from the plant to the feed gas at Elk wells. This project is expected to cost around US$6 billion. InterOil Ltd will develop the upstream Elk wells separately. InterOil is now in the process of proving up its reserves and having them certified.

The second LNG project is led by ExxonMobil with its co-venturers; Oil Search, AGL, Santos, Nippon Oil and MRDC. This project is based on the gas reserves from the previous PNG Gas Pipeline to Australia project plus a number of new wells. They have tabled a draft term sheet for negotiation with the State. The negotiation is continuing and is expected to be completed by the end of 2007. The project is expected to cost around US$10 billion, which includes the cost of building the LNG plant, the pipeline from the gas fields to the plant and the development of the gas fields.

Both projects are working towards a 2011 first LNG shipment, as per the Prime Minister's announcement on the floor of Parliament.

The Government has some options and rights to take up equity in both LNG projects.

5.4.4 Supporting Rural Development Activities

The Government is committed to assisting the rural sector to ensure that the benefits of the commodity price boom are widely spread and benefit the majority of people living in the rural areas.

The 2007 Supplementary Budget maintained the high level support for the rural sector, including improved provision for basic services at the district level. The Government aims to address rural transport infrastructure, water supply, health, education and law & order. Each of the 89 Districts were allocated K4 million each from the K356 million allocated for DSIP.

In the 2008 Budget the government has continued building on its commitment of improving the lives of the people with the creation of two new DSIP's of transport and agriculture in all the 89 Districts and by providing further finance across all DSIP's. This will allow for more benefits to be spread across the nation with each of the 89 Districts to be allocated K6 million each across the six DSIP's from the K534 million allocated.

The 2007 Supplementary Budget combined with the 2008 Budget provides for a massive injection of K890 million into the districts. This will involve an enormous lift in responsibility and accountability at the district level.

In supporting rural finance under the DSIP, the Bank South Pacific has established branches in some of the recently established District Treasury offices.

The Government also allocated K297 million in the 2007 Supplementary Budget for major improvements in infrastructure such as upgrading and maintaining roads, major ports and wharves in order to enable easy access to markets.

The Government's Infrastructure Development Program announced by the Prime Minister in his State of the Nation Address on 18 September 2007 is another vehicle that the government will use in the next five years to improve the state of infrastructure in rural areas. With the transport component of the program being the largest the Government has allocated K196 million in the 2008 Budget where funds will be kept in trust funds and drawn down for implementation once NEC approves the new five year plan of the program.

A number of tax concessions that apply in the agriculture, forestry, fisheries and other sectors of the economy are described in Chapter 4. The Government will continue to take a pro-active approach to ensure these incentives are as effective as possible.

The Government will continue to explore and support micro-financing programs, which provide microfinance services and facilities to viable, small and medium-sized enterprises as well as to community based enterprises. The Microfinance Competence Centre will continue to develop institutional capacity of microfinance institutions (MFIs), including savings and loan societies, and micro-credit schemes.

New savings and loan products will be developed with a view to linking the informal sector of the economy, such as rural community saving groups or co-operative societies, with financial institutions. The successful establishment of Wau Microbank as a pilot scheme will become the hub of a network of MFIs in several parts of PNG, continuing to provide financial services to the rural population.

The agricultural sector continues to play a significant role in the economy, providing income and employment opportunities for 87 per cent of the population. The Government launched the National Agriculture Development Plan (NADP) 2007-2012 early in 2007 with the vision of having Government overcome various obstacles in the sector, thereby unleashing private sector growth. Key areas for intervention include: research and technical services (extension and information); food and horticulture; tree and industrial crops; livestock; apiculture and aquaculture; spices; and the strengthening of NADP management. The 2007 Supplementary Budget provided K40 million of funding for the NADP and the 2008 Budget provides an additional K28 million to bring total funds available for the NADP to K100 million.

The Government recognizes the importance of fisheries to the local market and the subsistence economy. The strategic area for development being pursued is in the establishment of more downstream processing of the catch. An integrated fishing/processing/marketing chain would return the greatest benefit to the economy. The key areas the sector is focusing on include: improved market access for fishery and marine products; improved marine product quality; improved research, development and dissemination of information; improved access to credit by fishermen; and building institutional capacity at the provincial and lower level governments to improve coastal fisheries management.

Forestry continues to be supported through tax concessions, including a reduction and simplification of the log export tax announced in the 2007 Budget.

The PNG Forest Authority recently launched its Corporate Plan 2007-2012, which provides strategic directions for the next five years. This plan will be continually reviewed to ensure that it is in line with the Government's development policies and the needs of the people, particularly the resource owners. Forest plantation development will be given close attention particularly: increasing plantable areas within the vicinity of existing plantations; management of over logged areas and downstream processing. Forestry research will be more focused and results oriented, leading to improved forestry administration.

The Government also increased funding in the 2007 Budget for protecting the environment in rural and marine areas, directed to administering environmental laws, to ensure that resources are developed and managed in a sustainable way.