

CHAPTER 7. SECTORAL POLICIES

7.1 OVERVIEW

The MTDS is the Government's overall guide to development planning and spending. 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:

- Primary and Preventative Health Care
- HIV/AIDS Prevention
- Basic Education
- Development Oriented Adult Education
- Transport Rehabilitation and Maintenance
- Promotion of Income Earning Opportunities
- 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:

- Agriculture
- Forestry
- Fisheries
- Tourism
- Oil and Gas
- Mining
- Manufacturing

7.2 MTDS EXPENDITURE PRIORITY AREAS

7.2.1 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 health sector. The Strategic Plan for the PNG Health Sector 2006-2008 provides the basis for a more focussed effort on the immediate pressures facing the sector. This identifies a number of key challenges affecting health care in PNG: the declining health of rural women and children; limited resources; limited or non-existent access to basic health services; deteriorating infrastructure; inefficient management; low staff morale; and low community and individual response to health services.

The scope of these challenges are evidenced in the MTDS Performance Management Framework, which highlights the declining access to healthcare, the low and falling share of births which are supervised (35%) and the unavailability of drugs at aid posts for - on average, 5 months of the year - due to unsatisfactory dispersion mechanisms. In contrast, the report reveals improving immunisation rates (particularly for Triple Antigen (77 per cent)) and satisfactory reporting by health centres.

Underlying the problems of the sector are a number of broader issues. The devolution of responsibilities through the Organic Law has naturally weakened vertical links within the sector, some of which are crucial to the smooth running of the sector. The sector coordination mechanism for pooling funds - the Health Services Improvement Program (HSIP) – has been thwarted by difficulties, resulting in an inability to spend. Less than 40 per cent of available funds were expended in 2006. Staffing at both national and provincial levels is problematic, with varying quality of provincial health advisors and several HSIP Management Branch roles left vacant. The latter problem partly reflects the weak coordination between the central agencies and the Department of Health – an issue where efforts have already begun to rectify the situation with the revitalising of the central agencies committee on health.

A major initiative of the Strategic Plan has been to better prioritise health sector interventions. The sector's Medium Term Expenditure Framework serves an important role in this effort, ensuring adequate funding to key health interventions, including immunisation, malaria prevention (bed nets and spraying), safe motherhood/family planning. These reflect the priorities of the Strategic Plan. Second level priorities include other major communicable diseases, while third level priorities cover the remaining clinical and public health programs/services.

The table below details the level of development expenditure to the health sector (excluding to HIV/AIDS) over the past 5 years. This shows the increasing commitment of GoPNG investment to the sector, which, over time, should facilitate greater Government leadership. In addition, the large Supplementary Budget appropriations for the rehabilitation of health sector infrastructure offer an opportunity for the Government to revise the previously inadequate approach to asset management.

Table 57: Development Expenditure on Primary and Preventative Health 2003-2008 (Kina Millions)

	Direct Financing	Tax Credit	Loans	Grants	Total
2003	21.1	0.0	6.5	131.2	158.7
2004	5.9	0.0	2.3	118.5	126.7
2005	8.3	0.0	15.0	126.1	149.4
2006	28.8	0.0	17.0	114.3	160.1
2007	45.0	0.0	3.0	113.3	161.3
2008	34.8	0.0	9.2	132.0	176.0

Source: Department of National Planning and Monitoring

The 2008 Development Budget will continue the Strategic Plan's focus on the areas of malaria, safe motherhood, immunisation, tuberculosis and HIV/STIs. Ongoing reforms in the health sector will intensify efforts on:

- Human resource planning including capacity mapping and subsequent building of management skills;
- Implementation of the streamlining of provincial health services including delegations of authority to provincial health advisers and Department of Health organizational reforms to support this streamlining;
- Securing minimum levels of provincial health funding and strengthening the use of the sectoral resource allocation model/process;
- Improving hospital efficiencies (including user fee collection and medical equipment and sterilizer management); and
- Medical supply logistics management reform (procurement, distribution etc).

The major items in the 2008 Development Budget specific to this expenditure priority area are shown in table 58.

Table 58: 2008 Development Expenditure on Primary and Preventative Health (Kina Millions)

	2008 GoPNG	2008 Donor	2008 Total
Capacity Building Service Centre	0.0	35.7	35.7
Rural Water Supply and Sanitation	0.0	33.2	33.2
Health Sector Resourcing Framework	0.0	24.0	24.0
Health Sector Improvement Programme (HSIP)	10.0	8.7	18.7
Provincial Towns Water Supply and Sanitation	17.8	0.0	17.8
Purchase of Medical Equipment	12.0	0.0	12.0
Other	4.2	30.4	34.6
Total	44.0	132.0	176.0

Source: Department of National Planning and Monitoring

7.2.2 HIV/AIDS Prevention

The HIV/AIDS virus has demonstrated its potential to undermine economic and social advancement in a number of countries. Based on the alarming projections for the spread of the epidemic in PNG, it is in these terms that GoPNG is now responding to the virus.

A new report on HIV/AIDS situation in PNG was released by National Aids Council Secretariat (NACS) and the Department of Health in August 2007. The report provides new insights on the state of the epidemic. It shows that while overall HIV/AIDS prevalence is lower than was previously estimated - generally due to improvement in the quality of data, coverage and reporting - the epidemic has continued to rise unabated. Overall HIV/AIDS prevalence at the end of 2006 was 1.28 per cent and is projected to rise to 1.61 per cent by the end of 2007. The epidemic is generalised and firmly established in both rural and urban areas and within all segments of the population. Of major concern, the report reveals that the epidemic is sharply rising in the rural areas where the majority of the population lives, contrary to previous belief that HIV/AIDS in PNG was concentrated in urban areas. The report shows worsening performance on all key indicators: people living with the virus, cases of new infection, AIDS related deaths and the numbers of AIDS orphans.

The report also indicates the need to significantly scale up prevention, treatment and care efforts in the rural areas where the epidemic is fast spreading. Women - particularly young girls aged 15-24 years - are the new faces of the epidemic. More efforts are required in tackling the link between gender and HIV/AIDS.

The National Strategic Plan on HIV and AIDS provides the broad framework for all organizations to respond to the epidemic within their own capacity, including the Government. The overall goal of the Plan is "To reduce the HIV prevalence in the general population to below one per cent by 2008, improve care for those infected, and minimise the social and economic impact of the epidemic on individuals, families and communities", a goal which appears increasingly elusive based on the latest evidence of the spread of the disease. The strategic framework focuses on seven main areas for intervention: 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.

How the plan is implemented has had to change given the changing dynamics of the HIV/AIDS epidemic, with treatment and family and community support emerging as an increasingly crucial component of the response. While it is important that all aspects of the epidemic are addressed, leadership, partnership and coordination, education and prevention and monitoring and evaluation have become the most pressing priorities.

In the past year, progress has been made with regard to the transformation of NACS from its previous involvement with implementation to that of a coordinating body. Key areas of progress and achievement in 2007 include institutional restructuring to define an ideal structure for coordination and the development of internal policies relating to finance, human resources, procurement, information technology, communications and grant policies.

Improving data collection and analysis remains a critical need for the sector. The development of a monitoring and evaluation framework in 2007 represents an important milestone towards this end. Other areas of recent progress include the approval of the NACS Amendment Act 2007, which is expected to strengthen NACS coordination and leadership role in the national response.

The budgetary allocations reported in the Development Budget since 2003 shows that funding support for HIV/AIDS prevention is dominated by grants with limited but now increasing direct GoPNG funding.

Table 59: Development Expenditure on HIV/AIDS Prevention 2003-2008
(Kina Millions)

	Direct				
	Financing	Tax Credit	Loans	Grants	Total
2003	0.3	0.0	0.0	27.1	27.4
2004	0.3	0.0	0.0	26.5	26.8
2005	1.0	0.0	0.0	9.5	10.5
2006	3.0	0.0	0.0	40.6	40.6
2007	12.5	0.0	0.0	78.3	90.8
2008	17.0	0.0	0.0	84.3	101.3

Source: Department of National Planning and Monitoring

In 2008, Government's funding to NACS will focus on improving the capacity of NACS and the Provincial AIDS Committees to lead, coordinate, manage and monitor the national response at all levels. It is also earmarked for priority research activities determined through the Research Advisory Committee in line with the national research agenda. Funding from PNG's development partners will continue to be directed towards service delivery provided by both GoPNG Departments and larger NGOs.

The major items in the 2008 Development Budget specific to this expenditure priority area are shown below.

Table 60: 2008 Development Expenditure on HIV/AIDS Prevention
(Kina Millions)

	2008 GoPNG	2008 Donor	2008 Total
PNG-Australia HIV/AIDS Support Program	0.0	48.0	48.0
Health Program response to HIV Sector	0.0	20.4	20.4
Implementation of National Strategic Plan on HIV/AIDS	16.5	0.0	16.5
HIV/AIDS Prevention and Control in Rural Dev. Enclaves	0.5	11.9	12.4
ADB Social Marketing for Condoms	0.0	3.9	3.9
Total	17.0	84.3	101.3

Source: Department of National Planning and Monitoring

7.2.3 Basic Education

The National Education Plan 2005—2014 is guided by the National Goals and Directive Principles in the Constitution. The first priority of the current Plan is to provide the opportunity of nine years of basic education for all. This is consistent with the MTDS 2005-2010 target and in line with Goal 2 of the Millennium Development Goals, which is to achieve Universal Primary Education (UPE) by 2015.

The three components of UPE are that:

- All children should begin formal primary schooling (EP1) by the age of seven;
- All children should complete the primary cycle of education (which in PNG is to the end of grade 8); and
- All children should reach a required standard of literacy and numeracy at the end of this primary cycle of education.

Since the year 2000, the number of children beginning their schooling each year (EP1) has shown little discernible change, while the share of those who persevere through to the final year of their primary education (G8) has increased markedly. Girls have been a major beneficiary of this increased retention, resulting in greater gender equality in schooling. A shift to UPE would require retention rates to continue improving, while access to those who currently fail even to start their schooling will have to be made possible. In addition to accommodating these increased numbers, the sector will also have to position itself to absorb the steady increase in pupils, commensurate with population growth. Affordability and the process of rolling out of services in under-served areas are two of the major challenges to achieving UPE.

Accommodating the increasing number of school children is crucial to ensure that quality is not compromised. Since 2001, average class sizes have increased, though they remain close to target, at present. One means of preserving the quality of education is through school inspections. The number of inspections taking place is increasing and the National Department of Education (NDOE) has placed significant emphasis on training inspectors and conducting inspection visits during 2007.

The total appropriations to Basic Education from the year 2003 to 2007 are shown in the table below. Government's share of funding has increased significantly over this period, boosted further by the large injection of funds made possible by the 2007 Supplementary Budget for the Rehabilitation of Education Sector Infrastructure program, aimed at National High Schools, Provincial Secondary Schools, Vocational and Technical Schools, as well as Primary Schools. Of 3,416 Primary and Community Schools in PNG, some 1,047 schools are to be assisted from this funding. Plans for the expenditure of these funds have been developed in 2007 and it is expected that the first funds will be expended in 2008. Work has also progressed under the Basic Education Development Project to encourage school's self-reliance in relation to infrastructure management.

Table 61: Development Expenditure on Basic Education 2003-2008
(Kina Millions)

	Direct Financing	Tax Credit	Loans	Grants	Total
2003	2.7	0.0	0.0	69.0	71.8
2004	5.9	0.0	0.0	141.5	147.4
2005	5.7	10.0	0.0	170.4	186.1
2006	14.4	0.0	0.0	151.1	151.1
2007	26.9	0.0	0.0	74.4	101.3
2008	10.5	0.0	0.0	161.3	173.5

Source: Department of National Planning and Monitoring

A major innovation in 2007 has been the development of the School Census. This will provide NDOE with much more accurate and complete data with which to inform their policies in the future, especially in tracking the move towards UPE. The 2007 census has been successful in eliciting responses and will be repeated again in 2008 as part of an annual cycle.

The major items in the 2008 Development Budget specific to this expenditure priority area are shown below.

**Table 62: 2008 Development Expenditure on Basic Education
(Kina Millions)**

	2008 GoPNG	2008 Donor	2008 Total
Education Training and Human Resource Development Program	1.0	73.4	74.4
Education Capacity Building	2.0	49.2	51.2
Basic Education Development Project (BEDP)	6.0	24.6	30.6
Improvement to Rural Primary Education Facilities (IRPEF)	0.0	4.0	4.0
Other	1.5	11.8	13.3
Total	10.5	161.3	173.5

Source: Department of National Planning and Monitoring

7.2.4 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 and life skills in order to participate productively in the country's economy. Despite its status as an expenditure priority area, the absence of a clearly defined policy on adult education and the clear delineation of responsibility for which part of Government should coordinate the sector's response has resulted in funding to the sector being markedly lower than for other EPAs. Funding to the sector over the previous five years is illustrated in the table below.

Table 63: Development Expenditure on Development Orientated Adult Education 2003-2008 (Kina Millions)

	Direct Financing	Tax Credit	Loans	Grants	Total
2003	2.0	0.0	10.5	8.1	20.6
2004	1.0	0.0	15.3	5.9	22.1
2005	1.0	0.0	6.1	3.7	10.8
2006	1.3	0.0	5.8	6.4	6.4
2007	3.5	0.0	5.1	2.9	11.4
2008	3.3	0.0	0.4	0.0	3.7

Source: Department of National Planning and Monitoring

In recent years, NDOE has focussed efforts on promoting technical and vocational education opportunities for students who drop out of the formal education system, particularly after years 8 or 10. Increasing the viability and attractiveness of alternative education paths is key to broadening the proportion of each age cohort who enters the workforce. In addition, this will reduce pressure on the traditional education system whose limited capacity cannot cater for all children and consequently leaves those children who fail to pass each grade disillusioned.

Meanwhile, the Department of Community Development has focussed on expanding functional literacy and initiatives aimed at particular target groups, such as women. Educating women brings a range of different benefits, not least the added contribution to economic growth by enabling their participation in the labour market.

The Government is increasingly looking to churches, NGOs, the private sector and other civil society organisations to deliver services in this sector, consistent with the underlying principle of the MTDS in forging strategic alliances.

The major program in the 2007 Development Budget specific to this EPA are shown in the table below.

Table 64: 2008 Development Expenditure on Development Orientated Adult Education (Kina Millions)

	2008 GoPNG	2008 Donor	2008 Total
Vocational Training Support	2.0	0.0	2.0
Provincial Vocational Centre Capacity Building	1.0	0.0	1.0
Employment Orientated Skills Development Project	0.4	0.0	0.4
Other	0.3	0.0	0.3
Total	3.7	0.0	3.7

Source: Department of National Planning and Monitoring

7.2.5 Transport Rehabilitation and Maintenance

Transport infrastructure plays a vital role in creating and supporting economic growth by facilitating the movement of labour and capital, connecting different components of the supply chain and enabling markets by bringing buyers and sellers together. Transport also plays a key role in social development by enabling service delivery, law and order, education and health services which rely on the efficient movement of goods and people.

Transport infrastructure in all three modes of transport - land, air and water - represents a major and valuable component of Government's assets. However, like many other public assets, such infrastructure has been poorly maintained. Reasons for this include inadequate financing, poor prioritisation, lack of recognition of PNG's fast depreciation rate, poor allocation of responsibilities between different tiers of Government and the absence of effective mechanisms to manage the state of assets. To this end, the MTDS 2005-2010 places transport infrastructure maintenance and rehabilitation as the priority of Government.

Annual budgetary allocations to transport rehabilitation and maintenance have reflected the priority status conferred in the MTDS. Total resources to the sector in the annual Development Budget have increased significantly year on year and now represent more than half a billion kina annually. This does not include the substantial additional financing made possible through the Supplementary Budgets. With two thirds of total funding to this EPA originating from Government sources (either in direct financing, tax credit scheme or loans) this remains one priority area where Government is clearly seen to be driving its development agenda, rather than allowing its development partners to take the reins.

Table 65: Development Expenditure on Transport Maintenance and Rehabilitation 2003-2008 (Kina Millions)

	Direct Financing	Tax Credit	Loans	Grants	Total
2003	93.5	0.0	137.5	147.6	378.7
2004	89.4	0.0	115.0	240.8	445.3
2005	105.6	69.2	137.5	211.5	523.9
2006	193.1	71.1	100.5	173.7	538.4
2007	159.8	85.4	132.3	185.9	563.4
2008	148.0	73.7	116.4	220.8	558.8

Source: Department of National Planning and Monitoring

Efforts to maintain and rehabilitate transport infrastructure to good and usable conditions is materialising, as evidenced by the annual assessment of the 8,521km national road network under the Road Assets Management System, through which each 10km stretch of road is classified as good, fair or poor. The standard of national roads has improved markedly, with the share judged to be in good condition increasing from 10 per cent to 20 per cent in just four years (2003-2006). It is envisaged that the proportion of national roads in good condition will increase further as the high level of funding towards this sector is sustained and allowing for the lag between appropriations, the letting of contracts and the completion of works.

CAA's efforts to lift PNG's 22 regional airports to a minimum safety standard are also underway, made possible by funding through the Supplementary Budget. At the beginning of 2007, two airports had received their certificate and a further four are expected to meet the requisite standard by the start of 2008. In addition, negotiations are underway for a US\$100m loan from the Asian Development Bank to finance the extension of the port at Lae, which is responsible for trafficking some 80 per cent of PNG's exported goods.

However, a number of constraints remain. The increasing volume of maintenance and rehabilitation contracts has put pressure on both the public and private sector's capacity. These capacity weaknesses extend to the Tenders Boards, particularly those at provincial level. There remains some uncertainty over Government's intention to complete the institutional reform that saw the establishment of the National Roads Authority. Government needs to make adequate provisions to provide routine maintenance on all infrastructure which is in good condition and has recently been rehabilitated.

In addition, the prioritisation of rehabilitation and maintenance works still needs to be improved, given the large volume of funding to the sector and the variety of needs to which these finances can be directed. The National Transport Development Plan 2006-2010, the sector's strategic approach for the medium term, explicitly aims to prioritise and focus investments on transport infrastructure assets which are deemed to be of significant economic and social importance. This includes the 16 priority national roads that together represent the backbone of PNG's transport infrastructure network: the Highlands Highway, Buluminisky Highway, Koroba-Mendi Road, Pogera-Togoba Road, New Britain Highway, Sepik Highway, West Coast Road, Baiyer Road, Hiritano Highway, Coastal Highway, Kokoda Road, Wau Road, Buka Road, Magi Highway, Ramu Highway and the Northern Road. At present, while significant appropriations are made for transport rehabilitation and maintenance, once allowance is made for sea and air transport and for provincial roads, the share that remains for national roads is remarkably small. Given the cost of carrying out major rehabilitation and reconstruction works, the balance of funding within transport will need to be changed if Government is to accelerate the pace at which the national road network is revitalised.

The major items in the 2008 Development Budget specific to this expenditure priority area are shown below.

Table 66: 2008 Development Expenditure on Transport Maintenance and Rehabilitation (Kina Millions)

	2008 GoPNG	2008 Donor	2008 Total
ADB Road Maintenance & Upgrading Project (5 Highlands Provinces)	97.7	0.0	97.7
PNG Transport Sector Support Program	1.0	92.2	93.2
Performance Grant	0.0	73.9	73.9
Tax Credits & TCS Administration	73.7	0.0	73.7
World Bank Road Maintenance Project	69.6	0.0	69.6
National Road Maintenance Program	30.0	0.0	30.0
Key Roads For Growth (KRFG)	1.5	20.1	21.6
Bridge Maintenance Program	15.0	0.0	15.0
Construction Machinery & Workshop Facilities	0.0	14.3	14.3
Other	49.5	20.3	69.8
Total	338.1	220.8	558.8

Source: Department of National Planning and Monitoring

7.2.6 Promotion of Income Earning Opportunities

The Promotion of Income Earning Opportunities in the MTDS is a response to the low productivity of labour in PNG and the limited options available to individuals who wish to participate in the economy. This is one of the underlying factors contributing to the low standard of living as portrayed by PNG's socio-economic indicators and the ongoing problems with law and order, particularly in PNG's major urban centres of Port Moresby, Lae and Hagen.

Enhancing access to income earning opportunities is inseparably linked with tackling the major impediments to business in Papua New Guinea. In addition, promoting labour intensive industries in which PNG has a comparative advantage, can help address these problems. Furthermore, broadening access to income generating opportunities is consistent with Papua New Guinea's principles of facilitating individual responsibility through investing sweat equity.

In recent years, the level of formal employment has begun to increase. PNG's employment index rose from 111.7 in the June quarter of 2005 to 120.4 in the June quarter of 2006, before jumping markedly in the June quarter of 2007 to 131.9. This increase has been spread fairly equitably across the country, though the biggest increases are attributable to the Momase and Islands region. The key sectors contributing to the increase in formal employment are retail, building and construction, agriculture, forestry, and fisheries. Government's large investments in rehabilitating public infrastructure have undoubtedly played a significant part in this growth, with the provision of major contracts focussed largely on roads and buildings. Given the lag in issuing these contracts and the spreading of appropriations over longer time periods through the operation of trust accounts, this trend should continue further in the coming years.

While this news is welcome, the large majority of Papua New Guineans are dependent on informal jobs to generate incomes. Assuming there has been little change in the share of PNG's economy which is formal, one can infer that the strong performance of the formal labour market is mirrored in the informal sector, since most informal jobs directly or indirectly serve formal businesses and their employees.

Disciplined and consistent Government policy has played a vital role in delivering an improved investment climate in recent years. PNG's macroeconomy continues to perform well, with debt reducing and the Government running budget surpluses, enabling both inflation and interest rates to be kept low. This stability was maintained through the election period, in stark contrast to the past when the political cycle impinged on Government policy and the business cycle. In addition, the election took place under relative calm, in contrast to some expectations. PNG's recently improved credit rating is testament to this performance.

Recent changes to PNG's taxes are also intended to promote business and employment. These include the green revolution tax incentives, the concessions to investment in tourism and the reduction in tax on Zoom, relied upon by PNG's islands communities and fishing industry.

Government's investment in transport infrastructure will have a direct impact on business operating costs and profitability. However, the quality of service provision for other utilities remains poor, particularly for power, forcing many businesses to purchase diesel generators which are costly to purchase, maintain and operate. The arrival of Digicel in the mobile phone market has had an immediate impact in reducing the cost of telecommunications.

Table 67 summarises the level of investment to this EPA over the past 5 years:

Table 67: Development Expenditure on Promotion of Income Earning Opportunities 2003-2008 (Kina Millions)

	Direct Financing	Tax Credit	Loans	Grants	Total
2003	26.8	0.0	59.6	133.6	220.0
2004	22.6	0.0	38.5	71.8	132.9
2005	48.2	18.7	32.5	67.5	166.8
2006	49.2	0.0	10.8	85.9	85.9
2007	51.5	0.0	8.2	67.9	127.6
2008	38.4	0.0	17.0	141.4	196.9

Source: Department of National Planning and Monitoring

Government, together with support from its development partners, continues to balance its support across traditional sectors, such as mining; potential downstream sectors such as in forestry, gas and fisheries, which promise employment and retain value-adding activities within PNG; and the country's emerging renewable sectors, such as tourism. Its 2008 investments, as detailed in the table below, mirror this support.

Table 68: 2008 Development Expenditure on Promotion of Income Earning Opportunities (Kina Millions)

	2008 GoPNG	2008 Donor	2008 Total
Mining Sector Support Program	0.0	37.1	37.1
PNG Incentive Fund	0.0	24.6	24.6
Rural Economic Development	0.0	20.0	20.0
Microfinance and Employment	14.9	0.0	14.9
PNG-Australia Agriculture Research and Development	0.0	14.8	14.8
Smallholders Agriculture Development Project	6.0	0.0	6.0
Other	34.6	44.9	79.5
Total	55.5	141.4	196.9

Source: Department of National Planning and Monitoring

7.2.7 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 the rapid and widespread socio-cultural transition that has taken place across the country. The types and occurrences of crime vary across communities from violent crimes to violence against women, tribal fights, land disputes, and 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 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 coordinated approach 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". This framework 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 also guides planning and budgeting for the sector. The Law and Justice Sector also seeks to encourage the involvement of the community in addressing crime. Progress is measured through regular and systematic monitoring of Key Performance Indicators which together comprise a Performance Monitoring Framework.

This approach to organising Government and other stakeholder interventions has enabled the sector to be highly productive in pursuing its goals.

In 2007, the sector's Media Office ran a campaign highlighting sector success stories, to bring attention to the work of the sector and successful approaches to bringing about change. Efforts have also focussed this year on bringing the work of NGOs closer to Government, informing them of the role of different Government agencies involved in the sector and providing new opportunities for cooperation.

The new White Paper on Law and Justice, launched in March 2007, has major implications for the administration of the sector, including the need for imminent institutional reform. This will include the establishment of a new Government Law Office under the Attorney General. This will house both the Office of the Solicitor General and the Office of the State Solicitor. Alongside the new Government Law Office will sit the Department of Justice. Meanwhile, the semi-autonomy of the Public Prosecutor and Public Solicitor will be reaffirmed by their being housed outside these two institutions, as separate offices.

For courts to remain effective, they must be capable of bringing cases to their conclusion within a reasonable timeframe. Attention has been brought to the capacity of both Supreme and National courts to handle their case loads. Low completion rates imply long court cases and consequently higher costs for the sector, e.g., judges' costs and holding prisoners on remand. The low completion rates of Supreme Courts can be partly explained by their being occupied with sundry tasks, such as petitions and other tribunals.

Two major pieces of reform respond directly to this issue. The first is Government's approach to Indictable Case Management. The Sector is developing a tracking process for all criminal and civil cases, which will ultimately enable more effective management of cases by the different sector agencies, honing attention on the need to bring all cases to their completion in a timely manner. Another area of reform has been a review of minor cases. The Sector's aim here is to ensure that cases are treated at the appropriate level, so that the country's high-level courts are not burdened with cases that could be handled equally effectively by lower level courts.

Government funding to the sector, through the development budget, has increased markedly in recent years – see the table below. This has enabled greater Government leadership in a sector, which in the past was strongly reliant on GoPNG's development partners. The large appropriation of funds under the recent Supplementary Budgets for infrastructure rehabilitation will support efforts already underway to improve the standard of infrastructure important to service delivery. Existing initiatives include the upgrade of a number of prisons, including Baisu prison in Western Highlands and Biru women's prison in Oro. In addition, initial works have begun in preparation of the major reconstruction of the Madang Court. This project intends to unite all court services under a single roof and, if successful, will serve as a model to the rebuilding of courts in other provinces.

**Table 69: Development Expenditure on Law and Justice 2003 – 2008
(Kina Millions)**

	Direct Financing	Tax Credit	Loans	Grants	Total
2003	4.0	0.0	0.0	56.9	60.8
2004	0.8	0.0	0.0	73.3	74.1
2005	13.5	10.0	0.0	510.3	533.8
2006	26.8	0.0	0.0	76.6	76.6
2007	30.5	0.0	0.0	96.0	126.5
2008	31.0	0.0	0.0	108.3	139.3

Source: Department of National Planning and Monitoring

The major projects for this EPA in the 2008 Development Budget are identified in table 70.

**Table 70: 2008 Development Expenditure on Law and Justice
(Kina Millions)**

	2008 GoPNG	2008 Donor	2008 Total
Law and Justice Sector Programme	31.0	67.2	98.2
Law and Justice Initiative (ECP)	0.0	17.2	17.2
Border Management & Transport Security (ECP)	0.0	12.3	12.3
Justice Advisory Group (JAG)	0.0	6.0	6.0
Community Policing	0.0	4.4	4.4
Other	0.0	1.1	1.1
Total	31.0	108.3	139.3

Source: Department of National Planning and Monitoring

2009 will see the beginning of the second phase of the Law and Justice Sector program and work has already begun on its preparation. Though the program will naturally build on the elements of the earlier phase, changes in emphasis will include a shift to a greater provisional focus, both for decision-making and service delivery, and on expanding the already strong focus on performance monitoring.

7.3 ECONOMIC SECTORS

7.3.1 Agriculture

Agriculture plays a significant role in realising the broad-based development strategy articulated in the MTDS, providing income and employment opportunities for 87 per cent of the Papua New Guinea population. 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.

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 much improved, 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 has 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.

Indeed, performance by PNG's major agricultural export crops of copra, cocoa, coffee, palm oil, rubber, tea and copra oil has been mixed in the last 5 years (2000-2006). Copra and coffee which used to be the lead export crops have performed poorly during this period while oil palm is the biggest success story, with exports now at 381,000 tonnes a year, a steady increase from only 309,000 in 2001. Copra oil and cocoa performed well beside rubber.

The Government launched the National Agriculture Development Plan (NADP) 2007-2012 early in 2007. This Plan is both ambitious and broad, with the vision of having Government overcome various obstacles to 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.

One of the interventions heavily promoted in the NADP is the nucleus estate concept in major agricultural commodities, based on lessons learnt from the oil palm sector. In addition, the Plan intends to develop a credible monitoring framework with measurable indicators that will be used to assess performance against targets set within the framework.

With expectations of persistently high investments, further work will have to be carried out to determine the most effective way of prioritising and sequencing interventions in the sector where Government money can be effective. This extends to the K80 million of appropriations made in recent Supplementary Budgets.

One of the policy initiatives through which Government has attempted to stimulate the agriculture sector is through the package of tax incentives that make up the Green Revolution. Initiated in 2004, the Green Revolution initiative includes a 150 per cent tax deduction in agricultural research and development (R&D); a 150 per cent deduction for agriculture extension services; and a 20 per cent income tax rate for new agricultural projects. The industry's response to this initiative has been positive as evidenced by the 13 applications for the R&D exemption received by Government up to 2006, each representing an investment in excess of K30m. The National Development Bank also encourages investment in the sector, through the provision of its loans.

The Government accepts that efficiency gains can be realised through scaled-up 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. Increased establishments of agriculture-based Cooperative Societies may also contribute towards this end.

One of the most significant interventions by Government to complement the major investments in the agriculture sector is the tremendous investment in transport infrastructure maintenance over recent years. Improvements attained in the quality of transport infrastructure should translate into better access to markets and improved delivery of agriculture goods and services, especially to rural farming communities.

7.3.2 Fisheries

Papua New Guinea is blessed with abundant marine resources. The country's fisheries zone of 2.4 million square kilometres is the largest in the Pacific. PNG's fisheries sector is not only focused on marine resources but also on inland aquaculture resources such as trout farming.

Fisheries is a key sector for achieving economic growth as outlined in the MTDS 2005-2010. As a sector capable of providing a renewable source of economic and social benefits the fisheries sector is at the core of Government's plans. The government is promoting and developing this new emerging economic sector to gradually take on the responsibility and revenue stream that is currently being provided through the mining and petroleum sector. While fisheries provide a huge opportunity for the country, particularly in terms of employment, it also presents enormous challenge for monitoring and control.

According to official records, the quantity of marine products exported from PNG was 17,300 metric tonnes in 2006 indicating zero growth since 2001. Nevertheless, this represents a marginal improvement from 2005 (15,700 metric tonnes). There is capacity to increase the volume of catch to 100,000-150,000 tonnes per year.

Currently, a wide range of players are involved in the fishing industry in PNG. At the international level, PNG has access agreements with Taiwan, Korea, Philippines and China which are negotiated on an annual basis.

The strategic area for development is the establishment of more downstream processing of catch in the country. Integrating fishing, processing and marketing returns the greatest benefit to the economy. PNG is fortunate to have three private companies operating onshore tuna processing facilities: RD Tuna Cannery (Madang), South Seas Tuna Corporation (Wewak) and Frabelle (Lae). While RD Tuna Cannery's business activity is currently focused solely on tuna canning, South Seas Tuna Corporation produces tuna loins. Frabelle produces both tuna loins and canning. These companies create much needed jobs. Currently, RD Tuna Cannery employs the highest number of people (2,500) followed by South Seas (1,645) and finally Frabelle (800). RD Tuna have plans to expand their capacity later this year, before venturing into other products (including loining) from 2008 onwards.

The potential to expand downstreaming in PNG is evident from the large number of purse seine vessels licensed to fish in PNG waters which at present never land at PNG's ports. Of 186 licensed boats, only 34 have their catches processed in PNG and of these, only 7 are owned by PNG companies.

The Madang Marine Park is a major economic impact project intended to attract more downstreaming in PNG. It involves the development of major infrastructure facilities intended to leverage economies of scale and agglomeration, job creation and reduction of post harvest losses. Progress on the implementation of this project has however been slow and is limited to the registering of the vehicle company "Madang Marine Park Holdings Limited" with the IPA, site feasibility and investigation, and land valuation. The next steps are for the principal lead agencies, ICDC, NFA and DCI to clearly state and indicate the project work program and its budget.

The Government and its development partners are co-funding several other smaller projects including the Wewak fish market and jetty funded by JICA and the fisheries development assistance project for Pacific Island Nations which is initially being implemented by the National Fisheries College and Kokopo fish market.

Other 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 and easy access to credit by fishermen; and building institutional capacity at the provincial and lower levels to improve coastal fisheries management. This year's reduction in tax on Zoom – with a special excise rate of 30t per litre – will contribute significantly to the viability of individual fishermen and small fishing enterprises.

PNG is also in the process of negotiating the Economic Partnership Agreement with the EU. Negotiations are officially scheduled to come to a conclusion by December 2007. The main objective of the Agreement is to obtain better market access for key PNG's export products – principally marine products – to the European single market.

In addition to the major industry players, many other small fishing businesses operate within the country. At the subsistence level marine resources are a very important source of diet for communities around the coastal areas.

7.3.3 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.

At present, PNG's forestry sector is dominated by logging. PNG's largest export species are taun, malas and calophyllum, with West New Britain, East New Britain, Western and Gulf representing the highest exporting provinces. The exports of PNG round logs has increased from 1.4 million cubic meters in 2001 to 2.5 million cubic meters in 2006, the latter valued at K489 million. Based on data from the first quarter of 2007 and progress on the Government's ten major forestry projects, this upward trend is set to continue further. As well as providing significant tax earnings to Government, royalties and levies to landowners are currently estimated at around K30-40 million a year.

At present, the National Forestry Authority has signed eight of the ten major impact projects envisaged in the MTDS. Five of these are already operational: Amanab 1-4 (Sandaun), Asengseng (WNB), Rottok Bay (WNB), Cloudy Bay (Central) and East Awin (Western Province). Three have works pending: Amanab 5-6 (Sandaun), Aitape Lumi (Sandaun) and Middle Ramu Block 1 (Madang). East Pangia (SHP) is undergoing project evaluation and selection while Kumulu Doso (Western) is currently before the National Court.

As part of the revised tax regime since 2007, timber permit, timber authority and timber licence holders are now required to pay a new levy called "premium levy" of K8 per cubic metre in respect of the exports of natural unprocessed logs. The levy is being administered using similar arrangements as currently applied for development levies paid in petroleum projects. The government has offset the cost to the industry of paying this levy by reducing the log export tax. At the same time the log export tax was changed to a flat rate for the purpose of simplification.

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.

SGS monitor the export of logs from PNG, verifying the accuracy of data reported to Government from logging companies. Inaccurate reporting is a form of tax evasion. Each year, more than 50 per cent of ships inspected are found to have reported their shipments inaccurately. 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, including the possibility of giving the monitoring agency greater powers to punish malpractice and incentivise best practice in the sector.

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 render the sector sustainable remain undeveloped in PNG. Downstream processing activities such as sawmills, furniture, flooring and mouldings have the potential to grow and the latest venture in Central Province is evidence of this.

The Government continues to explore opportunities that will create incentives for the protection of PNG's forests. The incorporation of natural rainforests under the Kyoto Protocol's carbon trading mechanism remains a global agenda of Government. PNG has established itself as a key advocate in this movement at the global level. The proposed establishment of a National Clean Development Mechanism Authority to prepare PNG for such ventures remains on the Government's agenda.

7.3.4 Tourism

Papua New Guinea's tourism sector has major potential to contribute to the country's economic growth and prosperity, as identified in the MTDS. Unlike many of PNG's key economic sectors, tourism has the potential to be sustainable, if well managed and to create significant employment, including among the low skilled.

The Tourism Master Plan 2007-2017, with the theme “Growing Tourism as a Sustainable Industry” was launched early in 2007. 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”. This target can be achieved by fostering PNG’s reputation – through effective marketing - as a niche tourism location, focussed on diving, surfing, trekking, bird watching and cultural shows. In addition, efforts are required to overcome some of the major obstacles to tourism, most notably the cost of travel and PNG’s reputation for poor law and order.

Official tourist figures have increased steadily from 13,800 in 2001 to just under 23,000 in 2006. If numbers continue to rise at the current rate, the Master Plan target may be achievable. Concerns have nevertheless been raised regarding the number of business people and migrants who falsely claim to be tourists for ease of access into PNG.

A key recommendation of the Master Plan is the separation of the policy and marketing functions of the TPA. This is to be achieved through the replacement of the existing TPA with a new industry-driven body to oversee and coordinate destination marketing, called ‘Tourism PNG’. In addition, a Tourism Policy Secretariat is recommended to be established under the Ministry of Culture and Tourism to handle all policy matters. Progress on these institutional reforms since the launch of the Master Plan has stalled.

The tourism sector is now benefiting from a major overhaul of the Government’s tax incentives to the sector, which have seen PNG’s tax package falling closer in line with those of rival country destinations. The tax concessions include exemption from GST for the purchase of travel tickets and accommodation for foreigners making their bookings prior to their arrival; increased accelerated depreciation; and double deduction on staff training. Further tax breaks are made available for the construction of new tourist accommodation facilities, including the extension of the tax credit scheme to the sector.

Since 2007, the National Development Bank has been used to manage the provision of loans to small and medium sized tourism businesses. This role is expected to expand over the coming years.

Major events in 2007 include the hosting of the Tourism Expo in Port Moresby and the conducting of a tourism roadshow to a series of Australian tourism operators in August to promote PNG as a destination.

7.3.5 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.

PNG’s oil production is currently at 40,000-45,000 barrels per day. This production comes from Kutubu, Gobe, and Moran oil projects. Oil production is dwindling due to a natural decline in the producing fields. Unless new discoveries are made and/or more appraisal wells are drilled within mature fields identifying new pockets of oil, current oil fields will not sustain production for long.

To arrest this fast decline in oil production, the Government is committed to actively pursue a Gas Commercialisation Strategy. This targets the following developments:

- 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 program; and

- The promotion of an energy-intensive minerals processing industry, such as aluminium smelting.

Since the abandonment of the PNG Gas to Queensland Pipeline Project in 2006, the newly elected PNG Government is vigorously pursuing the development of a LNG project. The development of a LNG plant represents the biggest commercial investment project in PNG's history to diversify the country's export portfolio. Therefore, the Government remains committed to actively participating in the commercial development of PNG's significant gas reserves. The K500 million that was set aside to purchase a substantial part of Papua New Guinea's equity stake in the PNG to Australia Gas Project will be used to purchase its stake in the LNG project. To add to this, the 2008 Budget has appropriated an additional K100m for State equity in gas commercialisation, together with K50m for infrastructure at Konebada Petroleum Park.

To date, a number of LNG project proposals have been submitted to Government, including those from Liquid Niugini Gas Limited (comprising InterOil, Merrill Lynch and Pacific LNG) and Exxon Mobil; and the Oil Search Limited.

Preliminary negotiations are ongoing between the Government and Exxon Mobil on a draft Project agreement. The Exxon Mobil LNG project will involve capital investment worth US\$10-12bn. It is expected that the project will be designed to export about 6.3m tons per annum of LNG. The decision to enter into FEED (Front-End Engineering and Design) studies is expected to be made by December 2007 or early 2008. The Joint Ventures are currently working on a Co-operative Development and Operating Agreement that will define the relationship of the different partners in relation to the LNG project for its full economic life. This agreement is scheduled to be signed before the end of 2007.

The Liquid Niugini Gas Limited draft project agreement focuses on a different set of gasfields. Information on the confirmed gas reserves in the project area will determine the outcome of this proposal.

In addition to the substantial direct benefits that will be generated through an LNG project is the establishment of 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. A number of international companies have expressed their interests to the Government in various gas-based industries which would follow the establishment of the first LNG project. These include the following:

- *DME/Methanol project:* This project is being pursued by two Japanese energy companies namely, Itochu and Mitsubishi Gas Chemicals and would involve the indirect purchase of gas at a marine export location. The project's value is estimated to be worth around US\$800m and would require approximately 2 TCF of gas. The commissioning of this project is targeted for 2010.
- *Urea/fertilizer plant:* A Memorandum of Understanding has been signed between Oil Search and a Perth-based Indian company, Oswald to advance the development of a fertilizer plant. As with the DME/Methanol project, Oil Search Limited will be the supplier of feed gas for this proposed fertilizer plant.

The up-turn in petroleum exploration activity resulting from fiscal incentives introduced in 2003 is continuing. 21 new Petroleum Prospecting Licences (PPLs) have been issued over the past four years bringing the total number of PPLs to 36. There has been a significant increase in the number of new applications for PPLs. The Department of Petroleum is currently reviewing nine new applications for PPLs from various companies.

7.3.6 Mining

The mining sector continues to be promoted as a major export revenue earner for Papua New Guinea since 1973. The sector is responsible for over 50 per cent of Papua New Guinea's export revenue.

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 PNG 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 PNG continues to have the potential to attract new investors into the mineral sector. This is evidenced by the large number of Exploration Licences (ELs) applications received by Government, totalling 131 in 2006 and a further 42 in 2007 to date. 7 ELs were ultimately granted in 2006 compared to 28 ELs to date for 2007. Additional tenement portfolios include 5 mining leases, 140 small-scale alluvial mining leases and 6 special mining leases.

There are 13 advanced exploration projects that are nearing pre-feasibility or feasibility stages. These projects are: Frieda copper, Wafi copper/gold, Yandera copper, Mt Kare gold, Woodlark gold, Imauna gold, Sehulea gold, Wapolu gold, Esalla gold, Wowo Gap nickel/cobalt, Mt Nakru copper/gold, Simuku copper/gold, and the Solwara copper/gold/silver project.

In addition, there are significant drilling programs currently underway where exploration licences have been granted. These include: Frieda, Woodlark, Wowo Gap, Wafi, Hidden Valley, Lihir, Ok Tedi, Feni, Tolukuma, Mt. Kare, Yandera, Wapolu, Gameta, Weioko, Sehulea, Mt. Bini, Mt. Nakru, Mt Penck and Simuku. Some advanced projects are indicating commitment to begin production such as Yandera in the year 2011.

PNG created history in 1999 when the government issued the world's first offshore Exploration Licence to Nautilus Minerals to explore for gold, copper and silver in the Bismarck Sea at depths in excess of 1,000 metres. Following trial mining, Nautilus is investigating the possibility of utilising a specialised ship for the purpose of conducting operations, complete with remotely operated robotics. A commercial cutter suction dredge would mine sulphide chimneys 1.6km below sea level at a rate of 1.8 million tonnes annually, making it a world first by late 2009. The ore averages 8 per cent copper and 7-8gpt gold. Nautilus has previously projected annual production of 500,000 ounces of gold and 160,000t of copper. The company has projected an initial production rate of 1 million tonnes per annum with the capacity to double throughput to 2Mtpa. 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.

It is estimated that approximately 60,000 people are engaged in largely informal, but legal, small-scale mining (SSM) in PNG, predominantly for gold. The majority of alluvial miners, comprising about 90 per cent of the sector use pans, shovels, rudimentary sluices and shaking boxes and occasionally small water pumps. The main alluvial mining districts are Wau/Bulolo (Morobe), Mt. Kare & Porgera (Enga), Yodda (Oro) and Maprik (ESP). However, alluvial and placer gold is found almost everywhere in Papua New Guinea. The total output of the sector is difficult to quantify. According to estimates by Metals Refining Operations Ltd, only about 70 per cent of the alluvial gold is sold to commercial gold buyers for refining and export. The remaining 30 per cent is sold and exported illegally. In this case, the 1.9 tonnes of legally refined gold from SSM points towards a total yearly output of some 4-5 tonnes. This represents K180 million annually. For the SSM miners, average earnings are estimated at 250 Kina/month.

Recent developments have seen the industry diversify with the extraction of nickel and cobalt at Ramu by the Metallurgical Chinese Corporation. It is expected that the Ramu project will produce about 33,000 tonnes of nickel and 3,300 tonnes of cobalt for 20-plus years, commencing 2009. Latest additions to the existing operating mines are Simberi, Sinivit and Hidden Valley gold mines.

Simberi is expected to produce 60,000 ounces of gold per year for 10 years from 2007. Similarly, Sinivit is expected to produce 50,000 ounces of gold per year for between 2-5 years from 2007. The Hidden Valley project will produce 310,000 ounces of gold per year for between 7-10 years from 2009.

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

- The full realisation of the Mineral Resource Authority to effectively facilitate, coordinate and monitor the developments of existing and new mines;
- 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

7.3.7 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. Furthermore, it has the potential to contribute significantly to PNG's formal employment growth.

There has been a small but positive trend in the contribution of the manufacturing sector to real GDP growth in recent years. More marked has been the significant rise in formal employment from this sector, with the sector's employment index climbing to 136.8 from the 2002 base year (100). Much of this increase can be attributed to the full operation of the InterOil Refinery since 2004 and the expansion in the tuna processing industry in developing product varieties in response to an increase in domestic and international demand.

A number of major initiatives in the sector are expected to further promote growth and its contribution to the economy in terms of employment and tax revenue to the Government in the medium term. These include the development of a LNG processing and exporting plant of which negotiations between the State and potential developers has commenced in 2007 and the associated development of a 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 activities in the palm oil and cassava industries to generate biofuels. There is domestic demand for some of these products, particularly in biofuels.

The Government is playing a proactive role to create 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 new sources of tax revenue. Traditionally this environment was largely created through direct fiscal concessions. However, studies have shown that this has done little to encourage investment, as specific structural and regulatory settings have outweighed these incentives. To this end, the Government has made Law and Order and Transport Maintenance and Rehabilitation priorities, areas which, if addressed, should provide the enabling environment for business. Moreover the work by the Government's National Technical Working Committee on Removing Impediments to Business and Investment since 2005 is intended to untangle issues from import/export monitoring and work permits and visas. The removal of these impediments would encourage the entry of new investments.

Meanwhile, with the ending of the final stage of the current tariff reduction program in January 2006, an independent consultant, Professor Robert Scollay, was commissioned to conduct a preliminary study with the business community and other stakeholders to determine the future of Papua New Guinea's tariff policy.

This assignment was completed in the first half of 2007 and an advisory report is currently under consideration by the Government. Tariff reduction is beneficial for PNG's manufacturing sector in PNG which depends heavily on imported inputs for production.