



# **2014 NATIONAL BUDGET**

## **VOLUME 1 ECONOMIC AND DEVELOPMENT POLICIES**

**For the year ending 31<sup>st</sup> December, 2014**

**PRESENTED BY**

**HON. DON POMB POLYE, CMG, BE (Civil), MBA, MIEPNG [Reg.], MP**

**TREASURER**

**ON THE OCCASION OF THE PRESENTATION OF 2014 NATIONAL BUDGET**



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**TREASURER**



## FOREWORD

It is a great honour for me to deliver the 2013 Supplementary Budget and the 2014 National Budget. These budgets are designed to support continued economic growth with expenditure prioritised towards the Medium Term Development Plan (MTDP) enablers, particularly infrastructure due to its more immediate impact on future economic growth.

The 2013 Supplementary Budget is a deliberate intervention by the O'Neill-Dion Government to re-appropriate K386 million away from less significant expenditures to investing on uplifting the country's sport facilities. It is of regional significance that these sporting facilities meet world standards and are completed on time to cater for more than 3,000 visiting athletes from all the pacific nations in 2015. The 2013 Supplementary Budget is a demonstration of the Government's commitment to ensuring that the 2015 South Pacific Game is a memorable event for our visitors and the people of Papua New Guinea.

The 2014 Budget is a deliberate historic record budget of K15.0 billion, and a responsible budget. The Budget embraces our national goals by ensuring:

- That our people live with dignity, through the establishment of a free and open society that is governed by the rule of law, that is responsible in terms of use of our vast national resources and rewards the personal endeavours of our people and businesses;
- That the primary needs of our citizens, which are shared by all of humanity, are met as a result of prudent and responsible financial management and the continuation of the consolidation of fiscal and monetary policies that will create a sustained period of economic growth and prosperity;
- That we continue to create a society that demonstrates its compassion for the most disadvantaged through the ongoing investment in social services, health and education; and
- That our country fully grasps its place amongst the global family of nations that are democratic, stable and prosperous, thereby allowing each of our citizens and our businesses to reach their full potential.

The 2014 Budget is set against a backdrop of 14 years of consecutive growth in Papua New Guinea. Economic growth for 2014 is expected to be 6.2 per cent, up from 4.0 per cent in 2013 driven by a rebound in growth in the Agriculture, Forestry and Fisheries Sector and growth in the oil and gas sector with the PNG LNG gas project into its first phase of production.

Papua New Guinea should be proud of this achievement in economic growth, however, we also need to recognise that we have a lot further to go in improving the living standards of all Papua New Guineans.

The 2014 Budget reflects the Government's ongoing commitment to growing our future by making key investments focused on inclusive and sustainable growth for all our people. Hence, the theme of the 2014 national budget; ***"Consolidate Gains For Sustained Growth Through Prudent Investments"***.

The 2014 Budget builds on the previous year's pathway for prudent expenditure and implementation of key MTDP enablers to nurture the development of our children and our

economy towards better education, better health, better infrastructure, and better law and order.

The main features of the 2014 budget include:

Firstly, that the Government remains committed to empowering our people by providing funds to lower level Governments. It is our conviction that empowering Governments that are closer to our people will significantly improve the delivery of vital goods and services. For 2014, a total of K1, 492.0 million is provided in direct financing to the provinces, districts and lower level governments (LLGs). Each district will receive funding of K10.0 million (K890.0 million per year), provinces will receive K5.0 million (K445.0 million per year) in addition to the existing functional grants, and LLGs will receive K0.5 million each (K157.0 million per year). Overall, funding to sub-national levels of Government will remain the same as in 2013.

Secondly, the Government is focused on increasing the share of the Budget to the key MTDP enablers. In this Budget Infrastructure receives (K2,723.3 million), Health receives (K1,382.3 million), Law and Order receives (K1,296.0 million) including funding for provincial and local level government magistrates, Administration receives (K3,747.7 million), Provinces receives (K3,638.4 million), Social receives (K227.1 million) and Education receives (K1,501.7 million) which includes K10 million for accreditation and infrastructure for the university of Technology and Economic and Agriculture receive (K777.9 million). To promote tourism and economic development, the budget invests K30 million to upgrade Port Moresby's airport, K15 million for Kokopo's airport, K10 million for New Ireland.

Thirdly, the Government will continue to implement key institutional and regulatory reforms in the areas of governance and public finance management, as well pursuing the national reform agenda to support greater private sector growth in 2014.

Major high profile reviews will provide recommendations aimed at improving efficiency in the tax system and in the financial services sector. The Government's tax review commenced in September this year. The tax review is the first review of the tax system in over 13 years. It will promote a modern enhanced tax system in the country which will allow the Government to develop PNG into a competitive middle income nation in the Asian Century. It will also ensure that our tax system is able to grow and adapt to our changing economy, while raising the necessary revenue to allow the Government to improve essential services and build the infrastructure necessary for the growth and development of PNG.

The Government will also prioritise competition policy as well as the business regulatory environment for local and foreign business investors. These reforms processes are essential so as to allow the PNG economy to continue to grow at a high rate.

The Government remains committed to enhancing the efficiency and the effectiveness of the public sector. One of the planned reforms in 2014 is that the Government will undertake an amalgamation of Government Agencies with duplicate functions and invigorate the rightsizing reform program to identify savings to support the budget.

The reforms are designed to embark on the development policies and strategies, including those existing and any new reforms in 2014. This will be closely aligned with key objects of the Vision 2050 and PNG Development Strategic Plan 2010 – 2030 (DSP) and the Medium Term Development Plan (MTDP). This will also improve the Government's reform efforts on addressing the underlying issues that impinge on public sector service delivery and private sector led market development.

Consistent with the Government's 2014 Budget Strategy, this Budget will be a deficit budget of 5.9 per cent, down from 7.9 per cent in 2013 and returning to surplus from 2018. To achieve this outcome a culture of fiscal discipline must be developed. We cannot allow the hard earned macroeconomic stability and discipline from the past to be eroded, but rather need to ensure that our finances remain sustainable over the medium term. This Budget also remains consistent with the Government's commitments to maintain the debt to GDP ratio around 35 per cent in 2014 falling to below 30 per cent over the forward estimates.

The 2014 Budget is a single fully integrated multi-year National Budget. For the first time agencies and the public have a clear idea of the appropriated 2014 expenditure and future year expenditure estimates over the period 2015 to 2018 for each Department and Authority. The Budget also provides a clearer picture of what each agency's funding is being spent on in terms of personal emoluments; goods and services; utilities and rentals, grants and capital formation, as well as spending by sectors. These reforms will set the foundation for greater transparency and accountability by departments, and ultimately, better services delivery for the people of Papua New Guinea.

I commend the 2014 Budget to Honourable Members and to the people of Papua New Guinea.

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**Hon. Don Pomb Polye, CMG, BE (Civil), MBA, IEPNG [Reg], MP**

**TREASURER**

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## CHAPTER 1.BUDGET OVERVIEW

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### ***Economic Outlook***

The world economy has entered yet another transition in 2013. It appears advanced economies are gradually strengthening, at the same time, growth in emerging market and developing economies has slowed. In advanced economies, a gradual recovery has begun with continued fiscal adjustment. Unemployment rates are anticipated to moderate in these economies whilst inflation is anticipated to pick up with the gradual recovery. In emerging market and developing economies, whilst these economies continue to record positive growth, downside risks have become more prominent, notably tighter financial conditions and reduced fiscal space as commodity prices stabilize. According to the International Monetary Fund (IMF) October World Economic Outlook (WEO), the world economy is projected to grow by 2.9 per cent in 2013 and 3.6 per cent in 2014.

The outlook for the Papua New Guinea economy continues to remain positive in 2013 despite the less favourable world economic conditions. PNG's economy is projected to grow at 5.1 per cent in 2013. The solid growth is supported by the strong confidence and optimism investors and businesses have in the opportunities the economy continues to offer. It is also reflective of the political stability within the country, as well as, good fiscal management and the commitment of the Government to growing the domestic economy by running a planned sizeable budget deficit in 2013 to support the vision of continued strong growth for the PNG economy.

In 2014, domestic economy is projected to grow at 6.2 per cent, representing 14 years of uninterrupted economic growth. This is likely to occur despite the gradual winding down of the construction phase of the LNG project over the first half of 2014. The strong growth is supported partly by the gas and petroleum sector with the first production of PNG LNG project gas. It is also partly supported by a rebound in the mining sector as key mines return to normal production in 2014 after the disruptions encountered in 2013. Nickel production is also expected to ramp up to over half of full capacity lifting total output from the sector in 2014.

Over the medium term, economic growth is projected to increase sharply in 2015, reflecting the full commencement of gas production, although it will only have a small impact on the non-minerals sector which is the basis of livelihoods for the vast majority of the people of PNG.

PNG's inflation continues to remain at moderate levels throughout the country, in spite of the recent depreciation of the exchange rate. Inflation is projected at 4.0 per cent in 2013. The low inflation in 2013 is reflective of the subdued international food and commodity prices and minimal imported inflation from PNG's trading partners. In 2014, although inflation is anticipated to pick-up, it is anticipated to also remain within manageable levels. Consistent with the low inflation trend, the Central Bank of PNG continues to maintain its monetary policy stance with the Kina Facility Rate (KFR) at 6.25 per cent. Domestic interest rates are anticipated to remain low and closely follow the Central Bank's monetary policy stance.

PNG's trade activity with the rest of the world remains subdued, reflective of the weak world demand. This has seen a fall in commodity prices and a corresponding fall in PNG's exports. While exports have fallen, PNG's imports continue to remain strong due to the Government's fiscal stimulus and the ongoing construction of the PNG LNG project. In 2014, PNG's trade activities are expected to improve with PNG's first LNG exports and a rebound in other

exports. The improvement in PNG's trade activities in 2014 is anticipated to result in a more stable local currency.

On balance, the risks to the PNG economy are moderate as the internal drivers for growth continue to dominate the external factors. These risks include:-

- Uncertainty in global economic recovery and commodity price volatility.
- Disruptions to major mines including the PNG LNG project due to weather, landowner issues or need for maintenance.
- Inflation moving higher than expected.

### ***Fiscal Strategy***

The 2014 Budget is set against assumptions of modest reacceleration of activity in the global economy. This Budget focuses on these seven key priorities;

- 1) Maintain Papua New Guinea's macroeconomic stability through the adherence to the principles of the Medium Term Fiscal Strategy (MTFS).
- 2) Implement major infrastructure projects currently under construction as well as the efficient expenditure of the higher levels of provincial government funding.
- 3) Ensure an appropriate alignment between the construction of new roads and the provision of money to maintain them. Likewise, ensuring funding is available for staff when new health or education buildings are constructed, including through integrating the 'Recurrent' and 'Development' Budgets and the introduction of multi-year budgeting in 2014.
- 4) Continue to expand funding in the education and health sectors. This will include expansion of fee free education policies, funding for vocational education and ensuring enough teachers are available to meet increased demand for access to education.
- 5) Establishment of the Sovereign Wealth Fund and consolidation of mineral and petroleum assets.
- 6) Strengthen law and order, modernization of police and defence and creation of Independent Commission Against Corruption (ICAC).
- 7) Improve the enabling business environment for the agriculture sector as well as small to medium enterprises.

Consistent with the 2014 Budget Strategy Paper (BSP), the 2014 Budget reports a recommended deficit of 5.9 per cent and the debt to GDP ratio of around 35 per cent. This is also in accordance with the *Fiscal Responsibility Act 2006* (FRA). From 2015 onwards, the Government deficit will be reduced to 2.5 per cent, ensuring consistency with the Medium Term Fiscal Strategy (2013-2017).

### ***Revenue***

The first part of Chapter Four (4) outlines the revenue developments and outlook for 2013 and 2014 while the second part outlines the revenue measures.

Total Revenue and Grants is projected at K12,688.5 million in 2014. This is K2,206.9 million or 21.1 per cent higher than the 2013 revised estimate and K3,122.5 million or 32.6 per cent

higher than the 2012 outcome. The higher revenue estimate in 2014 is broadly based with growth in Taxes on Income and Profits, Domestic Taxes on Goods and Services, Taxes on International Trade, Non Taxes and Grants.

In 2013, the revised Total Revenue and Grants is estimated at K10,481.6 million, almost equivalent to the initial 2013 Budget estimate of K10,481.9 million (K0.3 million or 0.002 per cent lower). The slight downward revision reflects stronger domestic revenue collections offsetting the decline in taxes affected by commodity prices and exchange rate movements, such as the Mining and Petroleum Taxes and Export and Import Duties which have declined since the beginning of the year. It also reflects stronger Non Tax Revenue collections.

**Table 1: Revenue Summary - Overview**

|                                 | <b>2012<br/>Actual</b> | <b>2013<br/>Budget</b> | <b>2013<br/>Revised</b> | <b>2014<br/>Budget</b> |
|---------------------------------|------------------------|------------------------|-------------------------|------------------------|
| <b>Total Revenue</b>            | <b>8,571.4</b>         | <b>9,140.7</b>         | <b>9,140.5</b>          | <b>11,003.5</b>        |
| Growth on Previous Year         | 3.8%                   | 6.6%                   | 6.6%                    | 20.4%                  |
| Per cent of GDP                 | 26.7%                  | 25.7%                  | 26.4%                   | 27.8%                  |
| <b>Tax Revenue</b>              | <b>8,148.3</b>         | <b>8,631.2</b>         | <b>8,605.7</b>          | <b>9,743.5</b>         |
| Growth on Previous Year         | 3.1%                   | 5.9%                   | 5.6%                    | 13.2%                  |
| Per cent of GDP                 | 25.4%                  | 24.3%                  | 24.9%                   | 24.6%                  |
| <b>Non-Tax Revenue</b>          | <b>423.2</b>           | <b>509.5</b>           | <b>534.8</b>            | <b>1,260.0</b>         |
| Growth on Previous Year         | 20.8%                  | 20.4%                  | 26.4%                   | 135.6%                 |
| Per cent of GDP                 | 1.3%                   | 1.4%                   | 1.5%                    | 3.2%                   |
| <b>Total Revenue and Grants</b> | <b>9,566.0</b>         | <b>10,481.9</b>        | <b>10,481.6</b>         | <b>12,688.5</b>        |
| Growth on Previous Year         | 2.8%                   | 9.6%                   | 9.6%                    | 21.1%                  |
| Per cent of GDP                 | 29.8%                  | 29.5%                  | 30.3%                   | 32.0%                  |

Source: Dept of Treasury

In terms of revenue measures, the second part of Chapter Four (4) outlines two major taxation policy measures and other minor policy measures including technical amendments, as part of the Government's ongoing effort to improve and refine the tax system.

The 2014 Budget introduces an amendment to abolish the 150.0 per cent deduction for expenditures on Research and Development (R&D). This measure is taken in light of the administrative challenges faced in finding the appropriate and technically qualified people to assess the backlog of applications resulting in contingent liabilities for the Government which may be totalling around K2.4 billion. R&D expenditure, including donations to approved research institutions will remain tax deductible under this change.

This Budget also introduces an amendment to Section 219C of the *Income Tax Act 1959* relating to the Infrastructure Tax Credit (ITC) Scheme. The change to the legislation was necessary in ensuring that the ITC Scheme is not exposed to extreme revenue leakage. The amendments also allow the Government to consider infrastructure projects as part of the Budget process.

### **Expenditure**

Total Appropriated expenditure in 2014 is estimated to be K15,294.5 million. This represents a K2,075.8 million or 15.7 per cent increase over the revised 2013 Budget appropriation (K13,218.7 million). As previously noted this level of spending is consistent with the 2014 Budget Strategy Paper recommendations for a maximum deficit of 5.9 per cent and a debt to GDP ratio of around 35 per cent.

In summary, the Government's major spending commitments in the 2014 Budget include:

- Housing and Land Development K61 million (K319 million over four years);
- Universities Infrastructure K222.8 million (K562.8 million over four years);
- Continued roll-out of Tuition Fee Free Education K605 million (around K3.5 billion over four years);
- Agriculture/SME Development K313 million (around K1.4 billion over four years);
- Hospitals Redevelopment K267.2 million (K762.2 million over four years);
- Completion of facilities for the 2015 South Pacific Games K375 million, including K316 million advanced in the 2013 Supplementary Budget (K625 million in total)
- Roads and Bridges funding K1,417.9 million
- Increased allowances for Village Court and other local officials K50 million (K462 million over four years)
- Support for our Pacific Neighbours K55 million

This growth and prioritisation of spending reflects the Government's focus on delivery against the current Medium Term Development Plan 2011-15 (MTDP) and the need to continue to maximise the investment in the key MTDP enablers.

The 2014 Budget achieves a further step forward in the move to a fully integrated multi-year budget. This not only improves transparency, it also brings greater clarity in accountability and reporting in respect of the MTDP priorities. This year also sees the introduction of a sectoral approach to reporting of resource allocations across Government. This presentation reflects the Government's intent that all spending decisions be driven by policy and the respective sector strategies.

#### *Status of Trust Accounts*

Since 2005 a total of K7548.1 million, up to and including the 2013 Budget has been paid into Trust Accounts for implementation of priority expenditure programs. These trust accounts have largely been funded from additional mineral revenue in Supplementary Budgets and annual Budgets. The purpose of holding funds in trusts is to give time to agencies to properly plan and implement projects.

A total of K450 million has been appropriated for trust accounts in the 2013 Budget. Of this, K191.7 million has been paid into trust accounts as at 30th September 2013, with the remainder to be paid when funds become available later in 2013. In addition a total of K645 million will be appropriated for budget funded trust accounts in the 2013 Supplementary Budget and the 2014 Budget.

#### ***Financing and Debt Strategy***

The domestic market in 2013 continued to grow as the Government issued increased volumes into the market to fund its development needs. There was strong demand from investors for Government debt, in particular from the commercial banks for Treasury Bills. This demand is expected to continue into 2014.



In 2014, the Government will seek to issue more long-term debt to lengthen the maturity of its domestic portfolio.

Development partners' provide assistance in the form of foreign currency project loans. For 2013, continued improvement in the execution of underlying projects was experienced and the resulting disbursements of development partners' loans. This is expected to continue in 2014. In addition, work on aligning donors' with the Governments development priorities will continue.

### ***National Reform Agenda***

Papua New Guinea considers reforms to be the engine for sustainable growth. The Government will continue to pursue the national reform agenda to support greater private sector growth in 2014.

The key reform strategies include: promoting and enhancing competition, improving economic regulation, developing more efficient and effective competitive markets, reducing impediments to business development and investment climate. These reforms have essentially improved the economy to accommodate the increasing demand in business and household activities emerging from the PNG LNG project.

Major high profile reviews will provide recommendations aimed at improving efficiency in the tax system and in the financial services sector. In addition, the Government will prioritize competition policy as well as the business regulatory environment for local and foreign business investors. These reforms processes are essential so as to allow the PNG economy to continue to grow at a high rate.

The reforms are designed to embark on the development policies and strategies, including those existing and any new reforms in 2014. This will be closely aligned with key objectives of the Vision 2050 and PNG Development Strategic Plan 2010 – 2030 (DSP) and the Medium Term Development Plan (MTDP). This will also improve the Government's reform efforts on addressing the underlying issues that impinge on public sector service delivery and private sector led market development.

The Government will remain committed to public sector reform. These reforms will enhance the efficiency and effectiveness of the public sector. As part of the Rightsizing public sector reform, the Government is expected to undertake the amalgamation of Government agencies with duplicate functions in 2014. These will include efforts to be implement the 'one position, one salary' principle, so as to eliminate an estimated several thousand 'ghost' employees thus identify savings to support the budget.

The Government will strengthen existing reforms to make sure that they achieve their objectives and explore areas for further reforms. In addition, the Government's commitment to removing impediments to doing business and investment in PNG will remain a priority to provide a stable investment climate that promotes a competitive and dynamic private sector in the long term.

Critically, the 2014 Budget will be a truly national Budget with expenditure shown on an agency basis and the artificial distinction between the old 'Recurrent' and 'Development' Budgets removed. The integration of the budgetary processes required to produce the Budget will also continue in 2014, to allow for better decision making and transparency.

***Improving Public Enterprise***

The Government is committed to developing the Public Enterprises in 2014. These enterprises provide essential services to improve the social well-being of the people.

A public enterprise can best continue to contribute to the provision of infrastructure services if it meets two requirements which are the value of what the public enterprise produces exceeds the cost of production; and the public enterprise is the lowest cost producer.

Chapter 8 will emphasis on how best the performance of the Public Enterprises can be best improved.

## CHAPTER 2. ECONOMIC DEVELOPMENTS AND OUTLOOK

### 2.1. WORLD ECONOMIC GROWTH

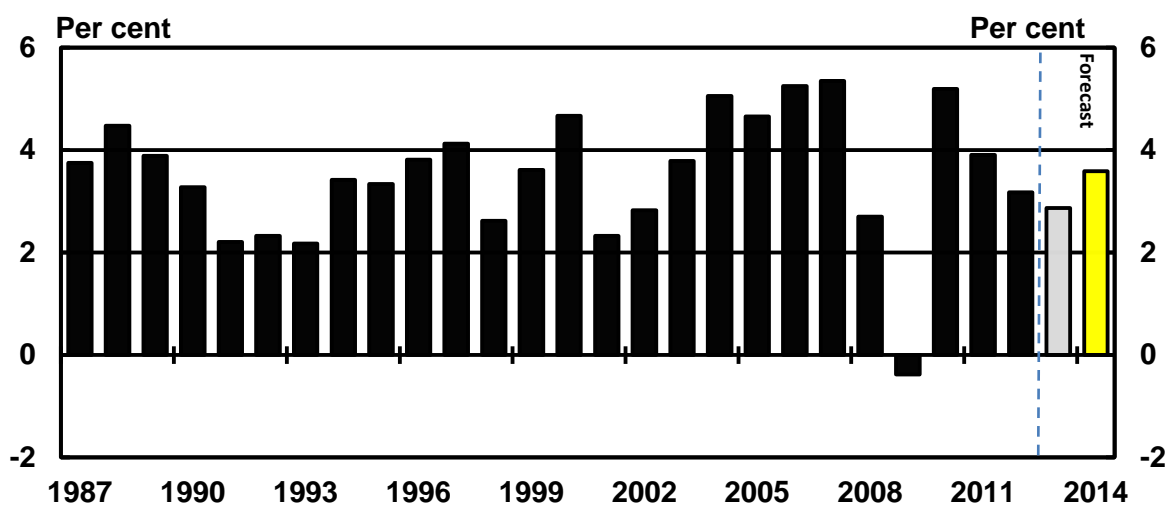
#### 2.1.1 World Economic Growth Outlook

The world economy has entered yet another transition in 2013. Advanced economies are gradually strengthening. At the same time, growth in emerging market and developing economies has slowed. This confluence is leading to tensions, with emerging market and developing economies facing dual challenges of slowing growth and tighter global financial conditions.

According to the International Monetary Fund (IMF) October World Economic Outlook (WEO), the world economy is projected to grow by 2.9 per cent in 2013. This is down from the July WEO estimate of 3.1 per cent, April WEO estimate of 3.3 per cent and the 2012 October WEO estimate of 3.6 per cent. The moderation in growth in emerging market and developing economies relative to the July WEO reflects both, albeit to different degrees, cyclical factors and a decrease in potential output growth.

Unusually favourable world conditions including high commodity prices and rapid financial market development increased potential growth in the emerging market and developing economies during the 2000s and in a number of these economies there was a cyclical component on top. As commodity prices stabilize and financial conditions tighten, potential growth is lower, leading in some cases to a sharp cyclical adjustment. Confronted with these changing conditions, governments in emerging market economies face two challenges. The first is to adjust to lower potential growth. While some decrease in growth is inevitable, structural reforms can help ease the adjustment and are becoming more urgent. The list is a familiar one, from rebalancing consumption in China to removing barriers to investment in Brazil and India. The second challenge is to deal with cyclical adjustment, and the standard advice also applies. Countries with large fiscal deficits must consolidate. Countries with inflation running persistently above target must tighten and importantly put in place a more credible monetary policy framework.

**Figure 1: World Economic Growth Projections 1987-2014**



Source: International Monetary Fund (IMF), 2013 October WEO

In 2014, global activity is expected to pick up and grow moderately at 3.6 per cent, 0.7 percentage points more than in 2013. The impulse is projected to come from the advanced economies, where output is expected at a pace of 2.0 per cent, 0.8 percentage points more than in 2013. It is also driven by growth in the emerging market and developing economies which are projected to expand by 5.1 per cent, 0.6 percentage points more than in 2013. This assumes fiscal policy broadly remains neutral, real interest rates remain relatively low whilst unemployment remains high in various emerging market and developing economies notably those in the Middle East and North Africa.

In the United States, growth is expected at 2.6 per cent, 1.0 percentage points more than in 2013. The drivers of growth are; a slowdown in the pace of fiscal consolidation, the recovery in the US housing market, the continued fall in the US unemployment rate and the shrinking of its current account deficit due in part to increases in domestic energy production.

In the Euro area, growth is projected at 1.3 per cent, 1.3 percentage points from the 2013 negative rate of 0.4 per cent. The recovery is driven by a smaller fiscal drag, stronger external demand, and a gradual improvement in private sector lending conditions. In the United Kingdom, recent data has shown signs of an improving economy, consistent with increasing consumer and business confidence but output remains well below its pre-crisis peak. The United Kingdom economy is projected to grow at 1.9 per cent, 0.5 percentage points more than in 2013.

In China, growth is projected at 7.3 per cent, 0.3 percentage points less than in 2013. Policy makers have refrained from further stimulating growth which is consistent with the objectives of safeguarding financial stability and moving the economy to a more balanced and sustainable path. In India, growth is projected at 5.1 per cent, helped by an easing of supply bottlenecks and strengthening of exports.

In Latin American countries, growth is expected to recover, as external demand strengthens in 2014. In the Middle East, North Africa, Afghanistan and Pakistan region, economic growth is projected to pickup with improved global conditions and a recovery in oil production. Over the medium term however, sustainable growth in the region also depends on an improved socio-political environment.

### **2.1.2 Unemployment**

In advanced economies, unemployment is expected to ease to 8.0 per cent in 2014 from 8.1 per cent in 2013. In United States, the unemployment rate has fallen from its peak of 10 per cent in 2009 to 7.3 per cent in August 2013. In 2014, unemployment is expected to further decline in the United States.

In emerging market and developing economies, unemployment is expected to remain above 5.0 per cent, notably in Middle East and North Africa.

### **2.1.3 Inflation**

Inflation for advanced economies is projected to increase to 1.8 per cent from 1.4 per cent in 2013. In contrast, inflation in emerging market and developing economies is projected to ease to 5.7 per cent from 6.2 per cent in 2013. This is supported by moderate global food prices and prudent monetary policies pursued by emerging market and developing economies.

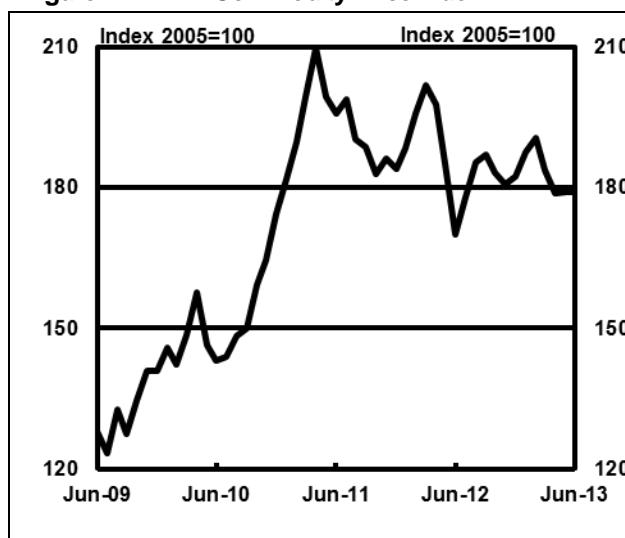
### 2.1.4 Metal Prices

Developments in the global economy continue to steer the movements of commodity prices in 2013.

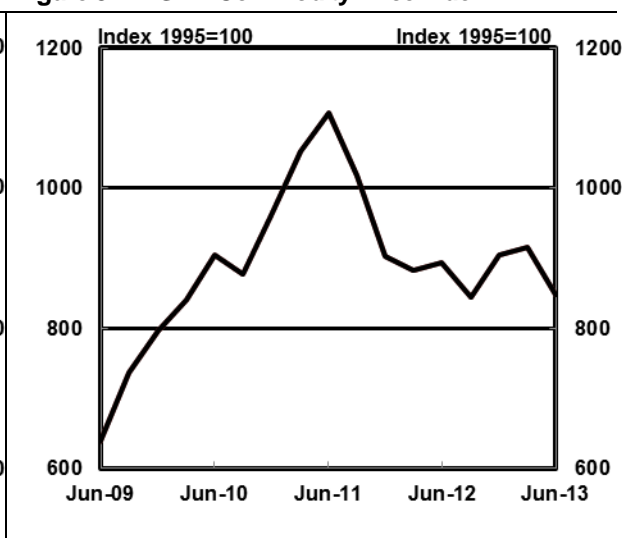
According to the IMF's All Commodity Price Index, prices of commodities have fallen by 2.5 per cent, compared to prices at the beginning of the year, however are up 1.2 per cent compared to a year ago.

In assessing prices of PNG's major exports, the Bank of PNG All Price Index is a relevant indicator. Commodity prices of PNG's major exports are down by 7.4 per cent since the beginning of the year and 23.4 per cent lower compared to the same time last year.

**Figure 2: IMF All Commodity Price Index**



**Figure 3: PNG All Commodity Price Index**



Source: International Monetary Fund (IMF)/Bank of PNG

The following discussions is centred on the main mineral, petroleum and agricultural commodities that PNG exports.

### 2.1.5 Copper

Copper prices have continued to fluctuate in line with developments in the world economy. According to the International Copper Study Group, copper mine production from January to July 2013 was 12.35 million tonnes, up 8.6 per cent from the corresponding period last year. The weaker demand against a rising stock level resulted in copper prices dropping from a high of US\$8,175 per tonne at the start of the year to trade at around US\$7,000 per tonne by mid-year. However, prices increased again in the third quarter of the year on the back of positive news including signs of recovery in the Chinese economy and US monetary policy holding off on the tapering off its fiscal stimulus program. This locked in prices at a trading range of US\$6,719 per tonne and US\$7,340 tonne in the third quarter. This recent copper price increases however still remain lower than price levels recorded at the start of the year and a year ago.

Figure 4: Copper Prices

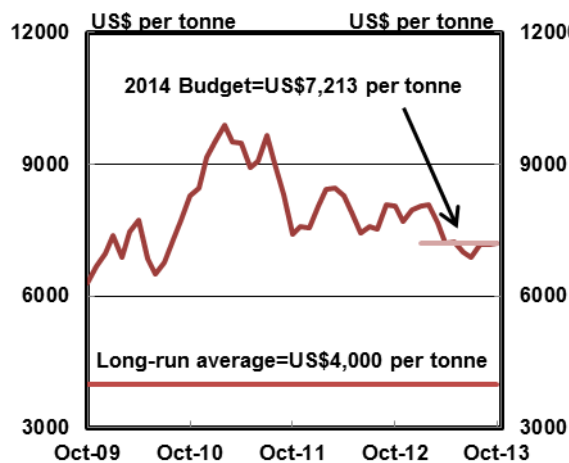
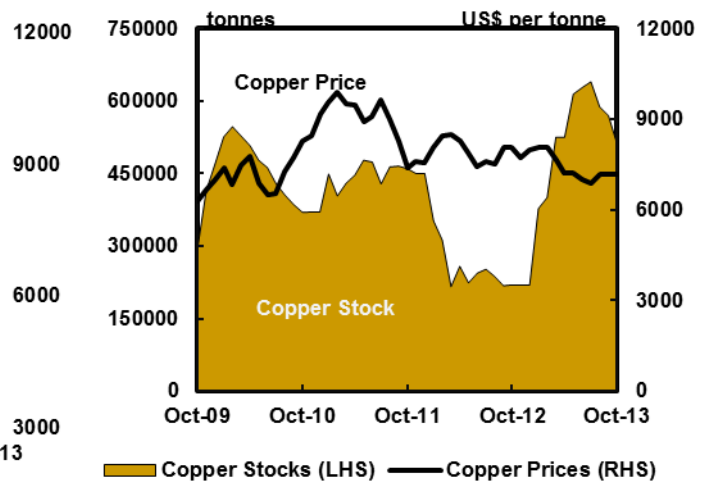


Figure 5: Copper Prices against stocks



Source: International Monetary Fund (IMF) & London Metal Exchange

Looking ahead into 2014, the slow growth and tighter global financial conditions of emerging market and developing economies is likely to restrain prices. Consistent with this assumption, copper price is assumed to average US\$7,213 per tonne in the 2014 Budget.

### 2.1.6 Oil

Oil prices continue to remain volatile throughout 2013 initially reflective of a weaker world economy and recently due to the socio political environment in the Middle East, North Africa Afghanistan and Pakistan region.

Oil prices have traded at around US\$95 per barrel at the beginning of the year and in March declined after concerns remerged about global demand and rising production and stocks. However, for the greater part of the third and early part of the fourth quarters, oil prices rose to trade above the US\$100 per barrel. This was triggered by supply concerns which remerged especially in the Middle East and North Africa. Tensions in Syria and Egypt quickly raised concerns about possible supply disruptions increasing prices. Since the second half of the year, oil prices have traded above US\$100 per barrel, 6.8 per cent higher than the first half of the year.

Figure 6: Oil Prices

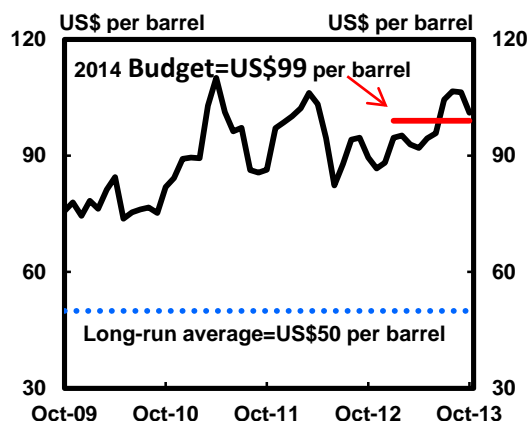
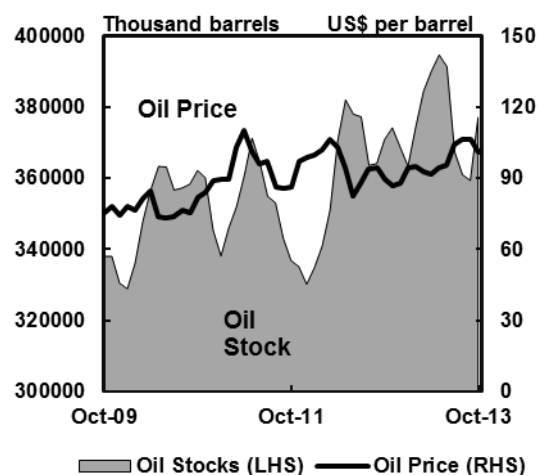


Figure 7: Oil Prices against Stocks



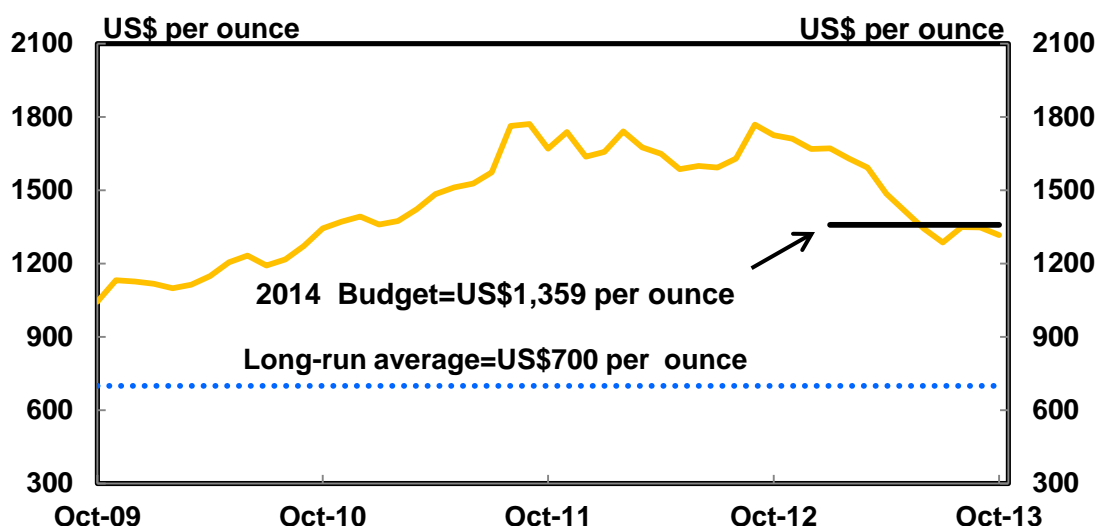
Source: International Monetary Fund (IMF) & US Energy Information Administration

Looking ahead into 2014, fluctuations in oil prices largely depend on an improved socio-political environment in the Middle East, North Africa, Afghanistan and Pakistan region. The 2014 Budget assumes oil prices will trade around US\$99 per barrel in 2014. This is consistent with the developments highlighted earlier regarding the fundamentals.

### 2.1.7 Gold

Gold prices have declined on average by 13.6 per cent from 2013 January price of US\$1,671.0 per ounce to October price of US\$1,316.2 per ounce, although with slight improvements in the latter half of the year. The downturn in gold prices continue to follow policy announcements by key central banks particularly the US Federal Reserve. Discussions by the Federal Reserve about tapering its quantitative easing measures led to an unexpectedly large increase in long-term yields in the US and many other economies. This has strengthened the US dollar with more investors selling their gold to buy US dollar including US dollar denominated assets. This has also seen an improvement in the stock or supply of gold, driving prices lower during the year. In addition, the Euro area is still crawling out of recession, while inflationary pressures continue to remain subdued. All these have negatively impacted the price of gold during the year.

**Figure 8: Gold Price Movements**



Source: Dept of Treasury, IMF, Bank of England

Looking ahead, although the global economy is expected to strengthen in 2014, gold price risks remain on the downside with more investors expected to sell their gold to buy US dollar including assets denominated in US dollar. In line with this underlying assumption, gold price is assumed in the 2014 Budget to average US\$1,359 per ounce.

### 2.1.8 Coffee

Coffee prices have dropped for the first ten months of this year from a price of US\$3,633.2 per tonne in January to a price of US\$2,717.2 per tonne in October 2013. This reflects record crop production from Brazil and Vietnam which are compounding a global surplus that is driving coffee prices down, heading for a third annual decline and the longest slump in two decades. For the full year, coffee prices averaged around US\$3,357.3 per tonne which is 27.0 per cent lower than a year ago.

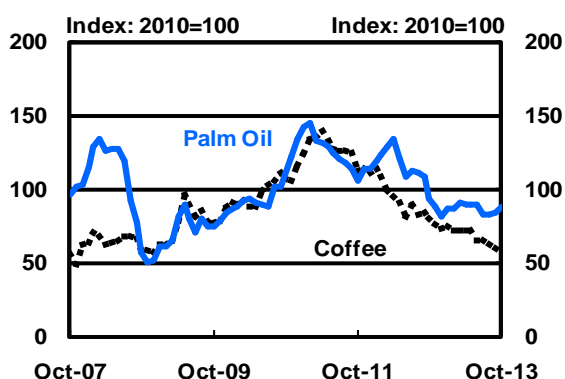
### 2.1.9 Palm Oil

Palm oil prices over the last two years have traded between US\$810 per tonne to US\$700 per tonne. In 2013, the weaker world demand against a rising stock level has resulted in palm oil prices dropping from a high of US\$743.8 per tonne at the start of the year to trade around US\$699.2 per tonne by August. However, prices increased again in the third quarter of the year on the back of negative news with concerns that Typhoon Haiyan had damaged coconut crops in the Philippines and could disrupt the supply of coconut oil from the world's top producers. Any shortage in Philippines coconut oil could channel demand to palm oil base substitutes such as palm kernel oil. This locked in prices at a trading range of US\$699.2 per tonne and US\$783 per tonne in the third quarter. The recent palm oil price increases have risen above the palm oil prices recorded at the start of the year.

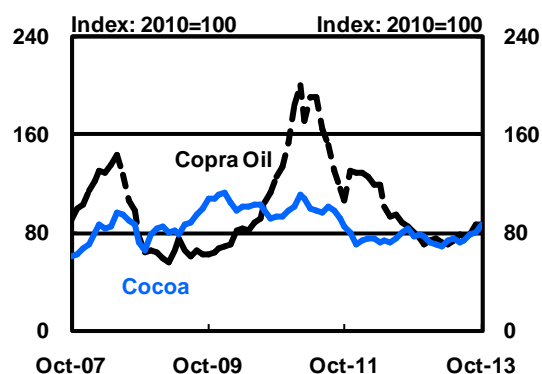
### 2.1.10 Coconut Oil

Coconut oil price unlike the other agriculture crop prices has increased during the year. Coconut oil price increased from US\$815 per tonne in January to US\$1,450 per tonne in October 2013. This reflects three successive seasons of world production shortfall by major producers of coconut oil. The shortfall in coconut oil production is part due to fears over the setback to production due to weather concerns. The latest coconut oil price increases is reflective of concerns that Typhoon Haiyan had damaged coconut crops in the Philippines and could disrupt the supply of coconut oil. The recent coconut oil price increases, however, still remain lower than prices a year ago.

**Figure 9: Price Index of Palm Oil & Coffee Prices**



**Figure 10: Price Index of Copra Oil and Cocoa Prices**



Source: International Monetary Fund (IMF) and Reuters

### 2.1.11 Cocoa

Cocoa prices traded around US\$2,295.7 per tonne at the beginning of the year further increasing to US\$2,623.0 per tonne at the end of October. Disease and drought damage in Brazil prompted the International Cocoa Organisation to raise its estimates for the world production shortfall of the bean as well as lack of rainfall or dryness in Ivory Coast and Ghana, the two top producers. However, the impact was offset by concerns over demand in the important Asian market.

Risks to the commodity price assumptions remain with the key one being developments expected to unfold in the global economy going forward. Should there be further turbulence or stress on the global economy, prices could fall very quickly, however, if global developments turn out to be better than expected, then the forecasts could be too

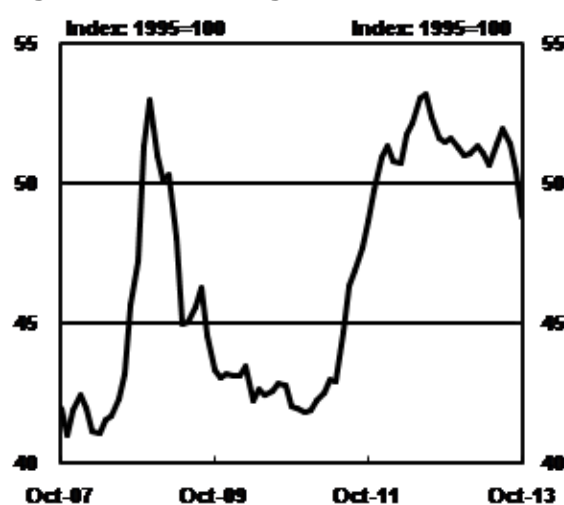


conservative. In any case, given commodity prices have a significant bearing on PNG Government revenues, the aforementioned risks have been considered in the formation of commodity price assumptions for the 2014 Budget.

### 2.1.12 Exchange Rate

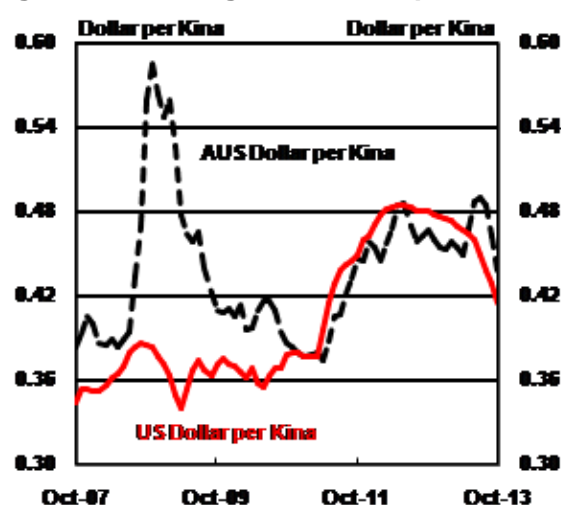
After the strong appreciation in the last two years, PNG's Trade Weighted Index (TWI) has remained fairly stable in the first half of 2013 but depreciated in the second half of the year. As shown in Figure 11, PNG's TWI depreciated by 2.5 per cent from January to October 2013 reflecting the weak performance of the Kina against PNG's major trading currencies. Against the United States (US) Dollar, the PNG Kina depreciated by 12.8 per cent and against the Australian Dollar, the PNG Kina depreciated by 4.2 per cent (Figure 12).

Figure 11: Trade Weighted Index



Source: Bank of PNG

Figure 12: Exchange Rate Development



Source: Bank of PNG

The PNG Kina also depreciated against other key trading currencies including: the New Zealand Dollar (6.7 per cent), Pound Sterling (3.5 per cent), Euro (8.1 per cent), Malaysian Ringgit (4.1 per cent), Singapore Dollar (5.4 per cent) and Chinese Renimbi (7.7 per cent) while it appreciated against the Japanese Yen (14.5 per cent).

The depreciation of the Kina against its major trading currencies is due to the effects of the US Dollar strengthening globally due to the improvements in the US economy and high demand for US dollar denominated assets by investors. In addition, the slowdown in the construction phase of the PNG LNG project has seen a fall in foreign direct investments while foreign exchange outflows continue to remain high due to high import payments accentuated by the government's fiscal stimulus. At the same time, export receipts have declined during the year due to low commodity prices which also affected production of key export commodities. All these factors have reduced the strength of the Kina during the year.

The appreciation of the Kina against the Japanese Yen was attributed to cross currency movements. The depreciation of the Kina is expected to lead to higher import prices. On the other hand, the depreciation of the Kina could also help mitigate the effect of price decreases on farmers, through increased values of exports. While this is good for the agriculture sector, it will also raise the price of

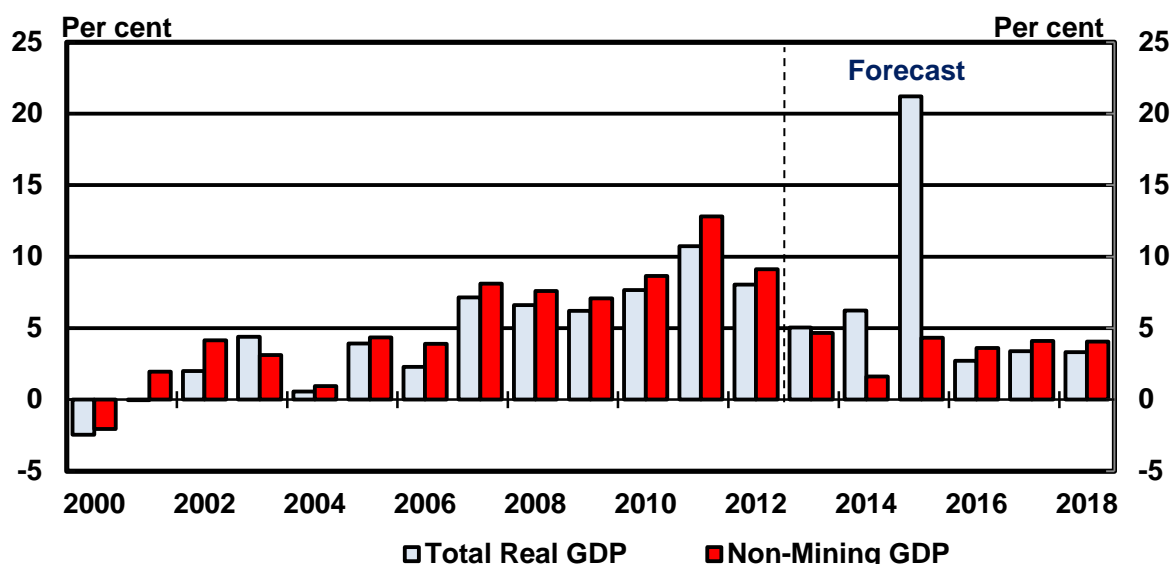
imported inputs, increasing the cost of production, and potentially reducing investment in crops.

## 2.2. DOMESTIC ECONOMIC DEVELOPMENTS & OUTLOOK

### 2.2.1 2013 Economic Growth

The domestic economy is expected to grow by 5.1 per cent in 2013. This is lower than the Mid-Year Economic and Fiscal Outlook (MYEFO) forecast of 6.1 per cent, but higher than the 2013 Budget estimate of 4.0 per cent. The downgrade in forecast since mid-year is due largely to a sharper slowdown in the agriculture, forestry and fisheries sector and the mining and quarrying sector. In addition, the anticipated flow-on impact of the fiscal stimulus expected from the 2013 Budget on the construction sector and the community, social and personal services sector did not fully materialised as expected due to the delays associated with the implementation of the development budget. In this regard, non-mining GDP has also been revised down to 4.7 per cent from the 5.5 per cent estimate in mid-2013 and it is anticipated that with the long lead times associated with project implementations, some of the delayed stimulus expected for 2013 will affect the forward estimates of GDP.

**Figure 13: Economic Growth 2000 – 2018**



Source: Dept. of Treasury

Activity in the mining and quarrying sector was robust at the beginning of the year, however in the second half of the year, activity slowed down due to technical difficulties at key mines, weather related disruptions, poor infrastructure, decline in quality of mineral mined and rising costs due to the fall in commodity prices. The mining and quarrying sector is now expected to grow at 14.7 per cent in 2013.

The oil and gas sector is expected to continue to contract and this is in line with the natural depletion of oil reserves. The oil and gas sector is expected to decline by 0.1 per cent in 2013.

Total non-mining GDP is expected to grow at 4.7 per cent in 2013, down from 9.1 per cent in 2012. The downward revision is due largely to the decline in production from the agriculture, forestry and fisheries sector and the slowing down of the PNG LNG construction activities in preparation for production in 2014. Activities in the construction sector, the wholesale and retail trade sector, the transport, storage and communication sector and other non-mining

sectors indirectly driven by the construction of the PNG LNG project have also slowed down in 2013.

The construction sector is expected to grow at 11.9 per cent in 2013, down from the strong growth of 24.0 per cent recorded in 2012. In 2013, most of the PNG LNG project construction activities have been completed with construction expenditures significantly reduced. Despite the slowdown in PNG LNG construction activities, the fiscal stimulus from the development budget is expected to partially offset the fall in growth as over half of the spending on the key projects have been implemented during the year. It is also understood that the unspent monies for the remaining projects have been delayed due to the stringent government procurement process and this has limited the full impact of government spending during the year. It will take some time for these capacity issues to be addressed, therefore the delayed government stimulus for 2013 has been incorporated into the forward growth forecasts for the construction sector.

The wholesale and retail trade sector is expected to grow by 5.0 per cent in 2013. This continues to reflect the flow through of the indirect effects of the PNG LNG project. According to discussions held with the business community and the Bank of Papua New Guinea, sales and turnover, have been weaker than expected due to the low prices of key export commodities and the effect of the slowdown in PNG LNG construction activities.

The transport, storage and communication sector is expected to grow at 3.6 per cent in 2013, down from a growth of 16.0 per cent in 2012. The low growth is reflective of the slowdown in activities associated with the PNG LNG project. Despite this slowing down, the communication segment of the sector is expected to drive some of the growth going forward as the mobile phone companies continue to compete and expand their coverage in PNG.

The electricity, gas and water sector is expected to grow at 9.0 per cent in 2013. Demand for utilities has increased significantly with the increase in population and the growing domestic economy. Utility providers have seen an increase in profits largely as a result of increased demand as an increasing number of new businesses and households get connected to electricity and water. The price of utilities continues to be controlled by the Independent Consumer Competing Commission (ICCC) and any change depends on the different agreements the utility providers have with the regulator. The strong growth of the economy has also led to capacity issues facing the distribution of electricity and water with domestic demand already exceeding capacity of utility providers. This is a concern as it continues to lead to illegal connections of electricity and water in many parts of the urban areas.

The manufacturing sector is expected to grow at 3.5 per cent in 2013, down from a growth of 12.0 per cent in 2012. This growth reflects a moderation in domestic demand due to the slowdown of the PNG LNG project construction activities and lower commodity prices. In addition, the effects of the Kina depreciating against key partners over past twelve months have also led to high input cost thus affecting the manufacturing sector in 2013. Treasury's discussions with key stakeholders including the Bank of Papua New Guinea confirmed that sales in the manufacturing sector has fallen during the year.

The finance, real estate and business services sector is expected to grow by 6.0 per cent in 2013. This is slower than the preceding year's growth of 10 per cent and reflects the slowdown in domestic economic activity due to the slowing down of the PNG LNG project construction activities. It appears that the falling commodity prices and the winding down of the PNG LNG project has withdrawn the interest of many businesses and farmers in the rural areas in pursuing further activity in 2013 with most delaying their plans in anticipation of better conditions in the coming year.

The agriculture, forestry and fisheries sector is expected to grow at 0.5 per cent in 2013 up from a negative 1.6 per cent in 2012. While this is an improvement from the previous year, conditions remain depressed in 2013. Falling commodity prices, poor quality of crop due to unfavourable weather and aging stock of crop, lack of infrastructure, law and order and the negative impacts of the cocoa pod borer have placed a drag on the progress of the sector during the year.

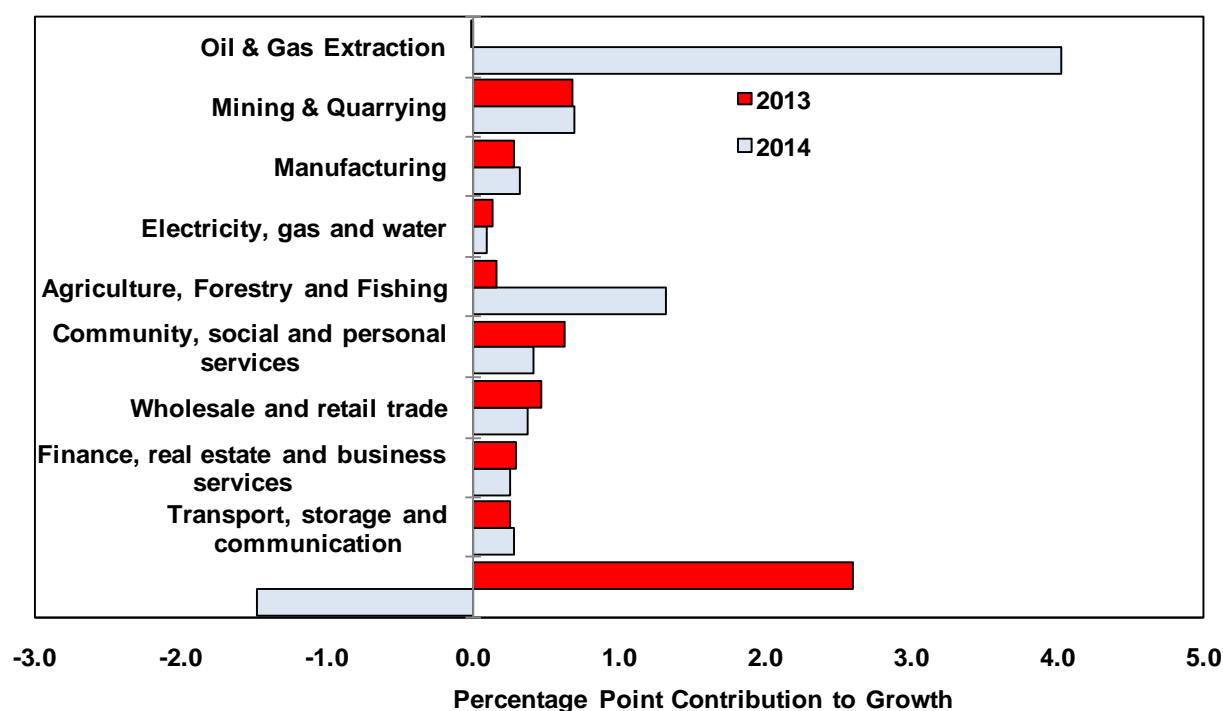
The fall in most commodity prices in Kina terms in the second half of the year has had a significant impact on the output of cash crops. Copra, cocoa, coffee and palm oil production have been impacted negatively as farmers struggle to maintain margins while costs of production continue to rise. This has discouraged many farmers especially in the labour intensive cash crops like copra.

Looking at the quality of production, unfavourable weather and age of cash crops have also contributed to the decline in production during the year. Coffee production appears to have suffered as result of these factors where the prolonged wet seasons and the aging tree stock have resulted in production coming under a million bags for the second consecutive year. In addition, infrastructure issues and law and order problems especially theft of coffee are reported to be among the rising costs to exporters in country. These continue to translate into significant losses of coffee bags each year.

The Cocoa Pod Borer (CPB) which has plagued the cocoa growing regions including East New Britain and Bougainville, two of the leading producers of cocoa remains a threat to production. East New Britain province normally produces around 20,000 tonnes of cocoa before CPB, however when the CPB hit in 2009, production was devastated falling to around 5,000 tonnes per annum. It appears that production in East New Britain is slowly recovering and pushing beyond the post CPB levels. While this is positive for the industry, there is a threat that CPB could spread to other cocoa growing provinces especially in the Momase region whose production has partially offset the decline in production in East New Britain. According to concerned authorities of the industry, continued awareness and education on better farming techniques and management of cocoa remains key to alleviating the negative impacts of CPB. Key focus of the awareness is to educate the farmers to treat cocoa as a business and not just a crop.

### **2.2.2 2014 Economic Growth**

In 2014, the PNG economy is expected to grow by 6.2 per cent. This reflects the rebound in growth in agriculture, forestry and fisheries sector and the very sharp increase in the oil and gas sector with the commencement of gas production for the first time in 2014. Total non-mining GDP is expected to only grow by 1.6 per cent. The slowdown in the total non-mining GDP reflects the contraction in the construction sector with the completion of the PNG LNG project construction phase as well as other sectors returning to trend growth.

**Figure 14: Contribution to Growth by Sectors, 2013 and 2014**

Source: Dept of Treasury

The winding down of the PNG LNG project construction activities is expected to be most profound in sectors which have led growth since the onset of the project including the construction, transport, storage, manufacturing and communication and wholesale and retail trade. These sectors have benefited hugely from the direct impacts flowing through from the project which included the increased spending on locally produced goods and services, hiring of equipment and engagement of small to medium business in the project, movement of cargo, and recruitment of local labour. In 2014, the flow on impact of the PNG LNG project in these sectors will decline as most of the construction activity will have been completed. The need for additional resources will not be there anymore hence activity is expected to be reduced significantly and it is likely that resources will be freed up for use elsewhere in the economy.

The construction sector is expected to contract with growth falling from 11.9 per cent in 2013 to a negative 6.4 per cent in 2014 while, transport storage and communication, manufacturing and wholesale and retail trade are expected to revert back to trend growth in 2014. This trend is also expected to be displayed across the other non-mining sectors including, electricity gas and water, finance and real estate and community, social and personal services.

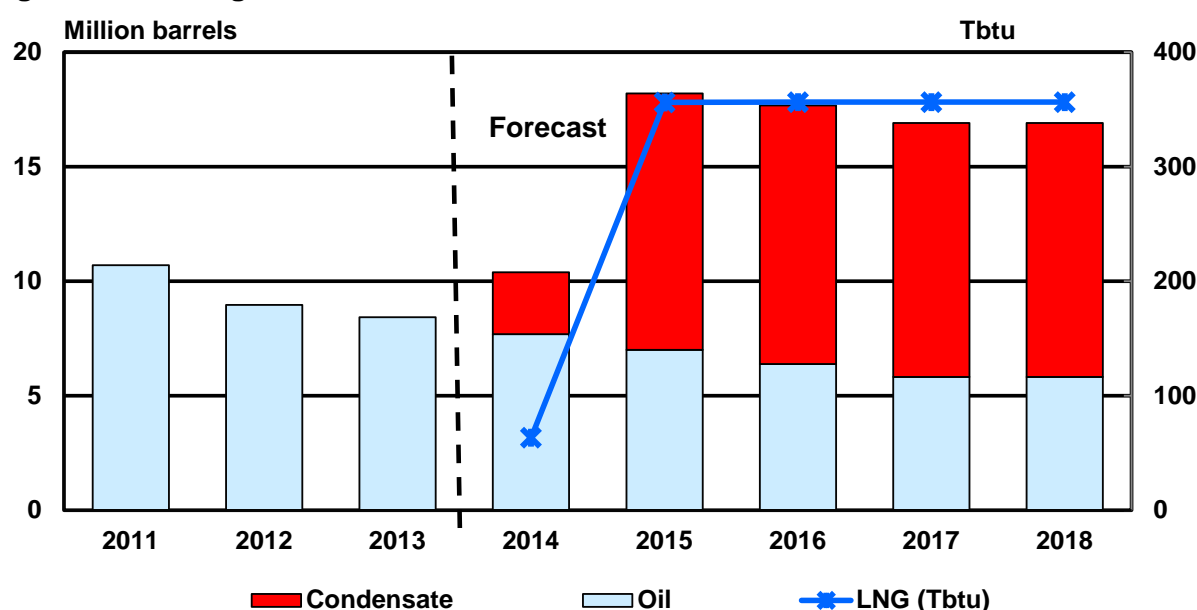
Despite the temporary slowdown in most non-mining sectors, the agriculture, forestry and fisheries sector is expected to rebound and grow sharply at 4.8 per cent in 2014 following the depressed levels of activity over the past two years. Prices are expected to perform better on the assumption that global demand improves and production is also anticipated to increase as growing conditions are expected to be better than what they have been over the past two years. In addition, it is also anticipated that by 2014, some of the key projects like the Productive Partnership in Agriculture (PPAP) will have set up its administrative infrastructures and will commence, resulting in rehabilitation of plantations. At the time of the 2013 Budget, it was anticipated that small effects of the project would start by 2013 however

with new information, it appears that years 2013 and 2014 would be for planting of new crop while the benefits of the project are likely to result, in the outer years.

The mining sector is expected to maintain a strong growth of 13.8 per cent in 2014. It is expected that most of the key mines will be restoring normal production in 2014 after the disruptions encountered in 2013. Nickel production is also expected to ramp up to over half of full capacity lifting total output from the sector in 2014.

The oil and gas sector is expected to increase substantially in 2014 with the commencement of gas production. The sector is expected to grow by a massive 354.8 per cent in 2014. This is the impact of gas production substantially overriding the natural decline in oil production.

**Figure 15: Declining Oil Production Over the Medium Term**



Source: Dept of Treasury and Dept of Petroleum & Energy

### 2.2.3 Medium Term

Economic growth is expected to increase sharply in 2015 with commencement of full gas production. Over the medium term, the economy is expected to revert to trend after reaching high levels of activity. The Ok Tedi mine life has been extended further and this is also expected to support mining production when it starts to mine new areas. The oil and gas sector is expected to record another substantial increase in growth in 2015 with full gas production. In addition, the commencement of gas production in 2015 is also expected to substantially override the decline in the oil fields, however, the petroleum and gas sector is expected to decline in 2017 and 2018 reflecting continued depletion of oil reserves and a slight slowdown in gas production. At this stage, the medium term forecasts do not yet incorporate the prospects of a second LNG project coming on stream, which would present some upside risk to the forecasts presented.

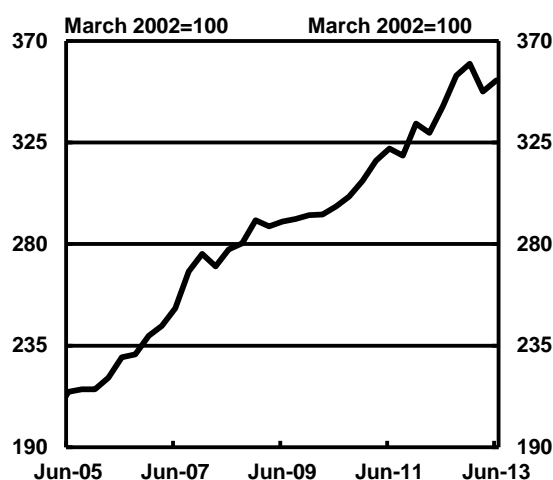
The agriculture, forestry and fisheries sector is expected to grow over the medium term. While developments in the global economy have a significant impact on production, the rolling out of key projects remain key to driving some of the growth going forward. Projects like the Productive Partnership in Agriculture (PPAP), aimed at growing the cocoa and coffee industry. Other cash crops are also expected to exhibit strength over the medium term and support growth including the expansion of palm oil production. Most milling companies are

expected to continue growing their businesses, however, at some stage availability of land could hold back further developments. Copra production will depend largely on prices and any rehabilitation programs pursued by the Government. The medium term prospects for the forestry sector remain uncertain due to data limitations, however, the fisheries sector is expected to expand as it continues to implement projects aimed at supporting local business.

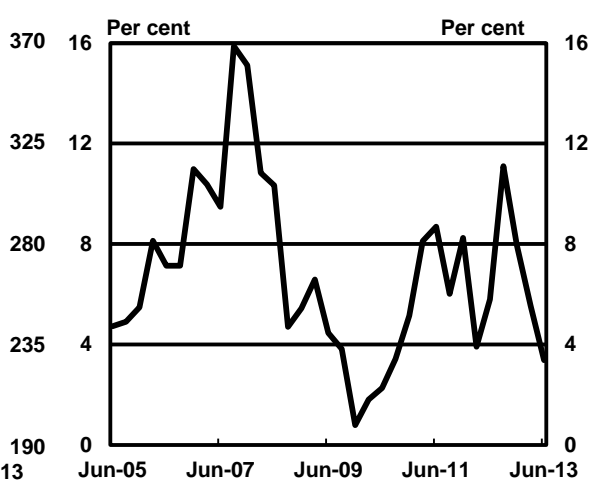
### 2.3. LABOUR MARKET

Total employment in Papua New Guinea has moderated in line with developments in the domestic economy in 2013. According to Bank of PNG's employment index, total level of employment in the private sector excluding mining decreased by 0.5 per cent in the June quarter of 2013 compared to 1.8 per cent increase in the March quarter.

**Figure 16: Employment Index**

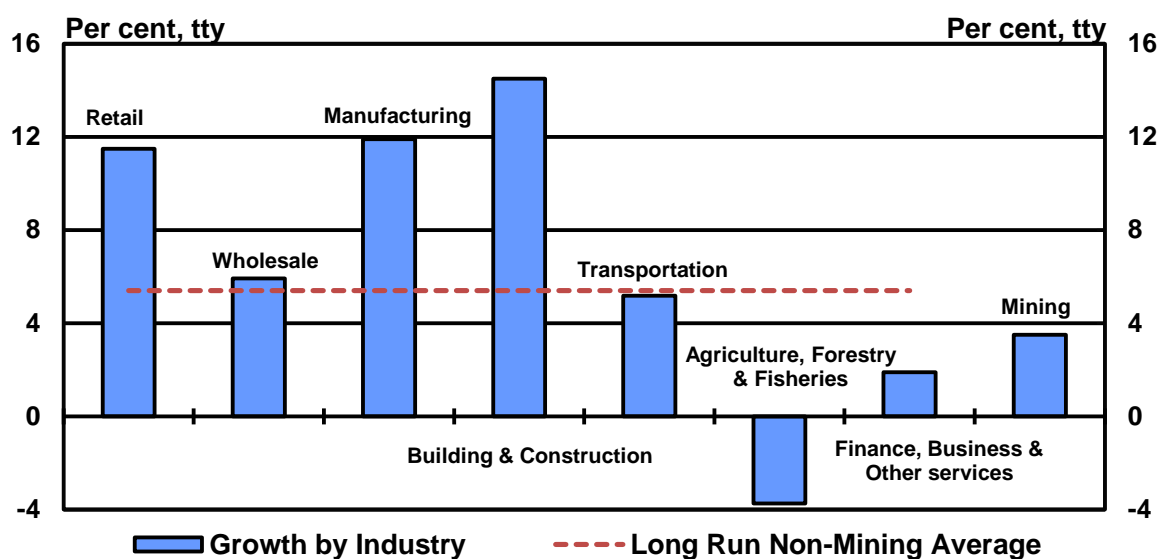


**Figure 17: Total Employment Growth**



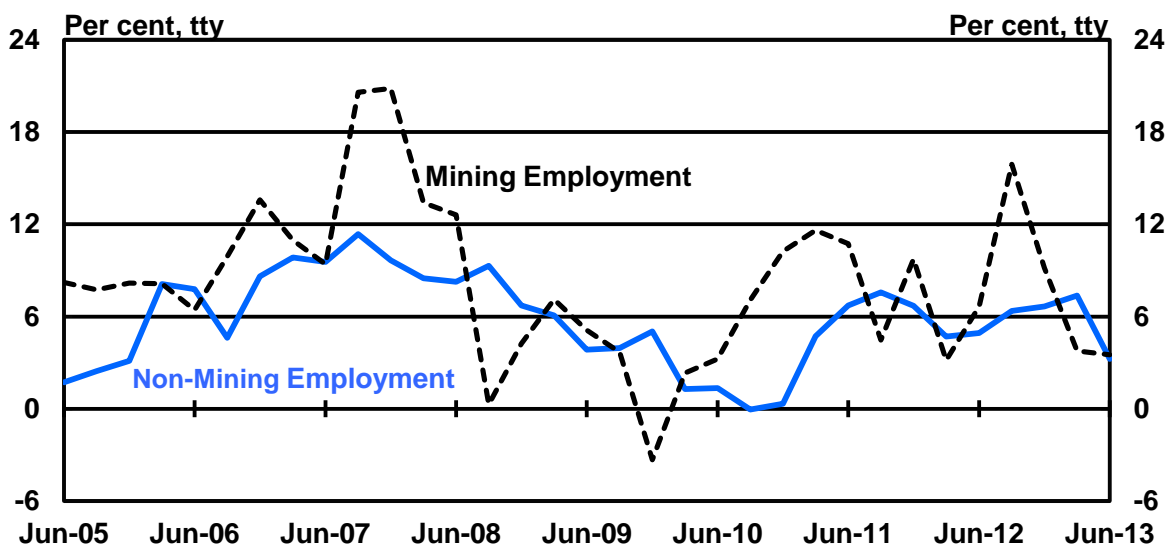
Source: Dept. of Treasury and Bank of PNG

Employment growth in most non-mining sectors increased at moderate rates in the June quarter 2013, compared to March quarter, except for the agriculture, forestry and fisheries sector which recorded a decrease of 3.7 per cent, whilst the building and construction sector recorded the highest of 14.5 per cent the same time as the March quarter 2013. The manufacturing sector recorded the second highest growth (11.9 per cent) followed by retail (11.5 per cent), wholesale (5.9 per cent), transportation (5.2 per cent) and finance, business and other services sector (1.9 per cent). Mining sector employment growth recorded 3.5 per cent rise in the June quarter 2013.

**Figure 18: Industrial Employment Growth – Year to June 2013**

Source: Dept. of Treasury and Bank of PNG

On a quarterly basis, total employment increased by 1.5 per cent in June quarter 2013 compared to a decrease of 3.4 per cent in the March quarter. This reflected a rebound in employment of the mining and quarrying sector which recorded employment growth of 3.5 per cent in the June quarter 2013, following a decrease of 8.2 per cent in the March quarter. The increase was driven by the Ramu Nickel/Cobalt mine recruitment of workers as it increases production.

**Figure 19: Mining and Non-Mining Employment**

Source Dept. of Treasury and Bank of PNG

On a through-the-year basis, non-mining employment grew by 3.2 per cent in the June quarter 2013 compared to 7.4 per cent in the March quarter. Mining employment increased by 3.5 per cent in June quarter 2013 compared to 3.8 per cent in March quarter. The increased employment growth in the mining sector is attributed to the Ramu Nickel/Cobalt. The increase in non-mining employment level reflects sustained demand for skilled labour as the economy continues to experience increased business activities.



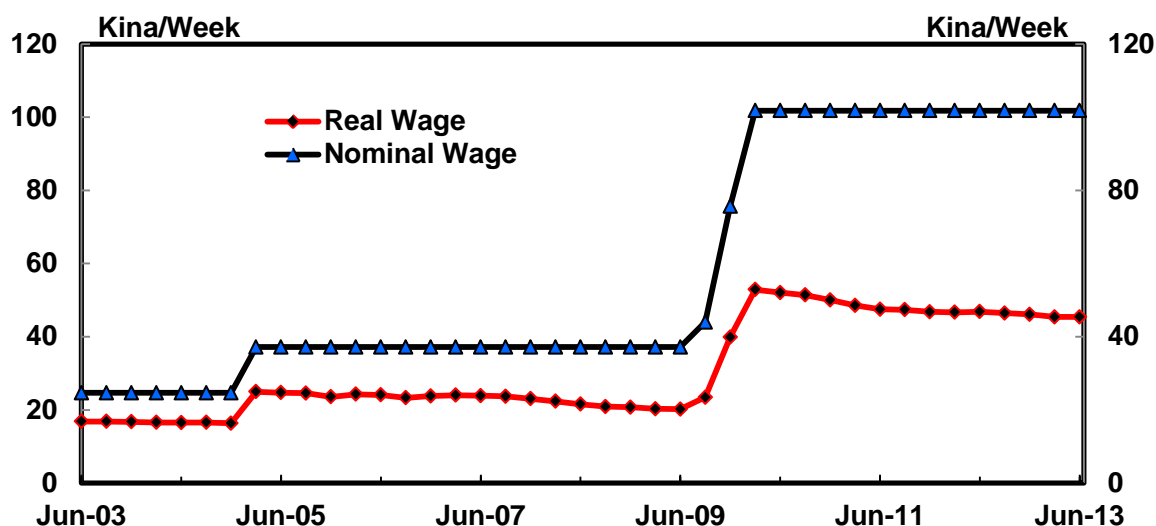
### 2.3.1 Nominal Salary and Wages

Nominal salary and wages has been increasing over recent years. The increasing trend is attributed to a high demand of skilled labour driven by increased economic activities within the PNG economy.

Initially, the nominal salary and wages growth was driven by increased business activities which benefited from the prolonged commodity price boom and high demand for skilled labour experienced in 2004. Up until mid-2009, PNG's nominal salary and wages remained stable (Figure 18).

Nominal salary and wages growth picked-up strongly in the March quarter 2010, compared to the initial increase in 2004. The strong nominal salary and wages growth reflects the high demand for skilled labour brought about by increase in the PNG LNG project construction activities combined with strong associated spin off benefits experience in other sectors of the economy. The nominal salary and wages per week remained constant at K101.8 per week till June quarter 2013. On a real basis, minimum wages continues to decrease slightly from March quarter 2010 to June quarter 2013 mainly due to inflation over this period.

**Figure 20: Wages Growth**



Source: Dept. of Treasury, Bank of PNG and National Statistics Office

## 2.4. MONETARY DEVELOPMENTS

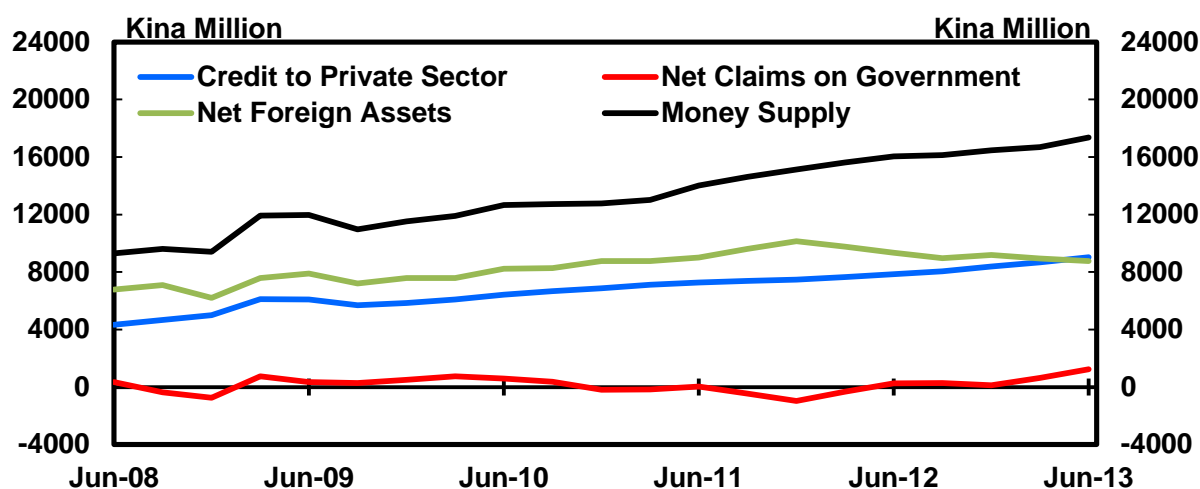
### 2.4.1 2013 Monetary Developments

The Bank of Papua New Guinea has maintained its current monetary policy stance for the rest of 2013 in light of low inflation environment and the future outlook. The no-change in policy stance currently undertaken by the Bank of PNG is to support Government's expansionary fiscal policy to encourage economic activities in the domestic economy, as the PNG LNG construction phase ends. This is reflected in the Kina Facility Rate maintained at 6.25 per cent.

The money supply rose by 4.1 per cent from an average of K16,678.8 million in March quarter 2013 to an average of K17,365.3 million in the June quarter of 2013 (Figure 19). This reflects primarily the substantial increase in total net credit to the Central Government and credit to the Private Sector. Net credit to the Central Government rose by 95.9 per cent from

an average of K631.6 million in the March quarter 2013 to K1,237.1 million in the June quarter. Credit to the Private Sector rose by 3.9 per cent from an average of K8,679.9 million in the March quarter 2013 to an average of K9,020.8 million in the second. The significant pick up in net credit to the Central Government reflected continued domestic financing of 2013 Budget through issuance of Treasury Bills and Inscribed Stock. The Government made a net issuance of K362.2 million in Treasury Bills and K260.0 million in Inscribed Stock to continue finance its key 2013 Budget priorities. Net Foreign Assets (NFA) on the other hand, declined from an average of K8,937.3 million in March quarter 2013 to an average of K8,762.7 million in the second quarter.

**Figure 21: Money Supply, Credit to Private Sector, Net Claims on Central Government and Net Foreign Assets**



Source: Bank of Papua New Guinea

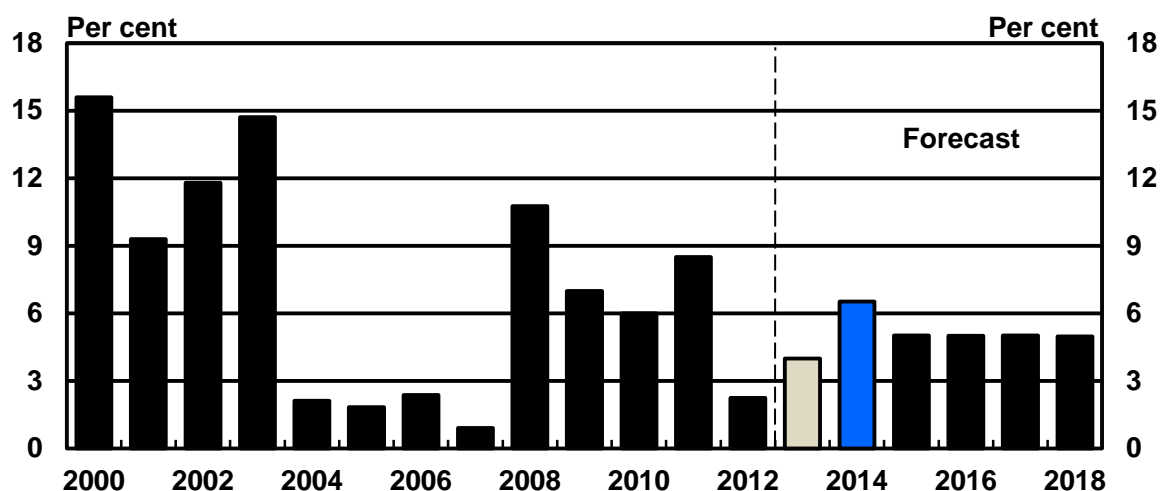
For the fully year - 2013, the Central Bank has projected broad money supply to increase by 11.9 per cent, driven mainly by continued increase in Net Domestic Assets (NDA) of the banking system, in particular, increase net domestic credit to the Government and Private Sector. The Bank has also projected monetary base to increase by 6.1 per cent whilst Private Sector credit is expected to increase by 17.5 per cent in 2013. Net Foreign Assets is projected to continue decline, down 15.4 per cent by end 2013.

In 2014, the Bank in its September Monetary Policy Statement projected broad money supply to continue increase, by 13.0 per cent. Private Sector credit is projected to increase by 18.3 per cent and Net Foreign Assets projected to increase by 7.2 per cent, whilst Net claims on Central Government is expected to decline by 14.4 per cent.

## 2.5. CONSUMER PRICE INDEX

### 2.5.1 2013 Inflation

Treasury has revised its annual headline inflation projection for 2013 to 4.0 per cent, a downward revision from the MYEFO estimate of 5.6 per cent and the Budget estimate of 8.0 per cent. The downward revision to the 2013 projection from previous updates is reflective of a lower inflation outcome in the first six months of 2013 which has been driven by the moderation in the prices of mainly tradable goods and services and a downward revision to real GDP growth in 2013. The upside risks to inflation in the remaining months are further exchange rate depreciation and increased Budget spending.

**Figure 22: Inflation Outlook 2000-2018**

Source: National Statistical Office/Department of Treasury

In 2014, inflation is projected at 6.5 per cent, up from revised 4.0 per cent in 2013. The upward revision is reflective of the fiscal stimulus impact and the delayed pass through of the current exchange rate depreciations. Over the medium term from 2015 to 2018, inflation is expected to average 5.0 per cent reflective of assumed prudent Government management of fiscal and monetary policies.

The Government is mindful of possible inflationary pressures of high costs of doing business in PNG, supply constraints, expansionary fiscal policies, commodity prices upside shocks, exchange rate depreciations and the potential for the economy to grow more strongly than anticipated should other new mining ventures eventuate. The Government will continued to monitor inflation to ensure price stability and economic growth are maintained in the domestic economy.

## **2.6. BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES**

### **2.6.1 2013 Balance of Payments**

PNG's trade activity with the rest of the world remains subdued in 2013, reflective of the weak demand and slow growth in emerging market and developing economies, as well as a more prolonged recession in the euro area. This has seen a fall in commodity prices and a corresponding fall in PNG's exports. While exports have fallen, imports continue to remain stronger due to the Government's fiscal stimulus and the ongoing construction of the PNG LNG project.

The slow-down in trade activity is reflected in the current account balance widening to a deficit of K3,581 million (or 10.3 per cent of GDP) in the first half of 2013, compared to a low deficit of K1,985 million in the corresponding period of 2012. This reflected deficits in the services and income accounts, which more than offset surpluses in the goods and transfers accounts.

The goods and transfer balances recorded surpluses of K382.6 million and K19.8 million respectively in the first half of 2013. For the goods balance, this was a decline of 76.4 per cent compared to the corresponding period in 2012 while the transfer balance declined by 91.1 per cent. The lower goods surplus was attributed to lower values of all

export commodities. The lower transfer surplus was mainly due to lower receipts from gifts and grants which offset lower transfer payments.

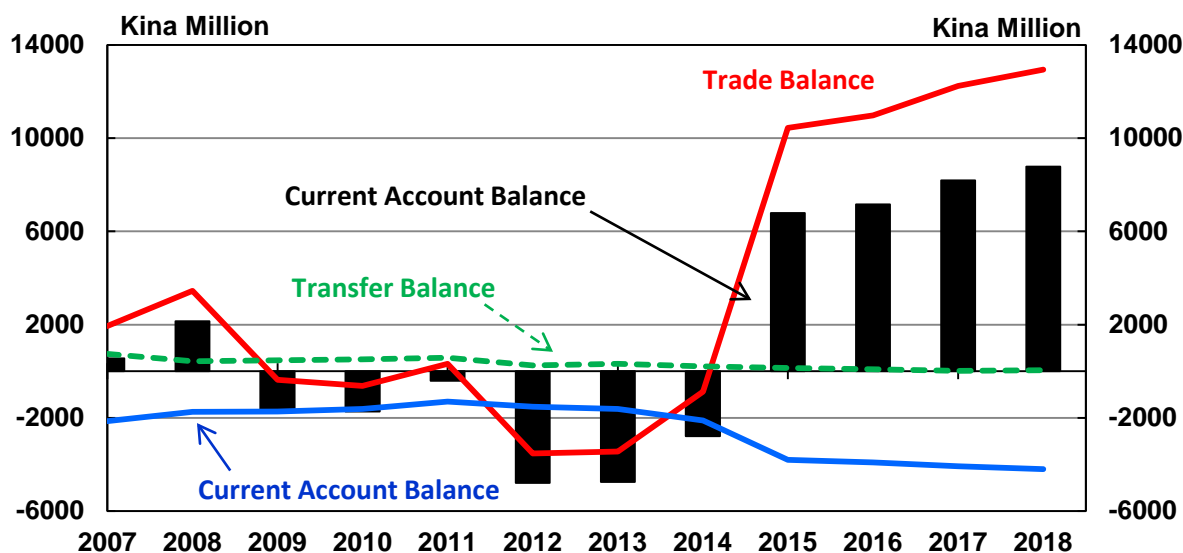
In contrast, the service and income balances recorded deficits of K3,562.0 million and K421.6 million respectively in the first half of 2013. Service deficit was up by 11.1 per cent while income deficit was down by 32.4 per cent from the corresponding period of 2012. The service deficit reflected an increase in payments for construction services associated with higher imports, insurance and travel. The income deficit was due to lower compensation of employees, interest and dividend payments.

The slow-down in PNG's trade activity was cushioned to an extent by the pick-up in the financial and capital balance of K2,138.1 million reflective of net inflow in both financial and capital accounts.

The financial balance recorded a net inflow of K2,135.4 million in the first half of 2013, compared with the net inflow of K1,389.0 million in the corresponding period of 2012. The surplus was due to net inflows from direct and portfolio investments reflecting equity inflows and drawdown of short term money market instruments by mineral companies. These combined with net inflows in other investments, associated with drawdown of net foreign currency account balances of mineral companies, more than offset net outflows in financial derivative instruments. The capital account, also recorded a net inflow of K2.7 million in the first half of 2013, a decline of 88.6 per cent from the corresponding period of 2012, reflecting lower transfers by donor agencies for project financing.

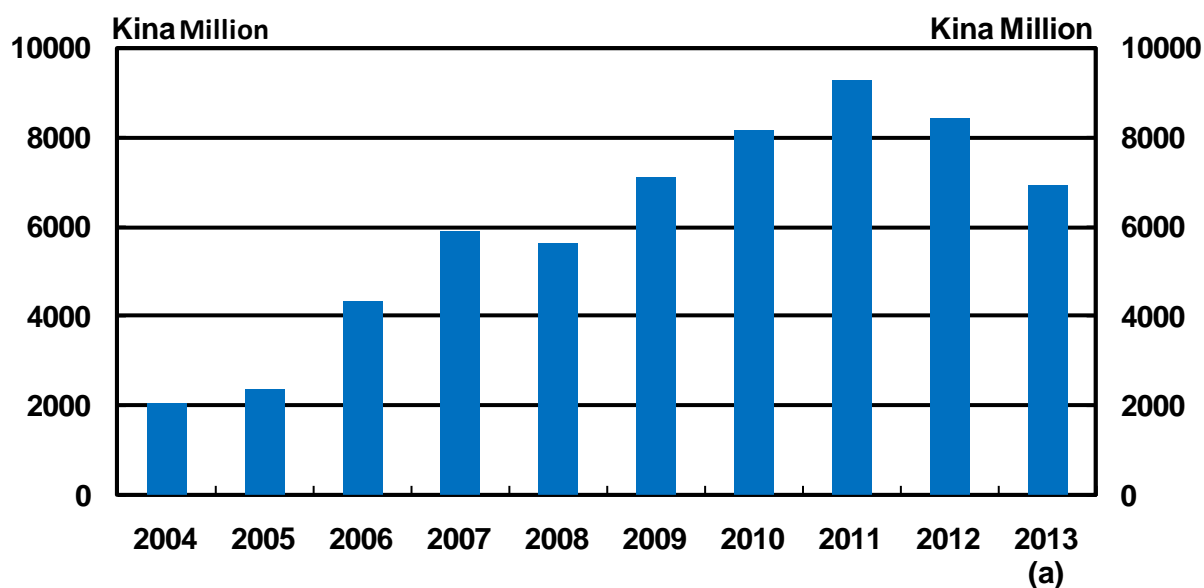
As a result, the overall balance of payments recorded a deficit of K1,489.1 million in the first half of 2013, compared to a deficit of K604.0 million in the corresponding period of 2012.

**Figure 23: Drivers of the Current Account Balance 2007-2018 (Kina Million)**



Source: Department of Treasury and Bank of PNG

International reserves were K8,415.9 million at end of December 2012 and have decreased by 17.9 per cent to K6,909.9 million (US\$3.1 billion) at the end of June quarter 2013 reflecting in part the high import demand, which means more foreign currencies used in paying for imports (Figure 32). This is sufficient for 10.9 months of total imports and 17.0 months of non-mineral imports.

**Figure 24: International Reserves (Kina Million)**

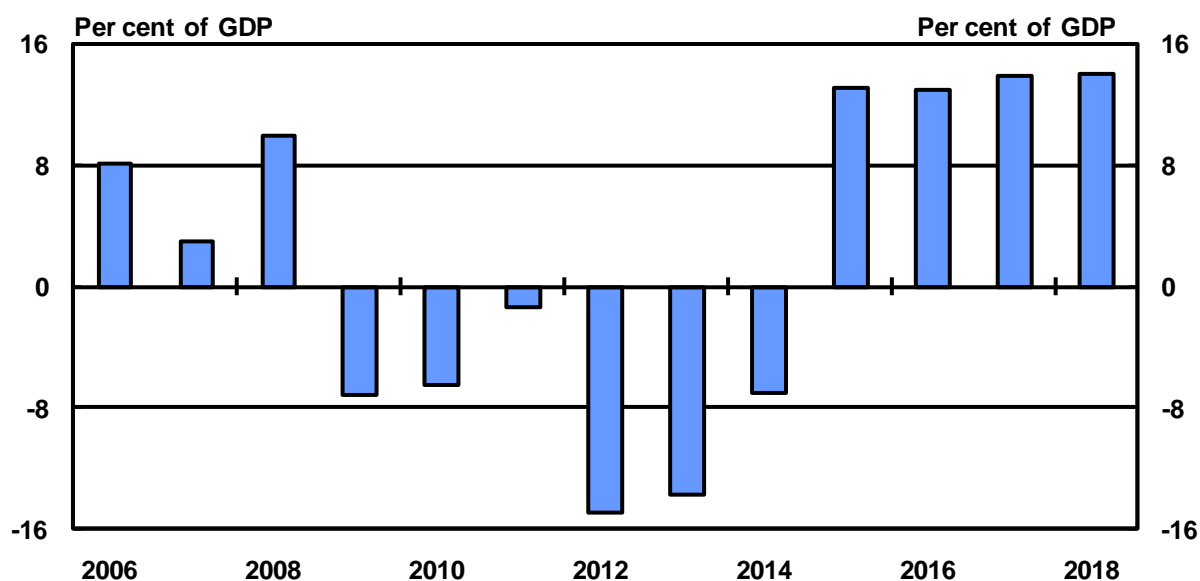
Source: Bank of PNG

(a) Includes reserves level to end June 2013

**2.6.2 2014 Outlook**

In 2014, the current account deficit is expected to narrow down from the revised K4,739.7 million estimated for 2013 to K2,778.4 million or 7.0 per cent of GDP. The decline in the current account deficit is largely driven by the completion of construction related to the PNG LNG project and commencement of first LNG exports in late 2014.

In addition, a rebound in production is expected from the major mines following the disruptions encountered in 2013. Nickel production is also expected to ramp up to 80 per cent of full capacity lifting total output from the sector in 2014.

**Figure 25: Projected Current Account Balance**

Source: Department of Treasury and Bank of PNG

### **2.6.3 Medium Term Outlook**

Over the medium term, the current account balance is expected to move into a large surplus following the full production and export from the PNG LNG project including full nickel production. The oil and gas sector is also expected to quadruple in size in 2015 with full gas production. Furthermore, the agriculture sector is expected to boost exports leading to an improvement in the current account.

On the other hand, income payments abroad from 2015 is expected to increase as the sale of the PNG LNG project gas results in income and dividend payments to shareholders.

## **2.7. RISKS TO THE ECONOMIC AND FISCAL OUTLOOK**

The risks to the PNG economy have intensified in 2014. These include:-

- The continued depressed global economic conditions which have increase `the downside risks to commodity prices. If this continues throughout 2014, it would translate to lower than expected export receipts earned by PNG, through its two largest sectors- Agriculture, Forestry and Fishing sector, as well as, the Mining and Petroleum sectors which would further affect the Government's revenue and domestic economic growth,
- Disruptions to major mines including the PNG LNG project due to weather, landowner issues or need for maintenance.
- Inflation moving higher in response to possible further depreciation of the Kina
- Capacity constraints preventing full implementation of the 2014 Budget and the risks of any possible under-expenditure being re-directed towards less effective expenditures

## CHAPTER 3. FISCAL STRATEGY AND OUTLOOK

### 3.1 2013 BUDGET UPDATE

The PNG economy is expected to grow by 5.1 per cent in 2013. This is higher than the 4.0 per cent forecast in the 2013 Budget but lower than the Mid-Year Economic and Fiscal Outlook (MYEFO) forecast of 6.1 per cent. The downgrade in forecast since the MYEFO is due largely to a sharper slowdown in the agriculture, forestry and fisheries and the mining and quarrying sector. In addition, the anticipated flow-on impact of the fiscal stimulus expected from the 2013 Budget did not materialise fully as expected due to the delays associated with the implementation of some major infrastructure projects.

Total Expenditure and Net Lending in 2013 is now projected to be K13,218.7 million, K108.8 million higher than the 2013 MYEFO projection of K13,109.9 million. However, the revised Budget includes a change in accounting treatment for the purchase of equity, such that K305.0 million purchase of equity is now included in expenditure rather than financing to ensure that accounting treatment is consistent with the current accounting framework used by the Government - Government Finance Statistics 1986.

Total Revenue and Grants for 2013 are estimated to be K10,481.6 million, an increase of K72.5 million (or 0.7 per cent) from the 2013 MYEFO projection of K10,409.1 million. Tax Revenue in 2013 is now expected to be K8,605.7 million which is K72.6 million (0.8 per cent) higher than the 2013 MYEFO projection of K8,533.1 million.

These result in an expected Budget deficit of K2,737.0 million or (7.9 per cent of GDP) in 2013, revised down from K2,827.7 million (or 8.0 per cent of GDP) at MYEFO.

### 3.2 THE 2014 BUDGET STRATEGY AND OUTLOOK

As outlined in Chapter 2, the 2014 Budget is set against assumptions of a modest reacceleration of activity in the global economy in 2014 in comparison to 2013. In 2014, global activity is expected to grow by 3.6 per cent. This is as a result of a potential reduction in uncertainty relating to the fiscal crisis in the euro area and the United States, as well as continuing monetary policy accommodation and gradually easier financial conditions.

The outlook for the PNG economy for 2014 remains positive, with growth forecast to be 6.2 per cent, representing 14 consecutive years of uninterrupted economic growth. This growth is likely to occur despite the gradual winding down of the construction phase of the LNG project over the first half of 2014.

In 2014, Total Revenue and Grants is expected to be K12,688.5 million, growth of K2,206.9 million or 21.1 per cent on 2013. This strong growth is driven by K750 million in additional compliance efforts by Internal Revenue Commission and PNG Customs, the sale of equity in PNG LNG (K600 million) and underlying growth in nominal GDP.

Total Expenditure and Net Lending is estimated at K15,041.5 million, growth of K1,829.2 million or 13.8 per cent on 2013. The growth in Expenditure and Net Lending is largely driven by an increase in capital formation at the National Department level, increasing by K1,281.1 million to K2,365.2 million in 2014.

Overall, this will result in a deficit of K2,353.0 million, or 5.9 per cent of GDP (see Table 2), down from 7.9 per cent in 2013.

**Table 2: Budget Balance 2012–2014 (Kina Million)**

|                                   | 2012<br>Actual | 2013<br>Budget | 2013<br>Revised       | 2014<br>Budget        |
|-----------------------------------|----------------|----------------|-----------------------|-----------------------|
| Total Revenue and Grants          | 9,566.0        | 10,481.9       | 10,481.6              | 12,688.5 <sup>2</sup> |
| Total Expenditure and Net Lending | 10,046.9       | 13,030.8       | 13,218.7 <sup>1</sup> | 15,041.5              |
| Budget Balance                    | -480.9         | -2,548.9       | -2,737.0              | -2353.0               |
| % of GDP                          | -1.5%          | -7.2%          | -7.9%                 | -5.9%                 |
| % of Debt to GDP                  |                | 32.0%          | 32.6%                 | 35.2%                 |

Source: Dept. of Treasury

1 Includes K305.0 million in purchase of equity that was included as financing rather than expenditure in the 2013 Budget. Treating the purchase of equity is consistent with the Government's current accounting framework – Government Finance Statistics 1986 (GFS 86).

2 Includes K600.0 million in the sale of equity. This is consistent with the GFS 1986 framework and the treatment of purchase of equity as expenditure in 2013.

The estimated 5.9 per cent deficit results in a 20.9 per cent increase in debt, bringing it to K13,650.9 million and gross liabilities to K22,330.9 billion (including outstanding supernannuation debts and PNG LNG liabilities).

The Government's debt to GDP ratio is expected to increase to around 35 per cent in 2014 but remain consistent with the Medium Term Fiscal Strategy 2013-2017 (MTFS); and the *Fiscal Responsibility Act 2006* (FRA). The proposed deficit presents the Government with an immediate challenge to make tough decisions to maintain fiscal discipline throughout the remainder of 2013 and through to 2018 to ensure ongoing macroeconomic stability.

Financing of the 2014 Budget is achieved through a mixture of development partner loans and domestic financing through the issuance of Kina denominated securities, though the foreign capital markets may also be required to be tapped to support expenditure levels if revenue proves softer than estimated.

The 2014 Budget focuses on seven key priorities:

- 1) Maintain Papua New Guinea's macroeconomic stability through the adherence to the principles of the Medium Term Fiscal Strategy (MTFS).
- 2) Implement major infrastructure projects currently under construction as well as the efficient expenditure of the higher levels of provincial government funding.
- 3) Ensure an appropriate alignment between the construction of new roads and the provision of money to maintain them. Likewise, ensuring funding is available for staff when new health or education buildings are constructed, including through integrating the 'Recurrent' and 'Development' Budgets and the introduction of multi year budgeting in 2014.
- 4) Continue to expand funding in the education and health sectors. This will include expansion of fee free education policies, funding for vocational education and ensuring enough teachers are available to meet increased demand for access to education.
- 5) Establishment of the Sovereign Wealth Fund and consolidation of mineral and petroleum assets.
- 6) Strengthen law and order, modernization of police and defence and creation of Independent Commission Against Corruption (ICAC).



- 7) Improve the enabling business environment for the agriculture sector as well as small to medium enterprises.

In the 2014 Budget, expenditure on the key enablers of the Medium Term Development Plan is estimated at 45.8 per cent, an increase from 34.2 per cent in 2013. This analysis excludes Provincial Government expenditures on the enablers.

The 2014 Budget is consistent with the 2014 Budget Strategy Paper (BSP). The BSP settings included a recommendation that the 2014 Budget deficit not exceed 5.9 per cent and debt to GDP not to exceed 35 per cent in accordance with the FRA. The BSP is guided by the Government's economic development strategy "Vision 2050"; PNG Development Strategic Plan 2010-2030; the Medium Term Development Plan 2011-2015; the MTFS 2013-2017 and the Medium Term Debt Strategy.

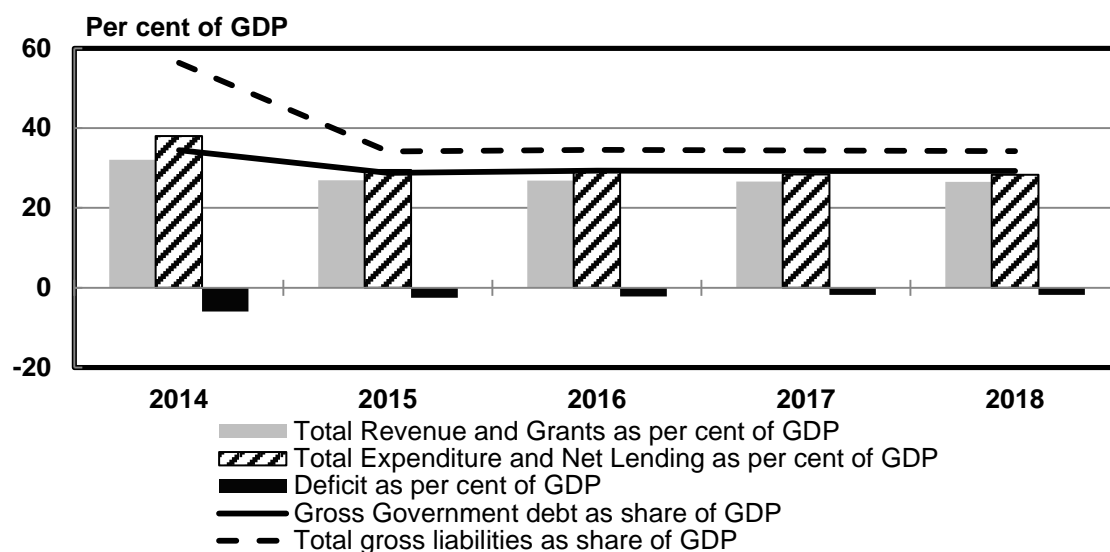
### 3.3 THE MEDIUM TERM FISCAL OUTLOOK

Over 2013 and 2014, the Government has invested strongly in provinces, infrastructure, health, education and law and order. From 2012 to 2014, growth in Total Expenditure and Net Lending has been 37.4 per cent, while revenue growth has been 32.6 per cent. This growth in expenditure has resulted in estimated deficits of 7.9 per cent and 5.9 per cent in 2013 and 2014 respectively.

Recognising that these deficits are not sustainable, the Government has adopted a plan to slow growth in expenditure to more sustainable levels. From 2015, the Government deficit will be reduced to 2.5 per cent of GDP. This will be partially achieved due to the expected increase in GDP when PNG LNG production commences in late 2014. Reducing the deficits to sustainable levels will also enable the Government to better respond to future external shocks such as the recent Global Financial Crisis.

Figure 26 below reflects the fiscal outlook for the period 2014-2018 based on the current revenue and expenditure forward estimates.

**Figure 26: Fiscal Outlook 2014 – 2018**



The Government debt to GDP ratio is estimated to be around 35 per cent in 2014 falling to below 30.0 per cent by end of 2015 and over the forward estimates. This is within the

framework set by the Government in the MTFS, the Medium Term Debt Strategy and the 2014 Budget Strategy.

The Table below reiterates the 2014 Budget Strategy adopted by the Government. This budget has adopted a deficit of 5.9 per cent in 2014 and no more than 2.5 per cent of GDP from 2015 onwards, provided that the debt to GDP limit of 30 per cent is not breached.

**Table 3: Budget Balance 2013–2018 (Kina Million)**

| Year   | 2013 | 2014   | 2015 | 2016 | 2017 | 2018 |
|--|------|--------|------|------|------|------|
| 2014 Budget – estimated deficit                  | -9.9 | -5.9   | -2.5 | -2.2 | -1.8 | -1.8 |
| 2014 Budget – estimated debt to GDP              | 32.6 | 35.2   | 28.8 | 29.3 | 29.2 | 29.2 |
| MTFS 2013 – 2017 Budget balance (per cent GDP)   | -7.2 | -5.9   | -1.6 | -0.6 | 0.1  | 0.0  |
| MTFS 2013 – 2017 implied debt to GDP*            | 32.0 | 34.6   | 28.9 | 27.5 | 25.4 | 23.1 |
| 2014 Budget Strategy recommended maximum deficit | -7.2 | -5.9** | -2.5 | -2.3 | -2.1 | -2.5 |
| 2014 Budget Strategy implied debt to GDP         | 32.0 | 34.6   | 29.8 | 30.0 | 30.0 | 29.7 |

Source: Dept. Of Treasury

Note: '-' represents a deficit

### 3.4 MEDIUM TERM FISCAL STRATEGY 2013-2017

The MTFS 2013-2017 sets out the fiscal rules that the Government is to abide by. These set of rules have been designed to ensure ongoing confidence in the Government's fiscal position and the PNG economy as a whole. The key rule which provides the overall fiscal anchor for the macroeconomic stability of PNG is in relation to debt level:

*'Maintain a gross Government debt to GDP ratio of less than 30 per cent, apart from in 2013 and 2014, when it will not exceed 35 per cent.'*

In addition, the MTFS sets out proposed maximum deficits as a share of GDP over the period of 2013 – 2017. It is possible, however, that if high rates of GDP growth continue and commodity prices do not fall further, slightly higher deficits could be supported, while still maintaining debt at less than the desired 30 per cent of GDP ratio.

**Table 4: Performance against the MTFS 2013-2017**

| <b>MTFS 2013-2017 Guiding Principles</b>  | <b>Performance against the Principles</b>   |
|---|---|
| <p><b>Expenditure</b></p> <p>1) Increase the share of the total budget allocated to the key enablers of the Medium Term Development Plan to two thirds by 2017.</p> <p>2) Improve spending agencies' focus on expenditure effectiveness and transparency in expenditure reporting and public accountability.</p> <p>3) No new infrastructure programs should be funded unless they have gone through a proper design and costing process.</p> | <p>Excluding expenditure on provinces, the share of the 2013 Budget allocated to Health, Education, Infrastructure and Law and Order was 34.2 per cent, in the 2014 Budget this increases to 45.8 per cent.</p> <p>To improve agency performance, accountability and transparency, the Government has issued a number of non-financial instructions in the Budget context for implementation in 2013 and beyond. Substantial progress is expected and agency progress was considered in determining 2014 Budget allocations. In preparation for the 2014 Budget, agencies' Personnel Emoluments ceilings are being held constant. Proposals for any increases will be closely scrutinised by the Government, with a requirement that increases be matched by improvements in productivity and service delivery.</p>   |
| <p><b>Revenue</b></p> <p>4) Maintain equitable taxation regimes with a focus on compliance.</p> <p>5) Restrict taxation exemptions and special arrangements.</p>  | <p>The Government has focused on revenue compliance in the 2014 Budget with an additional K650 million in compliance measures from Customs and IRC. The Government is removing the generous Research and Development 150 per cent tax deduction and ensuring that limiting the Infrastructure Tax Credit to ensure that decisions are made in the Budget Context.</p>   |
| <p><b>Debt</b></p> <p>6) Maintain a gross Government debt to GDP ratio of less than 30 per cent, apart from in 2013 and 2014, when it will not exceed 35 per cent.</p> <p>7) Limit gross Government liabilities to less than 60.0 per cent of GDP.</p> <p>8) Greatly increase the Government's average debt maturity profile.</p>   | <p>The Government is meeting its debt commitments.</p> <p>The current estimates show pressure on the 35 per cent debt to GDP limit in 2014 and the limit will need to be carefully monitored over 2014, and if required expenditure reduced to comply with this limit. Beyond 2014, there will be a continued need to monitor debt levels closely as debt is maintained just under the debt limit.</p> <p>Currently gross liabilities are approaching the 60 per cent of GDP limit in 2013 and 2014, due mainly to State's share of the PNG LNG project owners' completion guarantees given to debt holders of the project.</p> <p>The estimates seek to address the current bias towards short-term debt by aggressively issuing large volumes of longer term debt; however lack of market depth to absorb this level of issuance and additional financing calls beyond that in the estimates will put this at risk.</p> |
| <p><b>Deficits</b></p> <p>9) Limit deficits to a maximum of 2.5 per cent of GDP from 2015 onwards.</p>  | <p>The Government remains committed to deficits equal to or less than 2.5 per cent of GDP from 2015 onwards.. This will be assisted by an increase in GDP in 2015 as a result of production of PNG LNG</p>  |

### 3.5 DEVELOPMENT ON THE SOVEREIGN WEALTH FUND

The development of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project, and the prospects of other mineral mines and petroleum projects, has the potential to assist our economy and improve the standard of living for our people. The primary benefits of these mineral mines and petroleum projects will be the taxes and dividends that they generate. These revenues must be well managed to ensure maximum benefit for PNG.

As has been the case for the last decade, the key to improving development outcomes in PNG is properly managing public finances, and this includes managing the volatility in revenue flows.

The revenue flows from mineral and petroleum projects including the PNG LNG will be very volatile, in line with the fluctuations of international commodity prices. Recent history demonstrates how quickly these can move. The establishment of PNG Sovereign Wealth Fund (SWF) provides a mechanism to help insulate the PNG economy and the budget from this volatility.

The Government in 2011 endorsed the policy and legislated framework with the design and institutional framework of PNG SWF guided by international best practice, the Sovereign Wealth Fund Generally Accepted Principles and Practices (Santiago Principles), and domestic requirements. The Organic Law was subsequently passed into Law in February 2012.

Since then, the Government has undertaken a review of the Organic Law to ensure it captures all the preferred policy elements and also to ensure proper constitutional processes were followed.

Together with the introduction of reforms including the establishment of the Kumul Consolidation Agenda, the Government is considering modifying the design of the PNG SWF to re-consider the inflow of dividends from the PNG LNG project and the inclusion of intergenerational equity. In considering the intergenerational equity, the Ministerial Committee on Economic Sector (MCES) has agreed to have a Savings Fund to replace the Development Fund.

The fundamental key design elements of the PNG SWF include a single governance framework; the PNG SWF be onshore managed, offshore invested and onshore spent; fully integrated with the Budget and fiscal framework; governance, transparency, disclosure, accountability and asset management rules based on international best practice and the Santiago Principles; it will be overseen by an Independent Board which is located within PNG; and investment will be undertaken by investment managers.

The next phase of the work is finalizing the Organic Law and re-introducing it in the Parliament in 2014. Once the Organic Law is passed by the Parliament, a number of key elements will need to be progressed in order for implementation to be completed including: SWF Acts of Parliament and Regulations; SWF Investment Mandate; Board Appointment Process; SWF Administrative Matters; and Capacity Building. These are currently being worked on by the SWF Implementation Secretariat. It is anticipated that the SWF will commence operation in 2015.

## CHAPTER 4. REVENUE

### 4.1. 2013 AND 2014 REVENUE DEVELOPMENT AND OUTLOOK

Total Revenue and Grants is projected at K12,688.5 million in 2014. This is K2,206.9 million or 21.1 per cent higher than the 2013 revised estimate and K3,122.5 million or 32.6 per cent higher than the 2012 outcome. The higher revenue estimate in 2014 is broadly based with growth in Taxes on Income and Profits, Domestic Taxes on Goods and Services, Taxes on International Trade, Non Taxes and Grants.

In 2013, the revised Total Revenue and Grants is estimated at K10,481.6 million, almost equivalent to the initial 2013 Budget estimate of K10,481.9 million (K0.3 million or 0.002 per cent lower). The slight downward revision reflects stronger domestic revenue collections offsetting the decline in taxes effected by commodity prices and exchange rate movements, such as the Mining and Petroleum Taxes and Export and Import Duties which have declined since the beginning of the year. It also reflects stronger Non Tax Revenue collections.

**Table 5: Revenue Summary**

|                                 | <b>2012<br/>Actual</b> | <b>2013<br/>Budget</b> | <b>2013<br/>Revised</b> | <b>2014<br/>Budget</b> |
|---------------------------------|------------------------|------------------------|-------------------------|------------------------|
| <b>Total Revenue</b>            | <b>8,571.4</b>         | <b>9,140.7</b>         | <b>9,140.5</b>          | <b>11,003.5</b>        |
| Growth on Previous Year         | 3.8%                   | 6.6%                   | 6.6%                    | 20.4%                  |
| Per cent of GDP                 | 26.7%                  | 25.7%                  | 26.4%                   | 27.8%                  |
| <b>Tax Revenue</b>              | <b>8,148.3</b>         | <b>8,631.2</b>         | <b>8,605.7</b>          | <b>9,743.5</b>         |
| Growth on Previous Year         | 3.1%                   | 5.9%                   | 5.6%                    | 13.2%                  |
| Per cent of GDP                 | 25.4%                  | 24.3%                  | 24.9%                   | 24.6%                  |
| <b>Non-Tax Revenue</b>          | <b>423.2</b>           | <b>509.5</b>           | <b>534.8</b>            | <b>1260.0</b>          |
| Growth on Previous Year         | 20.8%                  | 20.4%                  | 26.4%                   | 135.6%                 |
| Per cent of GDP                 | 1.3%                   | 1.4%                   | 1.5%                    | 3.2%                   |
| <b>Total Revenue and Grants</b> | <b>9,566.0</b>         | <b>10,481.9</b>        | <b>10,481.6</b>         | <b>12,688.5</b>        |
| Growth on Previous Year         | 2.8%                   | 9.6%                   | 0.0%                    | 21.1%                  |
| Per cent of GDP                 | 29.8%                  | 29.5%                  | 30.3%                   | 32.0%                  |

Source: Department of Treasury

#### 4.1.1 Tax Revenue

In spite of the projected low non-mining economic growth reflective of the PNG LNG project construction phase ending, Tax Revenues in 2014 are expected to increase significantly due to improved revenue compliance measures pursued by revenue raising agencies.

The downgrade to global economic growth will continue to pose threats to commodity prices which have already translated to lower mining and petroleum taxes which have been experienced in the revenues collected so far.

Tax Revenue is estimated at K9,743.5 million in 2014, an increase of K1,137.8 million or 13.2 per cent from the 2013 revised estimate. Of this, K750.0 million increase is due to expected improved compliance by Internal Revenue Commission (K600.0 million) and Customs (K150.0 million). The increase in revenue collections will be largely driven by Taxes on Income and Profits.

**Table 6: Tax Revenue 2012-2014 (Kina Million)**

|                          | 2012<br>Actual | 2013<br>Budget | 2013<br>Revised | 2014<br>Budget | 2013<br>Variation | 2014<br>Variation |
|--------------------------|----------------|----------------|-----------------|----------------|-------------------|-------------------|
| Income & Profit Tax      | 5,875.1        | 6,215.5        | 6,185.8         | 7,117.2        | 310.7             | 931.4             |
| Domestic G&S Tax         | 1,575.5        | 1,613.4        | 1,721.7         | 1,879.4        | 146.2             | 157.7             |
| International Trade Tax  | 697.7          | 802.3          | 698.2           | 746.9          | 0.5               | 48.7              |
| <b>Total Tax Revenue</b> | <b>8,148.3</b> | <b>8,631.2</b> | <b>8,605.7</b>  | <b>9,743.5</b> | <b>457.4</b>      | <b>1,137.8</b>    |

Source: Department of Treasury

The revised Tax Revenue estimate for 2013 is K8,605.7 million, an increase of K457.4 million or 5.6 per cent compared to the 2012 actual outcome. Against the 2013 Budget estimate, the 2013 revised Tax Revenue has been revised downwards by K25.5 million. This is largely driven by decreases in Taxes on Income and Profits, in particular Mining and Petroleum Taxes.

#### 4.1.2 Taxes on Income and Profits

Taxes on Income and Profits is estimated at K7,117.2 million in 2014. This is an increase of K931.4 million or 15.1 per cent from the 2013 revised estimate. The increase is mainly driven by compliance measures that will be undertaken by Internal Revenue Commission (IRC). Company Tax includes additional revenue from compliance of K395.0 million, Personal Income Tax includes additional compliance of K137.0 million and Mining and Petroleum Tax includes additional compliance of K40.0 million in 2014. A description of these measures is outlined in Section 4.4 Revenue Compliance Measures.

**Table 7: Taxes on Income and Profits 2012-2014 (Kina, Million)**

|                                | 2012<br>Actual | 2013<br>Budget | 2013<br>Revised | 2014<br>Budget | 2013<br>Variation | 2014<br>Variation |
|--------------------------------|----------------|----------------|-----------------|----------------|-------------------|-------------------|
| Personal Income Tax            | 2,648.7        | 2,608.0        | 2,740.4         | 2,852.0        | 91.7              | 111.6             |
| Company Tax                    | 1,744.5        | 1,891.5        | 2,061.6         | 2,647.4        | 317.1             | 585.8             |
| Dividend With. Tax             | 190.7          | 197.3          | 232.8           | 261.3          | 42.1              | 28.5              |
| Mining & Petroleum Tax         | 981.1          | 1,207.5        | 815.7           | 1,001.8        | -165.4            | 186.1             |
| Interest Withholding Tax       | 67.4           | 45.1           | 49.0            | 49.0           | -18.4             | 0.0               |
| Other Direct Tax               | 108.8          | 119.5          | 115.6           | 125.0          | 6.8               | 9.4               |
| Gaming Tax                     | 133.9          | 146.6          | 170.6           | 180.8          | 36.7              | 10.2              |
| <b>Income &amp; Profit Tax</b> | <b>5,875.1</b> | <b>6,215.5</b> | <b>6,185.8</b>  | <b>7,117.2</b> | <b>310.7</b>      | <b>931.4</b>      |

Source: Department of Treasury

In 2013, Taxes on Income and Profits is expected to be K6,185.8 million, which is a reduction of K29.7 million from 2013 Budget reflective of low Mining and Petroleum Taxes offsetting increases in Company and Personal Income Tax. Compared to the 2012 actual outcome, this is an increase of K310.7 million or 5.3 per cent. The increase is reflective of higher Company Tax, Personal Income Tax, Dividend Withholding Tax, Gaming Tax and a slight increase in Other Direct Tax whilst Mining and Petroleum Taxes and Interest Withholding Tax have declined, attributed mainly to lower commodity prices and lower activity in the real estate sector.

#### 4.1.3 Domestic Taxes on Goods and Services

In 2014, Domestic Taxes on Goods and Services is estimated at K1,879.4 million. This is an increase of K157.7 million or 9.2 per cent from the 2013 revised estimate. The increase is due to expected strong collections of Goods and Services Tax (GST), including additional K29.0 million in compliance revenue from IRC and K26.0 million in compliance revenue from Customs collections at the Ports and Excise Tax. Changes to the descriptions of alcohol codes in the *Excise Tariff Act 1956* are expected to raise an additional K30.0 million in

Excise in 2014 (see section 4.3.2) and collect an additional K90.1 million as a result of compliance activities.

**Table 8: Taxes on Domestic Goods and Services**

|                             | 2012<br>Actual | 2013<br>Budget | 2013<br>Revised | 2014<br>Budget | 2013<br>Variation | 2014<br>Variation |
|-----------------------------|----------------|----------------|-----------------|----------------|-------------------|-------------------|
| Excise                      | 560.5          | 651.0          | 606.1           | 689.3          | 45.6              | 83.2              |
| GST                         | 1010.0         | 954.4          | 1107.5          | 1181.4         | 97.5              | 73.9              |
| Other Indirect              | 5.0            | 8.0            | 8.0             | 8.7            | 3.0               | 0.7               |
| <b>Domestic G&amp;S Tax</b> | <b>1575.5</b>  | <b>1613.4</b>  | <b>1721.7</b>   | <b>1879.4</b>  | <b>146.2</b>      | <b>157.7</b>      |

Source: Dept of Treasury

In 2013, the revised revenue estimate for Domestic Taxes on Goods and Services is anticipated to be K1,721.7 million, a modest increase of K108.3 million or 6.7 per cent against the initial 2013 Budget estimate. This reflects higher than expected transfers of GST to Waigani Public Account, offsetting lower than expected Excise collections.

Compared to the 2012 actual outcome, the revised 2013 revenue estimate is a modest increase of K146.2 million or 9.3 per cent. This reflects a slight upward revision to GST by K97.5 million or 9.7 per cent as a result of higher than expected.

#### **4.1.4 Taxes on International Trade**

In 2014, Taxes on International Trade is projected at K746.9 million, K48.7 million or 7.0 per cent higher than the 2013 revised estimate. This is driven by anticipated increases in Import Duty, and Excise Duty on Imports while Export Duty is expected to decline. Import Duty includes K33.9 million in additional collections due to compliance activities.

**Table 9: Taxes on International Trade 2012-2014 (Kina, Million)**

|                                | 2012<br>Actual | 2013<br>Budget | 2013<br>Revised | 2014<br>Budget | 2013<br>Variation | 2014<br>Variation |
|--------------------------------|----------------|----------------|-----------------|----------------|-------------------|-------------------|
| Import Duty                    | 223            | 251.3          | 240.7           | 288.8          | 17.7              | 48.1              |
| Export Duty                    | 179.9          | 195.3          | 190.0           | 176.5          | 10.1              | -13.5             |
| Excise Duties on Imports       | 294.8          | 355.7          | 267.5           | 281.6          | -27.3             | 14.1              |
| <b>International Trade Tax</b> | <b>697.7</b>   | <b>802.3</b>   | <b>698.2</b>    | <b>746.9</b>   | <b>0.5</b>        | <b>48.7</b>       |

Source: Dept of Treasury

In 2013, the revised estimate for Taxes on International Trade is expected to be K698.2 million, a decrease of K104.1 million or 13.0 per cent compared to the initial budget estimate. All International Trade Taxes have declined during the year due to administrative issues, lower exports and in response to higher tax rates on used vehicles. Compared to the 2012 outcome an increase of K0.5 million or 0.1 per cent is expected in 2013.

#### **4.1.5 Non-Tax Revenue**

Non-Tax Revenue is estimated at K1,260.0 million in 2014, an increase of K725.2 million or 135.6 per cent from the revised 2013 estimate.

In terms of Property Income, expected Non-mining and Petroleum Dividends total K287 million comprising of dividends from the Bank of PNG (K27 million), National Fisheries Authority (K50 million), PNG Forestry (K50 million), National Gaming Board (K50 million), Motor Vehicle Insurance Limited (K50 million) and IPBC (K60 million). Mining and Petroleum Dividends are anticipated to be K133 million.

Interest and Fees from Lending in 2014 is expected to be K4.0 million. Injections from Trust Accounts are estimated at K36.0 million, unchanged from revised budget. Also includes K600 million from the sale of equity stake of PNG LNG project.

**Table 10: Non Tax Revenue 2012-2014 (Kina Million)**

|                                 | 2012<br>Actual | 2013<br>Budget | 2013<br>Revised | 2014<br>Budget | 2013<br>Variation | 2014<br>Variation |
|---------------------------------|----------------|----------------|-----------------|----------------|-------------------|-------------------|
| Property Income                 | 172.3          | 224.8          | 132.0           | 287.0          | -40.3             | 155.0             |
| Mining & Petroleum<br>Dividends | 122.3          | 142.8          | 132.8           | 133.0          | 10.5              | 0.2               |
| Interest & Fees from<br>Lending | 0.1            | 4.0            | 4.0             | 4.0            | 3.9               | 0.0               |
| Other Non-Tax Revenue           | 106.4          | 144.7          | 230.0           | 200.0          | 123.6             | -30.0             |
| Injection from Trust            | 144.4          | 36.0           | 36.0            | 36.0           | -108.4            | 0.0               |
| Asset Sales                     | 0.0            | 100.0          | 0.0             | 600.0          | 0.0               | 600.0             |
| <b>Total Non-Tax Revenue</b>    | <b>545.5</b>   | <b>652.3</b>   | <b>534.8</b>    | <b>1,260.0</b> | <b>-10.7</b>      | <b>725.2</b>      |

Source: Dept of Treasury

In 2013, total Non-Tax Revenue is estimated at K534.8 million which is K111.6 million or 26.4 per cent higher than the 2012 actual outcome. This is due to the upward revision to Other Non-Tax Revenue and Property Income.

#### **4.1.6 Grants**

Project Grants is estimated at K1,555.0 million in 2014, up from 2013 revised estimate of K1,211.2 million. The increase in Project Grants implies more major projects to be undertaken in 2014.

## **4.2 MEDIUM TERM REVENUE OUTLOOK**

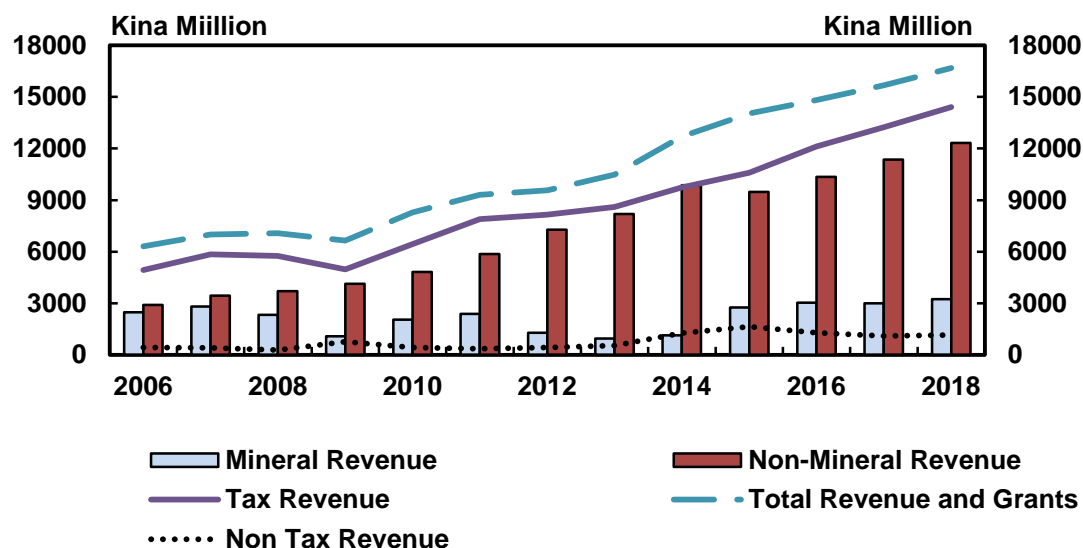
### **4.2.1 Revenue and Grants**

Total Revenue and Grants are expected to increase from K12,688.5 million in 2014 to K14,029.0 million in 2015. From 2015 to 2018 Total Revenue and Grants is expected to pick up considerably to K16,672.6 million in 2018.

The increase is in line with the start of production of the PNG LNG project and supported by continued domestic economic growth. Strong growth is expected from the mineral tax, while, non-mineral tax continue to maintain growth. Mineral revenue is expected to increase after the PNG LNG project production begins in 2014. However, revenue on mining and petroleum is falling as a per cent of mining GDP due to generous tax concessions, including to the PNG LNG project (due to its special status as a pioneer project) and a number of other mines, including Ramu Nickel with tax concessions and exemptions that are not in line with standard tax law.

The 2015 and 2016 projections include K300.0 million and K150.0 million respectively due to proposed compliance activities by IRC. The K150.0 million revenue is expected to be ongoing.



**Figure 27: Total Revenue and Grants 2006-2018**

Source: Dept of Treasury

#### 4.2.2 Tax Revenue

Over the medium term, Tax Revenue is expected to pick up from K9,743.5 million in 2014 to K10,598.7 million in 2015 growing to K14,416.9 million by 2018. The increase in 2015 is projected to be driven by strong mineral tax inflows from the LNG production and supported by slight increases in non-mineral tax inflows, expected to continue to grow in line with the growing economy.

The strong increase in mineral tax inflows in 2015 is expected to be driven mainly by Petroleum Taxes and supported by expected increases in Company Tax, Excise Duty on Imports and Goods and Services Tax. Other non-mineral taxes such as Other Direct Tax, Gaming Tax, Excise Tax and Other Indirect Tax are also expected to grow fairly. This is expected to more than offset the expected fall in Personal Income Tax and Export Duty. The expected fall in Personal Income Tax reflects significant employment tax contributions from the LNG construction works dropping off as LNG employment drops in line with the winding down of the construction phase of the project. The decline in Export Duty is due to the decreasing logging activities due to the expected closure of some of the major logging sites.

From 2016 to 2018, Tax Revenue is projected to moderate in line with slowing petroleum tax, however, non-mining taxes will continue to grow over this period.

#### 4.2.3 Non-Tax Revenue

Non-Tax Revenue is projected to rise significantly to K1,641.4 million in 2015, from K1,260.0 million in 2014, driven mainly by the inclusion of the LNG dividend from the PNG LNG project.

From 2016 to 2018, Non-Tax Revenue is projected to decrease slightly before picking up to K1,151.7 million in 2018. The decline in 2016 and 2017 is attributed to a slight decrease in the LNG dividend which offsets the increase in State Owned Enterprise (SOE) Dividends. Mining and Petroleum Dividends remain constant from 2015 to 2017 whilst Other Non-Tax Revenue or Departmental Revenues is expected to continue growth fairly over the medium term. The Government is currently reviewing Departmental Revenues to increase the country's revenue base through assisting State Agencies to update their fees and charges to

be in line with modern pricing levels as well as to improve compliance with existing fees and charges.

#### **4.2.4 Grants and Infrastructure Tax Credit**

Grants are provided at the discretion of donors in accordance with their internal budget policies and informed by the successful delivery of outcomes from existing projects. The current projection shows an increase in 2015 before declining to 2018. Infrastructure Tax Credit is projected to remain constant at K130.0 million over the medium term.

### **4.3 REVENUE MEASURES AND DEVELOPMENTS**

This section outlines two major taxation policy measures and other minor policy measures including technical amendments, as part of the Government's ongoing effort to improve and refine the tax system.

The 2014 Budget introduces an amendment to abolish the 150.0 per cent deduction for expenditures on research and development (R&D). This measure is taken in light of the administrative challenges faced in finding the appropriate and technically qualified people to assess the backlog of applications resulting in contingent liabilities for the Government which may be totalling around K2.4 billion. R&D expenditure, including donations to approved research institutions will remain tax deductible under this change.

This Budget also introduces an amendment to Section 219C of the *Income Tax Act 1959* relating to the Infrastructure Tax Credit Scheme. The change to the legislation was necessary in ensuring that the ITC Scheme is not exposed to extreme revenue leakage. The amendments also allow the Government to consider infrastructure projects as part of the Budget process.

Other minor taxation Policy measures include:

- An amendment to the *Excise Tariff Act 1956* to address the inconsistent descriptions of alcohol products in the *Customs Tariff Act 1990* and *Excise Tariff Act 1956*. The amendment is also introduced to ensure improved administration of the respective tariff Acts. This will result in shift of certain alcohol products to higher tax bands attracting higher excise duty.
- An amendment to the *Income Tax Act 1959* relating to changes to Certificate of Compliance Threshold and Payments. This reform is undertaken in order to maintain the integrity of compliance system and ease the workload for both the Internal Revenue Commission (IRC) and taxpayers where possible.

There are also a number of minor technical and administrative amendments to clarify the law and administrative procedures to increase efficiency.

Furthermore, the Government also introduces certain revenue compliance measures that will be undertaken by IRC and PNG Customs with the aim of improving taxpayer compliance leading to an increase in Government revenue of about K750.0 million in 2014.

This Budget also mentions the General Taxation Review currently underway and its significance in ensuring the tax regime remains relevant, efficient and effective and reflects the current to medium term economic structure of Papua New Guinea.

### **4.3.1 Major Tax Policy Measures**

#### **4.3.1.1 Abolishment of Research and Development Expenditures Incentive**

In the 2014 Budget, the Government will abolish the 150.0 per cent deduction for expenditures on R&D. It is estimated that claims totalling around K2.4 billion are currently awaiting assessment by IRC causing a build-up in R&D contingent liabilities for the Government.

A deduction of 150.0 per cent of eligible expenditure is currently available for R&D to encourage investment in these activities. The deduction is available to all sectors of the economy, however, is largely utilised by mining and petroleum companies.

The backlog of unprocessed R&D claims is due to a couple of issues. The R&D committee has not convened to consider the applications, which is partly due to the administrative challenges faced in finding the appropriate and technically qualified people to assess the backlog of applications. Also Regulation 10F is currently inconsistent with subsection 95(9) of the Income Tax Act. IRC is unable to administer the R&D concession while this inconsistency exists. The Government will amend the Regulation to be consistent with the Income Tax Act in 2014.

While the concept of the R&D incentive is sound, its administration in Papua New Guinea is not feasible at this time. R&D concessions are always difficult to target, and lack of targeting has led to the Government funding R&D expenditures that would have occurred without the R&D tax concession.

The removal of the 150.0 per cent tax concession on R&D will not hinder approved research institutions to deduct expenditures incurred on R&D. Donations to approved research institutions will remain tax deductible under this change. Likewise other expenditure on R&D such as capital expenditure will remain deductible.

This measure will be effective on 1<sup>st</sup> January 2014. The amendment is not expected to have a revenue effect in 2014, but is expected to save revenue in the future by stopping the R&D liabilities from increasing further.

#### **4.3.1.2 Amendment to Section 219C of the Income Tax Act on Infrastructure Tax Credit Scheme**

Section 219C of the Income Tax Act provided for a tax credit to taxpayers engaged in mining, petroleum or gas operations, primary production and tourism. This tax credit is administered through the Infrastructure Tax Credit (ITC) Scheme which involves expenditures on approved infrastructure development projects being offset against the income tax liability of the company undertaking the development. The scheme is aimed at encouraging project operators to undertake approved infrastructures on schools, hospitals, roads or other capital assets in the provinces in which they operate.

Historically, project operators engaged in resource projects could spend up to 0.75 per cent of total gross revenue in a year on approved infrastructure development and claim a corresponding tax credit against their income tax liability. The 0.75 per cent ITC cap has limited the amount of mining and petroleum taxes from being spent through ITC.

Under the very recent amendment to the section 219C of the Income Tax Act, NEC was empowered to approve expenditure on national infrastructure projects so that ITCs can be claimed above the 0.75 per cent cap. This posed significant risks to Government's revenue

from mining and petroleum taxes. This amendment further provided that even where expenditure was not approved by NEC, the project operator will be able to claim the excess as an ITC for up to 20 income years.

The current amendments ring fence the NEC approved 2 year refurbishment of the Marea Haus, but there are other projects currently being considered outside of Budget processes worth hundreds of millions of Kina which would greatly impact on Government revenue by reducing the amount of Mining and Petroleum tax payable by the proponents undertaking the developments.

Under the ITC scheme, the Government bears 100.0 per cent of the cost of the infrastructure. Although it is similar to the Government directly budgeting for the infrastructure, this use of State resources is not currently considered as part of the Government's consideration of budget priorities. As such, the ITC will not only reduce the Government revenue but the Government's flexibility to fund other expenditure priorities. The effect on the Budget is equivalent to if the Government spent the money on the infrastructure project, except it reduces revenue, rather than increasing expenditure.

In this Budget, Section 219C of the Income Tax Act will be amended to limit the extended ITC to NEC decisions taken prior to 19 November 2013. The said amendment will not affect the NEC approved Marea Haus refurbishment.

This amendment will allow the Government to consider infrastructure projects through the Budget process and therefore ensuring that its resources are provided to the highest priorities.

#### **4.3.2 Minor Tax Policy Measures**

##### **4.3.2.1 Amending Descriptions of Alcohol in the Excise Tariff Act**

An amendment to the Excise Tariff Act and Customs Tariff Act in the 2012 Budget was intended to reflect international changes to the tariff codes to update the 2007 Harmonised System (HS) to reflect 2012 HS. As part of this exercise, domestic products were identified and sub-national codes and descriptions were created under the Customs Tariff Act. The Excise Tariff Act does not reflect the updated 2012 HS version descriptions for alcohol products.

The ASYCUDA system used by PNG Customs to administer taxes including excise tariff and import tariff is only capable of reading one tariff code and description for both excise and import tariff items. However, the descriptions for alcohol products currently differ between the excise and import tariff items due to the 2012 amendments.

The 2014 Budget introduces an amendment to the descriptions of alcohol products in the Excise Tariff Act. This will make it easier for Customs to administer the law for 2014 onwards by ensuring that the excise descriptions are consistent with the import tariff descriptions. It is also important to note that the 2012 HS descriptions version for alcohol products shifts the alcohol content to a higher band at which higher excise duty rates apply. This amendment will also meet the World Customs Organisations requirement for tradeable items. The amendment will be effective as at 1<sup>st</sup> January 2014. This measure is expected to raise K30.0 million in 2014.

#### **4.3.2.2 Changes to the Certificate of Compliance (COC) Threshold and Payments**

The issuance of certificates of compliance is a very significant body of work for the IRC designed to promote visibility of taxpayers within the business community so as to afford the IRC with intelligence to assist in targeting its compliance enforcement activities. Over the last five years, in correlation with the growth in the Papua New Guinea economy, the volume of applications had significantly increased. It has now reached a point where backlogs of applications are building as the IRC struggles to keep up.

The laws implementing the COC system work hand in hand with the Business Payments Tax (BPT) system. Combined they are intended as a compliance assurance measure. Taxpayers in certain prescribed industries who wish to engage in contracts of work above a certain value (K500) are required to firstly obtain a COC from IRC. When they engage in the contract they are required to produce the COC before being paid for their services. If they do not have a COC then those paying are required to withhold BPT at a rate of 10.0 per cent. Ideally, with the system working properly and all taxpayers recognised as complying with their responsibilities, no BPT would be collected.

The current threshold of K500.0 in relation to one contract or K3,000.0 in relation to one payee eligible payments for several contracts in any one year is out dated and results in significant compliance burden for many otherwise compliant taxpayers. These thresholds were prescribed in 1992 and have not been adjusted for inflation.

The Budget amendments increase the threshold from K500.0 to K5,000.0, and alleviate the compliance burden from aggregation and the removal of certain low compliance risk sectors and their prescribed payments for COC. It also removes the aggregating provision (the K3,000.0 threshold).

There are a number of administrative implications that will be alleviated for both the IRC and taxpayers:

- The amendment will significantly reduce the number of transactions that are subject to the measure. Having said this, the integrity and intent of the provisions will be maintained. The measure will reduce the cost of compliance to taxpayers and the time spent on COCs for the IRC.
- The removal of the aggregating provision will ease the cost of compliance on taxpayers. This will result in reduced compliance by taxpayers with a minimal effect on compliance.
- A rationalization of the industries subjected to these laws will see the following removed: surveyors, engineers, architects, cleaning and garbage collections firms, advertising and sign writing firms, entertainers, professional services providers such as accountants, lawyers, doctors or consultants. Each of these industries have been carefully considered and compliance risks evaluated, the outcomes of which were a combination of either the industry no longer representing a significant compliance risk or that other more modern compliance strategies are more appropriate for the IRC to enforce compliance.

The amendment will result in a significant reduction in the number of applications for Compliance Certificates while maintaining the compliance effectiveness of the laws for less visible sectors. The amendment will also allow IRC to focus their efforts on sectors with lower compliance.

The revenue implications of this measure are unable to be quantified; however, as it will allow the IRC to concentrate on industries with lower tax compliance, it is expected to have a small positive effect on tax revenue. The amendment will also modernize the laws to reflect the current economic environment.

#### **4.3.2.3 Amend the Stamp Duties Act to Protect Government's Revenue from Potential Abuse**

Paragraphs (a), (b) and (ba) of Section 6 of the *Stamp Duties Act 1952* exempt the State, the Provincial Governments and the Local Level Governments from paying stamp duty. This Section captures in its entirety the state's interest by exempting it from stamp duty and therefore commits the state exposure to potential cost to Government revenue. Paragraph (c) of this same Section further provides an exemption for a person declared by the Minister as an instrumentality of the Government.

The 2014 Budget introduces an amendment to repeal the paragraph (c) of Section 6 of the Stamp Duties Act. This measure is expected to remove the future potential risk for abuse and save the Government revenue. The amendment does not limit the State, Provincial and Local Level Governments from being exempted for Stamp Duties.

The measure is not expected to raise revenue in 2014 but will save revenue in future.

#### **4.3.3 Minor Technical and Administrative Amendments**

The 2014 Budget also introduces technical and administrative measures to correct drafting errors and ease administrative procedures in the relevant legislations administered by the Commissioner General of Internal Revenue Commission.

1. Section 25A relating to Charitable Bodies of the *Income Tax Act 1959* is amended to include:
  - A new phrase in Subsection (5) – after the word “*period*” repealing the word “*of*” and inserting the words; “*up to*”.
  - A New Subsection (8) – “*The Commissioner General reserves the right to review and revoke the charitable status of a charitable body or institution at any time during the period of exemption*”.
  - Section 9 of the *Income Tax Act 1959* – Sharing of Information, is amended by inserting a new paragraph after paragraph 9(4)(i) and reads:
 

*“(i) The Chief collector of Taxes of Autonomous Region of Bougainville or his delegate,”*
2. Section 219C of the *Income Tax Act 1959* is amended in Subsection (8) by repealing the number and marks “(7)”, after the word “Subsection” and replacing with the following marks and numbers: “(6)”.
3. Arrangements relating to the administration of Income Tax Refunds have been changed to enable the IRC to now transfer funds from their administration account to the IRC refund account every time a refund is ready to be paid to a taxpayer. The refund is then paid from the IRC refund account. This arrangement will assist the IRC in ensuring refunds are processed and paid out much faster and also help to promote voluntary compliance of taxpayers as they will be assured that any refunds of overpaid taxes will be promptly processed and paid.

#### 4.4 REVENUE COMPLIANCE MEASURES

##### 4.4.1 *Internal Revenue Commissions' Compliance Measures*

Treasury has been working with IRC and have developed a strategy to improve compliance and collections based on the existing tax system.

Five compliance measures have been identified for improved compliance effort:

- **Registration Compliance** – this will involve the IRC materially increasing the number of businesses registered for tax purposes and also putting incentives into place that will better secure voluntary registration with the IRC.
- **Lodgement Compliance** – this measure will see the IRC devote more attention to higher order prosecution including non-compliance court orders.
- **Reporting Compliance** – the IRC proposes to undertake substantially more verification and audit activities
- **Payment Compliance** – work to be undertaken within this measure will see IRC introducing new approaches to dealing with debt, reflecting in particular experiences of overseas jurisdictions.
- **Earlier Processing** – this measure will involve IRC hiring additional staff and having the ability to employ short term contractors so to enable the IRC to minimize on carry-over stocks.

The IRC strategy involves:

- additional staff (largely low skilled PNG staff, with some engagement of consultants and non-citizen contractors where high end skills are needed and local skills are insufficient);
- additional use of technology (requiring additional staff and technical support) to ensure that processes are undertaken in a more timely fashion;
- voluntary compliance will be encouraged, supported by education, follow-up and increased used of the media; and
- involuntary compliance will be addressed by increased legal action to enforce obligations to register, lodge, report correctly and pay.

The revenue forecasts include an additional K600.0 million in revenue as a result of compliance efforts by IRC in 2014, K300.0 million in revenue in 2015 and K150 million in revenue in 2016 which is ongoing over 2017 and 2018.

##### 4.4.2 *PNG Customs Compliance Measures*

The revenue forecasts include an additional K150.0 million in revenue as a result of compliance efforts by PNG Customs in 2014.

#### 4.5 PAPUA NEW GUINEA TAXATION REVIEW

The Government has announced it will undertake a comprehensive review of the revenue regime to ensure it remains relevant, efficient and effective.

Government revenue is critical to funding essential services and infrastructure for the people of PNG, to share the benefits of prosperity across families, communities and regions and lay the foundations for future growth. For this reason, the review is a high priority of the O'Neill-Dion Government and an important platform of the Government's economic and fiscal strategy.

The last comprehensive taxation review was undertaken in the year 2000. Given the substantial economic, fiscal and technological developments of the past 13 years, it is timely to undertake a further review, to ensure PNG has a modern tax system that is able to support the country's medium and long-term economic and social development objectives. While formally titled a "Tax Review", the review will consider all sources of revenue, including non-taxation revenues.

#### **4.5.1 Taxation Review Committee**

The Government has established a Committee to undertake the Review. The Committee is comprised of the following distinguished Papua New Guineans, who collectively have significant experience in tax policy and administration, trade and business:

- Sir Nagora Bogan (Chairman);
- David Sode (Deputy Chairman);
- Sir John Luke Crittin (Member);
- John Lohberger (Member); and
- Aivu Tauvasa (Member).

The Committee formally commenced its work on 1st September 2013. The review will be conducted over a period of 18 months, with the final report due to be submitted to the Government by 31 March 2015.

The Committee will be supported by a Secretariat which will provide technical and administrative support. The Secretariat will undertake the day-to-day activities of the review, including research and analysis (drawing on international benchmarking, global and regional trends in tax policy, and academic work), preparing papers and briefing for consideration of the Committee, drafting reports, and arranging stakeholder consultations. The Secretariat will include staff seconded from Department of Treasury, Internal Revenue Commission, Papua New Guinea (PNG) Customs Service and other relevant agencies, as well as relevant technical consultants and advisers.

#### **4.5.2 Objectives and Scope**

The objectives of the review are to:

- Align PNG's revenue system with its development aspirations of being a competitive middle income nation in the Asian century;
- Improve the competitiveness and efficiency of the tax system to encourage investment, employment and economic development;
- Enhance the fairness and simplicity of the taxation system;
- Consider options to change tax mix between the levels of taxation on land (including resources), capital and labour;



- Improve taxpayer compliance including considering options to enhance services to taxpayers and reduce the cost of compliance through the use of modern technology; and
- Review non-tax revenues with the aim of ensuring that fees are appropriate and fair.

The scope of the Review includes personal income tax; corporate income tax; excise and customs tariff arrangements; the operation and efficiency of the goods and services tax; mining and petroleum taxation; land, property and capital gains tax; non-tax revenue (including charges and levies); taxpayer compliance; and the efficiency and simplicity of tax administration.

#### **4.5.3 Consultation Approach**

The Tax Review Committee will consult widely with stakeholders. International experience shows that broad and effective consultation is critical to the successful delivery, implementation and sustainability of the reform. The Review is expected to include at least two separate phases of consultation:

1. 'Blue sky' consultation – stakeholders will be invited to provide their perspectives on the broad directions for reform and key priorities. This phase would help the Committee to formulate ideas for the direction of tax reform, build a consensus of the need for reform, and ensure key areas of public interest are covered in the Review.
2. Consultation on draft recommendations - the Committee will release and consult on draft reports containing specific proposals and/or recommendations.

Consultations will include regional workshops in Port Moresby, Lae, Kokopo and Mount Hagen. Notices of the regional workshops will be advertised in the both daily newspapers to inform the public about the consultations. Stakeholders will also be given the opportunity to submit written submissions.

Correspondence and inquiries on the review should be directed to the Head of Secretariat either by email ([kessy\\_sawang@treasury.gov.pg](mailto:kessy_sawang@treasury.gov.pg)) or mail (Head of Secretariat, Tax Review Secretariat, c/-Department of Treasury, PO Box 542, Waigani, NCD).

## CHAPTER 5. EXPENDITURE

### 5.1 OVERVIEW

Total Appropriated expenditure in 2014 is estimated to be K15,294.5 million. This represents a K2,075.8 million or 15.7 per cent increase over the revised 2013 Budget appropriation (K13,218.7 million). As previously noted this level of spending is consistent with the 2014 Budget Strategy Paper recommendations for a maximum deficit of 5.9 per cent and a debt to GDP ratio of around 35 per cent.

In summary, the Government's major spending commitments in the 2014 Budget include:

- Housing and Land Development K61 million (K319 million over four years);
- Universities Infrastructure K222.8 million (K562.8 million over four years);
- Continued roll-out of Tuition Fee Free Education K605 million (around K3.5 billion over four years);
- Agriculture/SME Development K313 million (around K1.4 billion over four years);
- Hospitals Redevelopment K267.2 million (K762.2 million over four years);
- Completion of facilities for the 2015 South Pacific Games K375 million, including K316 million advanced in the 2013 Supplementary Budget (K625 million in total)
- Roads and Bridges funding K1,417.9 million
- Increased allowances for Village Court and other local officials K50 million (K462 million over four years)
- Support for our Pacific Neighbours K55 million

This growth and prioritisation of spending reflects the Government's focus on delivery against the current Medium Term Development Plan 2011-15 (MTDP) and the need to continue to maximise the investment in the key MTDP enablers, namely:

- Unlocking land for development;
- Improving law, order and justice;
- Establishing quality national transport corridors that connect rural populations to markets and services;
- Improving higher and technical education and training to redress the severe skills shortage in the labour force;
- Providing universal access to primary and secondary education;
- Improving health outcomes; and
- Provision of key public utilities such as electricity, communications, water and sanitation.

The 2014 Budget achieves a further step forward in the move to a fully integrated multi-year budget. This not only improves transparency, it also brings greater clarity in accountability and reporting in respect of the MTDP priorities. This year also sees the introduction of a sectoral approach to reporting of resource allocations across Government. This presentation reflects the Government's intent that all spending decisions be driven by policy and the respective sector strategies.

The Government is also pushing ahead with savings measure including bringing greater integrity to the Public Service payroll. This will entail cleansing of data to remove duplicate and/or inactive records and terminated employees, stronger supervision and monitoring, and enforcement by the Department of Personnel Management of the "one person – one position – one pay" principle. This approach is expected to achieve savings of K100 million in 2014 and 2015.

Secondly, an adjustment has been made to the aggregate spending in Table 9a at the rear of Volume 1 to reflect the tendency for there to be a degree of underspending in the Budget year and for the estimate of expenses for delivering existing government policies to increase in the forward years, that is, there is a tendency to underestimate the cost of service delivery. The adjustments applied to the above estimates are as follows: minus one per cent in 2014; and increases of one per cent in 2015, two per cent in 2016; and four per cent in 2017.

It should be noted that this Chapter is presented in an integrated format, that is all numbers include both Government and donor funding and it is reflective of the Total Appropriated Expenditure and Net Lending line in Table 9a. Figures in bold in the detailed sectoral tables which follow the summary table below represent total Agency expenditure, while non bolded figures represent a sample of key or major program expenditures only.

**Table 11: Total Expenditure and Net Lending 2014 (Kina Million)**

| <b>Sector</b>                           | <b>2013</b>     | <b>2014</b>     | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Administration <sup>1</sup>             | 3,753.4         | 3,747.7         | 3,892.3         | 4,059.9         | 4,205.1         |
| Economic and Agriculture                | 491.7           | 777.9           | 765.0           | 781.3           | 798.0           |
| Education                               | 1,343.0         | 1,501.7         | 1,468.4         | 1,501.7         | 1,535.8         |
| Health                                  | 1,089.0         | 1,382.3         | 1,348.9         | 1,380.2         | 1,412.2         |
| Infrastructure                          | 1,882.0         | 2,723.3         | 2,655.9         | 2,712.0         | 2,768.6         |
| Law and Order                           | 1,022.6         | 1,296.0         | 1,264.3         | 1,293.8         | 1,323.9         |
| Provinces                               | 3,462.2         | 3,638.4         | 3,673.3         | 3,751.2         | 3,825.6         |
| Social                                  | 174.8           | 227.1           | 222.9           | 227.7           | 232.7           |
| <b>Total appropriations<sup>2</sup></b> | <b>13,218.7</b> | <b>15,294.5</b> | <b>15,291.1</b> | <b>15,707.8</b> | <b>16,101.9</b> |

Source: Department of Treasury

1. Includes various multi-sector costs (such as superannuation, workers compensation and interest payments).

2. The Total Appropriations does not include whole of government savings in 2014 and adjustments to the aggregate estimates allowances across the forward estimates (see below and Table 9a at the rear of Volume 1).

## **Donor Funding from Development Partners**

In 2014 grants from Development Partners are K1,555 million or 10.2 per cent of total expenditure. With the growth in the PNG economy over the past decade the National Budget has grown considerably and donor grants are now a smaller component of total spending. For example, five years ago donor grants accounted for 16 per cent of total spending, while ten years ago the figure was almost 20 per cent.

While Government revenues are now larger and forecast to grow strongly across the forward estimates, assistance from Development Partners remains a major element of total

spending. It is particularly important in supplementing the Government's investment in the key priority areas of health and education.

Over the last two years the Government has worked with Development Partners to improve the effectiveness of aid assistance. The Paris Declaration principles have been given local effect in Papua New Guinea through joint commitment to the following principles:

- Government ownership;
- Alignment of development partners' program and strategies to PNG's development policies and priorities;
- Harmonisation of development partners' use of Government systems and processes;
- Managing for development results; and
- Mutual accountability.

Grants from the Australian Government account for K1,206.4 million or 78 per cent of total donor grants. Funding from Australia has increased in 2014 as a result of the Joint Understanding on the Management of Asylum Seekers negotiated earlier in 2013. An additional A\$400 million is to be provided over the next four years. In 2014 the major new projects to be funded under the Joint Understanding include: the rebuilding of Angau Hospital K45.2 million (and GoPNG funding of K20 million in 2014 with matching GoPNG funding for the full costs of construction), deployment of Australian Federal Police K86.5 million, and rehabilitation of infrastructure at the University of Papua New Guinea K40.6 million.

Other Development Partners in 2014 include New Zealand K33.4 million, Peoples Republic of China K86.5 million plus K296.0 million in loans, Japan K35.8 million plus K55.8 million in loans, European Union K61.6 million, United States K3.5 million, United Nations K102.8 million, World Bank K24.8 million plus K77.6 million in loans and Asian Development Bank K441.9 million in loans. A full listing of all donor grants and loans is set out in Table 9b at the rear of this Volume.

Later sections of this chapter detail the major components of spending by Sector as follows: Administration, Economic & Agriculture, Education, Health, Infrastructure, Law & Order, Provinces and Social sectors. There is also information on non-financial instructions and Net Financing and Public Debt.

## **5.2 2014 BUDGET REFORMS**

The 2014 Budget is another step forward in public sector budgeting in Papua New Guinea. Building on the reforms initiated in 2013, the 2014 Budget will provide greater transparency and a more comprehensive picture of fiscal settings and the Government's budget position over the medium term.

The 2014 Budget will be a single National Budget. For the first time the funding for what were previously called the 'Recurrent' and 'Development' Budgets will be brought together. All stakeholders, including the general public, will be able to more easily understand the total funding available to all Departments, Authorities and Provinces and how that funding is to be spent.

In addition, total expenditure by Government Agencies will be shown by sectors. This will give the clearest picture yet of how the Government has balanced the allocation of resources across competing priorities as well as providing an early indication of funding trends over the next few years.

Following on from the process started in the 2013 Budget, the 2014 Budget will show expenditure by Departments, Statutory Authorities and donor projects for the three 'forward estimates' years beyond that of the year of the Budget. This means that the 2014 Budget will also show expenditure for the years 2015, 2016 and 2017.

In effect, this means that the Government is doing a new Medium Term Fiscal Strategy every year, which will greatly improve the ability to plan the Government's finances. It should be noted that the 'forward estimates' are only estimates, meaning that the Government will retain the flexibility to adjust funding levels for agencies or projects on an annual basis, taking into account economic conditions and any emerging priorities.

An important initiative this year was the requirement for each agency budget submission to be signed-off by the responsible Minister. This requirement was introduced to ensure officers within the bureaucracy engaged with Ministers in the formulation of submissions and enabled Ministers could, at an early stage on the Budget process, provide guidance in terms of policy priorities and alignment with Government goals and objectives.

In 2015 Agency Budget bids will need to show detailed costing for new initiatives, present financial implications across the full forward estimates period and clearly demonstrate alignment with the relevant Government policies and priorities.

The Government will continue the practice, initiated in 2013, of making information on Budget implementation widely and regularly available to all stakeholders and citizens. This is delivered through the quarterly release of information about appropriations, warrant releases and expenditure to date of every Government agency. This information will continue to be published in the major newspapers and online at the Department of Treasury website ([www.treasury.com.pg](http://www.treasury.com.pg)).

Over time the number of Government Departments and Agencies has expanded to a stage where the functions of many Agencies overlap with others. At a minimum this duplication is inefficient. It can also lead to poor policy implementation, a breakdown in accountability and can adversely impact delivery of services to the people.

In order to better align a clear policy responsibility with Agency resources a number of amalgamations will occur during the course of 2014. The Department of Prime Minister and National Executive Council will undertake the task of implementation of this important reform.

In 2014, the Government will:

- Amalgamate the Department of Personnel management and the Public Service Commission;
- Amalgamate the Department of Rural Development into the Department of Provincial and Local Government Affairs;
- Abolish the Department of Public Enterprise;
- Amalgamate the Coastal Fisheries Development Agency into the National Fisheries Authority;
- Amalgamate the National Economic and Fiscal Commission into the Department of Treasury;
- Amalgamate the National AIDS Council into the Department of Health;
- Amalgamate the Office of UNESCO into the Department of Education;

- Abolishing the Tourism Promotion Authority and the Office of Tourism and Culture and create a new Department of Tourism to replace them;
- Amalgamate the National Tripartite Consultative Council Secretariat into the Department of Labour & Industrial Relations; and
- Amalgamate the National Youth Commission into the Department for Community Development.

All identified Agencies have been directed to immediately cease new recruitment prior to their amalgamation so that the highest number of jobs possible can be protected. In addition the Government has decided not to establish any new Statutory Authorities and to reverse the recent creation of a number of such Agencies. The exact changes to the forward profile of these Agencies will be determined over the course of 2014, but it is likely that most Agencies that are being amalgamated into other Agencies will cease operating by the start of 2015.

## 5.3 SECTOR EXPENDITURE

### 5.3.1 *Administration Sector*

The Administration sector consists of the central agencies including the Departments of Prime Minister & NEC, Finance, Treasury, National Planning & Monitoring, Personnel Management and Provincial & Local Government Affairs. It also includes the Internal Revenue Commission and PNG Customs which are two major revenue earning agencies for the Government.

Total expenditure will be K3,747.7 million in 2014 (including K511.6 million in donor contributions) for the Administration sector. Many costs shown under this sector are not truly administrative in nature. For example, the Department of National Planning holds funding for several major national development projects such as the National Identity Card and the Lands and Housing Program. Further, Division 207 Treasury and Finance Miscellaneous are multi-sector items such as Employer's Superannuation contributions K180 million and provision for Public Debt Interest payments of K751.3 million. As the Government adopts Government Finance Statistics 2001 reporting Sector analysis will be improved.

A major new initiative in 2014 is the introduction of the National Affordable Lands and Housing Program. There is a critical shortage of land for business developments and also for the provision of housing for the growing population. In response to this pressure, the National Land Development Program (NLDP) will provide an overall policy direction for the land sector. This includes legislative reform to bring about more effective administration of Incorporated Land Groups (ILGs) and enable freeing up of customary land through increased voluntary registration, effective land dispute resolution; and proper and transparent administration of the land markets in the country.

Under this program the Government will provide K61.0 million in 2014 (K319.0 million over four years), to deliver ten new homes per district each year for five years. The Government will also transfer undeveloped land assets currently held for housing development under various agencies to the Department of Lands and Physical Planning to be held in trust for inclusion in the affordable housing program.

Under the Supporting our Pacific Neighbours program, the Government will provide foreign aid of K55.0 million in 2014. This includes K25.0 million for Fiji Elections support, K20.0 million for Solomon Islands development and K10.0 million for regional development assistance to other Pacific countries.

Other programs in the Administration sector include K25.0 million for the Sustainable Development Programme which will promote the development of clean energy sources such as bio fuel and K25.0 million for the PNG Church State Partnership programme which enhances the partnership between the PNG Government and the churches to improve service delivery in rural communities where the government is unable to deliver social services. K130 million in infrastructure tax credits will support the construction of Marea Haus and sections of the Highlands Highway.

In 2014 there will be increased Agency resourcing in support of revenue-raising initiatives by the Internal Revenue Commission (K76.2 million - an increase of K24.3 million) and PNG Customs (K63.5 million - an increase of K19.2 million).

**Table 12: Administration Sector 2014–2017 Expenditure (Kina Million)**

| Div | Agency  | 2013    | 2014    | 2015    | 2016    | 2017    |
|-----|---|---------|---------|---------|---------|---------|
| 201 | National Parliament   | 117.8   | 130.7   | 127.5   | 130.5   | 133.5   |
| 202 | Office of Governor-General  | 5.0     | 4.7     | 4.6     | 4.7     | 4.8     |
| 203 | Department of Prime Minister & NEC  | 350.6   | 189.3   | 184.6   | 188.9   | 193.3   |
|     | Community College   | 16.3    | 27.7    |         |         |         |
|     | Incentive Fund Phase III  | 65.3    | 15.3    |         |         |         |
|     | Peace building  | 5.7     | 6.4     |         |         |         |
|     | South Pacific Games 2015 (K316 brought forward into 2013)                       | 180.0   | 59.2    | 250.0   |         |         |
| 204 | National Statistical Office   | 6.1     | 6.0     | 5.9     | 6.0     | 6.1     |
| 205 | Office of Bougainville Affairs  | 3.3     | 3.3     | 3.2     | 3.3     | 3.4     |
| 206 | Department of Finance   | 43.8    | 52.2    | 50.9    | 52.2    | 53.4    |
|     | FMIP  | 10.0    | 10.0    |         |         |         |
|     | PNG-Australia EPSG Twinning Initiative Phase II                                 |         | 6.3     |         |         |         |
| 207 | Treasury and Finance - Miscellaneous  | 1,583.2 | 1,130.2 | 1,821.4 | 2,196.1 | 1,154.4 |
| 208 | Department of Treasury  | 198.9   | 220.6   | 215.2   | 220.2   | 225.3   |
|     | High Impact Projects (UBSA)   | 50.0    | 50.0    |         |         |         |
|     | Infrastructure Development Grant (UBSA)   | 120.0   | 120.0   |         |         |         |
|     | Microfinance Expansion Project  | 6.5     | 21.6    |         |         |         |
| 209 | Registrar For Political Parties   | 7.5     | 7.5     | 7.3     | 7.5     | 7.6     |
| 211 | PNG Customs Service   | 44.3    | 63.5    | 61.9    | 63.4    | 64.9    |
|     | Customs Container Scanning – Equipment Purchase                                 | 5.0     | 10.0    |         |         |         |
|     | Customs Institutional Housing   | 3.0     | 5.0     |         |         |         |
| 212 | Information Technology Division   | 19.4    | 19.8    | 19.3    | 19.7    | 20.2    |
| 213 | PNG Fire Services   | 23.3    | 22.6    | 22.1    | 22.6    | 23.1    |
|     | Construction, Rehabilitation & Upgrading of 14 Fire Stations within the Country | 3.0     | 5.0     |         |         |         |
| 215 | PNG Immigration and Citizenship Services  | 8.7     | 8.7     | 8.5     | 8.6     | 8.9     |
| 216 | Internal Revenue Commission   | 51.9    | 76.2    | 74.3    | 76.1    | 77.8    |
|     | RASII project: replacement of ageing tax collection system (RAS)                | 3.0     | 10.0    |         |         |         |
|     | Revenue Raising Initiatives   |         | 5.0     |         |         |         |
| 217 | Department of Foreign Affairs and Trade   | 137.5   | 127.1   | 124.0   | 126.9   | 129.9   |
|     | Regional Development Assistance to Pacific Countries                            | 25.0    | 10.0    |         |         |         |
|     | Regional Development Grant to Solomon Islands                                   | 20.0    | 20.0    |         |         |         |
|     | Rehabilitation, Refurbishment & Maintenance                                     | 26.0    | 5.0     |         |         |         |
|     | Programme for Fiji and Solomon island Chancellery                               |         |         |         |         |         |
|     | Republic of Fiji General Elections  |         | 25.0    | 25.0    |         |         |

|              |  |                |                |                |                |                |
|--------------|--|----------------|----------------|----------------|----------------|----------------|
| <b>219</b>   | <b>PNG Institute of Public Administration</b>                                    | <b>6.8</b>     | <b>6.8</b>     | <b>6.7</b>     | <b>6.8</b>     | <b>7.0</b>     |
| <b>220</b>   | <b>Department of Personnel Management</b>  | <b>130.1</b>   | <b>169.6</b>   | <b>165.4</b>   | <b>169.3</b>   | <b>173.2</b>   |
|              | Australian Awards Programme  |                | 50.3           |                |                |                |
|              | Economic and Public Sector Program (EPSP)  | 45.3           | 29.9           |                |                |                |
|              | PNG Property   | 5.7            | 6.4            |                |                |                |
|              | Strongim Gavman Program  | 58.2           | 61.6           |                |                |                |
| <b>221</b>   | <b>Public Service Commission</b>   | <b>6.2</b>     | <b>6.2</b>     | <b>6.0</b>     | <b>6.2</b>     | <b>6.3</b>     |
| <b>227</b>   | <b>Provincial Treasuries</b>   | <b>36.5</b>    | <b>40.1</b>    | <b>39.1</b>    | <b>40.0</b>    | <b>40.9</b>    |
| <b>229</b>   | <b>Department of National Planning and Monitoring</b>                            | <b>237.6</b>   | <b>516.7</b>   | <b>504.0</b>   | <b>515.7</b>   | <b>527.8</b>   |
|              | Coastal Vessels  |                | 10.0           |                |                |                |
|              | EU Grants Reimbursement  |                | 10.0           |                |                |                |
|              | Housing Development Program (10 homes per district)                              |                | 61.0           | 86.0           | 86.0           | 86.0           |
|              | Identity Card (with Biometrics)  | 30.0           | 167.6          |                |                |                |
|              | Institutional Capacity Building of NAO System                                    | 3.0            | 8.7            |                |                |                |
|              | JICA Volunteer   | 7.7            | 7.1            |                |                |                |
|              | Kokopo City Infrastructure Development (water and sewerage)                      |                | 20.0           |                |                |                |
|              | One UN Fund for PNG  | 6.5            | 6.6            |                |                |                |
|              | PNG Church State Partnership Programme   | 10.0           | 25.0           | 25.0           |                |                |
|              | Rural Economic Development Phase 1   |                | 6.3            |                |                |                |
|              | Rural Economic Development Phase 2   |                | 15.6           |                |                |                |
|              | Sustainable Development Programme  |                | 25.0           |                |                |                |
|              | Tax Credits  | 130.0          | 130.0          |                |                |                |
| <b>230</b>   | <b>Electoral Commission</b>  | <b>80.7</b>    | <b>37.0</b>    | <b>36.0</b>    | <b>36.9</b>    | <b>37.7</b>    |
|              | PNG Electoral Support Program  | 4.3            | 10.9           |                |                |                |
| <b>231</b>   | <b>National Intelligence Organisation</b>  | <b>4.3</b>     | <b>4.4</b>     | <b>4.3</b>     | <b>4.4</b>     | <b>4.5</b>     |
| <b>232</b>   | <b>Provincial and Local Government Affairs</b>                                   | <b>74.8</b>    | <b>74.7</b>    | <b>72.8</b>    | <b>74.5</b>    | <b>76.3</b>    |
|              | PNG Sub-National Strategy  | 53.9           | 48.3           |                |                |                |
|              | Rural Services Delivery and Local Government Project                             |                | 7.0            |                |                |                |
| <b>262</b>   | <b>Department of Industrial Relations</b>  | <b>17.2</b>    | <b>27.1</b>    | <b>26.4</b>    | <b>27.0</b>    | <b>27.7</b>    |
|              | Labour and Industrial Relations Capacity Development - Provincial Labour Offices |                | 10.0           |                |                |                |
| <b>263</b>   | <b>National Tripartite Consultative Council</b>                                  | <b>0.9</b>     | <b>0.9</b>     | <b>0.8</b>     | <b>0.8</b>     | <b>0.9</b>     |
| <b>268</b>   | <b>Central Supply &amp; Tenders Board</b>  | <b>2.7</b>     | <b>2.6</b>     | <b>2.6</b>     | <b>2.6</b>     | <b>2.7</b>     |
| <b>299</b>   | <b>Treasury and Finance - Public Debt Charges</b>                                | <b>459.6</b>   | <b>751.5</b>   | <b>969.0</b>   | <b>1068.7</b>  | <b>1144.4</b>  |
| <b>502</b>   | <b>Office of the Auditor-General</b>   | <b>18.4</b>    | <b>18.0</b>    | <b>17.9</b>    | <b>18.2</b>    | <b>18.6</b>    |
| <b>503</b>   | <b>Ombudsman Commission</b>  | <b>18.1</b>    | <b>18.1</b>    | <b>18.0</b>    | <b>18.3</b>    | <b>18.7</b>    |
| <b>506</b>   | <b>National Training Council</b>   | <b>42.8</b>    | <b>3.1</b>     | <b>3.1</b>     | <b>3.1</b>     | <b>3.2</b>     |
| <b>507</b>   | <b>National Economic &amp; Fiscal Commission</b>                                 | <b>3.1</b>     | <b>2.9</b>     | <b>2.9</b>     | <b>3.0</b>     | <b>3.0</b>     |
| <b>523</b>   | <b>Papua New Guinea Accidents Investigation Commission</b>                       | <b>8.0</b>     | <b>5.6</b>     | <b>5.5</b>     | <b>5.6</b>     | <b>5.7</b>     |
| <b>TOTAL</b> |  | <b>3,753.4</b> | <b>3,747.7</b> | <b>3,892.3</b> | <b>4,059.9</b> | <b>4,205.1</b> |

Source: Dept of Treasury

### 5.3.2 Economic and Agriculture Sector

The Economic and Agriculture sector includes agriculture and all industries other than Transport and Infrastructure. It includes the key policy agencies of the Department of Commerce and Industry, the Department of Agriculture and Livestock, the Department of Mineral Policy and Geohazard Management and the Department of Lands and Physical Planning as well as a range of implementation agencies and the commodity boards.



The Government will provide K777.9 million in 2014 (including K118.9 million in donor grants and loans) to support the growth of the Economic sector in PNG with K312.6 million targeted at developing the potential of indigenous small to medium enterprises. This is an increase of K255.7 million or almost 50 per cent higher than in 2013.

This sector, particularly the agricultural element, is a priority of the Government as two thirds of the population live in rural areas of PNG and rely on agriculture for survival. Moreover, with the emerging flow of revenue from the PNG LNG project in the latter part of 2014, it is critical the Government provide sustained investment in the Economic and Agriculture sector directly and, when established, through the Sovereign Wealth Fund, to mitigate any adverse effects that could expose the PNG economy to Dutch Disease.

The Government's major investments in this sector are K85.0 million of National Development Bank, K50.0 million for the Special Economic Zone - Corridor Development, K40.0 million to establish the Agriculture Commercialisation Equity Fund.

The National Development Bank (NDB) provides loans to local small and medium enterprises to finance income-generating activities. The Government's commitment of K85.0 million in 2014 builds on the K80.0 million provided to the NDB in the 2013 Budget. In 2013 the NDB is expected to fund K100.0 million in loans from over K160.0 million in loan applications. The additional funding for the NDB in 2014 will enable it to fulfil the growing need for financing by indigenous businesses.

The Special Economic Zone - Corridor Development will develop basic infrastructure including powerlines, roads and wharves to encourage investment in agricultural processing and manufacturing for export. The first region of PNG to be established as a Special Economic Zone will be the Sepik Plains which is expected to attract foreign investment for oil palm production.

The Agriculture Commercialisation Equity Fund is a pilot program with two components. The first is to provide up to K10.0 million in subsidies to landowners for the survey and registration costs of developing existing land for commercialisation. The second component is to seek investors for the development of the agricultural commodities of coffee, cocoa, oil palm, rice, rubber and livestock. Funding of K40.0 million in 2014 will be held in Div 207 Treasury and Finance Miscellaneous pending Government deliberations on remaining policy considerations and implementation arrangements.

Tourism in PNG has enormous potential, given the abundance of the natural environment and resources that once developed could contribute significantly to PNG's economy. Accordingly, in the 2014 Budget, the Government will be investing in PNG's tourism hotspot and primary destination – Kokopo by providing K20.0 million for water, sewerage and sanitation services in the district to create a more welcoming environment for tourists and boost local business activity.

**Table 13: Economic/Agriculture Sector 2014–2017 Expenditure (Kina Million)**

| Div | Agency  | 2013       | 2014        | 2015        | 2016        | 2017        |
|-----|---|------------|-------------|-------------|-------------|-------------|
| 207 | <b>Treasury and Finance - Miscellaneous</b>   | <b>0.0</b> | <b>80.2</b> | <b>78.2</b> | <b>80.0</b> | <b>81.9</b> |
|     | Agriculture Commercialisation Equity Fund   |            | 40.0        | 39.0        | 39.9        | 40.9        |
|     | Outstanding MOA - NOGOLI agreement  |            | 15.0        | 14.6        | 15.0        | 15.3        |
|     | Petroleum & Energy LNG Support Ongoing support for DPE LNG related work               |            | 5.0         | 4.9         | 5.0         | 5.1         |
|     | SGS (Log Monitoring) Payment to National Forest Authority for Log Monitoring contract |            | 6.7         | 6.5         | 6.7         | 6.8         |
|     | Timber Royalty Payments   |            | 5.0         | 4.9         | 5.0         | 5.1         |

|            |  |             |              |              |              |              |
|------------|--|-------------|--------------|--------------|--------------|--------------|
| <b>245</b> | <b>Department of Environment and Conservation</b>                  | <b>44.4</b> | <b>51.8</b>  | <b>50.5</b>  | <b>51.7</b>  | <b>52.9</b>  |
|            | Environment, Climate Change and Disaster Risk Management           | 19.6        | 22.0         | 21.5         | 22.0         | 22.5         |
|            | Global Environment Facility  |             | 5.0          | 4.9          | 5.0          | 5.1          |
| <b>247</b> | <b>Department of Agriculture and Livestock</b>                     | <b>39.5</b> | <b>46.5</b>  | <b>45.4</b>  | <b>46.4</b>  | <b>47.5</b>  |
|            | Agriculture Resources Development Centres Project                  |             | 5.0          | 4.9          | 5.0          | 5.1          |
|            | Agriculture Statistics and Information Project                     |             | 5.0          | 4.9          | 5.0          | 5.1          |
|            | Productive Partnership for Agriculture Development                 | 15.4        | 12.2         | 11.9         | 12.2         | 12.5         |
| <b>252</b> | <b>Department of Lands and Physical Planning</b>                   | <b>49.2</b> | <b>62.0</b>  | <b>60.5</b>  | <b>61.9</b>  | <b>63.4</b>  |
|            | Customary Land Acquisition   | 12.0        | 25.0         | 24.4         | 25.0         | 25.5         |
| <b>254</b> | <b>Department of Mineral Policy and Geohazards Management</b>      | <b>13.6</b> | <b>13.3</b>  | <b>12.9</b>  | <b>13.2</b>  | <b>13.5</b>  |
| <b>255</b> | <b>Department of Petroleum and Energy</b>                          | <b>24.0</b> | <b>26.8</b>  | <b>26.1</b>  | <b>26.7</b>  | <b>27.4</b>  |
|            | Energy Sector Development Project                                  |             | 7.2          | 7.0          | 7.2          | 7.4          |
| <b>261</b> | <b>Department of Commerce and Industry</b>                         | <b>91.8</b> | <b>140.0</b> | <b>136.6</b> | <b>139.8</b> | <b>143.0</b> |
|            | Pacific Marine Industrial Zone (PMIZ)                              | 60.5        | 53.8         | 52.5         | 53.7         | 55.0         |
|            | People's Microbank   |             | 15.0         | 14.6         | 15.0         | 15.3         |
|            | SME Access Risk Financing Facility                                 | 18.2        | 7.0          | 6.8          | 7.0          | 7.1          |
|            | Special Economic Zones - Sepik Plains                              |             | 50.0         | 48.8         | 49.9         | 51.1         |
| <b>269</b> | <b>Office of Tourism Arts and Culture</b>                          | <b>2.0</b>  | <b>2.0</b>   | <b>1.9</b>   | <b>2.0</b>   | <b>2.0</b>   |
| <b>511</b> | <b>Papua New Guinea Climate Change Authority</b>                   | <b>17.0</b> | <b>15.4</b>  | <b>15.3</b>  | <b>15.6</b>  | <b>15.9</b>  |
|            | Climate Change Adaptation Initiative                               | 2.2         | 6.6          | 6.6          | 6.7          | 6.8          |
| <b>530</b> | <b>Investment Promotion Authority</b>                              | <b>2.9</b>  | <b>2.9</b>   | <b>2.8</b>   | <b>2.9</b>   | <b>2.9</b>   |
| <b>531</b> | <b>Small Business Development Corporation</b>                      | <b>7.8</b>  | <b>6.4</b>   | <b>6.4</b>   | <b>6.5</b>   | <b>6.6</b>   |
| <b>532</b> | <b>National Institute of Standards &amp; Industrial Technology</b> | <b>3.3</b>  | <b>3.3</b>   | <b>3.3</b>   | <b>3.3</b>   | <b>3.4</b>   |
| <b>533</b> | <b>Industrial Centres Development Corporation</b>                  | <b>3.3</b>  | <b>2.3</b>   | <b>2.3</b>   | <b>2.4</b>   | <b>2.4</b>   |
| <b>535</b> | <b>Mineral Resources Authority</b>                                 | <b>32.6</b> | <b>5.8</b>   | <b>5.8</b>   | <b>5.9</b>   | <b>6.0</b>   |
| <b>536</b> | <b>Kokonon Industry Kopration</b>                                  | <b>8.1</b>  | <b>13.1</b>  | <b>13.0</b>  | <b>13.2</b>  | <b>13.5</b>  |
|            | Price Subsidy for Cocoa and Copra                                  | 7.0         | 5.0          | 5.0          | 5.1          | 5.2          |
| <b>543</b> | <b>National Development Bank</b>                                   | <b>0.0</b>  | <b>85.0</b>  | <b>84.4</b>  | <b>86.0</b>  | <b>87.6</b>  |
|            | National Development Bank SME Credit Fund                          |             | 85.0         | 84.4         | 86.0         | 87.6         |
| <b>549</b> | <b>Office of Coastal Fisheries Development Agency</b>              | <b>2.5</b>  | <b>42.4</b>  | <b>42.1</b>  | <b>42.9</b>  | <b>43.8</b>  |
|            | Rural Wharves and Jetties (includes Vanimo Wharf up to K10m)       |             | 40.0         |              |              |              |
| <b>550</b> | <b>Cocoa Coconut Institute Ltd</b>                                 | <b>9.7</b>  | <b>16.6</b>  | <b>16.4</b>  | <b>16.7</b>  | <b>17.1</b>  |
| <b>551</b> | <b>Fisheries (project)</b>   | <b>0.0</b>  | <b>4.0</b>   | <b>4.0</b>   | <b>4.0</b>   | <b>4.1</b>   |
| <b>553</b> | <b>Fresh Produce Development Company</b>                           | <b>5.8</b>  | <b>11.5</b>  | <b>11.5</b>  | <b>11.7</b>  | <b>11.9</b>  |
| <b>554</b> | <b>PNG Coffee Industry Corporation</b>                             | <b>7.2</b>  | <b>32.4</b>  | <b>32.2</b>  | <b>32.8</b>  | <b>33.4</b>  |
|            | CIC Freight Surety Program   | 4.0         | 7.0          | 7.0          | 7.1          | 7.2          |
|            | Coffee Price Subsidy   |             | 11.0         | 10.9         | 11.1         | 11.3         |
|            | Coffee Rehabilitation and Development Program                      |             | 7.0          | 7.0          | 7.1          | 7.2          |
| <b>557</b> | <b>PNG National Forest Authority</b>                               | <b>69.6</b> | <b>31.8</b>  | <b>31.6</b>  | <b>32.2</b>  | <b>32.8</b>  |
| <b>558</b> | <b>Tourism Promotion Authority</b>                                 | <b>10.7</b> | <b>13.7</b>  | <b>13.6</b>  | <b>13.9</b>  | <b>14.1</b>  |
| <b>559</b> | <b>PNG Oil Palm Industry Corporation</b>                           | <b>10.6</b> | <b>10.2</b>  | <b>10.1</b>  | <b>10.3</b>  | <b>10.5</b>  |
|            | Smallholders Agriculture Development Project (SADP)                | 10.6        | 10.2         | 10.1         | 10.3         | 10.5         |
| <b>562</b> | <b>National Agriculture Research Institute</b>                     | <b>15.7</b> | <b>16.7</b>  | <b>16.6</b>  | <b>16.9</b>  | <b>17.2</b>  |
|            | ACIAR-AusAID PNG Agriculture Program                               | 6.5         | 7.6          | 7.5          | 7.7          | 7.8          |
| <b>563</b> | <b>National Agriculture Quarantine &amp; Inspection Authority</b>  | <b>5.7</b>  | <b>7.2</b>   | <b>7.2</b>   | <b>7.3</b>   | <b>7.5</b>   |
| <b>566</b> | <b>PNG Cocoa Board</b>   | <b>0.0</b>  | <b>16.8</b>  | <b>16.7</b>  | <b>17.0</b>  | <b>17.3</b>  |

|            |  |              |              |              |              |              |
|------------|--|--------------|--------------|--------------|--------------|--------------|
|            | Establish Provincial Cocoa Nurseries Project           |              | 7.0          | 7.0          | 7.1          | 7.2          |
|            | Remote Area Cocoa Freight Subsidy Scheme               |              | 5.8          | 5.8          | 5.9          | 6.0          |
| <b>568</b> | <b>Livestock Development Corporation</b>               | <b>5.0</b>   | <b>8.0</b>   | <b>7.9</b>   | <b>8.1</b>   | <b>8.2</b>   |
|            | Livestock Development and Rehabilitation Program       | 5.0          | 8.0          |              |              |              |
| <b>569</b> | <b>Independent Consumer and Competition Commission</b> | <b>9.7</b>   | <b>9.6</b>   | <b>9.6</b>   | <b>9.7</b>   | <b>9.9</b>   |
|            | <b>TOTAL</b>   | <b>491.7</b> | <b>777.9</b> | <b>765.0</b> | <b>781.3</b> | <b>798.0</b> |

Source: Dept of Treasury

### 5.3.3 Education Sector

The Education sector includes the delivery of primary, secondary and tertiary education through the Department of Education (DOE), the Officer of Higher Education, and the national universities. The Education sector will receive K1.5 billion in 2014 (including K358.3 million in donor grants and loans), an increase of K158.7 million or 11.8 per cent from 2013.

There are two principal interventions in the education sector for primary and secondary education: the National Education Plan (NEP) 2005-2014 and Universal Basic Education Plan (UBE) 2010-2019. The focus of these two plans is to continue resourcing and implementing education reforms supported by the national, provincial and local level governments as identified in the provincial and district integrated development plans. Both GoPNG and international resources are mobilized, coordinated and channelled through these mechanisms at the national and sub-national levels.

The Government remains committed to meeting the Millennium Development Goal (MDG Goal 2) to 'Achieve Universal Primary Education'. Accordingly, the Government will provide K605.0 million in 2014 as part of the Department of Education operating Budget for the continuation of the tuition fee-free (TFF) policy. In addition the Department of Education will draw on the funds held in the "Tuition Fee Education Trust Account" – (K43.4 million as at 7 November 2013).

About 18,232 schools in PNG will be beneficiaries of tuition-fee free education in 2014. This includes: 11,093 Elementary Schools, 6,453 Primary Schools, 410 High Schools, 228 Schools Vocational, 2 FODE Schools, 8 National High Schools, 30 Permitted Schools and 8, Special Education Schools.

The Government will also provide K23.0 million for Curriculum Development Materials which includes the procurement of text and resource books for teachers in elementary and primary schools and K11.0 million for National Examinations to cater for grade 8, grade 10 and grade 12 examinations in 2014.

The Government is also committed to rehabilitating the higher education institutions of PNG and will provide K222.8 million in 2014 (including K129.8 million in donor grants and loans) to upgrade the infrastructure at the existing national universities and commence design and preliminary works for a new national university in Southern Highlands Province to be called Western Pacific University.

The centrepiece of the Government's higher education package, the Higher Education Institution Recapitalization program will provide K350.0 million over 4 years including K10.0 million in 2014 to establish a high level task force lead by the Minister for Education which will identify priority infrastructure at existing universities for design in 2014 and implementation in 2015. Other key infrastructure projects include 15.0 million to complete the construction of a new Law School building at the University of Papua New Guinea and K10.0 million for the upgrade of the library at the University of Environment and Natural Resources.

Additional funding for education is made through the Direct Funding provided to the 22 provinces (PSIP), 89 districts (DSIP) and over 300 LLGs (LLGSIP). In aggregate this direct funding provides a further K298 million for education (comprising K89 million from PSIP, K178 million from DSIP and K31 million from LLGSIP) which should for priorities identified in the relevant LLG five year plan.

**Table 14: Education Sector 2014–2017 Expenditure (Kina Million)**

| Div          | Agency  | 2013           | 2014           | 2015           | 2016           | 2017           |
|--------------|---|----------------|----------------|----------------|----------------|----------------|
| 207          | Treasury and Finance - Miscellaneous                              |                | 3.0            | 2.9            | 3.0            | 3.1            |
| 235          | Department of Education   | 1,116.8        | 1,082.3        | 1,055.6        | 1,080.2        | 1,105.4        |
|              | Flexible , Open and Distance Education Project                    | 4.1            | 6.2            |                |                |                |
|              | HRDP 2  |                | 7.4            |                |                |                |
|              | HRDP I  |                | 15.4           |                |                |                |
|              | Inspectors Housing and Transportation                             | 10.0           | 11.1           |                |                |                |
|              | PNG Education Programme   | 163.8          | 170.5          |                |                |                |
|              | Reading Education Project   | 24.8           | 18.3           |                |                |                |
|              | TVET Sector projects  | 10.0           | 10.0           |                |                |                |
|              | UN Assistance to Education Sector                                 | 9.2            | 10.4           |                |                |                |
| 236          | Office of Higher Education  | 72.8           | 210.1          | 204.9          | 209.7          | 214.6          |
|              | 2013 Joint Understanding: Rehabilitation of the University of PNG |                | 40.6           |                |                |                |
|              | Higher Educational Institution Recapitalization Programme         |                | 10.0           | 90.0           | 100.0          | 150.0          |
|              | National Open University  |                | 5.0            |                |                |                |
|              | Science Research Council (new division of OHE)                    |                | 6.0            |                |                |                |
|              | Trade Skills Scholarship  | 20.0           | 15.0           |                |                |                |
|              | Western Pacific University (Design)                               |                | 80.8           |                |                |                |
| 237          | PNG National Commission for UNESCO                                | 2.1            | 2.1            | 2.1            | 2.1            | 2.2            |
| 512          | University of Papua New Guinea                                    | 49.4           | 71.6           | 71.1           | 72.4           | 73.8           |
|              | UPNG Law School   |                | 15.0           |                |                |                |
|              | UPNG Science Building   |                | 10.0           |                |                |                |
| 513          | University of Technology  | 49.4           | 64.4           | 64.0           | 65.2           | 66.4           |
|              | Petroleum & Petro-Chemical Engineering School (Unitech)           |                | 10.0           |                |                |                |
|              | University Infrastructure and Accreditation                       |                | 10.0           |                |                |                |
| 514          | University of Goroka  | 26.2           | 43.0           | 42.7           | 43.5           | 44.3           |
|              | Dormitory Extension   |                | 25.4           |                |                |                |
| 515          | University of Environment & Natural Resources                     | 26.3           | 25.3           | 25.1           | 25.6           | 26.1           |
|              | UoV Library   |                | 10.0           |                |                |                |
| <b>TOTAL</b> |   | <b>1,343.0</b> | <b>1,501.7</b> | <b>1,468.4</b> | <b>1,501.7</b> | <b>1,535.8</b> |

Source: Dept of Treasury

### 5.3.4 Health Sector

The Health sector encompasses the key policy agency of the Department of Health as well as delivery and research agencies including Hospital Management Services and the Provincial Health Authorities.

The Government will provide K1,382.3 million in 2014 (including K335.8 million in donor grants and loans) to the Health sector to continue the delivery of basic primary and preventative health care to Papua New Guineans. This is K372.6 million (or 36.9 per cent) higher than the funding provided to the sector in 2013. The key component of the

Government's investment in the Health sector for the 2014 Budget is K267.2 million for the Hospitals Infrastructure Redevelopment Package.

PNG's vast geographical terrain and basic transport infrastructure has led to increasing costs in the delivery of health services and in most cases, these costs have been passed on to patients. Consistent with its Alotau Accord, the Government has provided K20.0 million to continue its commitment to a Fee-Free Primary Health Care Policy. When fully implemented this policy will ensure Papua New Guineans receive primary medical assistance from any public health facility without paying user fees. The funding for fee free primary health care is appropriated to Div 207 Treasury and Finance Miscellaneous.

The Hospitals Infrastructure Redevelopment Package provides K267.2 million in 2014 for the upgrade and redevelopment of 16 existing hospitals. This includes K65.2 million for Angau Memorial Hospital (including K45.2 million from the Australian Government under the 2013 Joint Understanding), K50.0 million for Enga Hospital, K30.0 million for Port Moresby General Hospital (which will be established as a separate authority in 2014) and K114.0 million for a range of other provincial and district hospitals listed in the table below. As part of this package, the Government has also provided a further K8.0 million for the design of two new hospitals in Central and Hela Provinces.

Funding for the health sector has also been appropriated to Div 207 Treasury and Finance Miscellaneous with K15.0 million to meet additional costs of the existing Provincial Health Authorities in Milne Bay, Western Highlands and Eastern Highlands Provinces and K31.3 million to cater for the distribution costs of medical drugs and supplies in PNG for rural and curative health.

**Table 15: Health Sector 2014–2017 Expenditure (Kina Million)**

| Div        | Agency  | 2013         | 2014         | 2015         | 2016         | 2017         |
|------------|---|--------------|--------------|--------------|--------------|--------------|
| <b>207</b> | <b>Treasury and Finance - Miscellaneous</b>                                     |              | <b>78.3</b>  | <b>76.4</b>  | <b>78.2</b>  | <b>80.0</b>  |
|            | DoH - distribution, K20m 100% kits & K11.3m Drugs & Supply                      |              | 31.3         |              |              |              |
|            | AusAID distribution program expires in 2013                                     |              |              |              |              |              |
|            | Free Primary Health Care  |              | 20.0         |              |              |              |
|            | Hospital Design for Central and Hela  |              | 8.0          |              |              |              |
|            | Additional funding for Provincial Health Authorities (Milne Bay, EHP, WHP)      |              | 15.0         |              |              |              |
|            | Flow-on costs of awards and will be moved to Hospital Management Services       |              |              |              |              |              |
| <b>240</b> | <b>Department of Health</b>   | <b>470.9</b> | <b>666.4</b> | <b>650.0</b> | <b>665.1</b> | <b>680.6</b> |
|            | 2013 Joint Understanding: Rebuilding the Angau Hospital in Lae, Morobe Province |              | 65.2         | 60.0         | 80.0         | 40.0         |
|            | Health: Capacity Building Service Centre  | 45.3         | 109.3        |              |              |              |
|            | PNG Health & HIV Procurement Program 2011-15                                    | 21.9         | 91.6         |              |              |              |
|            | PNG Health and HIV Financing Programme  | 10.8         | 26.7         |              |              |              |
|            | Rural primary health service delivery project                                   | 11.0         | 15.0         |              |              |              |
|            | Training institutions rehabilitation and support                                |              | 10.0         |              |              |              |
|            | UN Assistance to Health Sector  |              | 27.7         |              |              |              |
| <b>238</b> | <b>Milne Bay Provincial Health Authority</b>                                    | <b>23.7</b>  | <b>24.6</b>  | <b>24.0</b>  | <b>24.5</b>  | <b>25.1</b>  |
| <b>239</b> | <b>Western Highlands Provincial Health Authority</b>                            | <b>27.4</b>  | <b>29.1</b>  | <b>28.4</b>  | <b>29.1</b>  | <b>29.7</b>  |
| <b>241</b> | <b>Hospital Management Services</b>   | <b>500.6</b> | <b>516.2</b> | <b>503.5</b> | <b>515.2</b> | <b>527.2</b> |
|            | Boram Hospital  |              | 20.0         | 20.0         | 20.0         |              |
|            | Daru Hospital Redevelopment   |              | 5.0          |              |              |              |
|            | Kerema Hospital Redevelopment   | 5.0          | 5.0          |              |              |              |

|              |   |                |                |                |                |                |
|--------------|---|----------------|----------------|----------------|----------------|----------------|
|              | Kundiawa Hospital   |                | 5.0            |                |                |                |
|              | Manus Hospital  |                | 5.0            |                |                |                |
|              | Modilon general hospital rehabilitation program (inc OT, staff houses etc.) | 3.0            | 5.0            |                |                |                |
|              | Mt Hagen Hospital Redevelopment   |                | 20.0           | 20.0           | 20.0           |                |
|              | New Nonga Hospital  |                | 20.0           | 20.0           | 20.0           |                |
|              | POM General Hospital  | 50.0           | 30.0           | 75.0           | 100.0          | 0.0            |
|              | Popondetta Hospital Redevelopment   | 5.0            | 5.0            |                |                |                |
|              | Upgrading and Rehabilitation of Mendi Hospital Health Facilities            | 5.0            | 5.0            |                |                |                |
|              | Vanimo general hospital rehabilitation project                              | 5.0            | 5.0            |                |                |                |
| <b>244</b>   | <b>Eastern Highlands Provincial Health Authority</b>                        | <b>28.2</b>    | <b>28.7</b>    | <b>27.9</b>    | <b>28.7</b>    | <b>29.3</b>    |
| <b>519</b>   | <b>National AIDS Council Secretariat</b>                                    | <b>25.5</b>    | <b>27.3</b>    | <b>27.1</b>    | <b>27.6</b>    | <b>28.2</b>    |
|              | UN support to HIV/AIDS  | 14.7           | 16.0           |                |                |                |
| <b>520</b>   | <b>Institute of Medical Research</b>  | <b>12.7</b>    | <b>11.7</b>    | <b>11.6</b>    | <b>11.8</b>    | <b>12.1</b>    |
| <b>TOTAL</b> |   | <b>1,089.0</b> | <b>1,382.3</b> | <b>1,348.9</b> | <b>1,380.2</b> | <b>1,412.2</b> |

Source: Dept of Treasury

### 5.3.5 Infrastructure Sector

The Infrastructure Sector, comprising all forms of transport, communications and the key utilities of power, water and sanitation has long been recognised as a key enabler for development in PNG. There is a major backlog of infrastructure needs across the nation. This reflects both the steady degradation of existing infrastructure as a result of underinvestment over a period of years and the reality that many areas have never enjoyed basic services such as power and running water. The backlog of needs has been compounded by a rapidly increasing population.

The Government has recognised the need for a sustained investment in essential infrastructure and, commencing with the 2013 Budget, has substantially increased expenditures on roads, sea and air transport and power, water and communications developments. It is largely these expenditures that have driven the Budget into short term deficit as the Government seeks to establish the basic infrastructure needed to drive future growth and prosperity.

The 2014 Budget provides funding of K2,723.3 million across the Infrastructure sector. This is an increase of K841.3 million or 44.7 per cent compared to the 2013 Budget. Major expenditures and developments are described in the sections on Transport and Utilities below.

### **Major Cities Infrastructure Package**

Successful urban centres are critical to continued growth and national development. PNG's major cities require major investment to rehabilitate and upgrade ageing infrastructure, particularly as the drift of rural populations to these centres is likely to accelerate in coming years.

The Government will provide K838.6 million (including K73.9 million in donor grants and loans) in 2014 for the development of infrastructure in PNG's four major cities of Port Moresby, Lae, Mt Hagen and Kokopo. The infrastructure projects represent initial steps toward developing each city as a central hub in key areas of enterprise:

#### Port Moresby (Commerce)

The Government will provide K281.8 million in 2014 to develop Port Moresby into the commercial hub of the country. The key infrastructure projects for Port Moresby include K170.0 million for new and existing roads, K30.0 million for the upgrade of Port Moresby General Hospital and K30.0 million to complete the upgrade and rehabilitation of Jacksons Airport.

#### Lae (Industry)

The Government will provide K437.4 million in 2014 to develop Lae into the industrial base of PNG. The key infrastructure projects for Lae include K270.0 million for the Lae Port Development Project, K100.0 million for new and existing roads and K65.2 million for the rebuilding of Angau Hospital under the 2013 joint understanding with the Australian Government.

#### Mt Hagen (Agriculture)

The Government will provide K61.4 million in 2014 to develop Mt Hagen into the agricultural centre of PNG. The key infrastructure projects for Mt Hagen include K40.0 million for new and existing roads, K20.0 million for the redevelopment of Mt Hagen Hospital and K1.4 million for the Mt Hagen Rice Project.

#### Kokopo (Tourism)

The Government will provide K58.0 million in 2014 to develop Kokopo into the tourism hotspot of PNG. The key infrastructure projects for Kokopo include K20.0 million for water and sewerage upgrades, K15.0 million for upgrade works to Tokua Airport and the road from Kokopo to the Tokua Airport and K3.0 million for the implementation of the tourism midterm master plan.

### Transport

The transport network in the country is deteriorating, so extensive construction and maintenance works are required to improve these links. There is an ongoing need to not only improve the state of the major economic corridors but continue to expand the air and sea transport links. Too many feeder roads are impassable forcing increased demand on sea and air transport infrastructure. Effective service delivery is adversely impacted by the inadequate transport infrastructure. Presently about 60 per cent of the National Roads and 80 per cent of the provincial and feeder roads are in poor condition, and wharves, jetties, and airports need urgent maintenance works.

The Government is committed to improving the three (3) modes of the transport sector to establish an investment platform as a basis for sustainable economic growth and effective social service delivery in PNG. The Government intends to utilise the revenue generated from the extractive industry to invest in key infrastructures areas, including establishing new missing links and economic corridor roads to trigger socio-economic developments.

Successive budgets have increased commitments to the transport sector. Some high impact projects funded in 2013 are under review to ensure final construction is appropriate and affordable, such as the 4 lane Lae to Nadzab section of the Highlands Highway.

The 2014 Budget includes more than K1 billion for road funding. Some of the high impact projects receiving further funding in 2014 include; Port Moresby city roads K170 million, Lae city roads K100 million, Mt Hagen town roads K40 million and Highland Highway maintenance K150 million.

The proposed missing link and economic corridor roads for development over the medium to long term include the Sepik Coastal Highway; Western Highlands – Madang Highway; East New Britain Highway; Gulf – Morobe Highway; and Gulf – Southern Highlands – Hela Highway. The 2014 Budget includes funding for sections of these roads.

There are 4,200km of the National Priority Roads of which 3,000km is sealed and 1,200km is graveled. Under the National Roads Rehabilitation and Maintenance Program (K100 million in 2014) the Department of Works will prioritize to upgrade and seal the remaining gravel sections and continue to maintain those sections in sealed condition.

The efficient and effective delivery of infrastructure projects is critical for economic progress and the Department of Works and other related public/private agencies will be held accountable for more effective implementation in 2014.

The major funding for other transport infrastructure in 2014 includes the Lae Port Development (Tidal Basin) Project K270 million; Jackson Airport expansion K30 million and the Civil Aviation Development Expansion Program K26 million. GoPNG's formal adoption of the Protection of Transport Infrastructure Act 2010 to protect transport infrastructures and related purposes would help mitigate some major issues faced by the sector over the years.

#### Water and Sanitation

The Government's development agendas are unattainable without adequate provision of clean and safe water and sanitation services. Insufficient clean and safe water and sanitation has hindered socio-economic development in Papua New Guinea for many years. Most of the cities and towns lack capacity to address the demand posed by the increasing population and the emerging business activities.

The introduction of major ongoing direct funding to lower level Governments from 2013 has provided the means for Provinces, Districts and Local Governments to start addressing the backlog in provision of basic services. Under the arrangements for PSIP/DSIP/LLGSIP grants 30 per cent or K448.0 million is tied to infrastructure development.

The Port Moresby Sewerage System Upgrading Project (PMSSUP) was anticipated to commence in 2014 and the loan agreement was concluded in January 2010. The detailed design engineer was procured by JICA and financed through grant aid. After considerable delays the project will proceed with funding of K47.8 million in 2014, including K27.8 million loan funding from Japan.

#### Information and Communication Technology

Improving ICT has been a major driver behind the Government's commitment to encourage competition and continuous investment in the ICT sector. An effective information and communication network will promote social and economic development across the country, increasing access to goods and services and facilitating dissemination of knowledge and information.

The Integrated Government Information System (IGIS) is the Government's major ICT initiative for implementation of a modern and affordable information and communications technology capable of extending access to all parts of the country. Building on the



commitment of K38.6 million in 2013 the 2014 Budget includes additional funding of K45.5 million (including loan funding from China of K41.5 million) through the Department of Information and Communication to further progress this development.

The roll out of a National Transmission Network (NTN) will provide wholesale broadband services to retail carriers and service providers in PNG. This will stimulate and support retail providers and in turn encourage growth in both the use of mobile broadband and fixed broadband throughout the country. Further to the K55 million provided in 2013, the Government will also commit a further K55 million in 2014 to the PNG LNG fibre optic cable project currently under construction in a partnership between Esso Highlands, Oil Search, the Southern Highlands Provincial Government and the National Government, represented by the Independent Public Enterprise Corporation.

The 2014 Budget also provides major funding of K167.6 million (including loan funding of K157.6 million from China) to further progress the introduction of a national identity card (the Electronic Identification Card or E-ID) as the basis of an enhanced national planning system. This project is shown under the Administration sector as funding has been appropriated to the Department of National Planning and Monitoring.

### Electricity

The development of adequate and reliable energy infrastructure is crucial for development in PNG. However, the challenge is formidable given the difficult terrain and geographic distribution of the country's population. Currently only 12.4 per cent of households have access to electricity. 10 per cent of the population can access electricity through the power grid the remainder rely on diesel generators. Rural communities are also increasingly using solar power.

The National Electricity Industry Policy was formulated in July 2008 and endorsed in December 2011. It provides direction on how provision of electricity service equitably and competently throughout PNG. The policy focuses on the three pillars of affordability, reliability, and accessibility while also providing opportunities for private sector investment and Independent Power Producers (IPPs) to feed into its main power grids. Participation by private sector IPPs is encouraged through 'feed in tariffs' in the electricity generation market.

PNG Power Limited (PPL) is a fully integrated state-owned enterprise responsible for generation, transmission, distribution and retailing electricity throughout PNG. PPL is implementing its five year development plan to enhance economic and social developments through expansion of electricity supply through an interconnected national power grid with potential for exporting electricity to Australia. PPL is currently delivering the Town Electrification Investment Program (TEIP) co-funded by the Asian Development Bank (ADB). Funding in 2014 totals K75.8 million in 2014 including K49.8 million from the ADB.

In 2014 New Zealand Aid is also contributing K12.6 million in grants for electrification programs. The Port Moresby Grid Development project receives a further K4 million in 2014, matching the 2013 funding level. The Ramu Transmission System Reinforcement Project is being funded with a K28.0 million concessional loan from Japan. Furthermore, the Provinces, Districts and the LLGs are encouraged to utilize the Government's PSIP and DSIP funding to support electrification programs in the rural areas.

**Table 16: Infrastructure Sector 2014–2017 Expenditure (Kina Million)**

| Div        | Agency  | 2013           | 2014           | 2015           | 2016           | 2017           |
|------------|---|----------------|----------------|----------------|----------------|----------------|
| <b>207</b> | <b>Treasury and Finance - Miscellaneous</b>                             |                | <b>20.0</b>    | <b>19.5</b>    | <b>20.0</b>    | <b>20.4</b>    |
|            | Infrastructure Development Authority-Establishment                      |                | 5.0            |                |                |                |
|            | Konebada Petroleum Park Authority                                       |                | 5.0            |                |                |                |
|            | Telecommunications (including Broadband)                                |                | 10.0           |                |                |                |
| <b>257</b> | <b>Department of Public Enterprises</b>                                 | <b>3.8</b>     | <b>3.8</b>     | <b>3.7</b>     | <b>3.8</b>     | <b>3.9</b>     |
| <b>258</b> | <b>Department of Information and Communication</b>                      | <b>52.9</b>    | <b>61.8</b>    | <b>60.3</b>    | <b>61.7</b>    | <b>63.2</b>    |
|            | IGIS  | 38.6           | 45.5           |                |                |                |
|            | Rural Communication Project   | 10.0           | 12.1           |                |                |                |
| <b>259</b> | <b>Department of Transport</b>  | <b>23.2</b>    | <b>30.1</b>    | <b>29.3</b>    | <b>30.0</b>    | <b>30.7</b>    |
| <b>264</b> | <b>Department of Works and Implementation</b>                           | <b>1,177.5</b> | <b>1,713.0</b> | <b>1,654.9</b> | <b>1,691.4</b> | <b>1,728.2</b> |
|            | 2013 Joint Understanding: Design and Scope for the Madang-Ramu Highway  |                | 15.5           |                |                |                |
|            | ADB 5 Highlands Provinces Road Maintenance Supplementary Loan           | 26.0           | 25.0           |                |                |                |
|            | ADB Roads shortfall (6 roads)   |                | 26.0           |                |                |                |
|            | Aitabe District Wharf Reconstruction (West Sepik)                       |                | 14.0           |                |                |                |
|            | Bena to Ramu Road   |                | 10.0           |                |                |                |
|            | Bridge Replacement for Improved Rural Access Project - ADB Ln 2783/2784 | 18.9           | 46.3           |                |                |                |
|            | Bubuletta to Agaun Road (Missing Link)                                  | 5.0            | 5.0            |                |                |                |
|            | Buluminsky Highway  |                | 10.0           |                |                |                |
|            | East Cape Road (Magi Highway)   | 10.0           | 5.0            |                |                |                |
|            | East-West New Britain Highway   | 10.0           | 15.0           |                |                |                |
|            | Esa'ala Road  |                | 6.0            |                |                |                |
|            | Finschafen Road Works   |                | 10.0           |                |                |                |
|            | Fisika Road - Kabum - Sialum - Nawae                                    |                | 10.0           |                |                |                |
|            | Goilala - Mona Road   |                | 5.0            |                |                |                |
|            | Gulf - Southern Highlands   |                | 10.0           |                |                |                |
|            | Hagen - Kagul   |                | 20.0           |                |                |                |
|            | Highlands Region Road Improvement Investment Program (HRRIP - Phase I ) |                | 143.3          |                |                |                |
|            | Highlands Region Road Improvement Investment Program (HRRIP - Phase II) | 130.0          | 22.0           |                |                |                |
|            | Hiri Lai Road (Hela)  |                | 10.0           |                |                |                |
|            | Jiwaka - Hagen  |                | 10.0           |                |                |                |
|            | Kagul - Nipa  |                | 15.0           |                |                |                |
|            | Kandrian - Kimbe ( Missing Link)  |                | 10.0           |                |                |                |
|            | Karamui Bridge  |                | 10.0           |                |                |                |
|            | Kikori - Gulf Road (Completion)   | 10.0           | 10.0           |                |                |                |
|            | Kimil - Tabibuga Road (Jiwka)   |                | 10.0           |                |                |                |
|            | Kirriwinna Ring Road  |                | 6.0            |                |                |                |
|            | Kisenopoi - Kagua   |                | 15.0           |                |                |                |
|            | Kompam Road (Enga)  |                | 5.0            |                |                |                |
|            | Koroba Kopiago Road (Hela)  | 10.0           | 10.0           |                |                |                |
|            | Kulupugu Road (Hela)  | 10.0           | 5.6            |                |                |                |
|            | Kupiano Town Roads Sealing  |                | 5.0            |                |                |                |
|            | Lae - Watarais  |                | 20.0           |                |                |                |
|            | Lae City Roads  | 100.0          | 100.0          |                |                |                |

|            |  |              |              |              |              |              |
|------------|--|--------------|--------------|--------------|--------------|--------------|
|            | Lusuma Baiyer– Missing   |              | 10.0         |              |              |              |
|            | Minjenk Bridge , Madang  | 10.0         | 8.0          |              |              |              |
|            | Missing Links (Madang-Baiyer)                                      | 10.0         | 10.0         |              |              |              |
|            | Mt Hagen Town Roads  | 10.0         | 40.0         |              |              |              |
|            | National Bridges Rehabilitation and Reconstruction                 |              | 50.0         |              |              |              |
|            | National Roads Rehabilitation and Maintenance                      |              | 100.0        |              |              |              |
|            | Nawae Roads (Morobe)   |              | 5.0          |              |              |              |
|            | Nipa - Tari  |              | 15.0         |              |              |              |
|            | Nipa Kutubu Roads  |              | 10.0         |              |              |              |
|            | Northern Highway (Pongani - Afore road)                            |              | 10.0         |              |              |              |
|            | Pangu Laiagam (Stage 3) outstanding ADB 1079 project               |              | 30.0         |              |              |              |
|            | POM City Roads   | 100.0        | 170.0        | 40.0         | 0.0          | 0.0          |
|            | Rehabilitation of PTB Workshops - Tools & Equipment Procurement    | 24.0         | 10.0         |              |              |              |
|            | Road Maintenace & Rehabilitation Project II (RMRP II) - World Bank |              | 28.3         |              |              |              |
|            | Rouna and Sirinumu Infrastructure including Roads                  |              | 30.0         |              |              |              |
|            | Sepik Highway - Wewak to Vanimo                                    |              | 15.0         |              |              |              |
|            | Talasea Ring Road  |              | 5.0          |              |              |              |
|            | Tari -Komo (Hela)  |              | 15.0         |              |              |              |
|            | Telefomin Roads (is this under planning tax credits K130m)         |              | 10.0         |              |              |              |
|            | Togoba - Wabag   |              | 15.0         |              |              |              |
|            | Tokua Airport to Kokopo Town 4 Lane Road Design                    |              | 5.0          |              |              |              |
|            | Transport Sector Support Program - AusAID                          | 189.4        | 203.4        |              |              |              |
|            | Wapenamanda Road   |              | 10.0         |              |              |              |
|            | Wasa Bridge  |              | 35.0         |              |              |              |
|            | Waseta Kendaka Road  |              | 5.0          |              |              |              |
|            | Watabung - Jiwaka  |              | 20.0         |              |              |              |
|            | Watarais - Watabung  |              | 20.0         |              |              |              |
| <b>267</b> | <b>Office of Rural Development</b>                                 | <b>54.6</b>  | <b>6.8</b>   | <b>6.6</b>   | <b>6.8</b>   | <b>6.9</b>   |
| <b>509</b> | <b>Border Development Authority (BDA)</b>                          | <b>21.8</b>  | <b>20.3</b>  | <b>20.1</b>  | <b>20.5</b>  | <b>20.9</b>  |
|            | Wutung Pilot Border Development Trade and Investment Project       | 17.4         | 15.9         |              |              |              |
| <b>524</b> | <b>Independent Public Business Corporation</b>                     | <b>270.2</b> | <b>514.5</b> | <b>510.9</b> | <b>520.6</b> | <b>530.5</b> |
|            | Lae Port Additional Financing Project                              |              | 141.3        |              |              |              |
|            | Lae Port Development Project (Tidal Basin)                         | 113.7        | 270.0        |              |              |              |
|            | PNG LNG Fibre Cable  | 55.0         | 55.0         |              |              |              |
|            | POM Sewerage Project   | 51.6         | 47.8         |              |              |              |
| <b>525</b> | <b>National Broadcasting Commission</b>                            | <b>37.2</b>  | <b>36.8</b>  | <b>36.6</b>  | <b>37.3</b>  | <b>38.0</b>  |
|            | PNG Media Program  | 8.6          | 8.7          |              |              |              |
| <b>526</b> | <b>National Maritime Safety Authority</b>                          | <b>1.7</b>   | <b>13.6</b>  | <b>13.5</b>  | <b>13.8</b>  | <b>14.0</b>  |
|            | Maritime & Waterways and Safety Project                            |              | 11.9         |              |              |              |
| <b>537</b> | <b>National Airports Corporation</b>                               | <b>199.5</b> | <b>149.7</b> | <b>148.7</b> | <b>151.5</b> | <b>154.4</b> |
|            | Airport Upgrade and Rehabilitation (Jacksons)                      | 30.0         | 30.0         |              |              |              |
|            | Alternate landing strip - Tokua Airport (Kokopo)                   |              | 6.5          |              |              |              |
|            | Civil Aviation Development Investment Programme                    | 169.5        | 99.7         |              |              |              |
|            | New Ireland Provincial Airport                                     |              | 10.0         |              |              |              |
| <b>538</b> | <b>Papua New Guinea Air Services Limited</b>                       | <b>14.3</b>  | <b>16.3</b>  | <b>16.2</b>  | <b>16.5</b>  | <b>16.8</b>  |

|              |  |                |                |                |                |                |
|--------------|--|----------------|----------------|----------------|----------------|----------------|
|              | Communication, Surveillance & Air Traffic Management Replacement | 14.3           | 14.3           |                |                |                |
| 541          | <b>National Housing Corporation</b>                              | <b>0.2</b>     | <b>0.2</b>     | <b>0.2</b>     | <b>0.2</b>     | <b>0.3</b>     |
| 546          | <b>PNG Power Limited</b>   | <b>14.0</b>    | <b>125.2</b>   | <b>124.3</b>   | <b>126.7</b>   | <b>129.1</b>   |
|              | Electricity Development  |                | 12.6           |                |                |                |
|              | PNG Town Electricity Investment Project                          |                | 75.8           |                |                |                |
|              | Ramu Transmission System Reinforcement Project                   |                | 28.0           |                |                |                |
| 565          | <b>Civil Aviation Safety Authority</b>                           | <b>11.1</b>    | <b>11.1</b>    | <b>11.0</b>    | <b>11.2</b>    | <b>11.5</b>    |
| <b>TOTAL</b> |  | <b>1,882.0</b> | <b>2,723.3</b> | <b>2,671.9</b> | <b>2,712.0</b> | <b>2,768.6</b> |

Source: Dept of Treasury

### 5.3.6 Law and Order Sector

The Government will provide K1,296.0 million in 2014 (including K162.2 million in donor grants) to the Law and Order sector, an increase of K273.4 million (26.7 per cent). The major recipients of the increased funding in 2014 Budget are the Departments of Police and Defence and the many thousands of officials working in more than 1,600 Village Courts across the country.

Apart from the clear social benefits of a civil and orderly society, establishing a robust law and justice system and fighting corruption is critical to creation of a conducive environment for trade, investment and development. Accordingly, Government investment in law and justice services and anti-corruption measures is essential to both the fight against crime and corruption and also as a key enabler for national development.

The 2014 Budget continues support for the National Anti-Corruption Task Force (Operation Sweep) with the appropriation of K20 million under Div 207 (Treasury and Finance Miscellaneous). The Government is also proceeding with the formation of the Independent Commission Against Corruption (ICAC) to be created under the Organic Law and commencing operation in 2015.

Under the Police Modernisation Program, K69.0 million will be provided to the Department of Police including K6.5 million for an additional 480 personnel and K62.5 million for the upgrade of the police training college and other deteriorating police facilities. A further K15.0 million in 2014 will be provided to the Department of Police for the construction of police patrol stations along the PNG LNG corridor and site.

The Government will provide K30.0 million in 2014 to the Department of Defence to continue the rebuild of the PNG Defence Force and K25.0 million (held in Div 207 Treasury and Finance Miscellaneous) for the purchase of land to allow relocation of Murray Barracks and Landcron Naval Base. A further K3.0 million in 2014 will be provided to recruit an additional 400 uniformed personnel.

The Department of Correctional Services will be provided K1.9 million for the recruitment of an additional 150 uniformed personnel to ensure the current number of wardens is maintained. This agency faces a loss of experienced staff in the coming years as a result of an ageing workforce.

For several years this sector has received substantial support from the Government of Australia, most recently under the PNG-Australia Law and Justice Program (PALJP) K67 million in 2013. Phase 2 of the program will cease by mid-2014 and Phase 3 (still under design) may commence in 2015. Existing funding will cover completion of the program.

However, there will be additional assistance from Australia in 2014 arising from the Joint Understanding on the Management of Asylum Seekers signed in July 2013. In the Law and Justice sector K85.0 million will be received for the deployment of Australian Federal Police officers to assist the Royal Papua New Guinea Constabulary to strengthen community policing and evidence based operations as well as to provide advisory support in Port Moresby and Lae. Additionally, K61.2 million will be provided for construction of the Magisterial Services headquarters building and Courts Complex in Port Moresby.

The 2014 Budget addresses a long overdue reform in the administration of PNG's Village Courts. There are over 15,000 officials employed in various positions within more than 1600 Village Courts across the nation. Allowances have not increased since 1990 and payment of allowances through Provincial Governments have often been delayed or paid on an irregular basis. The 2014 Budget includes funding of K38.4 million for the phased introduction of a formal payment system with significantly increased remuneration based on bringing payments to the level of minimum award wages. Funding for 2014 has been appropriated to Div 207 Treasury and Finance Miscellaneous pending finalisation of implementation arrangements by the Department of Justice and Attorney General. Funding will increase to K100.0 million in 2015 and to K156.0 million in the following years.

**Table 17: Law & Order Sector 2014–2017 Expenditure (Kina Million)**

| Div        | Agency  | 2013         | 2014         | 2015         | 2016         | 2017         |
|------------|---|--------------|--------------|--------------|--------------|--------------|
| <b>207</b> | <b>Treasury and Finance - Miscellaneous</b>   |              | <b>219.0</b> | <b>213.6</b> | <b>218.6</b> | <b>223.7</b> |
|            | Court judgements awarded against the State administered by DJAG, funding court judgements against the state             |              | 70.0         |              |              |              |
|            | Defence Land purchase for relocation For the purchase of land to relocate Murray Barracks                               |              | 25.0         |              |              |              |
|            | Judiciary Services Infrastructure Development   |              | 20.0         |              |              |              |
|            | Legal Brief Out - Attorney General Engaging private law firms to out source of the lagging outstanding law suits        |              | 10.0         |              |              |              |
|            | Local Government Officials Allowances (includes K38.4m for village courts)  |              | 50.0         |              |              |              |
|            | National Anti-Corruption Strategy Taskforce   |              | 20.0         |              |              |              |
|            | PNG-LNG Support – Police allowances and housing at the LNG site   |              | 15.0         |              |              |              |
|            | Retirement Benefit Fund – Defence Payments to retired, retrenched or discharged defence personnel                       |              | 9.0          |              |              |              |
| <b>218</b> | <b>Office of the Public Prosecutor</b>  | <b>6.8</b>   | <b>6.9</b>   | <b>6.7</b>   | <b>6.9</b>   | <b>7.0</b>   |
| <b>222</b> | <b>Office of the Public Solicitor</b>   | <b>11.7</b>  | <b>11.8</b>  | <b>11.5</b>  | <b>11.8</b>  | <b>12.1</b>  |
| <b>223</b> | <b>Judiciary Services</b>   | <b>85.1</b>  | <b>87.0</b>  | <b>84.9</b>  | <b>86.8</b>  | <b>88.9</b>  |
|            | Court House Maintenance (design funded K10m in 2013)  | 10.0         | 10.0         |              |              |              |
| <b>224</b> | <b>Magisterial Services</b>   | <b>37.6</b>  | <b>49.2</b>  | <b>48.0</b>  | <b>49.2</b>  | <b>50.3</b>  |
|            | 2013 Joint Understanding: Deployments to Dept of Corrections and RPNG, and Design of Magisterial Services Court Complex |              | 12.5         |              |              |              |
| <b>225</b> | <b>Department of Attorney-General</b>   | <b>133.4</b> | <b>114.9</b> | <b>112.1</b> | <b>114.7</b> | <b>117.3</b> |
|            | Infrastructure and capital works  | 3.0          | 6.3          |              |              |              |
|            | PNG-Australia Law & Justice Partnership   | 71.5         | 63.2         |              |              |              |

| Program      |  |               |                |                |                |                |
|--------------|--|---------------|----------------|----------------|----------------|----------------|
| 226          | Department of Corrective Institutional Services                      | 105.8         | 116.1          | 113.2          | 115.8          | 118.5          |
| 228          | Department of Police   | 352.0         | 434.3          | 423.6          | 433.4          | 443.5          |
|              | 2013 Joint Understanding: Deployment of 50 Australian Federal Police |               | 86.5           |                |                |                |
| 234          | Department of Defence  | 270.3         | 246.0          | 239.9          | 245.5          | 251.2          |
|              | Air Capability Program   |               | 8.0            |                |                |                |
| 510          | Legal Training Institute   | 2.5           | 2.5            | 2.4            | 2.5            | 2.5            |
| 517          | National Narcotics Bureau  | 4.4           | 4.4            | 4.4            | 4.5            | 4.6            |
| 522          | Constitutional and Law Reform Commission                             | 13.0          | 4.0            | 4.0            | 4.1            | 4.1            |
| <b>TOTAL</b> |  | <b>1022.6</b> | <b>1,296.0</b> | <b>1,264.3</b> | <b>1,293.8</b> | <b>1,323.7</b> |

Source: Dept of Treasury

### 5.3.7 Provincial Sector

The Government will provide K3,638.4 million (including K41.2 million in donor grants and loans) for provinces which is an increase of K176.2million (5.0 per cent) from 2013.

The funding for provinces includes K1,492.0 million in direct funding which will see each province receive K5.0 million per district under the Provincial Services Improvement Program, K10.0 million per District under the District Services Improvement Program and K0.5 million per local level government. The Government will also provide a further K55.5 million through District Support Grants for infrastructure development in a number of provinces. This funding has been appropriated through the Office of Rural Development (see Infrastructure sector).

The 2014 continues the special payments of K30 million to both Jiwaka Provincial Government and Hela Provincial Government to assist the early development of these recently established administrations.

There are also a number of measures specific to particular provinces. The largest of these are further contributions to the construction of the new Kapal Haus in Mt Hagen, WHP (K40 million) and funding for a new hospital in Wabag, Enga (K50 million).

In addition to the above funding the Government will also be meeting the cost of increased Village Court allowances and increased payments to other local officials. The 2014 Budget includes funding of K50 million increasing to K100 million in 2015 and to K156 million in the following years. The initial funding for this measure will be appropriated to Div 207 (Treasury and Finance Miscellaneous) pending finalisation of implementation arrangements by the Department of Justice and Attorney General. Further explanation is provided in this chapter under the Law and Justice sector.

**Table 18: Provinces Sector 2014–2017 Expenditure (Kina Million)**

| Div | Agency  | 2013  | 2014  | 2015  | 2016  | 2017  |
|-----|---|-------|-------|-------|-------|-------|
| 207 | Treasury and Finance - Miscellaneous  |       | 15.0  | 14.6  | 15.0  | 15.3  |
|     | Integrated District Pilot - Keriwagi Simbu (Integrated Agriculture Package) |       | 10.0  |       |       |       |
|     | Komo LLG  |       | 5.0   |       |       |       |
| 571 | Fly River Provincial Government   | 116.8 | 124.9 | 126.0 | 128.4 | 130.8 |
|     | Daru High School  |       | 5.0   |       |       |       |
|     | District Support Improvement Program (DSIP)                                 | 30.0  | 30.0  | 30.0  | 30.0  | 30.0  |
|     | Local Level Government Support Improvement Program (LLGSIP)                 | 7.0   | 7.0   | 7.0   | 7.0   | 7.0   |

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|            |   |              |              |              |              |              |
|------------|---|--------------|--------------|--------------|--------------|--------------|
|            | Provincial Support Improvement Program (PSIP)                 | 15.0         | 15.0         | 15.0         | 15.0         | 15.0         |
|            | Special Support Grant (Ok Tedi - Fly River Development Trust) | 14.4         | 14.4         |              |              |              |
| <b>572</b> | <b>Gulf Provincial Government</b>                             | <b>100.3</b> | <b>91.0</b>  | <b>91.8</b>  | <b>93.5</b>  | <b>95.3</b>  |
|            | District Support Improvement Program (DSIP)                   | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
|            | Local Level Government Support Improvement Program (LLGSIP)   | 5.0          | 5.0          | 5.0          | 5.0          | 5.0          |
|            | Provincial Support Improvement Program (PSIP)                 | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
| <b>573</b> | <b>Central Provincial Government</b>                          | <b>142.1</b> | <b>149.5</b> | <b>150.8</b> | <b>153.7</b> | <b>156.6</b> |
|            | District Support Improvement Program (DSIP)                   | 40.0         | 40.0         | 40.0         | 40.0         | 40.0         |
|            | Local Level Government Support Improvement Program (LLGSIP)   | 6.5          | 6.5          | 6.5          | 6.5          | 6.5          |
|            | Provincial Support Improvement Program (PSIP)                 | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
| <b>574</b> | <b>National Capital District</b>                              | <b>57.1</b>  | <b>64.1</b>  | <b>64.7</b>  | <b>65.9</b>  | <b>67.2</b>  |
|            | District Support Improvement Program (DSIP)                   | 30.0         | 30.0         | 30.0         | 30.0         | 30.0         |
|            | Fish Market - Moresby South                                   |              | 5.0          |              |              |              |
|            | Provincial Support Improvement Program (PSIP)                 | 15.0         | 15.0         | 15.0         | 15.0         | 15.0         |
|            | Urban Youth Employment Project                                | 5.1          | 7.0          |              |              |              |
| <b>575</b> | <b>Milne Bay Provincial Government</b>                        | <b>138.8</b> | <b>142.6</b> | <b>143.9</b> | <b>146.6</b> | <b>149.4</b> |
|            | District Support Improvement Program (DSIP)                   | 40.0         | 40.0         | 40.0         | 40.0         | 40.0         |
|            | Local Level Government Support Improvement Program (LLGSIP)   | 8.0          | 8.0          | 8.0          | 8.0          | 8.0          |
|            | Provincial Support Improvement Program (PSIP)                 | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
| <b>576</b> | <b>Oro Provincial Government</b>                              | <b>91.1</b>  | <b>83.6</b>  | <b>84.3</b>  | <b>85.9</b>  | <b>87.6</b>  |
|            | District Support Improvement Program (DSIP)                   | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
|            | Provincial Support Improvement Program (PSIP)                 | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
| <b>577</b> | <b>Southern Highlands Province</b>                            | <b>204.5</b> | <b>238.6</b> | <b>240.8</b> | <b>245.3</b> | <b>250.0</b> |
|            | District Support Improvement Program (DSIP)                   | 50.0         | 50.0         | 50.0         | 50.0         | 50.0         |
|            | Local Level Government Support Improvement Program (LLGSIP)   | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
|            | Provincial Support Improvement Program (PSIP)                 | 25.0         | 25.0         | 25.0         | 25.0         | 25.0         |
|            | Southern Highlands Master Plan Implementation                 |              | 20.0         |              |              |              |
|            | Special Support Grant   | 20.2         | 20.2         |              |              |              |
|            | Special Support Grant (Kutubu) - KSPA                         | 8.6          | 14.0         |              |              |              |
| <b>578</b> | <b>Enga Provincial Government</b>                             | <b>180.0</b> | <b>225.0</b> | <b>227.0</b> | <b>231.3</b> | <b>235.7</b> |
|            | District Support Improvement Program (DSIP)                   | 50.0         | 50.0         | 50.0         | 50.0         | 50.0         |
|            | Enga Provincial Hospital                                      |              | 50.0         | 0.0          | 0.0          | 0.0          |
|            | Local Level Government Support Improvement Program (LLGSIP)   | 7.5          | 7.5          | 7.5          | 7.5          | 7.5          |
|            | Provincial Support Improvement Program (PSIP)                 | 25.0         | 25.0         | 25.0         | 25.0         | 25.0         |
| <b>579</b> | <b>Western Highlands Provincial Government</b>                | <b>211.3</b> | <b>192.9</b> | <b>194.6</b> | <b>198.3</b> | <b>202.1</b> |
|            | District Support Improvement Program (DSIP)                   | 40.0         | 40.0         | 40.0         | 40.0         | 40.0         |
|            | Kapal Haus (Administration Building)                          | 50.0         | 40.0         |              |              |              |
|            | Provincial Support Improvement Program (PSIP)                 | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
| <b>580</b> | <b>Simbu Provincial Government</b>                            | <b>200.8</b> | <b>201.9</b> | <b>203.7</b> | <b>207.6</b> | <b>211.6</b> |
|            | Chuave Education Infrastructure                               |              | 5.0          |              |              |              |
|            | District Support Improvement Program (DSIP)                   | 60.0         | 60.0         | 60.0         | 60.0         | 60.0         |
|            | Local Level Government Support Improvement Program (LLGSIP)   | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
|            | Provincial Support Improvement Program (PSIP)                 | 30.0         | 30.0         | 30.0         | 30.0         | 30.0         |

|            |   |              |              |              |              |              |
|------------|---|--------------|--------------|--------------|--------------|--------------|
| <b>581</b> | <b>Eastern Highlands Provincial Government</b>              | <b>227.5</b> | <b>250.8</b> | <b>253.1</b> | <b>257.9</b> | <b>262.8</b> |
|            | District Support Improvement Program (DSIP)                 | 80.0         | 80.0         | 80.0         | 80.0         | 80.0         |
|            | Goroka Hospital   |              | 10.0         | 10.0         | 10.0         |              |
|            | Goroka Town Market  | 2.0          | 10.0         |              |              |              |
|            | Local Level Government Support Improvement Program (LLGSIP) | 12.0         | 12.0         | 12.0         | 12.0         | 12.0         |
|            | Provincial Support Improvement Program (PSIP)               | 40.0         | 40.0         | 40.0         | 40.0         | 40.0         |
| <b>582</b> | <b>Morobe Provincial Government</b>                         | <b>265.2</b> | <b>273.5</b> | <b>275.9</b> | <b>281.2</b> | <b>286.5</b> |
|            | District Support Grant                                      |              | 5.0          |              |              |              |
|            | District Support Improvement Program (DSIP)                 | 90.0         | 90.0         | 90.0         | 90.0         | 90.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 16.5         | 16.5         | 16.5         | 16.5         | 16.5         |
|            | Provincial Support Improvement Program (PSIP)               | 45.0         | 45.0         | 45.0         | 45.0         | 45.0         |
| <b>583</b> | <b>Madang Provincial Government</b>                         | <b>209.4</b> | <b>226.6</b> | <b>228.6</b> | <b>233.0</b> | <b>237.4</b> |
|            | District Support Improvement Program (DSIP)                 | 60.0         | 60.0         | 60.0         | 60.0         | 60.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 9.5          | 9.5          | 9.5          | 9.5          | 9.5          |
|            | Provincial Support Improvement Program (PSIP)               | 30.0         | 30.0         | 30.0         | 30.0         | 30.0         |
|            | Rehabilitation of Madang Town                               |              | 11.8         |              |              |              |
| <b>584</b> | <b>East Sepik Provincial Government</b>                     | <b>209.4</b> | <b>225.7</b> | <b>227.7</b> | <b>232.1</b> | <b>236.5</b> |
|            | District Support Improvement Program (DSIP)                 | 60.0         | 60.0         | 60.0         | 60.0         | 60.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 13.0         | 13.0         | 13.0         | 13.0         | 13.0         |
|            | Provincial Support Improvement Program (PSIP)               | 30.0         | 30.0         | 30.0         | 30.0         | 30.0         |
| <b>585</b> | <b>Sandaun Provincial Government</b>                        | <b>167.2</b> | <b>163.8</b> | <b>165.3</b> | <b>168.4</b> | <b>171.6</b> |
|            | District Support Improvement Program (DSIP)                 | 40.0         | 40.0         | 40.0         | 40.0         | 40.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 8.5          | 8.5          | 8.5          | 8.5          | 8.5          |
|            | Provincial Support Improvement Program (PSIP)               | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
| <b>586</b> | <b>Manus Provincial Government</b>                          | <b>89.2</b>  | <b>66.2</b>  | <b>66.8</b>  | <b>68.1</b>  | <b>69.4</b>  |
|            | District Support Improvement Program (DSIP)                 | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          |
|            | Provincial Support Improvement Program (PSIP)               | 5.0          | 5.0          | 5.0          | 5.0          | 5.0          |
| <b>587</b> | <b>New Ireland Provincial Government</b>                    | <b>96.3</b>  | <b>97.7</b>  | <b>98.6</b>  | <b>100.5</b> | <b>102.4</b> |
|            | District Support Improvement Program (DSIP)                 | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
|            | Provincial Support Improvement Program (PSIP)               | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
|            | Special Support Grant (Lihir)                               |              | 10.4         |              |              |              |
| <b>588</b> | <b>East New Britain Provincial Government</b>               | <b>161.6</b> | <b>163.5</b> | <b>164.9</b> | <b>168.1</b> | <b>171.3</b> |
|            | District Support Improvement Program (DSIP)                 | 40.0         | 40.0         | 40.0         | 40.0         | 40.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 9.0          | 9.0          | 9.0          | 9.0          | 9.0          |
|            | Provincial Support Improvement Program (PSIP)               | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
| <b>589</b> | <b>West New Britain Provincial Government</b>               | <b>103.9</b> | <b>110.5</b> | <b>111.5</b> | <b>113.6</b> | <b>115.8</b> |
|            | District Support Improvement Program (DSIP)                 | 20.0         | 20.0         | 20.0         | 20.0         | 20.0         |
|            | Local Level Government Support Improvement Program (LLGSIP) | 5.5          | 5.5          | 5.5          | 5.5          | 5.5          |
|            | Provincial Support Improvement Program (PSIP)               | 10.0         | 10.0         | 10.0         | 10.0         | 10.0         |
|            | Special Development Grant                                   |              | 5.0          |              |              |              |
| <b>590</b> | <b>Autonomous Bougainville Government</b>                   | <b>243.9</b> | <b>264.5</b> | <b>269.5</b> | <b>282.7</b> | <b>291.2</b> |
|            | Community Policing  | 4.4          | 5.8          |              |              |              |



|              |   |               |                |                |                |                |
|--------------|---|---------------|----------------|----------------|----------------|----------------|
|              | District Support Improvement Program (DSIP)                 | 30.0          | 30.0           | 30.0           | 30.0           | 30.0           |
|              | Provincial Support Improvement Program (PSIP)               | 15.0          | 15.0           | 15.0           | 15.0           | 15.0           |
|              | Restoration and Development Grant                           |               | 115.0          |                |                |                |
| <b>591</b>   | <b>Hela Provincial Government</b>                           | <b>122.3</b>  | <b>140.9</b>   | <b>142.2</b>   | <b>144.9</b>   | <b>147.6</b>   |
|              | Additional funding for Hela                                 |               | 30.0           |                |                |                |
|              | District Support Improvement Program (DSIP)                 | 30.0          | 30.0           | 30.0           | 30.0           | 30.0           |
|              | Hides SPA   | 3.9           | 7.0            |                |                |                |
|              | Komo to Mt. Bosavi Road                                     |               | 5.0            |                |                |                |
|              | Korobo Agro Industrial Centre                               |               | 10.0           |                |                |                |
|              | Provincial Support Improvement Program (PSIP)               | 15.0          | 15.0           | 15.0           | 15.0           | 15.0           |
| <b>592</b>   | <b>Jiwaka Provincial Government</b>                         | <b>123.7</b>  | <b>125.6</b>   | <b>126.7</b>   | <b>129.2</b>   | <b>131.6</b>   |
|              | Additional funding for Jiwaka                               |               | 30.0           |                |                |                |
|              | District Support Improvement Program (DSIP)                 | 30.0          | 30.0           | 30.0           | 30.0           | 30.0           |
|              | Local Level Government Support Improvement Program (LLGSIP) | 6.0           | 6.0            | 6.0            | 6.0            | 6.0            |
|              | Provincial Support Improvement Program (PSIP)               | 15.0          | 15.0           | 15.0           | 15.0           | 15.0           |
| <b>TOTAL</b> |   | <b>3462.2</b> | <b>3,638.4</b> | <b>3,673.3</b> | <b>3,751.2</b> | <b>3,825.6</b> |

Source: Dept of Treasury

### 5.3.8 Social Sector

The Government will provide K227.1 million (including K128.9 million in donor grants and loans) in 2014 to the social sector (not including Health and Education) which is an increase of K52.3 million or 29.9 per cent from 2013.

The most significant program under the social sector in the 2014 Budget is the K20.0 million provided to support the operation of the Melanesian Arts Festival which will showcase pacific culture across PNG.

The Department of Community Development will be provided K128.1 million in 2014 including K25.8 million for programs targeting gender equality. The National Museum and Art Gallery will be provided K35.0 million of which K26.0 million will to develop a state of the art conference facility in Port Moresby under the International Conference Centre Project.

The 2014 Budget also continues support for the Church State Partnership Program providing K19.4 million. Supporting church-delivered programs has proven to be an efficient and cost effective use of Government funding for improving delivery of basic health and welfare services in many locations.

**Table 19: Social Sector 2014–2017 Expenditure (Kina Million)**

| Div        | Agency                                      | 2013        | 2014         | 2015         | 2016         | 2017         |
|------------|---|-------------|--------------|--------------|--------------|--------------|
| <b>207</b> | <b>Treasury and Finance - Miscellaneous</b> |             | <b>20.0</b>  | <b>19.5</b>  | <b>20.0</b>  | <b>20.4</b>  |
|            | Melanesian Arts Festival (NCC)              |             | 20.0         |              |              |              |
| <b>242</b> | <b>Department for Community Development</b> | <b>95.4</b> | <b>128.1</b> | <b>125.0</b> | <b>127.9</b> | <b>130.9</b> |
|            | Child Protection                            | 5.9         | 6.7          |              |              |              |
|            | Church Partnership Program Phase II         | 17.2        | 19.4         |              |              |              |
|            | Gender Equality/Gender Based Violence       |             | 20.3         |              |              |              |
|            | Social Protection Policy                    |             | 5.0          |              |              |              |
|            | Strongim Pipol Strongim Nesen (SPSN)        | 44.2        | 48.1         |              |              |              |
| <b>243</b> | <b>National Volunteer Services</b>          | <b>1.4</b>  | <b>1.2</b>   | <b>1.2</b>   | <b>1.2</b>   | <b>1.3</b>   |
| <b>505</b> | <b>National Research Institute</b>          | <b>5.1</b>  | <b>4.8</b>   | <b>4.8</b>   | <b>4.9</b>   | <b>5.0</b>   |
| <b>516</b> | <b>Papua New Guinea Sports Foundation</b>   | <b>17.1</b> | <b>20.2</b>  | <b>20.0</b>  | <b>20.4</b>  | <b>20.8</b>  |

|              |   |              |              |              |              |              |
|--------------|---|--------------|--------------|--------------|--------------|--------------|
|              | National Sports Enhancement Program     | 5.0          | 5.0          |              |              |              |
| 518          | PNG Maritime College                    | 3.3          | 3.3          | 3.2          | 3.3          | 3.4          |
| 521          | National Youth Commission               | 4.4          | 9.3          | 9.2          | 9.4          | 9.6          |
|              | Youth Friendly Centres                  |              | 5.0          |              |              |              |
| 539          | National Museum and Art Gallery         | 29.7         | 35.0         | 34.8         | 35.4         | 36.1         |
|              | International Conference Centre Project | 20.0         | 26.0         |              |              |              |
| 542          | National Cultural Commission            | 18.5         | 5.2          | 5.1          | 5.2          | 5.3          |
| <b>TOTAL</b> |   | <b>174.8</b> | <b>227.1</b> | <b>222.9</b> | <b>227.7</b> | <b>232.7</b> |

Source: Dept of Treasury

## 5.4 NON-FINANCIAL INSTRUCTIONS

To improve agency performance, accountability and transparency, the Government is again issuing a number of non-financial instructions in the Budget context for implementation in 2014 and beyond. Progress with implementing these recommendations will be considered in determining 2015 Budget allocations. The Government has noted non-compliance with several instructions from the 2014 Budget with concern.

The instructions are intended to improve the performance of agencies and provincial administrations receiving Government funding and continuing failure to implement these instructions will not be accepted in 2014 and will result in amended delegations or resourcing for non-complying agencies and administrations. Progress in implementing the instructions will be monitored during quarterly Budget reviews and agency reports to Budget Steering Committee.

The directions include:

**Trust Fund Management** – The Government requires all agencies to report in the Budget process on public monies held in Trust accounts managed or controlled by GoPNG entities, including statutory authorities, provincial administrations and departments. In preparing these reports agencies must:

- Identify the balance of the Trust account as at 30 August 2014;
- Identify and reconcile movements in the Trust account balance up to 30 August 2014;
- Project movements in the Trust account balance for the 2013 year and remainder of the 2014 year;
- Provide a detailed Budget describing how the funds held in trust have been spent in 2013 and those that are to be expended in 2014;
- Provide details of interest earned on trust accounts; and
- Identify the legal authority for the creation and continuing operation of the Trust account.

**Off-Budget Income** – All agencies and provincial administrations receiving funding from Service Delivery Funding must report their full operating budget including income or revenue earned through providing government services (e.g. immigration permits, work permits, licences, fees for services and the like) or royalties. Affected agencies are required to submit to Treasury, for the consideration of the Budget Screening Committee, complete budgets for 2015 identifying their projected:

- service delivery funding revenue;
- development and capital investment funding revenue;

- Any funds rolled over into 2014; and
- Non-Budget funded revenues.

**Funding for New Projects** – There is some concern with the number of projects received by the Government and the quality of assessment in formulating submissions. As a way to improving this process the Government has introduced a two stage approval process:

- The first stage will involve '*Initial Concept Approval*' where the first year is to ascertain a strategic business case for the project proposal. This will include initial justifications, indicative costing and may request the funding required to develop a detailed business case.
- The second stage will involve '*Final Government Approval*' where a detailed business case including full justification, specifications costs based on tender quality prices is assessed by Minister's and considered in the budget process for final government approval.

**Construction of new office Complexes** – In recent times there has been a considerable increase in requests by government entities to build new office complexes. All requests for construction of new office complexes are to be forwarded to the Department of Personnel Management office allocation committee for deliberation. This is so that construction of government buildings with government resources is not done as agencies see fit but in line with a whole of government view.

**Recruitment without financial resourcing** - The Department of Personnel Management is required to report to the Budget Screening Committee (BSC) after investigating instances of agencies recruiting new staff without first securing the financial resources necessary to meet the personnel emoluments costs of the new appointees. In the event that there is evidence that the head of agency, or their delegate, has exceeded their powers, those devolved powers are to be withdrawn and appropriate sanctions applied to individual officers in charge. Additional staff should only be recruited if funding has been allocated by the BSC. BSC will only approve additional staff upon approval by the SCMC. In no way should Government entities seek to recruit additional staff on the basis of SCMC approval without first securing appropriate funding to accommodate these new staff.

**Organisational Reviews** – The Government has noted that agencies are undertaking regular costly and time consuming organisational reviews. In future all such reviews intended for consideration by the Department of Personnel Management (DPM) must be submitted to DPM by 31 March in the year they are to be considered. DPM will implement this decision initially by issue of a circular.

**Retrenchment and Retirement** - The Government is concerned at the significant costs of current retrenchment provisions, the waste involved in maintaining unattached and effectively unemployed officers on payroll pending provision of funds for their retrenchment or retirement, and the variation in approaches by agencies and provincial governments to redundancy and retirement action. The Government believes that agencies and provinces should be required to apply current funds or savings to meet the costs of genuine retrenchments and retirements before seeking Budget funding and should make greater use of existing disciplinary provisions in the case of underperforming or offending officers and that this policy should be applied nationally. The Department of Personnel Management is tasked with developing guidelines for this scheme and ensuring its enforcement from 2014.

In 2014 funding for retrenchment and retirement is to be allocated to DPM and managed in accordance within existing arrangements. In addition DPM is to provide the 2015 Budget

Steering Committee with an estimate of the redundancy and retrenchment costs for all agencies in 2015.

**Manpower** – An element of the advice to Government required above is a review of manpower across all agencies to record total staff on strength, total vacancies and unattached numbers. This review is to be undertaken by DPM in conjunction with Treasury and Finance and provided to NEC with recommendations by June 2014.

**Consolidated Revenue** – The Government will establish a review of existing arrangements for the hypothecation of revenues to agencies (including departments and statutory authorities), with a view to returning these revenues to Consolidated Revenue for annual allocation in the Budget process. This review will be led by the Treasury in consultation with the Departments of the Prime Minister and NEC, Finance and DPM, and will also be required to advise on appropriate changes to the recurrent funding levels for affected agencies in lieu of existing hypothecation arrangements and be completed by mid-2014.

**Transfers between Appropriation Items** - All transfers between appropriation items during 2014 are to be reported in agency Budget submissions and in budget review quarterly reports. This includes transfers within PBS and IFMS approved by the Secretary of Treasury. Treasury is to provide copies of all transfers between appropriation items and departments to the Auditor General for each quarter in 2014.

**Provincial Governments' Payroll Management** - The Government notes with concern a consistent trend among provincial governments to over expend on salaries paid through the national Alesco payroll system. The Government has identified the worst offenders and has directed the Department of Personnel Management (DPM) to withdraw personnel delegations from the offending Provincial Administrations pending removal of ineligible individuals from the National payroll by the Provincial Administrations and the Department of Finance. The performance of other provinces and agencies is to be reviewed by DPM in 2014 and similar sanctions applied where there are significant breaches.

**Compliance with the *Public Finances (Management) Act 1995 (PFMA)*:** the Department Heads for Finance and Treasury and DPM will work to operationalise the sanctions available under the *Public Finances (Management) Act (PFMA)* to 'surcharge' agency heads who breach the provisions of the PFMA. The results of their efforts are to be reported to NEC by mid-2014.

**Public Service Housing** - The continuing trend of agencies to seek to enter into *ad hoc* housing arrangements is *inconsistent* with Public Service employment conditions. The Government has suspended further all *ad hoc* arrangements until a Whole of Government housing policy is developed.

**Agency Payroll Debts to the Department of Finance** - Finance and Treasury will report to Budget Screening Committee in the context of the 2015 Budget on options to resolve the issue of outstanding payroll debts administered by the Finance Department for agencies and statutory bodies. Affected agencies will be consulted in developing options to resolve these outstanding debts, with due consideration of their capacity to repay the debts. In addition, appropriate options should be developed for enforcing penalties for non-repayment.

**Consultants and Professional Service Providers** - The Government commends agencies that have taken steps to reduce their reliance on consultants but remains of the view that there are still too many consultants and Professional Service Providers involved in the long term management of Government agencies. The Government is concerned at the long term nature and cost of many of these consultancy arrangements and has decided that agencies will continue to report in the Budget Process, identifying any consultancy exceeding six

months or worth K150,000 or more total value (including all fees, allowances and gratuities); Details of the specific task and timeframe the consultant is expected to undertake; why the task cannot be undertaken by agency staff; details of steps taken by the agency to address any skills gap and to reduce the reliance on external consultants; and details (including duration and cost) of all consultancy or professional service contracts, entered into by the agency commencing 2013.

In addition the Government has decided that agencies' engagement of consultants in 2013 and beyond will be managed by Central Supply and Tenders Board through a public tender process and that consultants are not to be engaged for periods exceeding 6 months.

**Special Appropriation Institutions** – Currently special appropriation institutions such as the National Parliament and Judiciary Services are separately appropriated. Separate appropriation does not however exempt these institutions from scrutiny of their estimates or inclusion in the Budget process. All Special Appropriation Institutions must provide detail of their 2015 estimates to Budget Screening Committee in 2014.

**Department of Works** – All approved infrastructure projects are to be undertaken in consultation with the Department of Works. Agencies may only seek private sector implementation or supervision involvement where the Department of Works agrees it has capacity constraints and is unable to assist.

**Commercial Statutory Agencies** – Commercial statutory agencies (CSAs) are established to give them a measure of independence from Government and the capacity to compete on an equal footing with the private sector. They are also given the capacity to be self-funding from their own revenue and expected to meet all normal outgoings (e.g. for legal costs). Portfolio agencies are not to provide additional funds to CSA's to meet emergent circumstances without NEC approval and are to ensure CSA's within their portfolio to meet the requirements of the *Public Finances (Management) Act 1995*, including the provision of quarterly reports to Treasury.

**Subscriptions and Memberships** – the Government is concerned with the substantial amount of Government resources being spent on agencies membership and subscription fees. Finance is to review all subscription and membership fees of all Government agencies and find out what the fees are for and for how much. As a result of this Finance is to make recommendations as to which fees are necessary to the government's objectives and which fees are to be rescinded.

**Proposed Right-sizing/Departmental Mergers** – In the 2014 Budget process NEC has agreed to amalgamate or abolish agencies as follows:

- Amalgamate the Department of Personnel management and the Public Service Commission;
- Amalgamate the Department of Rural Development into the Department of Provincial and Local Government Affairs;
- Abolish the Department of Public Enterprise;
- Amalgamate the Coastal Fisheries Development Agency into the National Fisheries Authority;
- Amalgamate the National Economic and Fiscal Commission into the Department of Treasury;
- Amalgamate the National AIDS Council into the Department of Health;
- Amalgamate the Office of UNESCO into the Department of Education;

- Abolishing the Tourism Promotion Authority and the Office of Tourism and Culture and create a new Department of Tourism to replace them;
- Amalgamate the National Tripartite Consultative Council Secretariat into the Department of Labour & Industrial Relations; and
- Amalgamate the National Youth Commission into the Department for Community Development.

The Department of Prime Minister and NEC will oversight implementation of this reform.

### **Agency Specific Instructions**

In addition to the above decisions which affect the Whole of Government, the Government has made a range of recommendations in relation to specific agencies. These include:

**Utilities (Department of Environment)** - The Government is concerned about the difficulties some agencies continue to have in effectively managing the cost of utilities.

**Manpower audit (Department of Treasury, Finance and Personnel Management)** – A thorough manpower audit by province and agency needs to be conducted in 2014. Being mindful of the various manpower audits programs by government this exercise is proposed to be conducted to identify excess manpower and reduce cost of payroll which, is currently absorbing about 72 per cent of funding that is allocated to the provinces and 60 per cent of the funding that is national departments and CSAs, and implementation of the 1PPP (1 person, 1 position and 1 pay) to control cost. The audit exercise is targeted to be completed by mid-2014 and report provided to BSC.

**Department of Environment and the Office of Climate Change** are charged with the responsibility of providing advice and education to agencies on options to manage their resource consumption and reduce costs and report on its success to the Budget Screening Committee. No additional budget allocation will be provided.

**Department of Agriculture and Livestock** – In view of persistent over-expenditure by the Department of Agriculture and Livestock (DAL), its Minister is requested to direct that the powers of the Secretary of DAL under Section 31 of the PFMA are no longer exercised pending investigation of the over expenditure and that a freeze on recruitment to DAL is commenced from 2012. The Department of Personnel Management is charged with conducting a payroll audit for DAL and reconciling staff on strength with payroll data.

**Membership of International Organisations (Department of Foreign Affairs and Trade)** PNG is a member of a variety of international and regional organisations, often at substantial cost in terms of membership fees and travel associated with meeting participation. The membership of all such organisations is to be reviewed urgently by an independent Government Committee chaired by the Department of Foreign Affairs with a view to identifying those organisations where PNG participation has achieved specific, quantifiable outcomes of demonstrated value to PNG and the cessation of membership of organisations which fail to meet this test. A report and recommendations was supposed to be provided to the NEC by mid-2013.

**NASFUND** - The financial health and strong financial position of NASFUND indicates there may no longer be a need to provide ongoing support to NASFUND. The Department of Treasury will discuss with NASFUND options and mechanisms for withdrawing GoPNG funding support for the entity.

**Central Supply and Tender Board (CSTB)** – CSTB is required to provide NEC with a set of clear guidelines for Departments and agencies seeking approval for centrally co-ordinated tender processes and appropriate formal undertakings to specify the maximum length of time it will need for its deliberations at each stage of the tender process. These guidelines are to be workshopped with affected agencies. The CSTB compliance with these service obligations are to be reported quarterly to NEC through the Chief Secretary's office.

**Defence** – the Government notes an increasing number of agencies are becoming involved in various elements of border security. To ensure that these activities are properly coordinated the Government has instructed that a co-ordinating committee be established, chaired by the Department of Defence. Other participating agencies should include Police, National Intelligence Organisation, and the Border Development Authority.

**Universities (All Government funded Universities)** – Maintenance of facilities at all four government funded universities is inadequate and the level of requests for additional maintenance funds submitted is substantial. The Government has requested the four universities provide to the Budget Screening Committee their fully costed maintenance plans for the next five years with appropriate approvals by university management commencing immediately. Plans should rely on existing resources only. This task was supposed to be accomplished in 2013.

**Legal Training Institute** - The Institute, the Department of Justice and Attorney General, together with the Department of Treasury, the PNG Law Society, the Judiciary, the University of PNG and other relevant stakeholders, will examine and provide fully costed options to the 2014 Budget Screening Committee to increase the number of legal practitioners admitted to practice each year. The LTI will co-ordinate this task and report to the BSC in 2014. This task was to be completed in 2013.

**Universities' Tax Liabilities** – Department of Treasury is to liaise with the Internal Revenue Commission to work out a schedule for the universities to retire the tax liability they have incurred and arrange for all universities to reduce the liability progressively. IRC is to ensure that universities meet their obligations to settle income tax in future. Universities are also to ensure that superannuation contributions to Nambawan Superannuation are made in a timely manner.

**National Narcotics Bureau** - The Government recognises the importance of the function of the National Narcotics Bureau (NNB). However, this function is not being effectively delivered and the National Narcotics Bureau is to immediately request the Department of Personnel Management to review the operations and functions of the NNB, and make recommendations to assist the Bureau to deliver on its objectives. The Bureau should immediately submit a comprehensive corporate/annual plan for consideration by the responsible Minister including how its current appropriation will be used to produce measurable outcomes.

**Office of Urbanisation** – The Office of Urbanisation was given self-accounting status in August 2011. To date, it is seen that the office has the capacity to implement its financial functions. Therefore, provision is given to this effect in the 2014 Budget. Treasury has monitored the office and has provided advice on this issue. The recommendation to have a separate agency code from the Department for Community Development is in order to achieve proper financial management, efficient service delivery in line with the Government Urbanisation Policy.

**Police, Correctional Services and Defence** – All elements of the disciplined services appear to have difficulty in controlling expenditure on utilities, particularly on staff housing under their control. These agencies are to undertake a review of control measures (such as

installing prepaid meters on housing) and report on measures taken to BSC in the context of the 2015 Budget. All disciplinary forces Barracks houses must be installed with meters for power and water (user pay policy), as per Prime Minister's recommendations. This is to be implemented by the Department of Works and the Department of Personnel Management. A report must be presented highlighting progress of instructions, problems faced and actions to address these problems.

**Police** – The Government is concerned with the cost that is incurred in running official vehicles during unofficial hours. As such, all Police operational vehicles are to be kept at Police Stations for official use after hours. Official vehicles are not to be taken home by officer's use after official hours.

**Corrective Institutional Services** – the Government is concerned with the excessive cost of hiring vehicles during CIS operations. The CIS is to use departmental or jail vehicles when conducting CIS operations, instead of hiring vehicles. Government has also noted the difficulties faced by the CIS, in being charged with contempt of court when unable to present prisoners at court sittings. As such it is necessary that a schedule of court sittings highlighting the time and location is obtained for proper forward planning to transport prisoners to these locations for Court Circuits.

**Department of Health** – The Health Department is currently paying for accommodation for its executive management at head office but accommodation allowances are already included within their contracts. DPM needs to immediately review all executive management positions' allowances and report to BSC in the context of the 2015 Budget. In 2014 the National Department of Health needs to provide Treasury with a comprehensive list of awards for all cadres of health workers, providing information on MOA requirements indicating outstanding awards for previous and current employees. This was to be done in 2013.

Health Department in partnership with Treasury Department needs to conduct a review into the medical distribution process to ensure that there are not leakages and medical drugs are distributed to the appropriate point of distribution, auditing the type of logistics currently engaged. They must also conduct a review of the current medical drugs supplies that are ordered for distribution to various health facilities including hospitals, taking into consideration the fact that the type of diseases have change and prevent procurement of medical drugs that are not needed. This exercise should be completed in 2014 and report on outcome provided to BSC at the 2015 Budget presentation.

Health Department, jointly with Hospitals and Treasury Department need to audit the doctors engaged with the public hospitals particularly the specialist that are under the Health Department and were supposed to be transferred to various hospitals of engagement enabling the hospitals and PHAs to create positions for specialist within various establishments. This exercise need to be completed by mid-2014 and reported to BSC on the outcome.

**PNG Fire Services** - The Government is concerned that the PNG Fire Services is incapable of adequately containing fires that may occur at high rise buildings and require new specialist fire fighting equipment to attend to emergencies in these buildings. The Government instructed the Fire Services to expedite its current review of the options for funding such purchases without drawing down on the Budget, in particular the imposition of a Fire Services Levy on the insurance premiums payable by high rise building owners or a property tax levy targeted at higher rise buildings. Progress needs to check on what has been done in 2013 and what is to be done in 2014.



**Solicitor General** - Ineffective management of claims by agencies is a continuing problem and exposes the state to significant financial risk. The Office of the Solicitor General will immediately develop and implement a program to better educate agencies on options and strategies for managing current and future claims, and report to BSC in the context of 2015 Budget. Furthermore government agencies hiring of private law firms is placing an enormous financial burden on government resources. All government entities are to seek approval from the solicitor general before hiring private law firms. This is for the interest of national security and as a cost saving measure for the government.

**Department of Labour & Industrial relations** – the Government anticipates an opportunity in linking the Independence Fellowship Scheme (IFS) with seasonal workers. In line with this the Government charges labour and industrial relations with forming a process whereby seed capital granted by the IFS for its program graduates to start businesses is linked with reintegrating seasonal workers. In this way knowledge, technical expertise, experience learned by seasonal workers abroad can be cultivated and developed locally, with the assistance of IFS grants. This can be a way forward in growing our agriculture sector and moving from subsistence farming to commercial farming.

**National Road Authority (NRA)** - The Government ceased NRA's recurrent funding from 2011 as the agency receives significant off-Budget revenue from road user charges and should use these funds to meet its costs. The road user charge of 4 toea per litre diesel levy collected on behalf of the NRA by the IRC is held in an off-budget account. The road levy generates approximately K16.0 million annually, but the Government is concerned that more can be raised by applying the levy to diesel that is exported. NRA will report in a detailed 2015 Budget submission outlining its expenditure and revenue, with the view to appropriating NRA funding for road maintenance through the annual national budget, in lieu of collections received through IRC. In the interim IRC, in consultation with Customs is to expedite collection of the levy and pass on any outstanding payments to NRA.

**National Gaming Control Board** -The PNG National Gaming Control Board (NGCB) does not appear to be contributing to the income of the PNG National Sports Foundation as required. The National Gaming Control Board is to provide 20 per cent of Sports Commission Revenue. The NGCB is to submit in the context of 2015 budget, its Community Service Obligation (CSO) component, in detail, including any costs associated. In addition, the Auditor General is to be asked, through the Ministers for Treasury and Finance, to arrange for examination of the accounts of the PNG National Gaming Control Board and the Community Benefit Fund Trust Account and make appropriate recommendations to ensure compliance with relevant legislation and the Trust Deed.

**Border Development Authority** -The BSC noted that the Border Development Authority is seeking to establish a commercial shipping arm, PNG Maritime Ltd, and is proposing its rapid expansion through recurrent funding requests. The Government agreed that no government funds, either by way of appropriation or loan guarantee, should be considered for the commercial operation until a full feasibility study of PNG Maritime Ltd has been provided to Government, including the feasibility of alternative means of improving sea transport services and documenting consultations with the PNG Maritime Safety Authority.

**Internal Revenue Commission** – There are problems in collecting revenue (e.g. fuel levy) from imported fuel (especially diesel) where that fuel has been imported for use by the importing company itself. The Internal Revenue Commission is to investigate the matter urgently and propose appropriate solutions to Treasury, if necessary including legislative changes.

## 5.5 TRUST ACCOUNTS

This section provides a summary of balances for budget funded trust accounts (trust accounts) as at 30<sup>th</sup> September 2013. These trust accounts contain funds appropriated through additional priority expenditure (APE), supplementary budget expenditure (SBE) and annual Budgets.

The purpose of holding funds in trust accounts is to spread public investment spending over time to manage inflationary and demand pressures in the economy and to provide time for implementing agencies to properly design implementation strategies.

The closing balance as at 30<sup>th</sup> September 2013, totalled K629.6 million. A total of K450 million was appropriated for trust accounts in 2013 Budget, of which K258.3 million in outstanding appropriations due for transfer to trust accounts from the 2013 Budget.

## 5.6 SUMMARY OF TRUST ACCOUNT MOVEMENTS

Since 2005 a total of K7,548.1 million, up to and including the 2013 Budget has been paid into trust accounts for implementation of priority expenditure programs. These Trust Accounts have largely been funded from additional mineral revenue in supplementary budgets and annual budgets. The purpose of holding funds in trusts is to give time to agencies to properly plan and implement projects.

Table 20 provides a summary on the movement of funds in and out of Budget Funded Trust Accounts from 2005 to 2013.

**Table 20: Summary of Trust Accounts movements since 2005 – 2013 (Kina Million)**

| Year            | Deposits from<br>SBE & APE (1) | Deposits from<br>Annual<br>Budgets &<br>Interest | Spending from<br>Trust<br>Accounts | Net Savings<br>(Deposits less<br>Spending) |
|-----------------|--------------------------------|--|------------------------------------|--|
| 2005            | 400                            |  | 0                                  | 400  |
| 2006            | 568.4                          |  | 0                                  | 568.4                                      |
| 2007            | 1,283.0                        |  | 76                                 | 1207                                       |
| 2008            | 1,501.4                        | 36.5   | 480.5                              | 1,057.4                                    |
| 2009            | 0.0                            | 627.2  | 2,365.90                           | -1,738.7                                   |
| 2010            | 0.0                            | 887.2  | 818.3                              | 68.9                                       |
| 2011            | 628.5                          | 598.2  | 1,426.30                           | -199.6                                     |
| 2012            | 398.0                          | 428.0  | 1,095.0                            | -269.0                                     |
| 2013 (30 Sept)* | 0.0                            | 191.7  | 209.9                              | -18.2                                      |

Source: Dept of Finance and Dept of Treasury

\* The trust movement (transactions) is up to 30<sup>th</sup> June as reported in 2013 Mid-Year Economic Fiscal Outlook.

The last column of Table 20 above shows the broad fiscal impact of movements in trust accounts. A positive figure indicates that deposits exceed expenditure whilst a negative figure indicates that expenditure exceeds deposits.

Some of the major areas of funding from trust accounts include District Services Improvement Program, PNG LNG Additional Equity, and 2015 Pacific Games.

The quality and effectiveness of spending from trust accounts is unclear as there is lack of detailed expenditure reports from implementing agencies. Also note that, information on trust movements for 2013 reflects up to June 2013 in Table 20 above as was reported in the Mid-Year Economic (MYEFO) Report. This is due to unavailability of most recent (up to 30<sup>th</sup> September) information. More information on the trust movements in 2013 will be provided in the 2013 Final Budget Outcome (FBO) Report.

## 5.7 APPROPRIATION FOR TRUST ACCOUNTS: 2013 - 2014

A total of K450 million has been appropriated for trust accounts in the 2013 Budget. Of this, K191.7 million has been paid into trust accounts as at 30th September 2013, with the remainder to be paid when funds become available later in 2013. A total of K645 million will be appropriated for budget funded trust accounts in the 2013 Supplementary Budget and the 2014 Budget.

**Table 21: Appropriation for each Trust accounts: 2013 - 2014 (Kina Million)**

| Expenditure Programs                    | Appropriation for Trust Accounts | Appropriations paid into Trust Account | Appropriations yet to be released |
|---|----------------------------------|--|-----------------------------------|
| <b>2013 BUDGET</b>                      |                                  |  |                                   |
| 2015 South Pacific Games                | 180.0                            | 135.0                                  | 45.0                              |
| Infrastructure Development Grant (USBA) | 120.0                            | 40.0                                   | 80.0                              |
| Restoration and Development Grant (AGB) | 100.0                            | 0                                      | 100.0                             |
| High Impact Projects (USBA)             | 50.0                             | 16.7                                   | 33.3                              |
| <b>TOTAL</b>                            | <b>450.0</b>                     | <b>191.7</b>                           | <b>258.3</b>                      |
| <b>2013 SUPPLEMENTARY BUDGET</b>        |                                  |  |                                   |
| 2015 South Pacific Games                | 315.8                            | 0.0                                    | 0.0                               |
| <b>TOTAL</b>                            | <b>315.8</b>                     | <b>0.0</b>                             | <b>0.0</b>                        |
| <b>2014 BUDGET</b>                      |                                  |  |                                   |
| 2015 South Pacific Games                | 59.2                             | 0.0                                    | 0.0                               |
| Infrastructure Development Grant (USBA) | 120.0                            | 0.0                                    | 0.0                               |
| Restoration and Development Grant (AGB) | 100.0                            | 0.0                                    | 0.0                               |
| High Impact Projects (USBA)             | 50.0                             | 0.0                                    | 0.0                               |
| <b>TOTAL</b>                            | <b>329.2</b>                     | <b>0.0</b>                             | <b>0.0</b>                        |

Source: Department of Treasury

## 5.8 TRUST ACCOUNT FUND MOVEMENTS IN 2013

Data on the transactions (credit and debits) in the trust accounts for the period 1<sup>st</sup> January to 30<sup>th</sup> September 2013 could not be provided due to insufficient information regarding the

details. Reporting will only be on trust account balances up to 30<sup>th</sup> September 2013. A more detailed report on trust accounts including credit and debit information for 2013 will be provided in the 2013 FBO report.

Opening balance of Budget Funded Trust Accounts from 1<sup>st</sup> January, 2013 totalled K809.8 million and closing balance as at 30<sup>th</sup> September 2013 totalled K629.6 million. Table 22 below shows the Budget Funded Trust Account balances from 1<sup>st</sup> January up to 30<sup>th</sup> September 2013.

**Table 22: Trust Account Movements from 1 January to 30 September 2013 (Kina Million)**

| Description  | Opening Balance as at<br>1 <sup>st</sup> Jan 13 | Balance as at<br>30 <sup>th</sup> Sept 13 |
|--|---|---|
| Education Sector Infrastructure Rehabilitation               | 1.1   | 1.1                                       |
| Higher Education Sector Infrastructure Rehabilitation        | 7.4   | 2.3                                       |
| Transport Sector Infrastructure Rehabilitation               | 8.0   | 0.0                                       |
| Resettlement of Rabaul Volcano Victims                       | 3.2   | 0.5                                       |
| Rehabilitation of Housing for Nurses                         | 1.3   | 0.2                                       |
| Rehabilitation of Housing for Police                         | 25.2  | 20.9                                      |
| District Services Improvement Program <sup>1</sup>           | 191.8   | 92.4                                      |
| Urbanisation Pilot   | 7.3   | 0.0                                       |
| Rural Electrification  | 0.6   | 0.6                                       |
| Regional, Provincial Treasury and District Admin. Offices    | 0.2   | 0.2                                       |
| LNG Project Development Cost                                 | 1.5   | 0.0                                       |
| Infrastructure Development Grants                            | 2.4   | 1.0                                       |
| Coastal Vessels  | 0.1   | 0.1                                       |
| Highlands Highway Rehabilitation                             | 7.2   | 0.0                                       |
| Rural District Roads Support                                 | 2.1   | 0.0                                       |
| PNG LNG High Impact Infrastructure                           | 51.7  | 10.0                                      |
| District Offices Rehabilitation                              | 0.4   | 0.0                                       |
| Mining Legal Costs   | 0.3   | 0.0                                       |
| Port Moresby Roads   | 2.9   | 0.0                                       |
| Tuition Fee Free Education                                   | 34.1  | 0.0                                       |
| Port Moresby General Hospital Infrastructure and Improvement | 3.3   | 3.3                                       |
| Restoration and Development Grant (ABG)                      | 94.8  | 0.0                                       |
| PNG LNG Additional Equity                                    | 192.7   | 392.7                                     |
| 2015 Pacific Games   | 146.3   | 80.3                                      |
| Trade Skills Scholarships                                    | 4.2   | 6.8                                       |
| Central Malalaua Highway                                     | 9.0   | 9.0                                       |
| Trans East-West New Britain Highway                          | 2.0   | 0.3                                       |

| Description                     | Opening Balance as at<br>1 <sup>st</sup> Jan 13 | Balance as at<br>30 <sup>th</sup> Sept 13 |
|---------------------------------|---|---|
| Kokopau to Arawa Road Upgrading | 8.7   | 7.9                                       |
| <b>TOTAL</b>                    | <b>809.8</b>                                    | <b>629.6</b>                              |

Source: Dept of Finance and Dept of Treasury

1. DSIP Trust Account gives the sum of the amount in the main bank (BPNG) and the DSIP subsidiary bank accounts.

## 5.9 DISTRICT SERVICE IMPROVEMENT PROGRAM TRUST ACCOUNTS

A total of K2,670.0 million, up to and including the 2013 Budget, has been appropriated for the District Service Improvement Program (DSIP). Note that the 2013 Budget appropriation was paid into the DSIP Trust Accounts straight from the 2013 Budget. For ease of management of these funds, separate bank accounts for each of the 89 Districts were established. Since then a total of K1,611.0 million has been released into the 89 District DSIP Bank Accounts.

The opening balance as at 1<sup>st</sup> January 2013 of the 89 DSIP Trust Accounts was K190.8 million and the closing balance as at 30<sup>th</sup> September 2013 was K92.4 million. Table 23 below shows the balances of the DSIP subsidiary trust accounts.

The Department of Finance, in consultation with the Department of National Planning and the Office of Rural Development, developed a Finance Instruction which provides guidance on the use and management of the DSIP funds. Monitoring of the implementation of the DSIP Program is undertaken by the Office of Rural Development with the support of the respective 89 Districts.

To date limited financial or project reporting has been provided by the implementing agencies including the relevant Districts to the Department of Finance.

**Table 23: Bank Balances of the 89 District Service Improvement Program Bank Accounts**

| District          | Total Fund Paid into<br>Trust | Opening Balance as at<br>1 <sup>st</sup> Jan 13 | Balance as at 30 <sup>th</sup> Sep 13 |
|-------------------|-------------------------------|---|---------------------------------------|
| Abau              | 18,000,000.00                 | 7,413.40  | 25.28-                                |
| Goilala           | 18,000,000.00                 | 2,985.50  | 2,895.50                              |
| Kairuku Hiri      | 18,000,000.00                 | 36,473.20                                       | 34,873.24                             |
| Rigo              | 18,000,000.00                 | 1,642.10  | 1,532.07                              |
| Gazelle           | 18,000,000.00                 | 2,084,072.50                                    | 943,745.66                            |
| Kokopo            | 18,000,000.00                 | 1,986,245.70                                    | 198,665.07                            |
| Pomio             | 18,000,000.00                 | 6,144,000.40                                    | 3,212,573.20                          |
| Rabaul            | 18,000,000.00                 | 2,712,621.40                                    | 1,442,728.85                          |
| Ambunti-Drekikir  | 18,000,000.00                 | 169,650.20                                      | 89,532.16                             |
| Angoram           | 18,000,000.00                 | 3,055,222.40                                    | 2,396,622.84                          |
| Maprik            | 18,000,000.00                 | 5,895,508.00                                    | 4,408,485.36                          |
| Wewak             | 18,000,000.00                 | 506,781.00                                      | 1,955,043.31                          |
| Wosera-Gawi       | 18,000,000.00                 | 6,467,911.40                                    | 1,953,279.55                          |
| Yangogoru-Saussia | 18,000,000.00                 | 94,904.10                                       | 4.58                                  |
| Daulo             | 18,000,000.00                 | 3,143,306.60                                    | 293,786.21                            |
| Goroka            | 18,000,000.00                 | 11,275,758.10                                   | 108,473.72                            |

| District             | Total Fund Paid into Trust | Opening Balance as at 1 <sup>st</sup> Jan 13 | Balance as at 30 <sup>th</sup> Sep 13 |
|----------------------|----------------------------|--|---------------------------------------|
| Henganofi            | 18,000,000.00              | 5,185.00                                     | 5,065.03                              |
| Kainantu             | 18,000,000.00              | 760,950.00                                   | 7,234.76                              |
| Lufa                 | 18,000,000.00              | 3,918,419.20                                 | 14,426.75                             |
| Obura-Wanenara       | 18,000,000.00              | 986,536.20                                   | 733,946.91                            |
| Okapa                | 18,000,000.00              | 1,300,447.70                                 | 88,303.40                             |
| Unggai-Bena          | 18,000,000.00              | 429,950.80                                   | 429,889.64                            |
| Kandep               | 20,000,000.00              | 13,792.30                                    | 13,430.29                             |
| Kompam-Ambun         | 18,000,000.00              | 168,789.70                                   | 98,190.56                             |
| Lagaip-Porgera       | 18,000,000.00              | 131,418.40                                   | 16,238.34                             |
| Wabag                | 18,000,000.00              | 674,893.10                                   | 28,475.35                             |
| Wapenamanda          | 18,000,000.00              | 625,310.80                                   | 625,193.76                            |
| Kerema               | 18,000,000.00              | 1,521,101.00                                 | 1,512,819.01                          |
| Kikori               | 18,000,000.00              | 20,796.90                                    | 4,163.00                              |
| Bogia                | 18,000,000.00              | 3,106,319.30                                 | 2,488,174.90                          |
| Madang               | 18,000,000.00              | 1,979,223.00                                 | 434,066.18                            |
| Middle Ramu          | 18,000,000.00              | 1,012,340.20                                 | 2,239.68                              |
| Raikos               | 18,000,000.00              | 729,860.60                                   | 16,540.00                             |
| Sumkar               | 18,000,000.00              | 718.9  | 304,511.69                            |
| Usino-Bundi          | 18,000,000.00              | 2,131,357.00                                 | 79,391.40                             |
| Manus                | 19,000,000.00              | 4,999,396.80                                 | 5,000,751.50                          |
| Alotau / Rabaraba    | 18,000,000.00              | 845,539.30                                   | 376,737.29                            |
| Esa'ala              | 18,000,000.00              | 6,708,165.50                                 | 548,019.90                            |
| Kiriwina             | 18,000,000.00              | 2,440,045.20                                 | 1,237,803.10                          |
| Samarai Murua        | 18,000,000.00              | 298,639.70                                   | 15,554.46                             |
| Bulolo               | 18,000,000.00              | 22,043.60                                    | 21,833.57                             |
| Finschafen           | 18,000,000.00              | 5,063,445.80                                 | 3,191,825.47                          |
| Huon Gulf            | 18,000,000.00              | 4,518,669.50                                 | 1,432,914.13                          |
| Kabwum               | 18,000,000.00              | 1,718,018.70                                 | 68,054.57                             |
| Lae                  | 18,000,000.00              | 5,086,306.60                                 | 588.08                                |
| Markham              | 18,000,000.00              | 8,478,883.20                                 | 4,257,362.45                          |
| Menyamy              | 18,000,000.00              | 976,725.90                                   | 610,548.43                            |
| Nawaeb               | 18,000,000.00              | 215,554.40                                   | 136,730.31                            |
| Tewa-Siassi          | 18,000,000.00              | 2,906,788.90                                 | 2,375,162.12                          |
| Moresby North East   | 18,000,000.00              | 121,301.90                                   | 121,211.89                            |
| Moresby North West   | 18,000,000.00              | 2,482,006.10                                 | 141,918.71                            |
| Moresby South        | 18,000,000.00              | 1,987,587.20                                 | 323,749.68                            |
| Kavieng              | 18,000,000.00              | 463,392.10                                   | 357,623.13                            |
| Namatanai            | 18,000,000.00              | 4,874,943.10                                 | 3,385,178.08                          |
| Central Bougainville | 18,000,000.00              | 6,971,922.50                                 | 1,465,246.80                          |
| North Bougainville   | 18,000,000.00              | 1,560,459.80                                 | 8,385.39                              |
| South Bougainville   | 18,000,000.00              | 471,854.10                                   | 227,310.14                            |

| District           | Total Fund Paid into Trust | Opening Balance as at 1 <sup>st</sup> Jan 13 | Balance as at 30 <sup>th</sup> Sep 13 |
|--------------------|----------------------------|--|---------------------------------------|
| Ijivitari          | 18,000,000.00              | 74,703.40                                    | 762,443.20                            |
| Sohe               | 18,000,000.00              | 12,662.70                                    | 847,921.42                            |
| Aitape-Lumi        | 18,000,000.00              | 29,696.60                                    | 29,174.09                             |
| Nuku               | 18,000,000.00              | 1,397,832.10                                 | 203,660.14                            |
| Telefomin          | 20,000,000.00              | 488.90                                       | 126.31                                |
| Vanimo-Green       | 18,000,000.00              | 3,932,534.70                                 | 3,838,023.75                          |
| Chuave             | 18,000,000.00              | 429,803.10                                   | 32,530.19                             |
| Gumine             | 18,000,000.00              | 665,234.90                                   | 665,356.65                            |
| Karamui-Nomane     | 18,000,000.00              | 1,344,991.60                                 | 1,604,335.10                          |
| Kerowagi           | 18,000,000.00              | 202,050.40                                   | 1,475.40                              |
| Kundiawa-Gembogl   | 18,000,000.00              | 994,259.80                                   | 951,082.45                            |
| Sinasina-Yongumugl | 18,000,000.00              | 4,364,431.00                                 | 1,954,072.54                          |
| Ialibu-Pangia      | 18,000,000.00              | 3,721,636.70                                 | 3,454,307.90                          |
| Imbongu            | 20,000,000.00              | 132,145.20                                   | 163,134.36                            |
| Kagua-Erave        | 18,000,000.00              | 74,845.40                                    | 74,665.42                             |
| Komo-Magarima      | 18,000,000.00              | 4,721.80                                     | 26.79                                 |
| Koroba-L/Kopiago   | 18,000,000.00              | 3,724,410.00                                 | 28,781.14                             |
| Mendi              | 19,000,000.00              | 1,757,537.80                                 | 1,100,428.43                          |
| Nipa-Kutubu        | 18,000,000.00              | 8,881.40                                     | 8,586.37                              |
| Tari-Pori          | 18,000,000.00              | 1,133,724.90                                 | 999,888.22                            |
| Kandrian           | 18,000,000.00              | 272,125.50                                   | 153,269.83                            |
| Talasea            | 19,000,000.00              | 2,365,487.50                                 | 2,954,392.08                          |
| Middle Fly         | 18,000,000.00              | 13,171,410.40                                | 10,164,981.47                         |
| North Fly          | 18,000,000.00              | 90,540.90                                    | 35,055.44                             |
| South Fly          | 18,000,000.00              | 6,586,539.80                                 | 6,497,828.19                          |
| Dei                | 18,000,000.00              | 7,821,889.60                                 | 2,403,854.73                          |
| Hagen              | 18,000,000.00              | 4,632,869.30                                 | 3,961,294.08                          |
| Jimi               | 18,000,000.00              | 12,301.90                                    | 5,566.90                              |
| Mul/Bayer          | 18,000,000.00              | 3,584,849.20                                 | 229,177.80                            |
| North Waghi        | 18,000,000.00              | 60,296.00                                    | 1,250.61                              |
| South Waghi        | 18,000,000.00              | 1,927,370.70                                 | 153.76                                |
| Tambul-Nebiler     | 18,000,000.00              | 1,706.80                                     | 1,616.76                              |
| <b>TOTAL</b>       | <b>1,611,000,000</b>       | <b>190,847,576</b>                           | <b>92,377,512</b>                     |

Source: Dept of Finance

## CHAPTER 6. FINANCING & DEBT STRATEGY

### 6.1. OVERVIEW

The domestic market in 2013 continued to grow as the Government issued increased volumes into the market to fund its development needs. There was strong demand from investors for Government debt, in particular from the commercial banks for Treasury Bills. This demand is expected to continue into 2014.

In 2014, the Government will seek to issue more long-term debt to lengthen the maturity of its domestic portfolio.

Development partners' provide assistance in the form of foreign currency project loans. For 2013 continued improvement in the execution of underlying projects was experienced, and the resulting disbursements of development partners' loans.

This is expected to continue in 2014. In addition, work on aligning donors' with the Governments development priorities will continue.

### 6.2. FINANCING DEVELOPMENT

The estimated budget deficit is expected to be K2,353.0 million in 2014. This will require additional debt borrowing to fund the State's cash needs.

The State's financing methods comprise:

- foreign currency denominated loans from our development partners for specific projects; and
- issuance of Kina denominated Inscribed Stock and Treasury Bills via tender for general funding.

#### **6.2.1 Foreign currency denominated loans from development partners**

Foreign currency loans are primarily concessional loans from bilateral or multilateral development partners and are generally repayable over 20-32 years.

Historically, capacity constraints and scope changes have resulted in delays in implementing the underlying projects and the resulting drawdown of development partner loans to meet this expenditure. Whilst these issues are ongoing, in 2012 draw-downs of concessional loans significantly improved and continued to further strengthen in 2013.

In 2014, the Government intends to undertake net financing of K647.8 million (comprised of expected gross borrowings of K871.2 million and repayment (amortisation) of K223.4 million.

#### **6.2.2 Inscribed Stock issued via tender**

Inscribed Stocks are bond securities issued domestically via competitive tender. Inscribed Stock pays a semi-annual coupon and on maturity the face value of the bond is repaid.

Issuance of Inscribed Stock proceeded well over 2013, with increased volumes issued over 2012 levels. The Inscribed Stock primary market continues to function well with the tender coverage ratio around 1.91 for the 2013 year to date. Whilst functioning well the market has a relatively narrow investor base which is further segmented based on the tenor of stock offered at tender. Treasury will continue to try to broaden the investor base for Inscribed



Stock by providing information on this product and tender rates to current and potential new investors, and by conducting a fair and transparent auction process open to all investors.

The Inscribed Stock secondary market is largely inactive constraining some investors from participating in the primary market due to the lack of secondary market liquidity. The 2013 year saw small levels of secondary trading occurring for liquidity reasons.

Gross borrowing of Inscribed Stock via tender is estimated to be K1,920.0 million (35.6 per cent increase in issuance from 2013) with maturities of K357.1 million. Net issuance is estimated to be K1,562.9 million. The increased level of Inscribed Stock issuance is to assist in lengthening the average maturity of the domestic debt portfolio to reduce refinancing risk (the risk of being unable to roll over the debt when it matures).

Issuance will continue to commence on a monthly basis beginning in January and more than four Inscribed Stock lines may be issued during the year. If required, issuance may be conducted on a fortnightly basis.

### **6.2.3 Treasury Bills issued via tender**

Treasury Bills are a discount security issued for 182 days or 364 days via competitive tender. Treasury Bills are issued at a discount from the amount repaid at maturity, with this discount representing the interest earned by the investors.

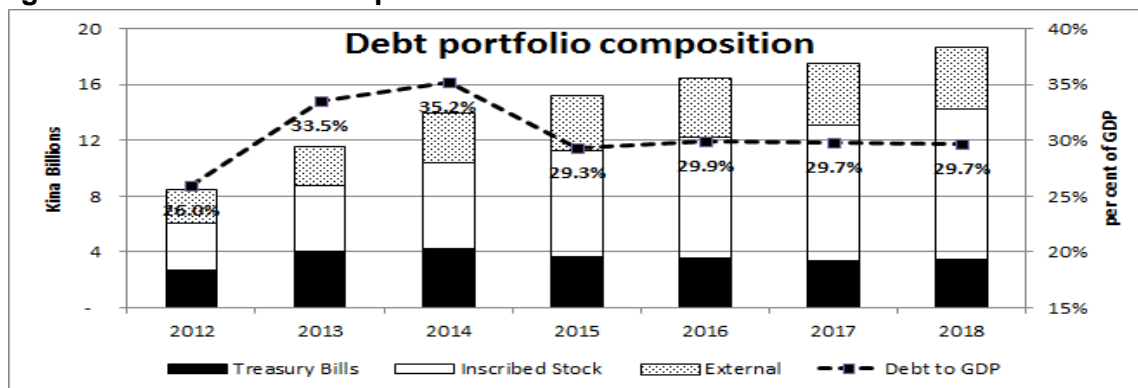
Treasury Bill issuance in 2013 was mixed with strong demand from investors depressing interest rates for most of 2013 accompanied by a number of occasions of under subscription where the amount offered for sale was not fully placed. The coverage ratio for tenders for the 2013 year to date is around 1.41.

Gross issuance of Treasury Bills via tender is estimated to be K5,101.1 million, a 5.6 per cent decline in issuance from 2013 levels with maturities of K4,956.3 million. Net issuance is projected to be K144.8 million. Treasury Bills issuance will be mainly applied to rolling over existing stock and for within year financing purposes.

Treasury Bills will be issued most weeks of the year with maturities of 182 and/or 364 days offered.

## **6.3. PUBLIC DEBT**

Total public debt is projected to increase from K11,600.4 million in 2013 to K13,955.9 million at the end of 2014 as a result of the projected budget deficit for 2014. Similarly, debt as a share of nominal GDP is projected to increase from 33.5 per cent to 35 per cent to meet the Government's development agenda. The *Fiscal Responsibility Act 2006* sets an upper target on debt on issue of around 35 per cent of debt to GDP. This limit will need to be closely monitored during 2014.

**Figure 28: Debt Portfolio Composition**

Source: Dept of Treasury

### 6.3.1 Domestic Debt

Domestic debt at the end of 2013 is expected to be K8,750.9 million, an increase of K2,632.7 million or 43.0 per cent from the previous year. In 2014, domestic debt is expected to be K10,458.6 million, an increase of K1,707.7 million or 19.5 per cent.

Domestic debt comprises Treasury Bills and Inscribed Stock on issue. Revised estimates for the portfolio will be updated at MYEFO.

The domestic debt portfolio seeks to maintain a balance of short-term to long-term debt in the portfolio to reduce the level of refinancing risk within the portfolio whilst benefiting from the interest savings offered by short-term debt.

In 2012 and 2013 additional financing for the State's funding of the PNG LNG cash calls, the budget deficits and other funding requirements resulted in a build-up of Treasury Bills in the debt portfolio. At end of 2013 Treasury Bills are expected to comprise 46.9 per cent of the domestic debt portfolio. Over the forward years the domestic debt portfolio will be restructured to reduce the level of short-term debt it contains to increase the average debt maturity profile of the debt portfolio.

### 6.3.2 External Debt

External debt at the end of 2013 is expected to be K2,849.5 million, an increase of K482.1 million or 20.4 per cent from the previous year. In 2014, external debt is projected to increase by a further K647.8 million or 22.7 per cent.

External debt continues to be dominated by debts to international agencies (multilateral and bilateral creditors) who account for 99.4 per cent of external debt as at year-end 2013, with commercial loans accounting for the remaining balance.

International agencies provide project finance for many of our development projects, as capital works progresses on infrastructure projects, the level of this borrowing will increase. The loans' terms usually provide for a grace period of five years for principal repayments and repayment of principal by instalments over a 20 year period.

**Table 24: 2014 Central Government Financing**

| Financing Source       | Est.<br>Balance<br>2013 end | Est.<br>Repayment<br>2014 | Est.<br>Borrowing<br>2014 | Est.<br>Balance<br>2014 end | Net<br>Change<br>2014 |
|------------------------|-----------------------------|---------------------------|---------------------------|-----------------------------|-----------------------|
| <b>Domestic Debt</b>   | <b>8,750.9</b>              | <b>5,313.4</b>            | <b>7,021.1</b>            | <b>10,458.6</b>             | <b>1,707.7</b>        |
| Treasury Bills         | 4,106.2                     | 4,956.3                   | 5,101.1                   | 4,250.9                     | 144.8                 |
| Inscribed Stock        | 4,644.8                     | 357.1                     | 1,920.0                   | 6,207.7                     | 1,562.9               |
| <b>External Debt</b>   | <b>2,849.5</b>              | <b>223.4</b>              | <b>871.2</b>              | <b>3,497.3</b>              | <b>647.8</b>          |
| International Agencies | 2,833.2                     | 207.1                     | 871.2                     | 3,497.3                     | 664.1                 |
| Commercial Loans       | 16.3                        | 16.3                      | -                         | -                           | (16.3)                |
| <b>Total</b>           | <b>11,600.4</b>             | <b>5,536.8</b>            | <b>7,892.3</b>            | <b>13,955.9</b>             | <b>2,355.5</b>        |
| % of Nominal GDP       | 33.5%                       |                           |                           | 35.2%                       |                       |

Source: Dept. Of Treasury

**6.3.3 State Guaranteed Debt and Other Liabilities**

Guarantees involve significant financial risk, Treasury is currently working towards producing a policy to guide the granting of all future guarantees and will put this forward for endorsement once finalised in 2014.

As such, State guarantees are only given in exceptional circumstances. This includes the completion guarantee that the Government issued for the State's share of the PNG LNG project debt of around US\$2.7 billion (K6.0 billion). This guarantee will be in place until the project reaches the production phase.

**6.4. MEDIUM TERM DEBT STRATEGY**

The objective of the Medium Term Debt Strategy 2013–2017 (the Debt Strategy) is to minimize the cost of debt consistent with the Government's tolerance for financial risk. There are three major strategies to support the debt management objective.

**6.4.1 Maintain debt at sustainable levels.**

The Fiscal Responsibility Act imposes a nominal debt to GDP limit on central Government borrowings of around 35 per cent of GDP for 2013, 2014 and 2015, with the level falling to 30 per cent thereafter. The limit applies only to debt centrally borrowed by the Government and does not include superannuation arrears, State Owned Enterprise borrowing or contingent liabilities. These other liabilities are considered when the limit for central Government borrowing is set.

**Table 25: Debt sustainability measures**

|  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|--|-------|-------|-------|-------|-------|-------|-------|
| Debt to GDP                                      | 26.0% | 33.5% | 35.2% | 29.3% | 29.9% | 29.7% | 29.7% |
| Interest cost to government revenue <sup>1</sup> | 5.3%  | 6.1%  | 7.2%  | 8.0%  | 8.0%  | 8.0%  | 8.1%  |

<sup>1</sup> Government revenue excludes revenue from grants and asset sales.

Source: Dept of Treasury

**6.4.2 Manage debt portfolio to keep financial risk at prudent levels.**

The composition of the portfolio is managed through product and average maturity targets to control the resulting portfolio risk.

### Foreign Currency Risk

Foreign currency risk is the risk that the value of debt denominated in foreign currency and the debt service cost of this debt varies in accordance with exchange rates. These changes can be positive or negative.

The Government aims to limit foreign currency debt to around 40.0 per cent of the total Public Debt portfolio by restricting the amount of new foreign currency loans it enters into.

Unless a specific foreign currency loan is required by the Government, new foreign currency loans are considered if:

- The loan is highly concessional and in a low risk currency. The criteria for considering concessional financing shall be a grant element of 35.0 per cent or more<sup>1</sup>. This is in line with international debt management practice and as recommended by the IMF and the World Bank;
- A project is high priority under the Medium Term Development Plan and will not significantly increase the level of external debt above 40.0 per cent of the total debt portfolio or increase the level of Public Debt above the limit specified in the *Fiscal Responsibility Act 2006*;
- The lender's policies do not preclude awarding of contracts to PNG firms and/or awarding of contracts via international competitive bidding; and
- There is a genuine advantage to funding the project from foreign currency loans such as the need to import foreign expertise and/or foreign materials.

In addition, where it is appropriate on a risk/return basis, the Government may borrow domestic funds to retire foreign-currency debt.

**Table 26: Estimated Percentage of Foreign Currency Debt in Public Debt Portfolio**

|                   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| Target: up to 40% | 27.9% | 24.6% | 25.1% | 25.8% | 25.7% | 25.2% | 23.8% |

Source: Dept of Treasury

### Interest Rate Risk

Interest rate risk is the risk that debt servicing cost outcomes vary due to changes in interest rate.

Domestic debt currently issued is all fixed interest rate debt. For this debt, interest rate risk arises when Treasury seeks to refinance it when it matures. At this time there is a risk that debt servicing costs will change due to the interest rate on the new debt being higher or lower than the maturing debt. As shorter term debt is required to be refinanced more often it exposes the portfolio to increased levels of interest rate risk.

Shorter term debt however is less expensive than longer term debt and therefore there is a balance between cost and risk in the amount of short-term debt to long-term debt maintained within the portfolio.

<sup>1</sup>The grant element is the difference between the face value and the market value of a loan expressed as a percentage of the face value of the loan.

The Debt Strategy seeks to manage interest rate risk through the structure of the domestic debt portfolio. The portfolio seeks to maintain Treasury Bills on issue at 15 to 30 per cent of the domestic portfolio.

The 2013 end level of Treasury Bills is estimated to be 46.9 per cent of the portfolio. The build-up in Treasury Bills has resulted from the State's deficits and cash financing needs over a number of years.

**Table 27: Estimated Percentage of Treasury Bills in Domestic Debt Portfolio**

|                   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| Target 15% to 30% | 45.0% | 46.9% | 40.6% | 32.2% | 29.4% | 25.5% | 24.2% |

Source: Dept of Treasury

### Refinancing Risk

Refinancing risk is the risk that debt is unable to be repaid when it matures or falls due for payment.

The Debt Strategy seeks to manage refinancing risk by lengthening the maturity profile of the total debt portfolio through maintaining the weighted average term to maturity at about 5 years for the domestic debt portfolio and at about 12 years for foreign-currency debt (2013: ≈ 12 years).

**Table 28: Estimated Average Maturity of the Domestic Debt Portfolio**

|                | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------|------|------|------|------|------|------|------|
| Target 5 years | 4.3  | 4.0  | 4.4  | 4.9  | 5.1  | 5.3  | 5.3  |

Source: Dept of Treasury

Treasury has reviewed its targets for the use of long-term fixed-rate debt relative to short-term variable-rate debt, and plans to increase Inscribed Stock on issue from K4.6 billion at the end of 2013 to K10.8 billion in 2018, while maintaining the maximum maturity of Inscribed Stock at 17 years, and seeking to limit the amount of Inscribed Stock maturing in any one year to K0.5 billion.

### Operational Risk

Operational risk is defined by the Bank of International Settlements as risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

This definition includes legal risk, but excludes strategic and reputational risk.

The operational risks facing Treasury include the difficulty in developing and retaining skilled staff, the lack of a business continuity plan, and a heavy dependence on few key personnel operating the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). Treasury mitigates these operational risks through a capacity development plan, and by working in partnership with the Commonwealth Secretariat and other CS-DRMS users.

#### **6.4.3 Develop the domestic debt market.**

In order to increase the capacity and reduce the cost of borrowing domestically, the debt strategy aims to facilitate the development of the domestic debt market.

Treasury seeks to be transparent and predictable in its debt issuance through providing information publically on debt issuance and periodically meeting investors.

## CHAPTER 7. NATIONAL REFORM AGENDA

### 7.1. OVERVIEW

The Government of Papua New Guinea strongly considers reform to be the engine for sustainable growth. Accordingly, the Government will continue to pursue a comprehensive national reform agenda to support greater private sector activity in 2014.

Major high profile reviews will provide recommendations aimed at improving efficiency in the tax system and in the financial services sector. In addition the Government will prioritise competition policy as well as the business regulatory environment for local and foreign business investors. These reform processes are essential so as to allow the PNG economy to continue to grow at a high rate.

The reforms are designed to build on existing development policies and strategies, such as the Vision 2050 and PNG Development Strategic Plan 2010 – 2030 (DSP) and the Medium Term Development Plan (MTDP). The Government's reform efforts will also address the underlying issues that impinge on public sector service delivery and private sector led market development.

The Government is also committed to public sector reform that will enhance the efficiency and effectiveness of the public sector. One of the planned reforms is that the Government is to undertake an amalgamation of Government Agencies with duplicate functions in 2014. In addition, efforts will also be needed to implement the 'one position, one salary' principle, so as to eliminate an estimated several thousand 'ghost' employees in the public sector.

The 2014 Budget is a single fully integrated multi-year National Budget. For the first time agencies and the public have a clear idea of the appropriated 2014 expenditure and future year expenditure estimates over the period 2015 to 2018 for each Department and Authority. The Budget also provides a clearer picture of what each agency's funding is being spent on in terms of personal emoluments; goods and services; utilities and rentals, grants and capital formation, as well as spending by sectors. These reforms will set the foundation for greater transparency and accountability by departments, and ultimately, better services delivery for the people of Papua New Guinea.

### 7.2. PUBLIC SECTOR REFORM

#### 7.2.1 *The Papua New Guinea Vision 2050*

In 2013, the Office of PNG Vision 2050 continued to have consultations with Government agencies to ensure that their plans are aligned to the PNG Vision 2050. A critical element of this process is the setting up of an appropriate database in each of these agencies. The database will not only be used to measure the impact and achievements of the Government's long term development plan but also to compare the Human Development Index (HDI) among the different Provinces and Districts.

#### 7.2.2 *Public Sector Reform Programs*

The Government recently set up a Special Parliamentary Committee on Public Sector Reforms and Service Delivery. The Committee is made up of Members of the National Parliament and reflects the Government's priority to improve service delivery in the country especially in the rural areas.

The Committee will present its report to Parliament in early 2014. The report will initially look at major legislations impacting on public sector service delivery and make appropriate recommendations to the Government for changes and improvements.

#### **7.2.2.1      *Service Improvement Program (SIP)***

The Service Improvement Program (SIP) is aimed at improving administrative processes in all levels of Government in order to enhance efficiency in service delivery.

In 2013, a regional training program to build capacity on SIP was conducted in the four (4) Regions. The program was conducted to educate the Provincial SIP Chairmen, SIP co-ordinators, and SIP trainers. The SIP is necessary to support the Government's focus of rolling out funds to the Districts and Local Level Governments (LLGs). Apart from the twelve (12) Provinces already on the SIP, five (5) new Provinces were included in 2013, namely Jiwaka, Autonomous Region of Bougainville, Western, Gulf and Central Province.

As part of the SIP training and capacity building a total of fourteen (14) computers were delivered to the Provinces during the year. The computers will be used to store all relevant SIP data.

#### **7.2.2.2      *Manpower & Payroll Audits of Provincial Administrations***

Based on the findings of the 2012 Audit Report on Manpower & Payroll, senior officers in each of the participating provinces met in 2013 to discuss a way forward to implement the findings of the report. The report showed huge discrepancies and salary over-runs incurred by Teachers and Public Servants. This exercise will extend to other Provinces in 2014 in order to reduce cost.

#### **7.2.2.3      *Rightsizing Initiative***

The Government continues to be concerned about the high public sector wage bill. The public sector has grown in the last few years with new agencies and departments being created and this is putting a huge pressure on the Budget. In 2014 the Rightsizing Initiative will aim at cutting the public sector wage bill through the amalgamation or abolishment of Government agencies with duplicate functions. These agencies have been highlighted in Chapter 5 of this document.

#### **7.2.2.4      *Capacity Building and Institutional Strengthening Program***

The Capacity Building and Institutional Strengthening Program (CBISP) is aimed at training and empowering elected officials at the Local Level Government. The CBISP provides officials with a proper understanding of the Organic Law Reform System, thus enhancing their management skills.

The Program is delivered through a 'Team Approach' involving key central agencies and line agencies. Facilitators who take part in this training program are sourced from these agencies. Previously, the Program was co-ordinated by the Reform Unit in the Office of PNG Vision 2050, but in 2013 was transferred to the Department of Provincial & Local Level Government Affairs. Following the LLG Elections this year, training programs were conducted starting with the Gulf Province. The training programs will continue in 2014.

#### **7.2.2.5      *Budget Reform***

There have been a number of significant changes to the structure of the O'Neill-Dion Government's 2014 Budget. These include:

- the preparation of an integrated budget ;
- building on the implementation of multi-year budgeting (medium term forward estimates); and
- a Ministerial driven Budget process

Critically, the 2014 Budget will be a truly national Budget, with expenditure shown on an agency basis and the artificial distinction between the old 'Recurrent' and 'Development' Budgets removed. The integration of the budgetary processes will allow for better decision making and transparency.

The 2014 Budget will also continue to build on the implementation of the 'forward estimates' approach to budgeting that commenced in 2013. This involves publishing medium term fiscal projections and revenue and expenditure estimates for four years beyond the year of the Budget.

### **7.2.3 *Equitable Resource Allocations to Provincial Governments***

The Intergovernmental Relations (Functions and Funding) Act 2009 delivered reforms that have changed the system of intergovernmental financing arrangement.

The main focus of the new system is to ensure that the total revenues of the provinces and the costs of delivering a minimum level set of basic services are considered in determining the grants for the Provincial and Local level Governments. The goods and services grants for distribution (called the equalisation amount) depends on a set proportion of the total 'core' tax revenue which excludes variable mining and petroleum revenues (called the net national revenue) available to the National Government each year. The equalisation amount is then distributed based on how much it costs to deliver a basic level set of service against the total revenues available to each Provincial and Local Level Governments yearly.

Since its implementation in 2009, Provincial Governments have experienced an increase in their level of funding from K135.0 million to K416.0 million in 2014, an increase of K281.0 million.

For the 2014 fiscal year the equalisation amount is K469.4 million, an increase of K75.1 million from 2012. This was arrived at by applying the prescribed percentage of 6.57 per cent to the 2012 actual net national revenue amount of K7,145.2 million.

### **7.2.4 *District Treasury Roll-Out Program***

The District Treasury Roll-Out Program has started in 2004. Since its inception, 65 District Treasuries have been fully commissioned and made functional. Of the remaining 24 District Treasuries, 17 are work in progress and will be commissioned in 2014. Plans are in place to revisit the provinces that were rolled out in 2004 and 2005 where maintenance for staff houses and office that were allocated by District Administration and LLG. The Government is committed and will continue to make funds available to fully funding this Program in 2014.

Major services established in 2013 include:

- Provincial Treasury in Hela and Jiwaka Province in particular the Provincial Treasurer's official residence;
- Provincial Government Accounting System (PGAS) set up;
- Reliable Security (including in many locations, steel picket fencing);



- Installation of VSaTs in other District Treasury Offices to improve communication; and
- Arrangement for the coordination and management of BSP Bank Agencies in the District Treasuries by BSP Limited.

### **7.2.5 Public Service Pay Fixation Agreement 2014 to 2016**

The current Public Service Pay Fixation Agreement 2011-2013 will expire on 31st December this year. This was formulated in the commodity boom period with increased revenue, high inflation and strong economic growth in light of the PNG LNG Project. However, events have unfolded in 2013 with a slump in our key commodity prices and a slowdown in PNG LNG Project construction reflecting weaker economic growth, lower inflation and subsequently lower revenue. In light of this, a new Public Service Pay Fixation Agreement 2014-2016 will need to be negotiated between the State and the Public Employees' Association.

### **7.2.6 Superannuation Liabilities**

In accordance with Sections 4 and 76 of the Superannuation (General Provisions) Act 2000, the State is obliged to make a mandatory employer superannuation contribution (State's superannuation contribution) of 8.4 per cent of the base level salary for all its employees to Nambawan Super Limited (NSL). An employee contribution of 6.0 per cent of the base salary is also paid to the NSL.

In April 2012, the State adopted a new mechanism to automate State's superannuation contributions and the employee remittances through the Government's payroll systems to NSL on a fortnightly basis. This new automation System is administratively efficient and is currently operating smoothly.

In 2014, there is a need for the State to quantify the stock of superannuation liabilities and then devise an appropriate settlement framework.

## **7.3. A COMPETITIVE AND DYNAMIC PRIVATE SECTOR**

The Government continues to value the positive effects of competition on the economy. Thus, it remains committed to growing and building the private sector by creating an environment that is conducive to private sector development, to encouraging innovation, and to supporting a competitive private sector. In 2014, the Government will embark on a comprehensive and ambitious microeconomic reform exercise to further boost productivity and international competitiveness. The Government will engage in microeconomic reforms that will provide the economic environment to encourage and enable the private sector to flourish. As part of the ongoing effort and commitment, the Government will monitor, review and realign existing policies, including the introduction of new policies to promote private sector growth.

The provision of effective public infrastructure is essential for boosting economic activity and contributing to the fight towards alleviating poverty amongst our citizens. The Government has demonstrated its commitment to public infrastructure through policy initiatives and reforms such as secured lending, microfinance, service utility reforms and encouraging greater private sector participation to deliver public goods through Public Private Partnerships (PPP).

Therefore, in 2014 and over the next 5 years, the Government's micro reform agenda will encompass the following;

- Encourage SOEs to be efficient and increase the nature and level of competition in the markets in which they operate, with a particular focus on the telecommunication, electricity and transport sectors;
- Ensure that a strong regulator enforces the competition and consumer protection law so that markets operate competitively, and ethical traders, small businesses and consumers are not treated unfairly; misled or deceived.
- Build the productivity of sectors particularly important to the rural and remote area of PNG such as tourism and agriculture;
- Reduce the cost of doing business and remove regulatory impediments to private sector growth;
- Facilitate the development of the small and medium enterprise sector; and
- Encourage the operation of the informal economy and the transition of informal economy participants to the formal economy.

### **7.3.1 Enhancing Competition**

Competition drives efficiency and innovation, increases choice, reduces prices, expands markets and, consequently, grows the economy and employment. Since the introduction of competition policy in 2002, the public has enjoyed never before seen benefits. A good example is telecommunications. The Government recognises that more economic growth can take place, thus it is putting more efforts into developing the private sector.

Encouraging and promoting competition within the private sector will encourage growth and investment opportunities. It is important that the Government continue to consider and identify areas for further reform as a major driver of economic and employment growth. For example, the Government recognises that power security is a critical factor in the ability of the private sector to grow. Without reliability in power supply, significant unnecessary expense is incurred.

The Government has also committed to undertaking a comprehensive review of the competition policy framework, including the ICC Act. Consumer protection goes hand in hand with competition - unethical traders who mislead and deceive consumers and reap profits should not erode the market position of ethical traders who provide good value for money. This area will form part of the review of the ICC Act and while work on this review has commenced during 2013, implementation of any of the findings is likely to form the basis of a substantive reform agenda during 2014. The primary focus will be on ensuring PNG has an efficient and effective competition regulatory and policy regime.

#### **7.3.1.1 Telecommunication**

The National Information and Communications Technology Authority (NICTA) will continue to regulate Information and Communication Technology (ICT) sector through issuances of operator licences, allocation and management of radio spectrums, and conduct price regulations. In 2014 additional regulatory frameworks to increase usage and competition will be implemented especially in the data services segment. This will involve the introduction of additional Internet Service Providers (ISPs) and declaring of certain wholesale services for international connectivity.

Currently, a very small proportion of the capacity of the Madang fibre-optic cable is being used and NICTA has 'declared' it for rate setting. The international gateway infrastructure provides the most economic, efficient and reliable electronic communication access to the world. It is essential that charges are lowered and that can happen with increased usage.

Telecommunications costs are a key impediment to business investment and economic growth and the declaration is expected to result in substantial price reductions for gateway access.

The Government is committed to complete the national fibre optics network infrastructure linking Port Moresby to the LNG site and onward to Madang and then connect to the rest of the world.

In 2014 the Government, through the Department of Information and Communications and NICTA, will continue its plan to provide additional ICT services to remote parts of PNG. NICTA would implement this program through its Universal Services Fund branch, which will coordinate the roll-out of telecommunications infrastructure by Operators via a bidding process to bridge the “digital divide” and provide reliable and affordable telecommunications services to remote rural communities. This initiative will contribute to the Department of Information and Communication in conjunction with NICTA finalising the national broadband policy for the country.

### **7.3.1.2 Electricity**

In 2014 the Government will continue to implement key Electricity Industry Policy (EIP) activities. These include management of the Electricity Trust Fund (ETF); establish the National Electricity Roll-Out Plan (NEROP); and re-delegation of the technical regulatory role from PNG Power to Department of Petroleum and Energy.

Furthermore, the Government through ICCC has begun the development of a “third-party access” code to encourage greater private sector participation in power generation. The EIP recommends for the ICCC to establish cost reflective pricing in electricity price regulation, similar to PNG Ports, and this will be advanced in 2014. The Government will continue to strengthen the position of PNG Power as a commercially-oriented business as well as strengthen the Department of Petroleum and Energy to ensure that there is strong Government oversight of the long-term development of the electricity industry through the Electricity Management Committee (EMC).

Through the EIP, the Government is encouraging more private sector participation to achieve the Government’s objective of making electricity services more accessible, reliable and affordable by having incentives to enhance electricity services to rural areas, and improved regulatory arrangements. Through these policy initiatives of Government, we expect to see increasing productivity levels of businesses, households and individuals that depend on electricity to sustain their operations and livelihood.

### **7.3.2 Improved Economic Regulation**

To meet its economic regulation responsibilities under the ICCC Act, in 2014, the ICCC will continue to implement the price control arrangements covering ten industry sectors. This includes pricing reviews for services offered by State Owned Enterprises (SOEs) supplying electricity, water, third party motor vehicles insurance, postal and ports and for specific regulated products like rice, sugar, flour, and petroleum. Three new regulatory contracts were signed during 2013, those with PNG Power, Motor Vehicle Insurance Limited (MVIL) and Post PNG. Significant changes were made to these contracts to help improve efficiency and reduce costs to industry and consumers. The Government expects to see the benefits from these changes materialised during 2014 in the form of increased economic activity.

The ICCC also undertakes industry reviews which make recommendations to reduce barriers to entry and improve competition for the benefit of consumers. All these reviews are conducted transparently and often seek comments from the public throughout the review

process. These reviews also apply a whole of government approach to ensure that all relevant government agencies and other stakeholders are adequately consulted and involved.

Currently, the ICCC is undertaking several regulatory and industry reviews, some of which will be completed in 2013 and recommendations will be implemented in 2014. This includes sugar, PMV and Taxi fares, while other reviews will continue and be finalised in 2014.

#### ***7.3.2.1 PNG Ports Regulatory Contract Review***

The Commission has commenced the process for the establishment of a new Harbours Regulatory Contract HRC which will come into force on 1 July 2015 and will set out price path for PNG Ports for the next five year regulatory period, as set and determined by the ICCC. This new contract will assist PNG Ports to design its capital spending plan, utilise capital more effectively and to improve its service standards performance. The new HRC will incorporate the improved regulatory practises put in place for the recently completed Electricity Regulatory Contract including: ensuring capital and operational expenditure are prudent and efficient; ensuring demand forecasts are robust, increasing transparency of capital plans, costs and revenues to allow public scrutiny and introduction of significant pricing and other consequences for failure to meet service standards.

The current HRC is set to expire on 31st December 2014.

#### ***7.3.2.2 Agricultural Commodity Pricing Reviews***

The ICCC granted authorisation for arrangements between smallholder growers and processors of oil palm in the West New Britain area (Hoskins Oil Palm Growers' Association). The authorisation grants immunity for parties engaged in such pricing negotiations which would, in the Commission's view, otherwise be illegal.

The public benefits of giving growers increased bargaining power, with the ability to impose a collective boycott, subject to conditions, allows them to negotiate a satisfactory price for their fresh fruit bunches. The effects of mobilising resources on the basis of certainty and increased bargaining power contribute to economy-wide locative efficiency growth.

The authorisation will commence in February 2014, or on the date of the finalisation of a World Bank consultancy review of a cost and revenue model for the sector on behalf of the Oil Palm Industry Council.

It is possible that in future, authorisation for such collective negotiations could be sought by oil palm growers in other areas to gain immunity from the price fixing provisions of the ICCC Act as well as by cocoa, coffee, copra and vanilla growers. This should result in more efficient contract regulation and deliver positive benefits to growers and the wider community.

#### ***7.3.2.3 Regulation for Consumer Protection***

The ICCC has limited responsibilities for consumer protection generally but substantial responsibilities for product safety. The Commission is taking a proactive approach, particularly in terms of consumer product safety and increasingly in relation to the recall of unsafe consumer products.

This will include efforts to take on businesses that market unsafe goods or engage in misleading or deceptive promotions under Commercial Advertisement (Protection of the Public) Act. In 2014 and onwards the ICCC will continue to use its powers to monitor

products so as to quickly detect those that it considers unsafe to consumers and remove them from sale by imposing interim bans on products.

The Commission has increased its media profile recently by issuing media releases and, information brochures; issuing ICCC Alerts on dangerous products; placing newspaper advertisements; and obtaining wide television and radio coverage for product bans. The Commission has also developed a structured and comprehensive national awareness program which it will roll out and proposes to develop publications in other languages. The Commission also plans to consider other forms of communication to inform consumers and business of their rights and obligations.

ICCC will intensify its efforts in addressing misleading or deceptive promotions by businesses, continue inspection and calibration of taxi meters, weighing equipment and jointly doing road-block operations with Police and Department of Transport Officers to ensure that taxi and PMV fares are correctly charged.

#### ***7.3.2.4 Competition and Fair Trading***

One of the ICCC's key roles is to promote competition. It actively monitors the market place for anti-competitive behaviour and investigates complaints or matters it believes it should pursue of its own volition and take legal action or punishment for such conduct.

However, in some circumstances potentially anti-competitive behaviour can have benefits to the community and the ICCC can and does authorise such conduct, providing immunity from legal action either by the Commission or third parties. The authorisations in the oil palm and international aviation sectors are examples of such exemptions.

Furthermore, in the case of business acquisitions, it provides business with certainty through the clearance procedure, if that is sought by the prospective parties. It also provides its informal views on proposed acquisitions where sought by the parties but that does not bind third parties and is conditional upon the accuracy and completeness of information provided to it. This adjudication role is increasing.

Education and consultation can reduce contraventions of the law and, as with consumer protection, the ICCC plans to expand its education and consultation program during 2014. Such outreach, particularly in an emerging economy and an increasingly educated population, can result in an increase in complaints regarding unfair and anti-competitive practices and requests for exemptions on public benefit grounds.

#### ***7.3.2.5 Public Private Partnership (PPP) Policy***

The Government recognises the important role the private sector can play in expanding service provision in PNG, including working with the State through public private partnerships (PPPs). Harnessing this potential, the Government through IPBC is examining the feasibility of a number of PPPs in the power sector and the Department of Works is planning an arrangement that would complement the Government's broader PPP initiatives for road maintenance with the establishment of the Infrastructure Development Authority (IDA).

It is important to emphasise that a PPP is simply a method to competitively procure, deliver and maintain infrastructure and services through cooperation between a public institution and one or more private enterprises via a long term contractual agreement e.g. to build and maintain a highway. Under PPP arrangements, parties share risks. It is important to note that Government subsidies paid to deliver services are not PPPs - they are Government grants.

The Government has developed specific PPP legislation to complement existing and planned PPP arrangements. This legislation will lead to additional expertise in Government via the creation of a PPP Centre that will report to the Treasurer. This additional PPP transaction expertise, combined with legislative that requires transparent processes to execute PPP arrangements be followed, should provide the private sector enhanced confidence to invest in PNG PPPs. A PPP Task Force, chaired by the Department of National Planning and Monitoring has a PPP Bill and is now before the Legislative Council to bring it to Parliament towards the end of 2013.

PPPs are a way to increase private sector involvement in the supply of public services.

### ***7.3.3 Developing More Effective and Efficient Markets***

The efficient allocation of scarce economic resources indicates well-functioning markets. In 2014, the Government will focus its reforms on market development relating to land, housing and finance access (via Microfinance and Secured lending).

#### ***7.3.3.1 National Land Development Program***

Access to land is a key blocker to private sector development and accordingly, remains a focus of the Government. Much work has already been completed with the National Land Development Program (NLDP), with legislative changes and policies and processes in place to facilitate the registration and commercial use of customary land. Combined with improvements in the Land Information System (improving land administration) and an enhanced understanding of the value and commercial potential of land, the priority action for 2014 will be maintaining momentum in implementation to bring about substantial economic benefits to Incorporated Land Groups (ILGs) and the broader economy.

#### ***7.3.3.2 Housing Policy***

In 2013, NEC considered and endorsed the findings of an ICCC report on the housing industry and supported the establishment of a Housing Policy Implementation Taskforce (HPIT) to oversee the response to the recommendations of the ICCC Report.

In October 2013, the NEC made a decision establishing National Affordable Lands and Housing Program. The new policy was highly tilted towards short-term measures, however current housing and land reform initiatives centre on addressing structural aspects in the economy that would have a huge impact in the economy. In 2014, the HPIT, whilst working on the ICCC's recommendations, will exert considerable efforts to harmonize existing land and housing policies.

Priority recommendations in the ICCC report will be identified and a comprehensive implementation plan will be developed for recommendation for implementation. Preparations are already underway to develop a code of conduct for real estate industry in PNG and the ICCC will be at the forefront in this regard in 2014.

The HPIT will work constructively and cooperatively with the Housing Ministerial Committee also established in 2013.

#### ***7.3.3.3 Microfinance***

The Government recognises that to start, consolidate or grow a business there is often a need for financial capital and that access to finance has not always been easy for people in PNG, and in particular for the Small and Medium Enterprises (SME) sector. The Government remains committed to financial inclusion and facilitating access to finance through promoting

microfinance, the Centre for Excellence in Financial Inclusion and encouraging a progressive, competitive and customer friendly financial sector. One of the key components of the Microfinance project is the implementation of the Risk Share Facility, which will continue in 2014.

#### ***7.3.3.4 Secured Lending***

The Government developed a legal framework to identify ways of providing greater confidence to lenders in order to encourage more secured lending arrangements. This legal framework, the Personal Property Security (PPS) Act (PPSA) was developed and enacted by Parliament in late 2011. A key element of the legislation is to establish a single “asset registry” so that information regarding the collateral offered by prospective borrowers can be made available to lending institutions. The Government will monitor implementation of the registry in 2014. The Government believes that this PPS Act will provide a consistent, modern, up-to-date legal framework for all loans that are secured by personal property.

### ***7.3.4 Reducing Impediments to Business and Improving Investment***

As part of the ongoing effort in addressing private sector issues, the Government will focus on encouraging the growth of and creating opportunities for the SME sector.

In 2014 the Government will continue to promote the SME Master Plan and SME Policy, which were key recommendations that NEC endorsed as part of the 2013 Madang SME Summit.

#### ***7.3.4.1 Review of the Companies Act 1997 and Other Legislations***

An effective robust competitive legal framework will mobilise good policy direction and future handling of competitive issues effectively and appropriately. As an adjunct to this, the Government intends to consider options for improving the business regulatory environment to make it more efficient and effective.

The Investment Promotion Authority (IPA) is continuing to pursue legal reforms to improve the efficiency of its overall operations. This includes a full review of the Companies Act 1997. The aim of this review will be to identify impediments potential investors face in setting up a business in PNG. The reform will enhance increased protection for investors, clearer and streamlined company registration process. Notable changes include making online registration that will provide high quality, fast and efficient services to IPA clients. The recommendations of the review are expected to be implemented in the first half of 2014.

The Government will focus on small to medium enterprises to grow the economy, away from the mining and resource sector. The key focus will aim at addressing agriculture and tourism sector where majority of Papua New Guineans live. The National Working Group on Improving Business Climate will continue in 2014 to engage in co-ordinating reform agendas and activities that will aim at enabling conditions for ‘ease of doing business’. The ongoing reforms include addressing informal sector by reviewing informal sector policy and notable effort to date include “Financial Inclusion Policy for Non-banked Sector” of the economy as advocated by the Bank of Papua New Guinea under the financial sector reform.

## CHAPTER 8.IMPROVING PUBLIC ENTERPRISE

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The State has majority ownership in Public Enterprises and therefore has control over a number of businesses that operate in key infrastructure sectors such as, transport (Air Niugini, PNG Ports), power (PNG Power), water (EdaRanu and Water PNG), communications (Telikom, Bemobile and Post PNG) and finance (National Development Bank and Motor Vehicle Insurance Ltd).

Infrastructure is necessary, along with the other key enabler sectors of health, education, law and order, to allow the private sector to flourish. The State built public enterprise infrastructure assets because, at the time, the private sector was not capable of doing so. This may no longer be the case following over a decade of uninterrupted economic growth.

A public enterprise can best continue to contribute to the provision of infrastructure services and thereby to the quality of life of Papua New Guineans, if it meets two requirements:

1. the value of what the public enterprise produces exceeds the cost of production; and
2. the public enterprise is the lowest cost producer.

Public enterprises are more likely to satisfy the first requirement if they have a commercial profit making orientation and market pricing of business inputs (such as debt, equity and credit enhancement) with no preferential access to markets. A profit making purpose with no subsidies or preferred market access will help produce the correct incentives to ensure that public enterprises produce things that are valued more than their cost of production.

Public enterprises are more likely to satisfy the second requirement if they are subject to competition. The performance of public enterprises needs to be subject to competitive tension through the market, just like any other business, to ensure that they remain a low cost producer that provides value for money to Papua New Guinean consumers.

The Government is in the process of developing and implementing policies to achieve this. The on-lending, dividend and guarantee policies aim to ensure that subsidies are not provided to public enterprises through cheap debt or equity finance, or cheap credit enhancement. Community service obligation, competition policy, third party access and private public sector partnership policies aim to apply competitive tension to public enterprises.

The community service obligation policy is particularly important to ensure that Papua New Guineans are able to obtain access to vital public infrastructure where they are unable to afford. Infrastructure can only be sustainably funded by either user charges or taxpayer money. If user charges are insufficient so that taxpayer money must be used, then the community service obligation policy ensures that Parliament can transparently use taxpayer money to provide access if appropriate.

A transparent Government ownership structure is also necessary to ensure that public enterprise management is accountable to the Government and to the people of PNG through the Parliament. Transparency involves complete, accurate and timely reporting of public enterprise performance, so that the performance of public enterprise management can be assessed properly. This is one of the key design considerations of the Kumul Consolidation Agenda that the Government will be implementing over 2014.



## 8.1 PUBLIC ENTERPRISE PERFORMANCE

Public enterprises are characterised by the State owning a majority stake in the underlying business, so that the Government is in a position to significantly influence its management. In contrast, for other commercial investments, the Government is not in a position to influence the management of the underlying business.

The following are public enterprises, because the State owns the majority of the underlying business: Petromin, National Airports Corporation, Air Niugini Ltd, EdaRanu Ltd, Motor Vehicle Insurance Ltd, National Development Bank, PNG Ports Corporation Ltd, PNG Power Ltd, Water PNG, Post PNG Ltd, Telikom PNG Ltd, Bemobile Ltd, PNG Dams Ltd, and Port Moresby Private Hospital Ltd.

In 2013, Ok Tedi Mining Ltd also became a public enterprise as a result of the State's acquisition of all of the issued shares. Mineral Resources and Development Company Ltd operates as a financial corporation on behalf of landowners in various mining and petroleum projects, and is not a public enterprise that competes in the open market as such.

The following are commercial investments rather than public enterprises, as the State does not have a controlling interest in the underlying business: National Petroleum Company of PNG, Bougainville Copper Ltd, Coffee Industry Corporation Ltd, Bank of South Pacific Ltd, Highlands Pacific Ltd, Oil Search Ltd and New Britain Palm Oil Ltd.

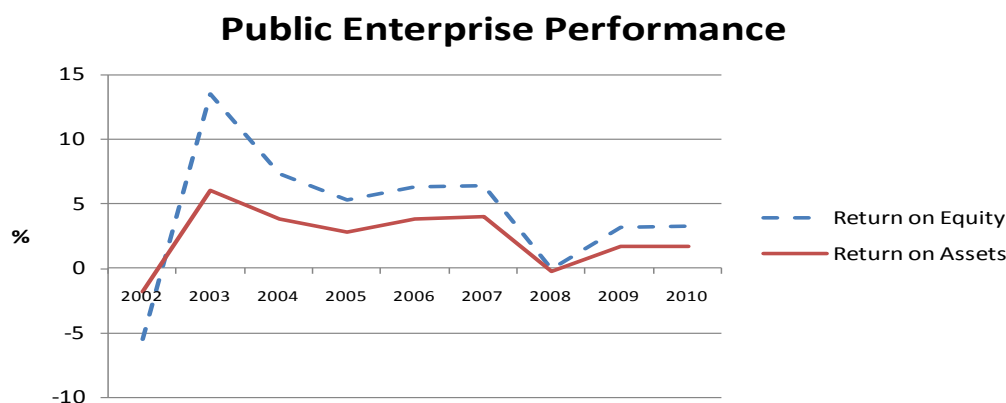
The National Petroleum Company of PNG (NPCP) is currently a commercial investment even though it is majority owned by the State, because most of its value comes from the State's interest in the PNG LNG project, a business in which the State does not have a controlling interest. If NPCP were to take the dividends of the PNG LNG project and invested its businesses it controlled, then NPCP might over time be better characterised as a public enterprise.

Public enterprises currently display very low profitability and therefore provide a low return to State investment. That is, public enterprises receive cheap equity capital from the State, cheap debt and grants (the latter either by design or through non-payment of State loans) and the State guarantees, are almost always provided free of charge but very low, if any, dividend is returned to the State..

### 8.1.1 Public Enterprises' State Subsidised Equity

The following chart shows the return on equity and return on assets for public enterprises.

**Figure 29: Public Enterprise Performance**



Source: Asian Development Bank

The average return on equity on the State's investment in public enterprises from 2002 to 2010 is 4.2 per cent, with an average return on assets of 2.4 per cent. This is very low. The Asian Development Bank (ADB) reported that rates of return on private sector investments in PNG, based upon interviews with banks and the chambers of commerce in PNG, was around 10-15 per cent for domestic investors and 20-25 per cent for foreign investors.

Table 29 shows a rough estimate of the value of the State's equity investment. The valuation of each of the businesses occurred as at August 2013, with the State's ownership percentage of various enterprises updated.

**Table 29: General Business Trust Assets, as at August 2013**

| Particulars                               | Shareholding (%) | Valuation (Km) |
|---|------------------|----------------|
| <b>UNLISTED EQUITY INVESTMENTS IN GBT</b> |                  | <b>2,449.7</b> |
| Air Niugini Ltd                           | 100              | 225.8          |
| EdaRanu Ltd                               | 100              | 70.5           |
| Motor Vehicle Insurance Ltd               | 100              | 195.3          |
| National Development Bank                 | 100              | 110.6          |
| PNG Ports Corporation Ltd                 | 100              | 286.0          |
| PNG Power Ltd                             | 100              | 542.8          |
| Water PNG                                 | 100              | -233.0         |
| Post PNG Ltd                              | 100              | 108.9          |
| Telikom PNG Ltd                           | 100              | 447.3          |
| Bemobile                                  | 85               | 365.0          |
| National Petroleum Company PNG            | 100              | 111.3          |
| PNG Dams Ltd                              | 100              | 88.1           |
| Port Moresby Private Hospital Ltd         | 100              | 38.5           |
| Other Unlisted Investments                |                  | 92.6           |
| <b>LISTED EQUITY INVESTMENTS IN GBT</b>   |                  | <b>3,798.2</b> |
| Bank of South Pacific Ltd                 | 17.6             | 679.6          |
| Highlands Pacific Ltd                     | 4.4              | 11.8           |
| Oil Search Ltd                            | 17.56            | 3,013.1        |
| New Britain Palm Oil Ltd                  | 3.2              | 93.7           |
| <b>TOTAL ASSETS</b>                       |                  | <b>6,248.0</b> |

Source: IPBC

There are three broad categories of public enterprises and investment which reflect different asset classes and management arrangements. Above are the two classes which are unlisted equity investments in General Business Trust (GBT) and listed equity investments in GBT. Table 30 below is the other category which shows the directly managed equity investments.

Due to lack of up to date information, Table 30 is outdated, as only information about the State's holdings as at the end of 2011 is available. Mineral Resource and Development Company operates as a financial corporation on behalf of landowners in various mining and petroleum projects, and should not be considered as a public enterprise. As mentioned previously, all of the shares in Ok Tedi Mining Limited have been transferred to the State, and so the State's interest has been increased to 100.0 per cent, with a corresponding increase in the valuation of the State's interest. Finally, the State shares in Pacific Forum Line Ltd have since been sold therefore it would not be on an updated list.

**Table 30: Valuation of non-GBT public enterprises and other investment, as at end 2011**

|  | Shareholding (%) | Valuation (Km) |
|--|------------------|----------------|
| <b>Directly Managed Equity Investments</b> |                  |                |
| Bougainville Copper Ltd                    | 19.1             | 119.5          |
| Coffee Industry Corporation Ltd            | 25.0             | 4.4            |
| Mineral Resources Development Company Ltd  | 100.0            | 100.8          |
| Ok Tedi Mining Ltd                         | 18.3             | 583            |
| Pacific Forum Line Ltd                     | 28.9             | 14.4           |
| Petromin PNG Holdings Ltd                  | 100.0            | 359.8          |

Source: 2011 Statement F and IPBC

The following table shows the dividends received by the GBT, split between public enterprises as compared with other commercial investments. It is illustrative of the difference in performance between public enterprises and other commercial investments.

**Table 31: Dividends Paid by Public Enterprises and Other Commercial Investments**

| Income  | 2013<br>Revised<br>Budget | 2012<br>Actual | 2011<br>Actual | 2010<br>Actual | 2009<br>Actual |
|---|---------------------------|----------------|----------------|----------------|----------------|
| <b>Dividend – Public Enterprises</b>          | 46,200,000                | 24,945,522     | -              | -              | -              |
| <b>Dividend –other commercial investments</b> | 64,538,407                | 64,304,528     | 58,154,768     | 76,066,599     | 59,856,532     |
| <b>Total Dividends</b>                        | 110,738,407               | 89,250,050     | 58,154,768     | 76,066,599     | 59,856,532     |

Source: IPBC

As can be seen, over the last 5 years, public enterprises have paid the GBT about K71.1 million in dividends, whereas the State's shareholdings in businesses such as Oil Search and BSP paid the GBT K322.9 million in dividends. Public enterprises only contributed less than a fifth of dividends over this period despite comprising around two fifths of the State's investments. That is, as a result of State subsidised equity, most of the dividends paid to the State come from the State's commercial businesses, whose equity is not subsidised.

### **8.1.2 Public Enterprises' State Subsidised Debt and Guarantees**

The ADB reported that, had public enterprises paid commercial rates of interest on all of their loans, the average return on equity would fall from 4.2 per cent to 2.0 per cent. This in itself shows some extent of the cheap State debt provided to public enterprises.

More telling, however, is that the rate of repayment of State loans by public enterprises is dismal, with only around 10.0 per cent of loans made by the State likely to ever be repaid. This is in addition to State grants given to public enterprises, both by the State and through the Independent Public Business Corporation, and free guarantees.

Accordingly, on top of providing subsidies for State provided equity, the State also provides extensive subsidies for debt, through providing grants and through free State guarantees.

## **8.2 PUBLIC ENTERPRISE POLICIES**

The Government expects public enterprises to operate, within the scope of their business, as other commercial profit-oriented businesses. On-lending, guarantee and dividend policies will be made that align with this expectation.

Furthermore, the people of Papua New Guinea will get better quality of life outcomes if the key sectors in which the public enterprises operate are subject to competition. The

Government will foster this competition through making a community service obligation and other competition policies, and implementing the Government's private public partnership policy (discussed in Chapter 7).

### **8.2.1 *On-lending, Guarantee and Dividend Policies***

Dividend policy, which relates to the return on State equity, is an integral part of the Kumul Consolidation Agenda (KCA) because the KCA concerns the structure and management of the State's equity investments. Accordingly, the Government will progress dividend policy in the context of the KCA, with the aim of minimising State equity subsidies given to public enterprises.

The Government will consider an on-lending policy in 2014, whereby State lending to public enterprises must be done on terms as close to commercial terms as possible to remove State debt subsidies. As grants are by definition not offered on commercial terms, the Government's policy position is that grants will also not be provided to public enterprises. The Government will also be considering a guarantee policy to ensure that public enterprises do not receive subsidies in the form of free State credit enhancement.

### **8.2.2 *Public Enterprise Competition Policy***

The Government will consider a number of competition policy reforms in 2014 that are aimed at subjecting public enterprises to competitive tension to ensure that Papua New Guinean consumers receive value for money. Details regarding these, except for community service obligation (CSO) policy, is contained in Chapter 7.

#### **8.2.2.1 *Community Service Obligations***

The poor performance of public enterprises could, as it has been argued, been affected by community service obligations. It has been argued that public enterprises are either expected or directed to provide services for which user charges are insufficient to support profitability, which justifies their poor profitability.

However, infrastructure can only be sustainably funded through two sources – user charges or taxpayers' money. If user charges are insufficient then it is taxpayers' money, in this case through a lower return to State equity, which is being used to fund the infrastructure. Expenditure of taxpayer money should be a matter for the Government and ultimately Parliament through the appropriate processes, rather than the management of public enterprises.

The Government has developed a policy framework whose key principle underpinning is that public enterprises should operate commercially and not deliver CSOs unless the public enterprise has entered into a contract with the Government to do so (thereby making the community service profitable). These contracts would be funded by the State in accordance with normal governance processes for expenditure of taxpayer money.

These contracts should involve the payment by the State to public enterprises upon, rather than in advance in anticipation of, the successful delivery of public services. This is the key difference between a CSO contract and a grant, and helps ensure that the State receives value for money.

This policy improves competition because it provides greater transparency for public services acquired from public enterprises by the Government, and allows for open tendering which allows greater scope for those public services to be obtained from a competitor. This

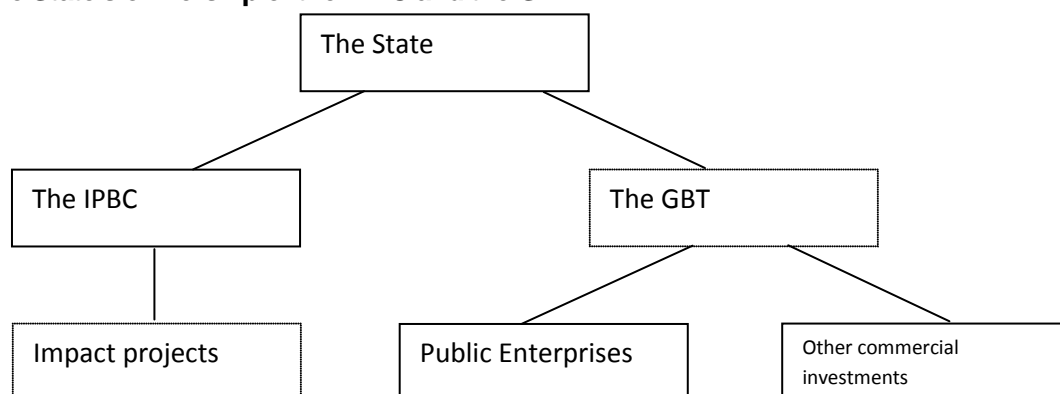
should provide the greatest value for money for taxpayer funds used to provide infrastructure where user charges are insufficient to support profitability.

### 8.3 IPBC PERFORMANCE

The Independent Public Business Corporation (IPBC) of Papua New Guinea is a State owned corporation set up in 2002 under its own Act. It has two roles. First, the IPBC is the trustee of the General Business Trust (GBT), a trust that holds on behalf of the State as beneficiary the shares in ten major public enterprises (nine 100.0 per cent owned and one – Bemobile – 85.0 per cent owned), and 28 other commercial investments, both listed and unlisted. Second, the IPBC is a financial corporation that undertakes certain activities in its own right, including the funding of impact projects.

The IPBC and its relationship to the State is shown on the following diagram, which shows the IPBC as trustee of the GBT (depicted as 'The GBT') and the IPBC as a financial corporation that undertakes certain activities in its own right (depicted as 'The IPBC').

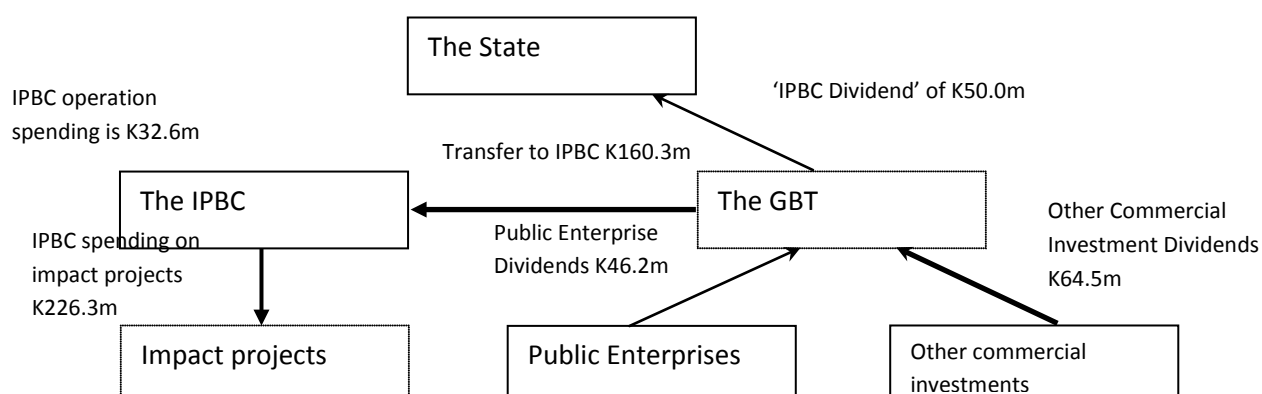
**Figure 30: The State's ownership of the IPBC and the GBT**



Source: Dept. Of Treasury

As discussed above at Section 8.1, the majority of the dividends received come from the State's other commercial investments, due to the poor financial performance of the State's public enterprises.

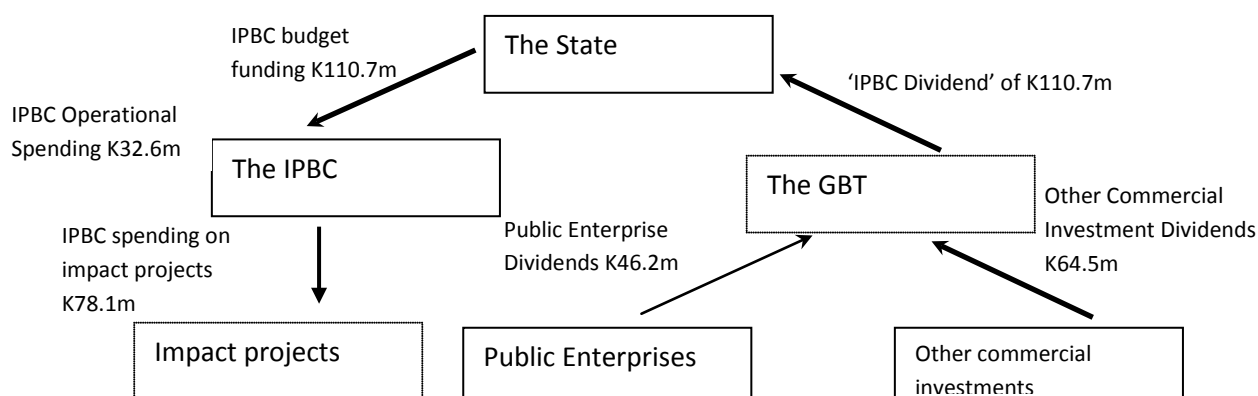
Under current practice, the IPBC takes sufficient GBT income to fund its own budget, as approved by the NEC, including spending on the delivery of impact projects. The remainder is paid to the State as an 'IPBC dividend'. These cash flows, using 2013 estimated flows, are shown in figure 31. In this figure, the difference between dividend flows and IPBC transfers and the 'IPBC dividend' is met by other income flows and possible capital transfers from the GBT to the IPBC. IPBC's operational expenditure of K32.6 million and expenditure on impact projects of K226.3 million are supported by other IPBC income.

**Figure 31: GBT Income Flows – Current Practice**

Source: IPBC

However, the income received forms a part of the property of the GBT, and is owned by the State. Accordingly the GBT income<sup>2</sup> could be given to the State and deposited into the consolidated revenue fund. If the IPBC required funding for its operations from the State (whether that funding was sourced from the GBT income or not) the State's funding approval should be required in accordance with the normal budget processes that governs usage of funds in consolidated revenue.

Taking into account this approach that properly recognises the State's ownership of GBT income, the cashflows would be depicted in the following diagram.

**Figure 32: GBT Income Flows – Best Practice**

Source: IPBC

Under this practice that better recognises the State's ownership of the income of the GBT, there would be a much larger 'IPBC dividend' (a misnomer, as the payment should be called a 'GBT distribution') – from K50.0 million to K110.7 million in 2013 – and greater budget scrutiny of the expenditure of public monies by the IPBC, including K78.1 million on impact projects and K32.6 million in operational and other IPBC expenses in 2013.

<sup>2</sup> Less expenses, including trustee expenses incurred by the IPBC to carry out its duties as trustee, which would only include some of the IPBC's current administration costs.

The need for proper scrutiny is of particular importance in the case of the IPBC's implementation of impact projects, the most important of which are listed below:

**Table 32: IPBC Impact Projects**

| Project                        | Total project cost (Km)   | Total expenditure to date (Km) | 2013 Budget* (Km) | Expected completion date  |
|--------------------------------|---------------------------|--------------------------------|-------------------|---------------------------|
| POMSSUP Project                | 209                       | 4.7                            | 16.6              | 2018                      |
| National Transmission Project  | 733                       | 1.5                            | 71.3              | 2016                      |
| Fibre Optic Project            | 110                       | 59.9                           | 41.5              | 2013                      |
| Bemobile Project Costs         | 236                       | 200.6                          | 0                 | 2015                      |
| Purari Hydropower              | 10,000                    | 0.003                          | 0.2               | After 2020                |
| Naoro Brown Hydro              | Contingent on feasibility | 0.0                            | 2.0               | Contingent on feasibility |
| Ramu 2 Hydro                   | 40                        | 1.4                            | 4.4               | 2014                      |
| POM Independent Power Producer | 500                       | 1.5                            | 1.6               | 2016                      |
| POM Port Relocation            | 860+                      | 0.7                            | 3.5               | 2018                      |
| Lae Port Development           | 734                       | 129.0                          | 4.0               | 2014                      |
| Kumul Consolidation            | Unknown                   | 7.0                            | 10.0              | 2014                      |

Source: IPBC Management

The 2013 Budget total does not align with the funding of the IPBC, as there is further external funding of projects. Notes concerning each of the impact projects, as well as the International Petroleum Investment Company (IPIC) bond refinancing, are as follows.

- POMSSUP: The POM Sewerage Upgrade Project is currently in its procurement phase, with construction due to commence in 2014.
- National Transmission Network/Fibre Optic Cable: The State is contributing to a fibre optic cable that will be used as a part of a national broadband network, which is to be sold once it has been established.
- Bemobile: The IPBC borrowed K236 million from the ANZ Bank to finance an equity capital injection into Bemobile as a part of the proposed Vodaphone Fiji/Bemobile joint venture. Although Vodaphone Fiji withdrew from the joint venture proposal, the equity injection was made anyway, to be repaid by the State over two instalments in 2014 and 2015.
- Purari Hydropower: the IPBC will set up a project management unit for this project, although the guiding principles relating to fiscal arrangements, ownership, equity participation, domestic market obligation, local content and others have yet to have been confirmed by Government.
- Naoro Brown Hydro: the Naoro Brown project involves a State team led by the Department of Petroleum and Energy to determine the guiding principles relating to fiscal arrangements, ownership, equity participation, domestic market obligation, local content and others. The IPBC is anticipating some involvement in this project.
- Ramu 2 hydropower: IPBC has requested government funding to fund the State's share in the project development.
- POM Independent Power Producer: IPBC will take up 30.0 per cent equity in a power project located next to the LNG plant site.
- POM Port Relocation: the Project Screening Committee is currently considering two possible sites for this project.
- Lae Port Development: Phase 1 (port construction) is progressing 1 month ahead of schedule. Phase 2 will involve consideration of ownership and management of the port.

- Kumul Consolidation Agenda: IPBC is responsible for all legal costs associated with the consolidation agenda.
- IPIC exchangeable bond refinancing: the maturity date for the IPIC loan (exchangeable bond) covering the State's PNG LNG project interest is 5 March 2014. IPIC will exercise its option to exchange the bond for Oil Search Ltd shares at the strike price of A\$8.55 on 5 March 2014. In the event that the market price of the shares is less than A\$8.55, then IPBC will be required to top up the difference.

Budget scrutiny may have the benefit of reducing the uncertainty as to the relationship between the IPBC's implementation of impact projects on the corresponding public enterprise assets (eg. the effect of POMSSUP on Eda Ranu's sewage network, and the Port projects on PNG Port's assets), the need for State expenditure to construct assets that could be undertaken wholly by the private sector (eg. construction of the National Broadband Network, Purari Hydro Project, POM IPP, Ramu 2), and review of the outcome of various projects (eg. the Bemobile/Vodafone joint venture, and the IPIC exchangeable bond refinancing).

This scrutiny may provide greater insight as to whether IPBC implementation of impact projects is in conflict with its public enterprise monitoring role. This conflict may arise because the IPBC may have difficulty reporting to the Government on poor public enterprise performance when the IPBC itself is involved in the implementation of projects that directly impacts on public enterprise business.

It is noteworthy in this context that only in 2014, 12 years after the IPBC was created, does the IPBC intend to draft a Monitoring and Reporting Policy Paper that intends to prescribe guidelines on how and when the public enterprises should submit information. The confused role of the IPBC is also evident in the IPBC's engagement of a major international professional services firm to review the accounting treatment of the GBT assets.

#### **8.4 KUMUL CONSOLIDATION AGENDA**

In 2013, the Government announced a Kumul Consolidation Agenda, under which it will be taking a new approach to managing its equity interests in both the mining and petroleum and public enterprise sectors. The Kumul Consolidation Agenda will involve the implementation, over 2014, of one or more holding entities, which will have a similar role to the GBT, to hold the State's equity interests. As a result of this agenda, the GBT will be replaced with a Kumul holding entity, and the IPBC will cease to exist.

Although the Kumul Consolidation Agenda has the potential to improve the management of the State's assets, the design takes on an even greater importance given the much broader scope of assets held and greater levels of income flows received under the Kumul Consolidated entity compared with the GBT. The greatest source of dividends to the Kumul Consolidated entity will come from the State's equity in the PNG LNG project and the Ok Tedi mine, both of which did not pay dividends to the GBT.

The following lessons can be drawn from the manner in which the IPBC has managed the GBT assets, which the Government will consider in the Kumul Consolidation Agenda implementation.

- Public enterprises are more likely to perform better if State subsidies are removed and management given freedom to operate to maximise profit. Parliament can use taxpayer money to subsidise services that are unprofitable (i.e. unable to be supported by user charges) through community service obligation contracts, with



commercial tension used to ensure that Papua New Guinean consumers and taxpayers receive value for money;

- Papua New Guinean consumers and taxpayers can get value for money from public enterprises through other competition promoting policies, such as regulatory contracts, third party access, unbundling of vertically integrated businesses, public private partnerships, and outsourcing. Ultimately, the State could consider using the market for corporate control to apply greater competitive tension to public enterprises; and
- A holding entity's core function is to obtain timely, accurate and complete information from public enterprises, and to make recommendations to Government regarding the performance of public enterprise management. This core function is unlikely to occur if the holding entity has access to funds outside of the budget process, wide discretion to spend money, or a conflicting remit that involves directly assisting public enterprise businesses.

The Government will be working towards designing and implementing the Kumul Consolidation Agenda over 2014.

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## **APPENDIX 1: REVENUE TABLES**

Table 1.1: Summary of Infrastructure Tax Credit Scheme (Kina Million)

Table 1.2: Incentives Under the Income Tax Act Resulting in Permanent Loss of Revenue (Kina)

Table 1.3: Incentives Under the Income Tax Act Involving Deferral of Income Tax (Kina)

Table 1.4: Exemptions Under the Stamp Duties Act (Kina)



**Table 1.1: Summary of Infrastructure Tax Credit Scheme (Kina millions)**

|  | Actual<br>2005 | Actual<br>2006 | Actual<br>2007 | Actual<br>2008 | Est<br>2009 | Est<br>2010 | Est.<br>2011 | Est.<br>2012 | Est.<br>2013 |
|--|----------------|----------------|----------------|----------------|-------------|-------------|--------------|--------------|--------------|
| Total Mining & Petroleum<br>Taxes Paid   | 1,077          | 1,947          | 2,334          | 1,991          | 749         | 1,476       | 2,073        | 981          | 685          |
| Mining & Petroleum Taxes Paid<br>by Companies involved in ITC                    | 1,077          | 1,947          | 2,334          | 1,991          | 744         | 605         | 1,926        | 981          | 647          |
| Total ITC Claimed & Allowed <sup>1</sup>   | 20             | 23             | 21             | 25             | 92          | 60          | 87           | 50           | 40           |
| Expenditure Incurred on Approved<br>ITC Projects <sup>2</sup>                    | 85             | 63             | 62             | 39             | 70          | 70          |              |              |              |
| Tax Credit Claimed as Percentage<br>of Taxes Paid by Companies<br>Subject to ITC | 1.9            | 1.2            | 0.9            | 1.3            | 12.3        | 9.9         | 4.2          | 5.0          | 5.8          |
| Excess Credits Carried Forward<br>(from prior years) <sup>3</sup>                | na             | na             | na             | na             | na          | na          | na           | na           | na           |

Notes: 1. Actual deductions for tax credits to Mining and Petroleum companies involving in the scheme. These numbers are derived from the Treasury Management System (TMS) thus represents actual impact on the government's cash flow in each fiscal year.

2. Actual expenditures incurred by the companies participating in the tax credit scheme. Some portion of the credits will be carried forward for deductions against income in the next year.

3. The level of excess credits carried forward will fully be determined next year once this scheme is being reviewed.

Source: Department of Treasury, National Planning and Monitoring and Internal Revenue Commission

**Table 1.2: Incentives Under the Income Tax Act Resulting in Permanent Loss of Revenue (Kina)**

| Section      | Description                                  | 2005<br>Number | Amount            | 2006<br>Number | Amount            | 2007<br>Number | Amount           | 2008<br>Number | Amount           | 2009<br>Number | Amount           | 2010<br>Number | Amount           | 2011<br>Number | Amount       | 2012<br>Number | Amount            | 2013<br>Number | Amount            | Grand Total<br>Amount |
|--------------|--|----------------|-------------------|----------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|--------------|----------------|-------------------|----------------|-------------------|-----------------------|
| 25           | Institutions and Hospitals                   |                | 4 348,014         |                | 2 148,414         |                |                  | 1              | 4,600            | 1              | 66,076           |                |                  |                |              |                |                   |                |                   | <b>567,104</b>        |
| 25A          | Charitable Institutions                      |                | 6 8,164,869       |                | 2 3,901,519       |                |                  | 2              | 65,028           |                |                  |                |                  | 1              | 3,000        |                |                   |                |                   | <b>12,134,416</b>     |
| 27           | Non-Profit Bodies                            |                | 1 23,911          |                | 3 896,816         | 2              | 3,101,292        | 1              | 378,576          |                |                  |                |                  |                |              |                |                   |                |                   | <b>4,400,595</b>      |
| 35(1)        | Exempt interest                              |                | 17 1,403,878      |                | 7 502,516         | 2              | 27,534           |                |                  |                |                  |                |                  |                |              | 2              | 61,824            | 1              | 60,473            | <b>2,056,225</b>      |
| 35A          | Fishing Operations                           |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              |                |                   |                |                   |                       |
| 45B          | Export Sales Exemptions                      |                | 4 14,896,443      |                | 5 21,796,614      |                |                  | 2              | 1,750,431        | 1              | 10,552           |                |                  |                |              |                |                   |                |                   | <b>38,454,040</b>     |
| 45I          | Rural Development                            |                | 4 3,592,213       |                | 4 2,144,577       | 1              | 161,206          | 1              | 618,105          |                |                  |                |                  |                |              |                |                   | 1              | 19,509,048        | <b>26,025,149</b>     |
| 45N          | Bougainville Incentive                       |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              |                |                   |                |                   |                       |
| 46AA         | Rabaul Incentive                             |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              |                |                   |                |                   |                       |
| 69A          | Gifts to Sporting Bodies                     |                | 1 158,397         |                | 2 3,700           |                |                  | 3              | 11,980           |                |                  | 1              | 1,182            |                |              |                |                   |                |                   | <b>175,259</b>        |
| 69C          | Gifts to Law, Order and Justice              |                | 1 261             |                |                   |                |                  |                |                  |                |                  | 1              | 17,600           |                |              |                |                   |                |                   | <b>17,861</b>         |
| 69E          | Gifts to Charities                           |                | 4 9,646           |                | 1 450             | 1              | 1,450            |                |                  | 1              | 15,965           | 1              | 20,000           | 1              | 6,000        |                |                   |                |                   | <b>53,511</b>         |
| 69I          | Gifts to National Day Celebrations           |                |                   |                | 2 23,603          | 1              | 60,000           |                |                  |                |                  |                |                  |                |              |                |                   |                |                   | <b>83,603</b>         |
| 69J          | Gifts to PNGSC 2000 Olympics                 |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              |                |                   |                |                   |                       |
| 70A          | Deduction for Education Expenses             |                | 22 404,107        |                | 26 426,101        | 3              | 5,759            |                |                  | 1              | 6,600            |                |                  |                |              |                |                   |                |                   | <b>842,567</b>        |
| 72A          | Double Deduction - Training                  |                | 32 3,775,209      |                | 25 2,174,526      | 7              | 581,559          | 11             | 884,918          | 6              | 1,717,893        | 3              | 1,440,382        |                |              | 9              | 1,874,854         | 6              | 1,547,806         | <b>13,997,147</b>     |
| 72C          | Double Deduction - Export Market Development |                | 4 119,357         |                | 6 144,895         | 2              | 1,101,546        |                |                  | 1              | 83,744           | 1              | 21,831           |                |              | 1              | 58,986            | 1              | 45,837            | <b>1,576,196</b>      |
| 95           | Research and Development - 150%              |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              | 1              | 52,189,974        | 1              | 13,892,589        | <b>66,082,563</b>     |
| 97A          | Primary Production Development Expenditure   |                | 2 2,848,016       |                | 1 4,149,637       |                |                  | 1              | 124,207          |                |                  |                |                  |                |              |                |                   |                |                   | <b>7,121,860</b>      |
| 97B          | Agriculture Extension Services - 150%        |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              |                |                   |                |                   |                       |
| CH 119       | Pioneer Industries                           |                |                   |                |                   |                |                  |                |                  |                |                  |                |                  |                |              |                |                   |                |                   |                       |
| <b>Total</b> |  | <b>102</b>     | <b>35,744,321</b> | <b>86</b>      | <b>36,313,368</b> | <b>19</b>      | <b>5,040,346</b> | <b>22</b>      | <b>3,837,845</b> | <b>11</b>      | <b>1,900,830</b> | <b>7</b>       | <b>1,500,995</b> | <b>2</b>       | <b>9,000</b> | <b>13</b>      | <b>54,185,638</b> | <b>10</b>      | <b>35,055,753</b> | <b>173,588,096</b>    |

Note: Number means the number of tax payers claiming the concessions  
A dash means no exemptions were recorded.

Source: Internal Revenue Commission

Table 1.3: Incentives Under the Income Tax Act Involving Deferral of Income Tax (Kina)

| Section | Description                       | 2004<br>Number | Amount    | 2005<br>Number | Amount     | 2006<br>Number | Amount    | 2007<br>Number | Amount    | 2008<br>Number | Amount     | 2009<br>Number | Amount | 2010<br>Number | Amount     | 2011<br>Number | Amount  | 2012<br>Number | Amount     | 2013<br>Number | Amount    | Total Amount |
|---------|-----------------------------------|----------------|-----------|----------------|------------|----------------|-----------|----------------|-----------|----------------|------------|----------------|--------|----------------|------------|----------------|---------|----------------|------------|----------------|-----------|--------------|
| 68A     | Solar Heating                     |                |           |                |            | 1              | 5,796     |                |           |                |            |                |        | 1              | 11,712,956 |                |         |                |            |                |           | 11,718,752   |
| 73(3)   | Depreciation 20% loading          | 2              | 19,978    | 2              | 3,071,724  | 6              | 340,776   | 1              | 33,930    |                |            |                |        | 1              | 3,345,605  | 1              | 100,178 |                |            | 1              | 51,158    | 6,963,349    |
| 73(6)   | Depreciation non-oil fired plant  |                |           |                |            |                |           |                |           | 1              | 12,365,347 |                |        |                |            |                |         |                |            |                |           | 12,365,347   |
| 73(7)   | Depreciation - industrial plant   | 4              | 4,773,645 | 7              | 5,997,844  | 5              | 4,331,053 | 1              |           | 1              | 1,895,772  |                |        |                |            |                | 4       | 16,238,512     |            | 2              | 1,019,903 | 34,256,729   |
| 73(9)   | Depreciation - Primary Production | 2              | 1,192,744 | 3              | 2,128,907  | 1              | 218,446   | 2              | 5,384,171 |                |            |                |        | 1              | 925,564    |                |         |                |            | 1              | 1,258,104 | 11,107,936   |
|         |                                   | 8              | 5,986,367 | 12             | 11,198,475 | 13             | 4,896,071 | 4              | 5,418,101 | 2              | 14,261,119 |                |        | 3              | 15,984,125 | 1              | 100,178 | 4              | 16,238,512 | 4              | 2,329,165 | 76,412,113   |

Note: Number means the number of tax payers claiming the concessions  
A dash means no exemptions were recorded.

Source: Internal Revenue Commission

Table 1.4: Exemptions Under Stamp Duties Act.

Table 1.4: Exemptions under Stamp Duties Act

| Schedule 1   | Descriptions of Exemptions                                 | 2010<br>Number | Amount           | 2011<br>Number | Amount           | 2012<br>Number | Amount           | 2013<br>Number | Amount           |
|--------------|--|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|
| Item 5       | First Time Home Buyers Exemption                           | 635            | 1,389,746        | 254            | 818,185          | 377            | 1,760,219        | 305            | 1,856,953        |
| Item 5       | Charities  | 5              | 110,030          | 3              | 1,222,510        | 4              | 101,476          | 6              | 152,785          |
| Item 8       | Wills  | 4              | 107,530          | 10             | 188,135          | 6              | 111,918          | 3              | 92,514           |
| Item 16A     | Transfers of Marketable Securities                         | —              | —                | —              | —                | —              | —                | 0              | -                |
| Section 6    | Purchase of Property by State & Instrumentalities of state | 6              | 283,580          | 4              | 338,450          | 7              | 923,450          | 6              | 758,125          |
| <b>Total</b> |  | <b>650</b>     | <b>1,783,356</b> | <b>271</b>     | <b>2,567,280</b> | <b>394</b>     | <b>2,897,063</b> | <b>320</b>     | <b>2,860,377</b> |

Note:

Note:

Number means number of transactions  
 2010 Figures are from January to December  
 2011 Figures are from January to December  
 2012 Figures are from January to December  
 2013 figures are from Jan-October  
 \_ means no exemptions were granted

Source:

Internal Revenue Commission

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## **APPENDIX 2: GRANTS AND TRANSFERS TO PROVINCES**

Table 2.1: National Governments Grants to Provincial and Local Level Governments (Kina Thousand)

Table 2.2: Grants, Transfers and other resources of the Provinces (Kina Thousands)



Table 2.1: National Government Grants to Provincial and Local Level Governments (Kina thousands)

| Province           | Personnel Emoluments |                   |                |                      |                          |              | Goods and Services    |                          |   |                                   |                               |                                 |                      |                                    |                  |                  |                  |               | GRAND TOTAL |
|--------------------|----------------------|-------------------|----------------|----------------------|--------------------------|--------------|-----------------------|--------------------------|---|-----------------------------------|-------------------------------|---------------------------------|----------------------|------------------------------------|------------------|------------------|------------------|---------------|-------------|
|                    | Salaries             |                   | Leave fares    |                      | Village court allowances | Sub-total PE | Health Function Grant | Education Function Grant | Transport Infrastructure Maintenance Function Grant | Primary Production Function Grant | Village Courts Function Grant | Other Service Delivery Function | Administration Grant | Total Provincial Government Grants | Urban LLG Grants | Rural LLG Grants | Total LLG Grants | Sub Total G&S |             |
|                    | PS Salaries          | Teachers Salaries | PS leave fares | Teachers leave fares |                          |              |                       |                          |   |                                   |                               |                                 |                      |                                    |                  |                  |                  |               |             |
| Western            | 16,247.9             | 23,362.6          | 247.6          | 1,001.2              | 274.0                    | 41,133.3     | 781.4                 | 657.3                    | 1,048.1   | 414.0                             | 86.8                          | 43.3                            | 43.3                 | 3,074.2                            | 710.6            | 2,963.2          | 3,673.8          | 6,748.0       | 47,881.3    |
| Gulf               | 11,586.0             | 10,255.1          | 807.2          | 699.6                | 489.0                    | 23,836.9     | 5,010.8               | 3,906.8                  | 6,023.1   | 1,615.3                           | 329.1                         | 2,568.9                         | 1,990.0              | 21,444.0                           | 149.4            | 1,231.9          | 1,381.3          | 22,825.2      | 46,662.1    |
| Central            | 13,850.4             | 34,300.0          | 422.9          | 2,316.8              | 369.0                    | 51,259.1     | 5,230.1               | 4,998.3                  | 9,518.7   | 1,696.6                           | 423.5                         | 3,150.7                         | 1,564.3              | 26,582.3                           | 0.0              | 1,956.4          | 1,956.4          | 28,538.7      | 79,797.8    |
| Milne Bay          | 5,051.4              | 32,485.9          | 517.8          | 1,163.7              | 316.9                    | 39,535.7     | 6,621.6               | 7,433.3                  | 7,081.3   | 2,150.2                           | 403.1                         | 4,520.6                         | 1,680.4              | 29,890.4                           | 288.3            | 2,368.3          | 2,656.6          | 32,547.0      | 72,082.7    |
| Oro                | 11,413.3             | 15,422.2          | 926.4          | 1,478.0              | 138.2                    | 29,378.1     | 3,938.1               | 3,599.4                  | 4,154.4   | 1,405.7                           | 111.3                         | 2,040.6                         | 817.6                | 16,067.2                           | 579.2            | 1,564.9          | 2,144.1          | 18,211.3      | 47,589.4    |
| Southern Highlands | 28,467.6             | 45,407.8          | 463.8          | 890.4                | 558.8                    | 75,788.4     | 3,865.1               | 3,861.0                  | 3,753.6   | 928.7                             | 359.7                         | 1,369.0                         | 488.9                | 14,626.1                           | 659.1            | 2,380.0          | 3,039.1          | 17,665.2      | 93,453.6    |
| Hela               | 10,314.3             | 16,453.2          | 173.9          | 333.9                | 209.5                    | 27,484.8     | 3,078.9               | 1,769.5                  | 1,959.8   | 681.1                             | 123.2                         | 1,027.7                         | 1,236.0              | 9,876.2                            | 257.3            | 1,304.2          | 1,561.5          | 11,437.7      | 38,922.5    |
| Enga               | 16,957.3             | 29,169.7          | 260.0          | 1,068.0              | 878.3                    | 48,333.3     | 4,520.4               | 3,713.4                  | 9,469.5   | 1,068.6                           | 368.2                         | 2,676.5                         | 1,468.5              | 23,285.0                           | 262.7            | 2,019.0          | 2,281.7          | 25,566.7      | 73,900.0    |
| Western Highlands  | 7,609.3              | 58,241.2          | 483.4          | 1,311.3              | 653.3                    | 68,298.5     | 2,968.1               | 4,406.2                  | 5,582.3   | 792.0                             | 257.0                         | 1,254.2                         | 266.9                | 15,526.8                           | 812.8            | 1,271.3          | 2,084.1          | 17,610.9      | 85,909.4    |
| Jiwaka             | 5,808.1              | 21,977.8          | 193.4          | 524.5                | 261.3                    | 28,765.1     | 2,222.4               | 3,562.2                  | 4,948.0   | 755.8                             | 204.0                         | 1,075.1                         | 276.0                | 13,043.5                           | 0.0              | 803.8            | 803.8            | 13,847.3      | 42,612.4    |
| Simbu              | 13,246.0             | 45,840.1          | 241.5          | 778.5                | 431.0                    | 60,537.1     | 6,611.5               | 8,133.9                  | 9,396.6   | 1,539.7                           | 511.7                         | 3,058.3                         | 2,096.0              | 31,347.7                           | 270.3            | 1,265.7          | 1,536.0          | 32,883.7      | 93,420.8    |
| Eastern Highlands  | 13,762.3             | 42,161.5          | 752.0          | 1,156.5              | 500.0                    | 58,332.3     | 4,955.1               | 6,437.3                  | 11,533.0  | 1,601.3                           | 585.3                         | 2,756.6                         | 1,420.3              | 29,288.9                           | 767.1            | 1,910.7          | 2,677.8          | 31,966.7      | 90,299.0    |
| Morobe             | 29,056.7             | 59,313.6          | 1,411.5        | 3,008.1              | 518.6                    | 93,308.5     | 1,275.8               | 2,000.0                  | 2,266.3   | 465.3                             | 157.0                         | 1,026.0                         | 526.8                | 7,717.2                            | 2,749.0          | 4,393.3          | 7,142.3          | 14,859.5      | 108,168.0   |
| Madang             | 20,675.5             | 41,935.5          | 955.4          | 1,711.5              | 453.2                    | 65,731.1     | 8,497.6               | 8,148.0                  | 11,600.8  | 3,174.6                           | 505.2                         | 3,699.6                         | 3,129.3              | 38,755.1                           | 832.3            | 3,466.3          | 4,298.6          | 43,053.7      | 108,784.8   |
| East Sepik         | 20,065.2             | 40,395.1          | 1,250.0        | 1,163.7              | 481.6                    | 63,355.6     | 11,055.1              | 11,184.1                 | 18,690.1  | 3,343.9                           | 696.4                         | 3,485.2                         | 2,686.9              | 51,141.7                           | 699.8            | 4,017.5          | 4,717.3          | 55,859.0      | 119,214.6   |
| Sandaun            | 16,049.3             | 34,543.7          | 723.4          | 1,144.7              | 249.6                    | 52,710.7     | 9,208.6               | 9,102.7                  | 7,598.6   | 3,443.9                           | 352.1                         | 2,779.4                         | 3,436.0              | 35,921.3                           | 338.5            | 3,844.0          | 4,182.5          | 40,103.8      | 92,814.5    |
| Manus              | 12,394.4             | 14,057.3          | 513.6          | 614.3                | 234.6                    | 27,814.2     | 2,596.5               | 3,047.1                  | 4,606.9   | 1,044.7                           | 374.0                         | 2,050.1                         | 1,998.3              | 15,717.6                           | 171.3            | 505.6            | 676.9            | 16,394.5      | 44,208.7    |
| New Ireland        | 15,459.0             | 22,206.0          | 366.7          | 890.7                | 188.9                    | 39,111.3     | 783.7                 | 555.4                    | 496.1   | 230.8                             | 27.7                          | 50.9                            | 25.3                 | 2,170.0                            | 328.7            | 910.7            | 1,239.4          | 3,409.4       | 42,520.7    |
| East New Britain   | 21,150.7             | 46,196.5          | 504.7          | 1,274.1              | 264.0                    | 69,390.0     | 3,751.5               | 6,127.4                  | 4,356.7   | 1,554.8                           | 201.5                         | 3,286.6                         | 146.6                | 19,425.0                           | 695.1            | 2,468.4          | 3,163.4          | 22,588.4      | 91,978.4    |
| West New Britain   | 15,410.0             | 31,647.0          | 1,620.0        | 3,019.6              | 500.3                    | 52,196.9     | 2,446.6               | 3,619.5                  | 1,845.0   | 1,980.4                           | 176.8                         | 1,342.8                         | 61.0                 | 11,472.0                           | 413.5            | 1,437.1          | 1,850.7          | 13,322.7      | 65,519.6    |
| TOTAL              | 304,574.7            | 665,371.8         | 12,835.2       | 25,549.1             | 7,970.1                  | 1,016,300.9  | 89,418.9              | 96,262.9                 | 125,928.9   | 29,887.3                          | 6,253.8                       | 43,262.3                        | 25,358.2             | 416,372.3                          | 10,984.9         | 42,082.4         | 53,067.4         | 469,439.6     | 1,485,740.6 |

**Table 2.2: Grants, transfers and other resources of Provincial Governments (Kina thousands)**

| PROVINCE           | Total Grants and Transfers | Non-Grant tax transfers |                    |  |                         | Total              |
|--------------------|----------------------------|-------------------------|--------------------|--|-------------------------|--------------------|
|                    | Recurrent Budget           | GST (1)                 | Bookmakers Tax (2) | Mining & Petroleum Royalties/Dividends (3) | Own Source Revenues (4) |                    |
| Western            | 47,881.3                   | 5,150.2                 | 0.0                | 54,700.0                                   | 301.6                   | 108,033.1          |
| Gulf               | 46,662.1                   | 332.6                   | 0.0                | 200.0                                      | 360.4                   | 47,555.2           |
| Central            | 79,797.8                   | 2,770.5                 | 0.0                | 101.1                                      | 9,690.5                 | 92,359.8           |
| Milne Bay          | 72,082.7                   | 4,597.8                 | 0.0                | 0.0  | 2,581.7                 | 79,262.3           |
| Oro                | 47,589.4                   | 2,504.8                 | 0.0                | 0.0  | 1,105.7                 | 51,199.9           |
| Southern Highlands | 93,453.6                   | 5,078.6                 | 0.0                | 25,872.9                                   | 1,374.6                 | 125,779.8          |
| Hela               | 38,922.5                   | 3,195.5                 | 0.0                | 0.0  | 0.0                     | 42,118.0           |
| Enga               | 73,900.0                   | 1,520.1                 | 0.0                | 21,422.4                                   | 3,925.9                 | 100,768.4          |
| Western Highlands  | 85,909.4                   | 14,116.3                | 566.4              | 0.0  | 4,530.7                 | 105,122.8          |
| Jiwaka             | 42,612.4                   | 11,083.8                | 0.0                | 0.0  | 0.0                     | 53,696.2           |
| Simbu              | 93,420.8                   | 2,526.5                 | 0.0                | 0.0  | 1,089.6                 | 97,036.9           |
| Eastern Highlands  | 90,299.0                   | 20,968.9                | 408.9              | 0.0  | 1,734.2                 | 113,410.9          |
| Morobe             | 108,168.0                  | 76,997.0                | 825.1              | 4,372.0                                    | 9,583.1                 | 199,945.1          |
| Madang             | 108,784.8                  | 9,795.4                 | 1,159.0            | 0.0  | 1,809.1                 | 121,548.3          |
| East Sepik         | 119,214.6                  | 7,356.9                 | 0.0                | 0.0  | 2,161.1                 | 128,732.5          |
| Sandaun            | 92,814.5                   | 1,392.9                 | 0.0                | 0.0  | 1,200.0                 | 95,407.3           |
| Manus              | 44,208.7                   | 586.2                   | 0.0                | 0.0  | 1,061.0                 | 45,856.0           |
| New Ireland        | 42,520.7                   | 6,990.7                 | 0.0                | 20,676.0                                   | 1,201.0                 | 71,388.5           |
| East New Britain   | 91,978.4                   | 14,804.9                | 370.0              | 0.0  | 4,345.4                 | 111,498.7          |
| West New Britain   | 65,519.6                   | 9,112.0                 | 34.0               | 0.0  | 10,976.7                | 85,642.3           |
| <b>TOTALS</b>      | <b>1,485,740.6</b>         | <b>200,881.5</b>        | <b>3,363.3</b>     | <b>127,344.2</b>                           | <b>59,032.6</b>         | <b>1,876,362.1</b> |

**NOTES:**

- (1) 60% of net inland GST collections, distributed to each province based on actual 2012 collections  
(2) 100% of 2012 net collection  
(3) NEFC estimate, which includes dividends from equity shares of mining and petroleum resource projects.  
(4) NEFC estimates (2012 actuals)  
(5) NCD and ARB (Bougainville) have not been included because they are not part on the Reforms on Intergovernmental Financing Arrangement

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## **APPENDIX 3: TABLES ON ECONOMIC AND FISCAL DATA**

|           |  |
|-----------|--|
| Table 1:  | Gross Domestic Product by Economic Activity at Current and Constant Prices |
| Table 2:  | Contributions to Growth in Real Gross Domestic Product                     |
| Table 3:  | Prices of Main Export Commodities  |
| Table 4:  | Volume of Main Export Commodities  |
| Table 5:  | Value of Main Export Commodities   |
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| Table 7:  | Employment Classified by Industry  |
| Table 8:  | Central Government Revenue and Grants                                      |
| Table 9a: | Central Government Expenditure and Net Lending                             |
| Table 9b: | GoPNG Counterpart Donor Funded Projects                                    |
| Table 10: | Central Government Financing   |
| Table 11: | Monetary Aggregates  |
| Table 12: | Public Debt  |
| Table 13: | Major Assumptions Underlying the Budget                                    |

**TABLE 1: GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AT CURRENT AND CONSTANT PRICES (Kina Million)**

|   | 2012<br>Actual | 2013<br>Est | 2014<br>Proj | 2015<br>Proj | 2016<br>Proj | 2017<br>Proj | 2018<br>Proj |
|---|----------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Agriculture, Forestry and Fishing</b>          |                |             |              |              |              |              |              |
| nominal   | 8965.7         | 9217.1      | 10274.7      | 11216.6      | 12038.7      | 13019.0      | 14090.1      |
| deflator  | 227.1          | 232.2       | 246.9        | 257.2        | 265.7        | 275.7        | 286.7        |
| real  | 3948.7         | 3970.2      | 4161.3       | 4360.8       | 4530.6       | 4722.2       | 4915.2       |
| rate of real growth                               | -1.6           | 0.5         | 4.8          | 4.8          | 3.9          | 4.2          | 4.1          |
| <b>Oil and Gas Extraction</b>                     |                |             |              |              |              |              |              |
| nominal   | 1320.4         | 1322.3      | 3444.6       | 12828.7      | 13027.8      | 13136.7      | 13154.9      |
| deflator  | 796.3          | 805.7       | 461.5        | 378.7        | 385.4        | 390.5        | 391.0        |
| real  | 165.8          | 164.1       | 746.5        | 3387.7       | 3380.7       | 3364.1       | 3364.1       |
| rate of real growth                               | -20.5          | -1.0        | 354.8        | 353.8        | -0.2         | -0.5         | 0.0          |
| <b>Mining and Quarrying</b>                       |                |             |              |              |              |              |              |
| nominal   | 3275.2         | 3371.5      | 3795.4       | 3878.3       | 3908.9       | 4233.8       | 4396.3       |
| deflator  | 513.7          | 461.2       | 456.4        | 452.1        | 459.0        | 466.8        | 472.0        |
| real  | 637.6          | 731.1       | 831.7        | 857.8        | 851.6        | 907.0        | 931.4        |
| rate of real growth                               | -2.5           | 14.7        | 13.8         | 3.1          | -0.7         | 6.5          | 2.7          |
| <b>Manufacturing</b>                              |                |             |              |              |              |              |              |
| nominal   | 2296.0         | 2471.1      | 2737.6       | 3018.8       | 3296.6       | 3600.6       | 3931.0       |
| deflator  | 209.0          | 217.3       | 231.5        | 243.1        | 255.3        | 268.1        | 281.4        |
| real  | 1098.7         | 1137.2      | 1182.7       | 1241.8       | 1291.5       | 1343.1       | 1396.8       |
| rate of real growth                               | 12.0           | 3.5         | 4.0          | 5.0          | 4.0          | 4.0          | 4.0          |
| <b>Electricity, gas and water</b>                 |                |             |              |              |              |              |              |
| nominal   | 715.4          | 810.9       | 915.6        | 1009.7       | 1113.2       | 1227.5       | 1353.0       |
| deflator  | 342.5          | 356.2       | 379.4        | 398.5        | 418.4        | 439.4        | 461.3        |
| real  | 208.9          | 227.7       | 241.3        | 253.4        | 266.0        | 279.3        | 293.3        |
| rate of real growth                               | 8.0            | 9.0         | 6.0          | 5.0          | 5.0          | 5.0          | 5.0          |
| <b>Construction</b>                               |                |             |              |              |              |              |              |
| nominal   | 6380.8         | 7427.2      | 7405.4       | 8073.4       | 8661.8       | 9450.0       | 10306.1      |
| deflator  | 212.3          | 220.8       | 235.2        | 247.0        | 259.3        | 272.4        | 285.9        |
| real  | 3005.5         | 3364.1      | 3148.8       | 3268.8       | 3339.9       | 3469.6       | 3604.6       |
| rate of real growth                               | 24.0           | 11.9        | -6.4         | 3.8          | 2.2          | 3.9          | 3.9          |
| <b>Wholesale and retail trade</b>                 |                |             |              |              |              |              |              |
| nominal   | 3096.5         | 3381.1      | 3745.7       | 4130.4       | 4553.9       | 5021.7       | 5535.2       |
| deflator  | 241.5          | 251.1       | 267.5        | 280.9        | 294.9        | 309.8        | 325.2        |
| real  | 1282.5         | 1346.6      | 1400.5       | 1470.5       | 1544.0       | 1621.2       | 1702.3       |
| rate of real growth                               | 20.0           | 5.0         | 4.0          | 5.0          | 5.0          | 5.0          | 5.0          |
| <b>Transport, storage and communication</b>       |                |             |              |              |              |              |              |
| nominal   | 1168.4         | 1258.7      | 1394.5       | 1537.7       | 1695.4       | 1869.5       | 2060.7       |
| deflator  | 121.8          | 126.7       | 135.0        | 141.7        | 148.8        | 156.3        | 164.1        |
| real  | 959.0          | 993.5       | 1033.2       | 1084.9       | 1139.1       | 1196.1       | 1255.9       |
| rate of real growth                               | 16.0           | 3.6         | 4.0          | 5.0          | 5.0          | 5.0          | 5.0          |
| <b>Finance, real estate and business services</b> |                |             |              |              |              |              |              |
| nominal   | 1609.2         | 1773.8      | 1984.0       | 2187.8       | 2412.1       | 2659.9       | 2931.8       |
| deflator  | 237.7          | 247.2       | 263.3        | 276.5        | 290.3        | 304.9        | 320.1        |
| real  | 677.0          | 717.6       | 753.5        | 791.2        | 830.8        | 872.3        | 915.9        |
| rate of real growth                               | 10.0           | 6.0         | 5.0          | 5.0          | 5.0          | 5.0          | 5.0          |
| <b>Community, social and personal services</b>    |                |             |              |              |              |              |              |
| nominal   | 2665.7         | 2938.4      | 3255.3       | 3521.3       | 3808.4       | 4119.6       | 4454.3       |
| deflator  | 188.0          | 195.5       | 208.2        | 218.7        | 229.6        | 241.1        | 253.1        |
| real  | 1418.2         | 1503.3      | 1563.4       | 1610.3       | 1658.7       | 1708.4       | 1759.7       |
| rate of real growth                               | 2.1            | 6.0         | 4.0          | 3.0          | 3.0          | 3.0          | 3.0          |
| <b>TOTAL GDP*</b>                                 |                |             |              |              |              |              |              |
| nominal   | 32133.0        | 34611.0     | 39591.6      | 52041.4      | 55155.5      | 58977.2      | 62852.2      |
| rate of nominal growth                            | 5.3            | 7.7         | 14.4         | 31.4         | 6.0          | 6.9          | 6.6          |
| deflator  | 233.1          | 239.0       | 257.4        | 279.1        | 288.0        | 297.8        | 307.2        |
| real  | 13785.3        | 14481.9     | 15384.3      | 18648.5      | 19154.3      | 19804.8      | 20460.6      |
| rate of real growth                               | 8.0            | 5.1         | 6.2          | 21.2         | 2.7          | 3.4          | 3.3          |
| <b>Total non-mining GDP</b>                       |                |             |              |              |              |              |              |
| nominal   | 27537.5        | 29917.1     | 32351.6      | 35334.4      | 38218.8      | 41606.7      | 45301.0      |
| rate of nominal growth                            | 10.9           | 8.6         | 8.1          | 9.2          | 8.2          | 8.9          | 8.9          |
| deflator  | 212.1          | 220.2       | 234.3        | 245.3        | 256.1        | 267.8        | 280.2        |
| real  | 12981.9        | 13586.7     | 13806.2      | 14403.1      | 14922.0      | 15533.7      | 16165.1      |
| rate of real growth                               | 9.1            | 4.7         | 1.6          | 4.3          | 3.6          | 4.1          | 4.1          |

\*Sum of industries less imputed bank service charge, plus import duties, less subsidies.

Source: Actual data for 2008 to 2010: National Statistical Office. Estimates and projections: Dept. of Treasury

**TABLE 2: CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT**  
**(Percentage points)**

|  | <b>2012</b>   | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|--|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>Actual</b> | <b>Est</b>  | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> |
| Agriculture, Forestry and Fishing          | -0.5          | 0.2         | 1.3         | 1.3         | 0.9         | 1.0         | 1.0         |
| Oil and Gas Extraction                     | -0.3          | 0.0         | 4.0         | 17.2        | 0.0         | -0.1        | 0.0         |
| Mining and Quarrying                       | -0.1          | 0.7         | 0.7         | 0.2         | 0.0         | 0.3         | 0.1         |
| Manufacturing                              | 0.9           | 0.3         | 0.3         | 0.4         | 0.3         | 0.3         | 0.3         |
| Electricity, gas and water                 | 0.1           | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| Construction                               | 4.6           | 2.6         | -1.5        | 0.8         | 0.4         | 0.7         | 0.7         |
| Wholesale and retail trade                 | 1.7           | 0.5         | 0.4         | 0.5         | 0.4         | 0.4         | 0.4         |
| Transport, storage and communication       | 1.0           | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         | 0.3         |
| Finance, real estate and business services | 0.5           | 0.3         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         |
| Community, social and personal services    | 0.2           | 0.6         | 0.4         | 0.3         | 0.3         | 0.3         | 0.3         |
| <b>TOTAL GDP*</b>                          | <b>8.0</b>    | <b>5.1</b>  | <b>6.2</b>  | <b>21.2</b> | <b>2.7</b>  | <b>3.4</b>  | <b>3.3</b>  |
| <b>Total Non-mining GDP</b>                | <b>9.1</b>    | <b>4.7</b>  | <b>1.6</b>  | <b>4.3</b>  | <b>3.6</b>  | <b>4.1</b>  | <b>4.1</b>  |

\*Sum of industries less imputed bank service charge, plus import duties, less subsidies.

**Source:** Actual data for 2008 to 2010: National Statistical Office. Estimates and projections: Dept. of Treasury

**TABLE 3: PRICES OF MAIN EXPORT COMMODITIES**  
**(Kina per tonne fob, unless otherwise specified)**

|                                 | <b>2012</b>   | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|---------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                 | <b>Actual</b> | <b>Est</b>  | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> |
| <b>AGRICULTURE</b>              |               |             |             |             |             |             |             |
| Copra                           | 1044          | 1111        | 1242        | 1242        | 1242        | 1242        | 1242        |
| Cocoa                           | 4759          | 5120        | 5651        | 5634        | 5424        | 5228        | 5039        |
| Coffee                          | 8622          | 6536        | 6404        | 6902        | 6735        | 6735        | 6735        |
| Palm Oil                        | 2091          | 1794        | 1854        | 1884        | 1632        | 1516        | 1407        |
| Rubber                          | 6633          | 6467        | 7548        | 6607        | 6093        | 5523        | 5026        |
| Tea                             | 3161          | 2634        | 2572        | 2416        | 2315        | 2315        | 2315        |
| Copra Oil                       | 2604          | 2772        | 3099        | 3099        | 3099        | 3099        | 3099        |
| Logs (K/m <sup>3</sup> )        | 188           | 168         | 173         | 170         | 170         | 170         | 170         |
| <b>MINERALS</b>                 |               |             |             |             |             |             |             |
| Gold (US\$/oz)                  | 1668          | 1428        | 1359        | 1368        | 1391        | 1395        | 1409        |
| Copper (US\$/ton)               | 7959          | 7344        | 7213        | 7216        | 7298        | 7382        | 7349        |
| Oil (Kutubu Crude: US\$/barrel) | 105           | 100         | 99          | 95          | 94          | 93          | 95          |
| LNG                             | 12.2          | 12.3        | 12.3        | 12.4        | 12.9        | 13.3        | 13.3        |
| Condensate                      | 105           | 100         | 79          | 76          | 72          | 70          | 70          |
| Nickel                          | 17542         | 15520       | 15017       | 15255       | 15461       | 15636       | 15792       |
| Cobalt                          | 28761         | 24600       | 26240       | 27880       | 29520       | 32800       | 32800       |

**Source:** Actuals from BPNG. Projections from Dept. of Treasury.

**TABLE 4: VOLUME OF MAIN EXPORT COMMODITIES**  
('000 tonnes, unless otherwise specified)

|                       | 2012<br>Actual | 2013<br>Est | 2014<br>Proj | 2015<br>Proj | 2016<br>Proj | 2017<br>Proj | 2018<br>Proj |
|-----------------------|----------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>AGRICULTURE</b>    |                |             |              |              |              |              |              |
| Copra                 | 32.9           | 15.1        | 15.2         | 18.9         | 21.8         | 21.8         | 21.8         |
| Cocoa                 | 38.1           | 29.5        | 30.4         | 31.3         | 32.3         | 40.0         | 47.9         |
| Coffee                | 55.5           | 42.0        | 43.5         | 46.5         | 48.0         | 52.8         | 58.1         |
| Palm Oil              | 483.0          | 440.2       | 492.0        | 536.7        | 561.2        | 578.5        | 594.9        |
| Rubber                | 5.1            | 5.3         | 5.6          | 5.9          | 6.3          | 6.6          | 7.0          |
| Tea                   | 3.8            | 3.0         | 3.5          | 3.5          | 3.5          | 3.5          | 3.5          |
| Copra Oil             | 22.0           | 14.6        | 16.2         | 35.0         | 35.0         | 35.0         | 35.0         |
| Logs                  | 3148.0         | 3022.0      | 3022.0       | 3022.0       | 3022.0       | 3022.0       | 3022.0       |
| Marine products       | 71.1           | 73.2        | 75.4         | 77.7         | 80.0         | 82.4         | 84.9         |
| <b>MINERAL</b>        |                |             |              |              |              |              |              |
| Gold (tonnes)         | 46.8           | 52.9        | 53.4         | 56.8         | 57.9         | 64.6         | 64.8         |
| Copper (tonnes)       | 125.3          | 129.2       | 108.1        | 105.7        | 82.0         | 76.8         | 76.8         |
| Oil (million barrels) | 8.9            | 5.8         | 5.1          | 4.4          | 3.8          | 3.2          | 3.2          |
| LNG (Tbtu)            |                |             | 63.2         | 356.1        | 356.5        | 356.5        | 356.5        |
| Condensate (MB)       |                |             | 2.7          | 11.2         | 11.3         | 11.1         | 11.1         |
| Nickel (tonnes)       | 200            | 15866       | 25386        | 31732        | 31732        | 31732        | 31732        |
| Cobalt (tonnes)       | 19.0           | 1428.0      | 2284.7       | 2855.9       | 2855.9       | 2855.9       | 2855.9       |

**Source:** Actuals from BPNG. Projections from Dept. of Treasury.

**TABLE 5: VALUE OF MAIN EXPORT COMMODITIES**  
(Kina Million)

|  | 2012           | 2013           | 2014           | 2015           | 2016           | 2017           | 2018           |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Actual         | Est            | Proj           | Proj           | Proj           | Proj           | Proj           |
| <b>AGRICULTURE, FORESTRY, FISHERIES</b>              |                |                |                |                |                |                |                |
| Copra  | 33.1           | 16.8           | 18.8           | 23.5           | 27.1           | 27.1           | 27.1           |
| Copra Oil  | 56.1           | 40.4           | 50.2           | 108.4          | 108.4          | 108.4          | 108.4          |
| Cocoa  | 182.6          | 151.1          | 171.8          | 176.4          | 175.0          | 208.9          | 241.3          |
| Coffee   | 478.5          | 274.5          | 278.6          | 320.9          | 323.3          | 355.6          | 391.2          |
| Palm Oil   | 1009.9         | 789.6          | 912.2          | 1011.0         | 915.7          | 877.2          | 837.0          |
| Rubber   | 33.1           | 34.3           | 42.0           | 39.0           | 38.1           | 36.6           | 35.3           |
| Tea  | 11.7           | 7.9            | 8.9            | 8.3            | 8.0            | 8.0            | 8.0            |
| Other Agriculture (a)                                | 209.3          | 224.2          | 235.9          | 239.9          | 214.2          | 199.0          | 188.7          |
| Forest Products                                      | 627.1          | 615.3          | 624.0          | 607.5          | 601.0          | 594.9          | 589.2          |
| Marine Products                                      | 329.5          | 299.7          | 191.7          | 207.4          | 224.3          | 242.6          | 262.3          |
| <b>Total Agricultural, Forestry, Fishing Exports</b> | <b>2970.9</b>  | <b>2453.8</b>  | <b>2534.1</b>  | <b>2742.5</b>  | <b>2635.1</b>  | <b>2658.3</b>  | <b>2688.6</b>  |
| <b>MINERAL</b>                                       |                |                |                |                |                |                |                |
| Gold   | 5202.8         | 5392.6         | 5447.8         | 5826.2         | 6037.0         | 6765.6         | 6848.0         |
| Copper   | 2071.5         | 2044.1         | 1766.5         | 1729.0         | 1356.3         | 1285.3         | 1279.5         |
| Silver   | 114.9          | 88.1           | 84.8           | 84.7           | 90.2           | 73.5           | 57.4           |
| Oil  | 2134.3         | 1360.8         | 1239.8         | 1032.6         | 876.7          | 738.2          | 753.7          |
| LNG  |                |                | 1810.4         | 10346.0        | 10766.8        | 11071.0        | 11071.0        |
| Condensate   |                |                | 491.2          | 1998.7         | 1903.5         | 1816.9         | 1816.9         |
| Nickel   | 0.0            | 546.2          | 889.7          | 1129.7         | 1145.0         | 1157.9         | 1169.5         |
| Cobalt   | 0.0            | 77.9           | 139.9          | 185.8          | 196.7          | 218.6          | 218.6          |
| Refined Petroleum Products                           | 680.2          | 444.8          | 473.7          | 463.9          | 467.4          | 471.7          | 490.9          |
| <b>Total Mineral Exports</b>                         | <b>10203.7</b> | <b>9954.6</b>  | <b>12343.8</b> | <b>22796.7</b> | <b>22839.7</b> | <b>23598.7</b> | <b>23705.5</b> |
| <b>TOTAL EXPORT VALUE</b>                            | <b>13194.5</b> | <b>12408.4</b> | <b>14877.9</b> | <b>25539.2</b> | <b>25474.8</b> | <b>26257.0</b> | <b>26394.1</b> |

**Source:** Actuals from BPNG. Projections from Dept. of Treasury.

(a) Includes Oil Palm by-products, canned tuna and vanilla.



**TABLE 6: SUMMARY OF THE BALANCE OF PAYMENTS**  
(Kina Million)

|  | 2012<br>Actual | 2013<br>Proj   | 2014<br>Proj   | 2015<br>Proj   | 2016<br>Proj   | 2017<br>Proj   | 2018<br>Proj   |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>CURRENT ACCOUNT BALANCE</b>   | <b>-4793.0</b> | <b>-4739.7</b> | <b>-2778.4</b> | <b>6787.5</b>  | <b>7155.5</b>  | <b>8187.6</b>  | <b>8780.5</b>  |
| <b>Balance of Trade in Goods and Services</b>                            | <b>-3521.4</b> | <b>-3442.4</b> | <b>-878.6</b>  | <b>10439.1</b> | <b>10977.5</b> | <b>12237.0</b> | <b>12934.6</b> |
| <i>Goods Balance</i>   | 3262.6         | 2576.3         | 5563.5         | 17106.7        | 17877.9        | 19226.1        | 19844.5        |
| Credit (Exports)   | 13194.5        | 12408.4        | 14877.9        | 25539.2        | 25474.8        | 26257.0        | 26394.1        |
| Debit (Imports)  | -9931.9        | -9832.1        | -9314.3        | -8432.5        | -7596.9        | -7030.9        | -6549.6        |
| <i>Services Balance</i>  | -6784.0        | -6018.7        | -6442.1        | -6667.6        | -6900.4        | -6989.1        | -6909.9        |
| Services Credit  | 993.8          | 1076.3         | 1166.6         | 1269.3         | 1367.7         | 1488.6         | 1616.9         |
| Services Debit   | -7777.8        | -7095.0        | -7608.7        | -7936.9        | -8268.2        | -8477.6        | -8526.8        |
| <b>Income Balance</b>  | <b>-1519.6</b> | <b>-1613.5</b> | <b>-2104.5</b> | <b>-3795.8</b> | <b>-3909.7</b> | <b>-4069.5</b> | <b>-4194.8</b> |
| Income Credit  | 93.8           | 97.8           | 105.2          | 108.8          | 112.0          | 117.8          | 123.2          |
| Income Debit   | -1613.4        | -1711.3        | -2209.7        | -3904.6        | -4021.8        | -4187.4        | -4318.1        |
| <b>Transfers Balance</b>   | <b>248.0</b>   | <b>316.2</b>   | <b>204.6</b>   | <b>144.2</b>   | <b>87.8</b>    | <b>20.1</b>    | <b>40.7</b>    |
| Transfers Credit   | 1153.0         | 1085.8         | 1036.9         | 1053.2         | 1071.0         | 1090.5         | 1111.1         |
| Transfers Debit  | -905.0         | -769.6         | -832.3         | -909.0         | -983.2         | -1070.4        | -1070.4        |
| <b>CAPITAL AND FINANCIAL ACCOUNT<sup>(a)</sup></b>                       | <b>3971.0</b>  | <b>4739.7</b>  | <b>2778.4</b>  | <b>-6787.5</b> | <b>-7155.5</b> | <b>-8187.6</b> | <b>-8780.5</b> |
| <b>NET ERRORS AND OMISSIONS</b>  | <b>-28.0</b>   | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     |
| Current account balance as percentage<br>of Gross Domestic Product (GDP) | -14.9          | -13.7          | -7.0           | 13.0           | 13.0           | 13.9           | 14.0           |

**Source:** Actuals from BPNG. Projections from Dept. of Treasury.

(a) Capital and Financial Account includes changes in reserves.

**TABLE 7: EMPLOYMENT CLASSIFIED BY INDUSTRY**  
**(March 2002 = 100)**

|                                  | <b>2009</b>   | <b>2010</b>   | <b>2011</b>   | <b>2012</b>   | <b>2013</b>    |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
|                                  | <b>Annual</b> | <b>Annual</b> | <b>Annual</b> | <b>Annual</b> | <b>Jun Qtr</b> |
| Retail                           | 125.7         | 129.5         | 134.2         | 154.1         | 166.0          |
| Wholesale                        | 167.2         | 172.6         | 192.6         | 197.7         | 210.0          |
| Manufacturing                    | 166.1         | 163.8         | 176.0         | 185.4         | 198.7          |
| Building and Construction        | 173.7         | 187.5         | 172.0         | 188.2         | 206.6          |
| Transportation                   | 126.8         | 122.1         | 151.1         | 165.3         | 173.5          |
| Agriculture, Forestry, Fisheries | 153.4         | 156.5         | 168.8         | 173.7         | 172.6          |
| Financial and Business           | 132.9         | 132.6         | 136.6         | 139.9         | 143.6          |
| <b>TOTAL NON-MINERAL</b>         | <b>148.6</b>  | <b>149.7</b>  | <b>159.1</b>  | <b>168.2</b>  | <b>173.7</b>   |
| <b>MINERAL</b>                   | <b>141.8</b>  | <b>150.1</b>  | <b>162.3</b>  | <b>177.9</b>  | <b>178.9</b>   |

**Source:** BPNG.

TABLE 8: CENTRAL GOVERNMENT REVENUE AND GRANTS  
(Kina Million)

|                                  | 2012<br>Actual | 2013<br>Proj   | 2014<br>Proj   | 2015<br>Proj   | 2016<br>Proj   | 2017<br>Proj   | 2018<br>Proj   |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>TAX REVENUE</b>               | <b>8148.3</b>  | <b>8605.7</b>  | <b>9743.5</b>  | <b>10598.7</b> | <b>12114.5</b> | <b>13243.2</b> | <b>14416.9</b> |
| TAX ON INCOME AND PROFITS        | 5875.1         | 6185.8         | 7117.2         | 7888.9         | 9061.0         | 9926.1         | 10922.2        |
| Personal Income Tax              | 2648.7         | 2740.4         | 2852.0         | 2746.0         | 3075.5         | 3444.6         | 3857.9         |
| Company tax                      | 1744.5         | 2061.6         | 2647.4         | 2918.4         | 3135.0         | 3412.9         | 3715.9         |
| DWT                              | 190.7          | 232.8          | 261.3          | 285.4          | 317.2          | 352.9          | 379.7          |
| Mining and Petroleum Taxes       | 981.1          | 815.7          | 1001.8         | 1561.9         | 2129.6         | 2282.5         | 2503.1         |
| Interest withholding tax         | 67.4           | 49.0           | 49.0           | 49.0           | 49.0           | 49.0           | 49.0           |
| Other Direct                     | 108.8          | 115.6          | 125.0          | 136.5          | 147.6          | 160.7          | 175.0          |
| Gaming Tax                       | 133.9          | 170.6          | 180.8          | 191.7          | 207.0          | 223.6          | 241.5          |
| DOM. TAXES ON GOODS AND SERVICES | 1575.5         | 1721.7         | 1879.4         | 1938.6         | 2224.0         | 2427.6         | 2509.5         |
| Excise                           | 560.5          | 606.1          | 689.3          | 654.5          | 707.9          | 770.7          | 839.1          |
| GST                              | 1010.0         | 1107.5         | 1181.4         | 1274.5         | 1505.6         | 1645.5         | 1658.1         |
| Other Indirect                   | 5.0            | 8.0            | 8.7            | 9.6            | 10.5           | 11.5           | 12.4           |
| TAXES ON INTERNATIONAL TRADE     | 697.7          | 698.2          | 746.9          | 771.2          | 829.5          | 889.4          | 985.2          |
| Import Duty                      | 223.0          | 240.7          | 288.8          | 277.4          | 300.1          | 326.7          | 385.7          |
| Export Duty                      | 179.9          | 190.0          | 176.5          | 169.5          | 164.0          | 159.2          | 154.4          |
| Excise Duty on Imports           | 294.8          | 267.5          | 281.6          | 324.3          | 365.5          | 403.6          | 445.1          |
| <b>NON TAX REVENUE</b>           | <b>423.2</b>   | <b>534.8</b>   | <b>1260.0</b>  | <b>1641.4</b>  | <b>1281.1</b>  | <b>1110.7</b>  | <b>1151.7</b>  |
| PROPERTY INCOME                  | 172.3          | 264.8          | 420.0          | 1284.5         | 1022.0         | 831.7          | 851.3          |
| Dividends                        | 50.0           | 132.0          | 287.0          | 92.0           | 112.0          | 110.0          | 110.0          |
| Mining and Petroleum Dividends   | 122.3          | 132.8          | 133.0          | 108.5          | 108.5          | 108.5          | 108.5          |
| INTEREST AND FEES FROM LENDING   | 0.1            | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            |
| OTHER NON TAX REVENUE            | 106.4          | 230.0          | 200.0          | 216.8          | 235.1          | 255.0          | 276.5          |
| INJECTIONS FROM TRUST ACCOUNTS   | 144.4          | 36.0           | 36.0           | 36.0           | 0.0            | 0.0            | 0.0            |
| ASSET SALES                      | 0.0            | 0.0            | 600.0          | 100.0          | 20.0           | 20.0           | 20.0           |
| <b>TOTAL REVENUE</b>             | <b>8571.4</b>  | <b>9140.5</b>  | <b>11003.5</b> | <b>12240.0</b> | <b>13395.6</b> | <b>14353.8</b> | <b>15568.6</b> |
| % of GDP                         | 26.7%          | 26.4%          | 27.8%          | 23.5%          | 24.3%          | 24.3%          | 24.3%          |
| INFRASTRUCTURE TAX CREDITS       | 63.8           | 130.0          | 130.0          | 130.0          | 130.0          | 130.0          | 130.0          |
| GRANTS                           | 930.8          | 1211.2         | 1555.0         | 1659.0         | 1290.0         | 1194.0         | 974.0          |
| Budgetary Support                | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Project Support Grants           | 930.8          | 1211.2         | 1555.0         | 1659.0         | 1290.0         | 1194.0         | 974.0          |
| <b>TOTAL REVENUE AND GRANTS</b>  | <b>9566.0</b>  | <b>10481.6</b> | <b>12688.5</b> | <b>14029.0</b> | <b>14815.6</b> | <b>15677.8</b> | <b>16672.6</b> |
| % of GDP                         | 29.8%          | 30.3%          | 32.0%          | 27.0%          | 26.9%          | 26.6%          | 26.6%          |
| PRINCIPAL RECEIPTS FROM LENDING  | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            | 4.0            |
| GROSS BORROWING                  | 4622.0         | 7465.0         | 7892.3         | 6914.1         | 6697.6         | 6304.4         | 6812.7         |
| TOTAL RECEIPTS                   | 14190.9        | 17950.7        | 20584.8        | 20947.1        | 21517.2        | 21986.2        | 23489.2        |
| % of GDP                         | 44.2%          | 51.9%          | 52.0%          | 40.3%          | 39.0%          | 37.3%          | 37.3%          |

Source: Department of Treasury

Table 9a TOTAL EXPENDITURE AND NET LENDING (Kina million)

|   | 2012<br>Actual  | 2013<br>Est     | 2014<br>Proj    | 2015<br>Proj    | 2016<br>Proj    | 2017<br>Proj    | 2018<br>Proj    |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>NATIONAL DEPARTMENTS</b>                                       | <b>6,603.1</b>  | <b>7,392.2</b>  | <b>9,221.4</b>  | <b>8,979.8</b>  | <b>9,189.1</b>  | <b>9,402.6</b>  | <b>9,977.7</b>  |
| Personnel Emoluments  | 1,395.0         | 1,669.3         | 1,794.7         | 1,848.6         | 1,904.0         | 1,961.2         | 2,029.8         |
| Goods & Services  | 2,557.4         | 2,641.1         | 3,316.9         | 3,399.8         | 3,484.8         | 3,572.0         | 3,761.3         |
| Utilities, Rentals and Property Costs                             | 529.7           | 529.4           | 594.7           | 609.5           | 624.8           | 640.4           | 656.4           |
| Grants Subsidies and Transfers                                    | 1,392.1         | 1,256.5         | 1,094.7         | 1,094.7         | 1,094.7         | 1,094.7         | 1,094.7         |
| Acquisition of Existing Assets                                    | 27.6            | 14.7            | 55.2            | 56.6            | 58.0            | 59.5            | 61.0            |
| Capital Formation   | 700.8           | 1,281.1         | 2,365.2         | 1,950.6         | 2,002.5         | 2,054.5         | 2,354.0         |
| Write Offs and Depreciation                                       | 0.5             | 0.0             | 0.0             | 20.0            | 20.2            | 20.4            | 20.6            |
| <b>PROVINCIAL GOVERNMENTS</b>                                     | <b>1,582.0</b>  | <b>3,203.3</b>  | <b>3,305.4</b>  | <b>3,333.3</b>  | <b>3,397.0</b>  | <b>3,462.2</b>  | <b>3,568.8</b>  |
| Personnel Emoluments  | 1,031.2         | 1,008.3         | 1,008.3         | 1,038.6         | 1,069.7         | 1,101.8         | 1,134.9         |
| Goods & Services  | 17.5            | 1,179.0         | 942.5           | 961.3           | 980.5           | 1,000.2         | 1,020.2         |
| Grants Subsidies and Transfers                                    | 462.2           | 865.6           | 1,176.8         | 1,188.6         | 1,200.4         | 1,212.4         | 1,224.6         |
| Capital Formation   | 71.1            | 150.3           | 177.8           | 144.8           | 146.3           | 147.8           | 189.2           |
| Write Offs and Depreciation                                       | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>AUTONOMOUS BOUGAINVILLE GOVERNMENT</b>                         | <b>255.1</b>    | <b>259.1</b>    | <b>262.5</b>    | <b>267.3</b>    | <b>280.7</b>    | <b>289.1</b>    | <b>312.5</b>    |
| Personnel Emoluments  | 58.4            | 64.7            | 64.7            | 66.0            | 67.3            | 68.7            | 70.1            |
| Goods & Services  | 75.2            | 6.6             | 4.8             | 4.9             | 5.1             | 5.2             | 5.3             |
| Grants Subsidies and Transfers                                    | 121.5           | 89.8            | 189.5           | 191.4           | 193.3           | 195.2           | 197.2           |
| Capital Formation   | 0.0             | 98.0            | 3.5             | 5.0             | 15.0            | 20.0            | 40.0            |
| Write Offs and Depreciation                                       | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>STATUTORY AUTHORITIES</b>                                      | <b>1,080.3</b>  | <b>1,375.0</b>  | <b>1,623.8</b>  | <b>1,611.6</b>  | <b>1,642.4</b>  | <b>1,673.7</b>  | <b>1,705.7</b>  |
| Personnel Emoluments  | 7.8             | 265.1           | 262.9           | 268.2           | 273.5           | 279.0           | 284.6           |
| Goods & Services  | 72.0            | 225.6           | 306.7           | 312.8           | 319.1           | 325.5           | 332.0           |
| Utilities, Rentals and Property Costs                             | 1.2             | 38.6            | 40.8            | 41.2            | 41.6            | 42.0            | 42.4            |
| Grants Subsidies and Transfers                                    | 495.3           | 75.2            | 106.4           | 107.4           | 108.5           | 109.6           | 110.7           |
| Capital Formation   | 503.2           | 770.4           | 907.0           | 882.0           | 899.6           | 917.6           | 936.0           |
| Capital Transfers   | 0.8             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>INTEREST PAYMENTS</b>  | <b>459.6</b>    | <b>554.1</b>    | <b>751.3</b>    | <b>969.0</b>    | <b>1,068.7</b>  | <b>1,144.4</b>  | <b>1,264.2</b>  |
| Domestic Interest Payments  | 415.2           | 498.7           | 687.4           | 903.9           | 994.8           | 1,070.7         | 1,188.4         |
| Foreign Interest Payments   | 44.4            | 55.4            | 63.9            | 65.1            | 73.9            | 73.7            | 75.8            |
| <b>INFRASTRUCTURE TAX CREDITS</b>                                 | <b>63.8</b>     | <b>130.0</b>    | <b>130.0</b>    | <b>130.0</b>    | <b>130.0</b>    | <b>130.0</b>    | <b>130.0</b>    |
| <b>TOTAL APPROPRIATED EXPENDITURE AND NET LENDING<sup>1</sup></b> | <b>10,943.9</b> | <b>13,218.7</b> | <b>15,294.5</b> | <b>15,291.1</b> | <b>15,707.8</b> | <b>16,101.9</b> | <b>16,959.0</b> |
| <i>Payroll Efficiency Savings</i>                                 | <b>0.0</b>      | <b>0.0</b>      | <b>-100.0</b>   | <b>-100.0</b>   | <b>0.0</b>      | <b>0.0</b>      | <b>0.0</b>      |
| <i>Aggregate Estimates Allowances<sup>2</sup></i>                 | <b>0.0</b>      | <b>0.0</b>      | <b>-152.9</b>   | <b>152.9</b>    | <b>314.2</b>    | <b>644.1</b>    | <b>848.0</b>    |
| <b>TOTAL EXPENDITURE AND NET LENDING</b>                          | <b>10,943.9</b> | <b>13,218.7</b> | <b>15,041.5</b> | <b>15,344.0</b> | <b>16,022.0</b> | <b>16,746.0</b> | <b>17,807.0</b> |
| <b>% GDP</b>  | 34.1%           | 38.2%           | 38.0%           | 29.5%           | 29.0%           | 28.4%           | 28.3%           |
| <b>AMORTISATION</b>   | <b>3,244.1</b>  | <b>4,350.7</b>  | <b>5,536.8</b>  | <b>5,599.1</b>  | <b>5,491.2</b>  | <b>5,236.2</b>  | <b>5,678.2</b>  |
| Domestic  | 3,079.8         | 4,188.0         | 5,313.4         | 5,426.5         | 5,309.2         | 5,027.7         | 5,448.3         |
| External  | 164.3           | 162.7           | 223.4           | 172.6           | 182.0           | 208.5           | 229.9           |
| <b>LOAN REPAYMENTS</b>  | <b>0.0</b>      | <b>4.0</b>      | <b>0.0</b>      | <b>0.0</b>      | <b>0.0</b>      | <b>0.0</b>      | <b>0.0</b>      |
| <b>TOTAL PAYMENTS</b>   | <b>14,188.0</b> | <b>17,573.3</b> | <b>20,831.3</b> | <b>20,890.2</b> | <b>21,199.0</b> | <b>21,338.1</b> | <b>22,637.2</b> |
| <b>% GDP</b>  | 44.2%           | 50.8%           | 52.6%           | 40.1%           | 38.4%           | 36.2%           | 36.0%           |

Source: Department of Treasury

1. This represents total appropriated expenditure as per Volume 2 of the Budget, includes LNG equity purchases of K900m in 2012 and K305 m in 2013 as per GFS 1986.

2. This represents the moderation of aggregate estimates consistent with past expenditure trends.

Table 9b GoPNG Counterpart and Donor Funded Projects (Kina million) 2014

| Description  |   | GoPNG       | Grants         | Loans    | Total          |
|--|---|-------------|----------------|----------|----------------|
| <b>Australian Government</b>                           |   |             |                |          |                |
| Department of Prime Minister & NEC                     | Incentive Fund  | -           | 15.3           | -        | 15.3           |
| Department of Finance                                  | EPSG Twinning Scheme  | -           | 6.3            | -        | 6.3            |
| Department of Treasury                                 | PNG Microfinance Expansion Project                          | -           | 3.9            | -        | 3.9            |
| Department of Personnel Management                     | Strongim Gavman Program                                     | -           | 61.6           | -        | 61.6           |
| Department of Personnel Management                     | Economic and Public Sector Reform                           | -           | 29.9           | -        | 29.9           |
| Department of Personnel Management                     | PNG Country Programme                                       | -           | 1.6            | -        | 1.6            |
| Department of Personnel Management                     | PNG Property  | -           | 6.4            | -        | 6.4            |
| Department of Personnel Management                     | Australian Awards Program                                   | -           | 50.3           | -        | 50.3           |
| Magisterial Services                                   | 2013 Joint Understanding Deployment to Dept of Police & CIS | -           | 12.5           | -        | 12.5           |
| Department of Attorney-General                         | PNG-Aust L&J Partnership                                    | 2.0         | 61.2           | -        | 63.2           |
| Department of Police                                   | 2013 Deployment of 50 Australian Federal Police.            | -           | 86.5           | -        | 86.5           |
| Department of National Planning and Monitoring         | ONE UN Fund for PNG   | -           | 6.6            | -        | 6.6            |
| Electoral Commission                                   | Electoral Support Project Phase II                          | -           | 10.9           | -        | 10.9           |
| Department of Provincial and Local Government Affairs  | Sub-National Strategy                                       | -           | 48.3           | -        | 48.3           |
| Department of Provincial and Local Government Affairs  | PNG Disaster Risk Management Program 2010-2014              | -           | 3.7            | -        | 3.7            |
| Department of Education                                | PNG Education Programme                                     | -           | 170.5          | -        | 170.5          |
| Office of Higher Education                             | 2013 Joint Understanding: Rehabilitation of UPNG            | -           | 40.6           | -        | 40.6           |
| Department of Health                                   | Capacity Building Service Centre Project                    | -           | 109.3          | -        | 109.3          |
| Department of Health                                   | PNG Health & HIV Financing Programme                        | -           | 26.7           | -        | 26.7           |
| Department of Health                                   | PNG Health & HIV Procurement Program (2011-15)              | -           | 91.6           | -        | 91.6           |
| Department of Health                                   | PNG Health Partnership Support                              | -           | 2.0            | -        | 2.0            |
| Department of Health                                   | Rebuilding the Angau Hospital: 2013 Joint Understanding:    | 20.0        | 45.2           | -        | 65.2           |
| Department of Community Development                    | PNG Church Partnership Programme                            | -           | 19.4           | -        | 19.4           |
| Department of Community Development                    | Strongim Pipol Strongim Neisen                              | -           | 48.1           | -        | 48.1           |
| Department of Community Development                    | Gender Equality/Gender Based Violence (AUSAID)              | -           | 20.3           | -        | 20.3           |
| Department of Community Development                    | Care Integrated Community Development Program               | -           | 3.3            | -        | 3.3            |
| Department of Community Development                    | Violence Against Women (VAW)                                | -           | 1.1            | -        | 1.1            |
| Department of Transport                                | PNG Transport - Mou Ausaid & Infrastructure                 | -           | 4.4            | -        | 4.4            |
| Department of Works & Implementation                   | Transport Sector Support Program                            | 10.0        | 193.4          | -        | 203.4          |
| Department of Works & Implementation                   | 2013 Joint Understanding: Design & Scope for Madang - Ramu  | 15.0        | 0.5            | -        | 15.5           |
| Office of Climate Change and Development               | Climate Change Adaptation Initiative                        | -           | 6.6            | -        | 6.6            |
| National Broadcasting Commission                       | PNG Media Programme   | -           | 8.7            | -        | 8.7            |
| Papua New Guinea Air Services Limited                  | PNG ASL Technical Assistance Support                        | -           | 2.0            | -        | 2.0            |
| National Agriculture Research Institute                | ACIAR Research & Development                                | -           | 7.6            | -        | 7.6            |
| <b>Total for Australian Government</b>                 |   | <b>47.0</b> | <b>1,206.4</b> | <b>-</b> | <b>1,253.4</b> |
| <b>New Zealand Government</b>                          |   |             |                |          |                |
| Department of Mineral Policy and Geohazards Management | Finalizing the Geothermal Research Policy                   | -           | 0.3            | -        | 0.3            |
| National Training Council                              | NZ Development Scholarship (NZDS)                           | -           | 0.4            | -        | 0.4            |
| Independent Public Business Corporation                | Regulatory Reform Design Phase                              | -           | 0.4            | -        | 0.4            |
| Mineral Resources Authority                            | Scientific Database and Development of Training Plan        | -           | 0.4            | -        | 0.4            |
| PNG Power Limited                                      | Urban Grid Electrification Extension                        | -           | 4.8            | -        | 4.8            |
| PNG Power Limited                                      | Electricity Development                                     | -           | 12.6           | -        | 12.6           |
| Enga Provincial Government                             | Enga Hydro Project  | -           | 3.8            | -        | 3.8            |
| Bougainville Autonomous Government                     | Community Policing  | -           | 5.8            | -        | 5.8            |
| Bougainville Autonomous Government                     | Bougainville Governance Implementation Fund                 | -           | 4.8            | -        | 4.8            |
| <b>Total for New Zealand Government</b>                |   | <b>-</b>    | <b>33.4</b>    | <b>-</b> | <b>33.4</b>    |

| Description                                    |   | GoPNG        | Grants      | Loans        | Total        |
|--|---|--------------|-------------|--------------|--------------|
| <b>Peoples Republic of China</b>               |   |              |             |              |              |
| Department of Police                           | Police Material Provision                                     | -            | 0.8         | -            | 0.8          |
| Office of Higher Education                     | West Pacific University                                       | 17.0         | 63.9        | -            | 80.9         |
| Department of Agriculture & Livestock          | Mt Hagen Rice Project   | 0.5          | 0.9         | -            | 1.4          |
| National Museum & Art Gallery                  | International Conference Centre                               | 5.0          | 21.0        | -            | 26.0         |
| Department of Prime Minister & NEC             | Community College   | -            | -           | 27.7         | 27.7         |
| Department of National Planning and Monitoring | Identity Card (with Biometrics)                               | 10.0         | -           | 157.6        | 167.6        |
| Department of Information and Communication    | Government Information Systems                                | 4.0          | -           | 41.5         | 45.5         |
| Department of Commerce & Industry              | Pacific Marine Industrial Zone                                | 10.0         | -           | 43.8         | 53.8         |
| University of Goroka                           | UOG Dormitory Construction                                    | -            | -           | 25.4         | 25.4         |
| <b>Total for Peoples Republic of China</b>     |   | <b>46.5</b>  | <b>86.5</b> | <b>296.0</b> | <b>429.0</b> |
| <b>Japanese Government</b>                     |   |              |             |              |              |
| Independent Public Business Corporation        | Port Moresby Sewerage Project                                 | 20.0         | -           | 27.8         | 47.8         |
| PNG Power Limited                              | Upgrading the Power Distribution System of Ramu Grid          | -            | -           | 28.0         | 28.0         |
| Department of National Planning and Monitoring | JICA Training   | -            | 1.4         | -            | 1.4          |
| Department of National Planning and Monitoring | JICA Volunteer  | -            | 7.1         | -            | 7.1          |
| Department of National Planning and Monitoring | Development Planning Advisor                                  | -            | 0.5         | -            | 0.5          |
| Department of Education                        | National Education Media Centre                               | -            | 0.6         | -            | 0.6          |
| Department of Education                        | Improving TV Program to Enhance Universal Basic Education and | -            | 0.6         | -            | 0.6          |
| Department of Health                           | Pacific Programme to Eliminate Lymphatic Filariasis (PacELF)  | -            | 2.3         | -            | 2.3          |
| Department of Agriculture & Livestock          | Smallholder Rice Project Phase II                             | 1.0          | 2.0         | -            | 3.0          |
| Department of Transport                        | Capacity Development  | -            | 2.4         | -            | 2.4          |
| Department of Works & Implementation           | Capacity Development for Road Maintenance                     | -            | 2.4         | -            | 2.4          |
| PNG National Forest Authority                  | Capacity Development On Forest Resource Monitoring            | -            | 1.9         | -            | 1.9          |
| National Capital District                      | Ncd Solid Waste Management                                    | -            | 0.7         | -            | 0.7          |
| Morobe Provincial Government                   | Master Plan of Lae Area                                       | -            | 2.4         | -            | 2.4          |
| Madang Provincial Government                   | Rehabilitation of Madang Town Market                          | -            | 11.8        | -            | 11.8         |
| <b>Total for Japanese Government</b>           |   | <b>21.0</b>  | <b>35.8</b> | <b>55.8</b>  | <b>112.6</b> |
| <b>Asian Development Bank</b>                  |   |              |             |              |              |
| Department of Treasury                         | Micro Finance Expansion Project                               | 2.0          | -           | 19.6         | 21.6         |
| Department of Health                           | Rural Primary Health Service Delivery Project                 | -            | -           | 15.0         | 15.0         |
| Department of Works & Implementation           | Highlands Region Roads Improvement Investment Programme (HR)  | 50.0         | -           | 93.3         | 143.3        |
| Department of Works & Implementation           | ADB Bridge Replacement & Improve Rural Access Project         | 20.0         | -           | 26.3         | 46.3         |
| Border Development Authority                   | Pilot Border Trade  | 5.0          | -           | 10.9         | 15.9         |
| Independent Public Business Corporation        | Lae Port Development Project (Additional Financing)           | -            | -           | 141.3        | 141.3        |
| National Maritime Safety Authority             | Maritime & Waterways Safety Project                           | -            | -           | 11.9         | 11.9         |
| National Airports Corporation                  | Civil Aviation Sector Development Investment                  | 26.0         | -           | 73.7         | 99.7         |
| PNG Power Limited                              | PNG Towns' Electricity Investment Project                     | 26.0         | -           | 49.9         | 75.9         |
| <b>Total for Asian Development Bank</b>        |   | <b>129.0</b> | <b>-</b>    | <b>441.9</b> | <b>570.9</b> |
| <b>European Union</b>                          |   |              |             |              |              |
| Department of Foreign Affairs and Trade        | Trade Related Assistance                                      | -            | 0.5         | -            | 0.5          |
| Department of National Planning and Monitoring | EDF NAO Institutional Capacity Project                        | -            | 8.7         | -            | 8.7          |
| Department of National Planning and Monitoring | Rural Economic Development Phase I                            | -            | 6.3         | -            | 6.3          |
| Department of National Planning and Monitoring | Rural Economic Development Phase II                           | -            | 15.6        | -            | 15.6         |
| Department of Education                        | Education Training & HRD 1 (EDF9)                             | -            | 15.4        | -            | 15.4         |
| Department of Education                        | Education Training & HRD 2 (EDF9)                             | -            | 7.4         | -            | 7.4          |
| Department of Community Development            | Non State Actors Support Program                              | -            | 4.6         | -            | 4.6          |
| University of Papua New Guinea                 | Remote Sensing of Forest Degrading Project                    | -            | 3.1         | -            | 3.1          |
| <b>Total for European Union</b>                |   | <b>-</b>     | <b>61.6</b> | <b>-</b>     | <b>61.6</b>  |

| Description   |   | GoPNG        | Grants         | Loans        | Total          |
|---|---|--------------|----------------|--------------|----------------|
| <b>World Bank</b>                                     |   |              |                |              |                |
| Department of Petroleum & Energy                      | Energy Sector Development Project                     | -            |                | 7.2          | 7.2            |
| Department of Provincial and Local Government Affairs | Rural Service Delivery & Local Governance             | -            | 7.0            | -            | 7.0            |
| Department of Education                               | Reading Education Project                             | 2.0          | 16.3           | -            | 18.3           |
| Department of Education                               | Flexible, Open & Distance Education Project           | 2.0          |                | 4.2          | 6.2            |
| Department of Agriculture & Livestock                 | Productive Partnership for Agriculture Development    | 3.5          |                | 8.7          | 12.2           |
| Department of Information and Communication           | Rural Telecommunication                               | 2.5          |                | 9.6          | 12.1           |
| Department of Commerce & Industry                     | SME Access Risk Financing Facility                    | -            |                | 7.0          | 7.0            |
| Department of Works & Implementation                  | World Bank Road Maintenance Project (Six Provinces)   | 5.0          |                | 23.3         | 28.3           |
| Mineral Resources Authority                           | Mining Sector Institutional Strengthening Phase 2     | -            |                | 2.3          | 2.3            |
| PNG Oil Palm Industry Corporation                     | Small Holder Agriculture Development Project          | 2.0          |                | 8.2          | 10.2           |
| National Capital District                             | Urban Youth Employment Project                        | -            |                | 7.0          | 7.0            |
| Bougainville Autonomous Government                    | Inclusive Development in Post Conflict Bougainville   | -            | 1.4            |              | 1.4            |
| <b>Total for World Bank</b>                           |   | <b>17.0</b>  | <b>24.8</b>    | <b>77.6</b>  | <b>119.3</b>   |
| <b>United Nations</b>                                 |   |              |                |              |                |
| Department of Community Development                   | Gender Equality and Women's Empowerment               | -            | 4.4            | -            | 4.4            |
| Department of Prime Minister & NEC                    | Peace Building  | -            | 6.4            | -            | 6.4            |
| Department of Finance                                 | UN Assistance to Governance                           | -            | 8.1            | -            | 8.1            |
| Department of Attorney-General                        | Promotion and Protection of Human Rights              | -            | 1.2            | -            | 1.2            |
| Department of Education                               | UN Assistance to the Education Sector                 | -            | 10.4           | -            | 10.4           |
| Department of Health                                  | UN Assistance to the Health Sector                    | -            | 27.7           | -            | 27.7           |
| Department of Community Development                   | Child Protection                                      | -            | 6.7            | -            | 6.7            |
| Department of Environment & Conservation              | Environment, Climate Change & Sustainable Livelihoods | -            | 22.0           | -            | 22.0           |
| National AIDS Council Secretariat                     | UN Assistance to HIV/AIDS                             | -            | 16.0           | -            | 16.0           |
| <b>Total for United Nations</b>                       |   | <b>-</b>     | <b>102.8</b>   | <b>-</b>     | <b>102.8</b>   |
| <b>United States Government</b>                       |   |              |                |              |                |
| Bougainville Autonomous Government                    | Women Peace Building Initiatives                      | -            | 3.5            | -            | 3.5            |
| <b>Total for United States Government</b>             |   | <b>-</b>     | <b>3.5</b>     | <b>-</b>     | <b>3.5</b>     |
| <b>Total</b>  |   | <b>260.5</b> | <b>1,554.8</b> | <b>871.2</b> | <b>2,686.5</b> |

**TABLE 10: CENTRAL GOVERNMENT FINANCING**  
(Kina Million)

|  | 2012           | 2013           | 2014           | 2015           | 2016           | 2017           | 2018           |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Actual         | Proj           | Proj           | Proj           | Proj           | Proj           | Proj           |
| <b>TOTAL REVENUE AND GRANTS</b>          | <b>9566.0</b>  | <b>10481.6</b> | <b>12688.5</b> | <b>14029.0</b> | <b>14815.6</b> | <b>15677.8</b> | <b>16672.6</b> |
| <b>TOTAL EXPENDITURE AND NET LENDING</b> | <b>10943.9</b> | <b>13218.7</b> | <b>15041.5</b> | <b>15344.0</b> | <b>16022.0</b> | <b>16746.0</b> | <b>17807.0</b> |
| <b>DEFICIT (-) / SURPLUS (+)</b>         | <b>-1377.9</b> | <b>-2737.0</b> | <b>-2353.0</b> | <b>-1315.0</b> | <b>-1206.4</b> | <b>-1068.2</b> | <b>-1134.4</b> |
| % of GDP                                 | -4.3%          | -7.9%          | -5.9%          | -2.5%          | -2.2%          | -1.8%          | -1.8%          |
| <b>FISCAL FINANCING</b>                  |                |                |                |                |                |                |                |
| <b>NET EXTERNAL FINANCING</b>            | <b>161.9</b>   | <b>482.1</b>   | <b>647.8</b>   | <b>445.9</b>   | <b>297.1</b>   | <b>182.1</b>   | <b>21.2</b>    |
| CONCESSIONAL FINANCING                   | 214.8          | 528.2          | 703.5          | 487.1          | 328.6          | 216.6          | 54.6           |
| New Borrowing                            | 326.2          | 644.7          | 871.2          | 618.5          | 479.1          | 390.6          | 251.1          |
| Less Amortisation                        | -111.4         | -116.5         | -167.7         | -131.4         | -150.5         | -174.0         | -196.5         |
| COMMERCIAL FINANCING                     | -16.1          | -13.6          | -16.3          | 0.0            | 0.0            | 0.0            | 0.0            |
| New Borrowing                            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Less Amortisation                        | -16.1          | -13.6          | -16.3          | 0.0            | 0.0            | 0.0            | 0.0            |
| EXTERNAL EXTRAORDINARY FINANCING         | -36.8          | -32.5          | -39.4          | -41.2          | -31.5          | -34.5          | -33.4          |
| New Borrowing                            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Less Amortisation                        | -36.8          | -32.5          | -39.4          | -41.2          | -31.5          | -34.5          | -33.4          |
| <b>NET DOMESTIC FINANCING</b>            | <b>1216.0</b>  | <b>2254.9</b>  | <b>1705.2</b>  | <b>869.1</b>   | <b>909.3</b>   | <b>886.1</b>   | <b>1113.2</b>  |
| DOMESTIC MARKET BORROWING                | 997.1          | 2632.3         | 1707.7         | 869.1          | 909.3          | 886.1          | 1113.2         |
| New Borrowing                            | 4076.9         | 6820.3         | 7021.1         | 6295.5         | 6218.5         | 5913.8         | 6561.6         |
| Less Amortisation                        | -3079.8        | -4188.0        | -5313.4        | -5426.5        | -5309.2        | -5027.7        | -5448.3        |
| MRSF NET DRAWDOWN                        |                |                |                |                |                |                |                |
| TEMPORARY ADVANCE                        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| End period balance                       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| less: Beginning period balance           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| ASSET SALES FINANCING                    | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>OTHER DOMESTIC FINANCING</b>          | <b>218.9</b>   | <b>-377</b>    | <b>-2.5</b>    | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     |
| Change in cash balances                  | 218.9          | -377           | -2.5           | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>TOTAL FINANCING REQUIREMENT</b>       | <b>1377.9</b>  | <b>2737.0</b>  | <b>2353.0</b>  | <b>1315.0</b>  | <b>1206.4</b>  | <b>1068.2</b>  | <b>1134.4</b>  |
| % of GDP                                 | 4.3%           | 7.9%           | 5.9%           | 2.5%           | 2.2%           | 1.8%           | 1.8%           |
| <b>GROSS BORROWING</b>                   | <b>4622.0</b>  | <b>7465.0</b>  | <b>7892.3</b>  | <b>6914.1</b>  | <b>6697.6</b>  | <b>6304.4</b>  | <b>6812.7</b>  |
| Domestic                                 | 4295.8         | 6820.3         | 7021.1         | 6295.6         | 6218.5         | 5913.8         | 6561.6         |
| External                                 | 326.2          | 644.7          | 871.2          | 618.5          | 479.1          | 390.6          | 251.1          |
| Concessional                             | 326.2          | 644.7          | 871.2          | 618.5          | 479.1          | 390.6          | 251.1          |
| Commercial                               | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Extraordinary                            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>GROSS AMORTIZATION</b>                | <b>3244.1</b>  | <b>4350.7</b>  | <b>5536.8</b>  | <b>5599.1</b>  | <b>5491.2</b>  | <b>5236.2</b>  | <b>5678.2</b>  |
| Domestic                                 | 3079.8         | 4188.0         | 5313.4         | 5426.5         | 5309.2         | 5027.7         | 5448.3         |
| External                                 | 164.3          | 162.7          | 223.4          | 172.6          | 182.0          | 208.5          | 229.9          |
| Concessional                             | 111.4          | 116.5          | 167.7          | 131.4          | 150.5          | 174.0          | 196.5          |
| Commercial                               | 16.1           | 13.6           | 16.3           | 0.0            | 0.0            | 0.0            | 0.0            |
| Extraordinary                            | 36.8           | 32.5           | 39.4           | 41.2           | 31.5           | 34.5           | 33.4           |

Source: Department of Treasury.



**TABLE 11: MONETARY AGGREGATES**  
**(Kina Million, unless otherwise stated)**

|                                  | <b>2009</b><br><b>Actual</b> | <b>2010</b><br><b>Actual</b> | <b>2011</b><br><b>Actual</b> | <b>2012</b><br><b>Actual</b> | <b>2013</b><br><b>June Qtr</b> |
|----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|--------------------------------|
| Domestic Credit                  | 6091.2                       | 7169.4                       | 7703.8                       | 8825.4                       | 9756.2                         |
| % Change                         | 16.7                         | 17.7                         | 7.5                          | 14.6                         | 10.5                           |
| Net Credit to Central Government | 574.1                        | -202.8                       | -1076.8                      | 296.9                        | 1316.4                         |
| % Change                         | -206.6                       | -135.3                       | 431.0                        | -127.6                       | 343.4                          |
| Credit to Private Sector         | 5901.8                       | 6945.4                       | 7519.0                       | 8426.1                       | 9282.9                         |
| % Change                         | 16.4                         | 17.7                         | 8.3                          | 12.1                         | 10.2                           |
| Money Supply                     | 11822.6                      | 13175.7                      | 15292.2                      | 16967.2                      | 17545.7                        |
| % Change                         | 22.7                         | 11.4                         | 16.1                         | 11.0                         | 3.4                            |
| Money Velocity (M3*) (average)   | 1.9                          | 2.0                          | 2.0                          | 1.9                          | 2.0                            |

**Source:** BPNG

\*through -the -year change

**TABLE 12: PUBLIC DEBT**  
**(Kina Million, unless otherwise stated)**

|                               | <b>2012</b>   | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|-------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                               | <b>Actual</b> | <b>Est</b>  | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> |
| Domestic                      | 6118.2        | 8750.9      | 10458.6     | 11327.7     | 12237.0     | 13123.1     | 14236.3     |
| Treasury Bills***             | 2751.6        | 4106.2      | 4250.9      | 3646.3      | 3594.6      | 3340.7      | 3440.4      |
| Inscribed Stock               | 3366.6        | 4644.8      | 6207.7      | 7681.4      | 8642.4      | 9782.4      | 10795.9     |
| Other Domestic debt**         | 0.0           | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Domestic debt as % GDP        | 19.0%         | 25.3%       | 26.4%       | 21.8%       | 22.2%       | 22.3%       | 22.7%       |
| External                      | 2367.4        | 2849.5      | 3497.3      | 3943.2      | 4240.3      | 4422.3      | 4443.6      |
| International Agencies        | 2337.5        | 2833.2      | 3497.3      | 3943.2      | 4240.3      | 4422.3      | 4443.6      |
| Commercial Loans              | 29.9          | 16.3        | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other Loans                   | 0.0           | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| External debt as % GDP        | 7.4%          | 8.2%        | 8.8%        | 7.6%        | 7.7%        | 7.5%        | 7.1%        |
| Total Public Debt Outstanding | 8485.6        | 11600.4     | 13955.9     | 15270.8     | 16477.3     | 17545.4     | 18679.9     |
| As % GDP                      | 26.4%         | 33.5%       | 35.2%       | 29.3%       | 29.9%       | 29.7%       | 29.7%       |

**Source:** BPNG and Department of Treasury.

\*\*\*Includes Temporary Advance Facility

Note: Based on existing borrowings to cover financing gaps 2005 to 2010.

**TABLE 13: OTHER MAJOR ASSUMPTIONS UNDERLYING THE BUDGET**

|                                       | <b>2012</b>   | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|---------------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                       | <b>Actual</b> | <b>Est</b>  | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> | <b>Proj</b> |             |
| Inflation                             |               |             |             |             |             |             |             |
| Average on Average (%)                | 2.2           | 4.0         | 6.5         | 5.0         | 5.0         | 5.0         | 5.0         |
| Dec on Dec (%)                        | 1.6           | 6.0         | 5.6         | 4.3         | 4.5         | 4.7         | 4.8         |
| Exchange rate                         |               |             |             |             |             |             |             |
| Real Exchange Rate Index (2007 = 100) | 175.2         | 167.0       | 165.9       | 170.0       | 174.1       | 178.3       | 182.7       |
| Interest rate                         |               |             |             |             |             |             |             |
| Kina Rate Facility (KFR)              | 6.75          | 6.25        | 6.25        | 6.25        | 6.25        | 6.25        | 6.25        |
| Inscribed Stock (3 year yield)        | 5.0           | 5.0         | 5.0         | 5.0         | 5.0         | 5.0         | 5.0         |
| Mineral Prices                        |               |             |             |             |             |             |             |
| Gold (US\$/oz)                        | 1668          | 1428.3      | 1359        | 1368        | 1391        | 1395        | 1409        |
| Copper (US\$/ton)                     | 7959          | 7344        | 7213        | 7216        | 7298        | 7382        | 7349        |
| Oil (Kutubu Crude: US\$/barrel)       | 105           | 100         | 99          | 95          | 94          | 93          | 95          |
| LNG (US\$ per thousand Cubic feet)    | 12.2          | 12.3        | 12.3        | 12.4        | 12.9        | 13.3        | 13.3        |
| Condensate (US\$/barrel)              | 105           | 100         | 79          | 76          | 72          | 70          | 70          |
| Nickel (US\$/tonne)                   | 17542         | 15520       | 15017       | 15255       | 15461       | 15636       | 15792       |
| Cobalt (US\$/tonne)                   | 28761         | 24600       | 26240       | 27880       | 29520       | 32800       | 32800       |

**Source:** Department of Treasury.