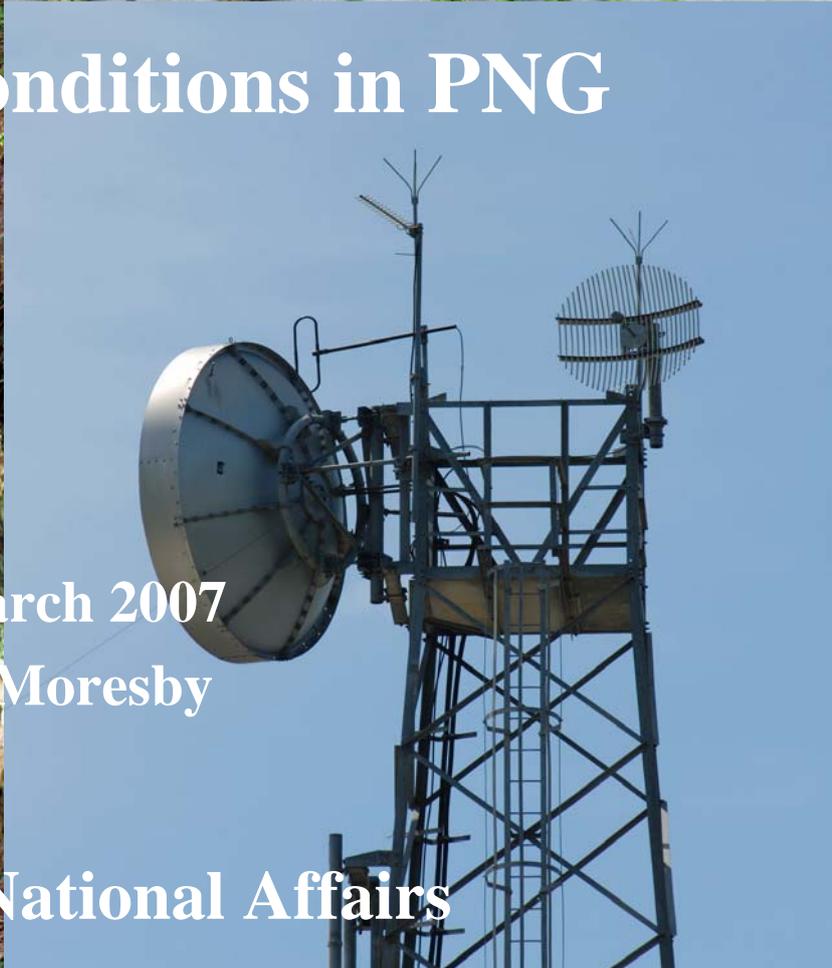
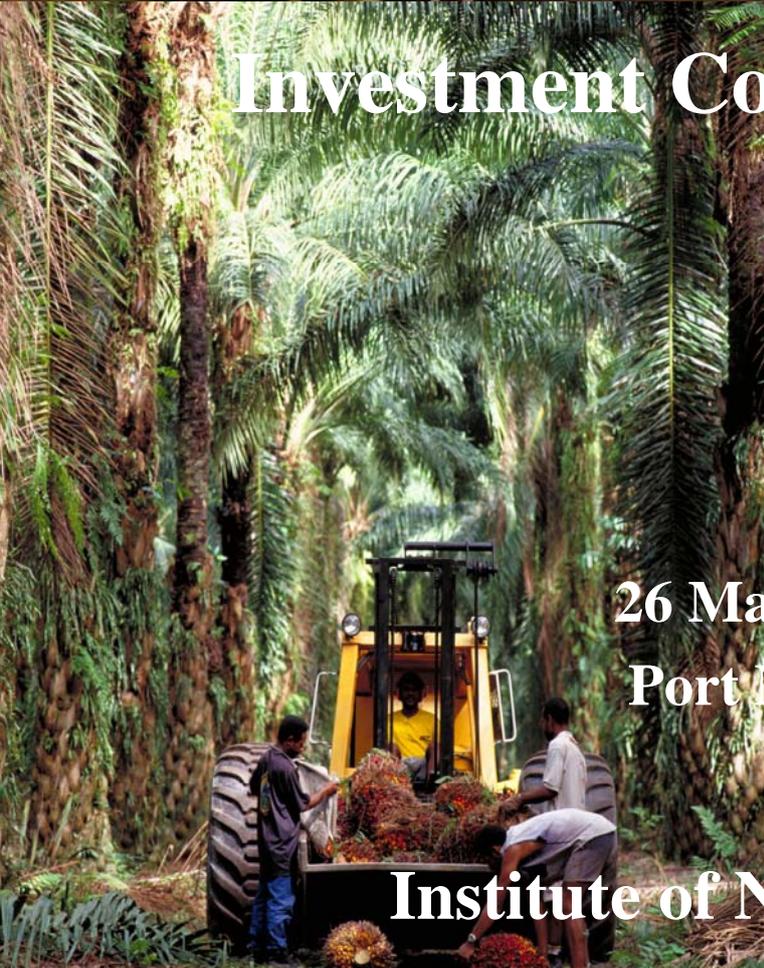




Workshop on Business Opportunities and

Investment Conditions in PNG



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Foreword

During a full day workshop on business opportunities in PNG, hosted by the Institute, in collaboration with the PNG Chamber of Commerce and Industry and the Investment Promotion Authority, and funded by the Asian Development Bank, the morning focused upon the informal and small to medium enterprises, whilst the afternoon addressed wider investment conditions, including market competition and infrastructure and service provision.

The workshop included a wide range of presentations from businessmen and women, researchers and government departments and agencies, and involved several break-out discussion sessions addressing opportunities and constraints. The participants recognised that, if PNG's economy is to develop at an adequate and sustainable pace and provide the needed opportunities and employment for its growing population, it will depend upon a dynamic private sector. This must be driven not just by a few large firms, but by the growth of dynamic small to medium enterprises, involved in a wide range of business activities. Some businesses extend far-reaching economic benefits, such as some tourism ventures, which utilise substantial local produce and skills, or those involved in nucleus enterprises, such as the spice and essential oils firm, represented at the workshop, which supports thousands of farmers with planting material, training and produce marketing.

Despite – perhaps partly because of – the major mining and oil sector in the PNG economy, the overall formal sector since independence has grown at a sluggish pace, and during many years not at all. It needs to be fostered to become far more dynamic and accessible for entry, but even if it achieves a strong and steady growth rate, it must be recognised that for many years formal sector employment will remain unable to absorb more than a portion of the school-leavers and non-school leavers annually entering the “workforce”, let alone absorb those already in the so-called “workforce”. In other words, the numbers needing to secure a living from the informal and subsistence economy will continue to grow for many years, even if the formal sector does achieve sound growth over the next decade.

Although different definitions of the informal sector and the informal economy were given during the workshop, it was recognised that far greater opportunities must be created in the (legitimate) informal economy, comprising self-employed people or enterprises employing a small numbers of people, to ensure adequate livelihood and avoid pressuring people into criminal activities, which currently provide a significant portion of household incomes, particularly in some urban centres. It was recognised that the longer term objective for both individuals and the country would be for all enterprises (and workforce) to be in the formal sector, fully contributing to and benefiting from the State and other services, but that is a long term goal. It is recognised that individuals see both advantages and disadvantages from entering the formal sector, (if and when that option is available), with the paperwork and prospective taxes a disincentive to more successful informal sector entrepreneurs, whilst relative lack of access to formal banking services is clearly a handicap.

Fostering a dynamic private sector is not about providing a selection of incentives, but minimising the impediments to entry, so that it is quick and easy to set up a business, make transactions, hold secure title to assets and transfer those assets, access reliable public goods and services, enjoy sound law and order and be confident that the rules will not be constantly chopped and changed or that officials will demand a slice for themselves. These sound conditions are required both by large businesses, but especially by small ones, which can less afford to wait long periods or weather the storm of red tape, corruption or high security and insurance costs. It was emphasised that easing conditions for operating businesses is also critical to encouraging entry by informal sector operators into the formal sector, but that the informal economy also needs specific services, such as for savings and banking, market facilities, information and training, tailor-made for their needs.

It was also recognised that not everyone will make a success of business. There are business failures in the US and Australia, and also inevitably in PNG, but by the State concentrating on

setting suitable conditions and standards and focusing on its core responsibilities, notably ensuring sound law and order, maintaining roads and ports, education and ensuring a corrupt-free bureaucracy and legal system, then the costs and risks for businesses are minimised and chances for growth and sustainability enhanced. Let the private sector and NGOs deliver those goods and services they can provide more efficiently and cheaply than the State, and, for example, whilst agricultural research and information dissemination are critical, don't burden small copra growers with continued heavy administrative fees (paid to KIK) when the trading function is already privatised.

During the afternoon session there was discussion on the government's long delayed draft IT policy, and a detailed presentation on the competition and fair trading policies which ICCG is required to apply and some of the handicaps in implementation, apparently owing to resistance from entrenched interests. A detailed presentation was made on the major resources which PNG Sustainable Development Program Ltd (PNGSDP) and its partners are ready to commit to improving basic infrastructure and services, including power provision in Western Province and elsewhere, but are handicapped by disappointing apparent reluctance within government to such public-private partnerships, despite positive rhetoric from some policy statements. There was a lively presentation by an internet service provider over how Telikom's telecommunications monopoly has seriously undermined the provision of internet (and other telecommunications services) across the country, not only in main towns but also to villages and schools, where information and communication can greatly enhance opportunities and basic services, whether allowing farmers to find markets, schools to access education and health material on the world-wide-web or teachers to manage their income and payments (e.g. using a mobile phone banking system as in South Africa) rather than rushing to town to check their pay and not returning for weeks.

It was emphasised that north, south, east and west of PNG the new technology has been embraced, whilst PNG is being held back economically and socially. The workshop highlighted that PNG has great products and entrepreneurial spirit, but how can the country and Papua New Guineans compete and survive in an increasingly globalised world if they have not gained the skills or access to affordable and reliable communications and markets that others in Australia, South East Asia and increasingly Africa and the Pacific now take for granted. It was stated that in PNG there are university students unaware of the WWW, whereas in much of Asia and now Africa students can barely enter grade 6 without that knowledge.

The consensus of the workshop was that, whilst a few years back there may have been a nostalgia for restoring the State-owned monopolies, some of which had previously performed well, now the country and its men, women, and young people, in towns and remote places, simply must not be held back by inefficient state-owned monopolies, with neither the resources nor the commercial capacity to meet the challenge and restore and extend necessary services. If PNGSDP and others can maintain roads or build wind farms, thermal or solar power plants to feed the grid or supply power to local centres, for example, let them do so. If there are other mobile service providers ready to extend the network, reduce costs and improve reliability let them proceed and don't delay. If Telikom can compete with other service providers then fine, if not let it concentrate on other services. If other internet service providers (whether commercial or education facilities) can increase the bandwidth, reduce costs and extend the network right out to rural schools and health centres, let them go ahead and don't restrict access through the State's inadequate monopoly. There is little excuse, after five years in power, for current Ministers to blame lack of policy as an excuse to defer entry of competition and, considering that lack of communications has real, even life-threatening, implications for people, especially in rural areas, it is inexcusable to continue to tie the country to its inadequate monopolies.

Some of the State-owned enterprises have improved profitability in recent years, partly in response to macro-stability and economic growth. This should help them to compete in the market in the future. But at whose expense have some of these profits been made? In many

countries worldwide, the workshop heard, the fears of State monopolies that their markets were too small and competition would merely wipe out the sole, if inefficient service provider, were false and that when competition came, prices fell, services improved and the market grew, sometimes massively, with even the old monopoly (if it sharpened its wits) sharing the increased opportunities.

The workshop generally concluded that, whilst the country may not have been mentally ready for opening markets to independent service providers five or six years back; there is no excuse now to continue restraining the country's opportunities and prosperity by protecting a few vested interests. If small and less-well resourced nations in the region and throughout the world have embraced change and learnt that access to information and knowledge is vital to empowering the community, advancing their livelihoods and ensuring they're not disadvantaged next to better informed neighbours, then PNG should similarly learn and adopt, or be increasingly disadvantaged and overtaken.

Paul Barker

Director

Institute of National Affairs

Morning Session: Informal Sector, Small to Medium Enterprises

Business Opportunities in PNG

Outsider's Perspective

By Dr Paul Holden, ADB Business Specialist and Director, Enterprise Research Institute, Washington

Dr Holden aimed to set a framework for the discussion on informal sector (IS) and small/medium-sized enterprises (SME) by speaking about some key issues in this sector of the economy, and to illustrate some of the things that work and do not work in other places to set the stage for discussing the PNG case.

Dr Holden started out by dispelling some myths about the informal sector and SMEs:

- Most informal sectors are made up of people who cannot find employment in the formal labour markets. They are involved in IS to ensure that they and their family do not starve.
- In general IS & SME are not very productive or productivity is very low.
- IS & SME are the main source of job creation – there is adequate evidence to back up this claim.

Some facts / characteristics of IS & SME are:

- They account for about 80% of employment in PNG;
- They are made up of people who may employ a small number of people or do not employ anyone at all;
- They are outside the system of law and the system of tax; and
- Its participants are diverse: they are self-employed, and are small traders and producers or trading and producing on a small scale.

There are certain advantages to informality, including in providing a living because the formal sector can not provide enough employment, and in allowing people to operate under the radar of government regulations, tax authorities, etc.

Is informality good, however? The answer is NO, because it puts those operating in the IS outside of the economic and business foundations of an economy. IS participants generally have no access to the legal system, because business is all about contracting, and no access to the financial system, which is the formal sector, because it requires a legal foundation.

Thus, the key policy questions relating to the informal sector are:

- Should business be formalised?
- Should policies be directed to formalisation?
- How should we try to treat informal business?

People respond to the incentives they are confronted with. If there are benefits to formalising, then people will do it; if there are few benefits to formalising, then they will not. If the expenses to formally start a business are high, then people will question the benefits of formality. If the expenses are low, and there are a few benefits then people can formalise. This is the key issue for people involved or is represented in the informal business. The benefits must outweigh the costs and barriers.

The policy issue here is to determine the desirable degree of formalisation, and to set the framework accordingly. If formality is desirable, the long term policy response to widespread

informality is to change the underlying framework to make it important and beneficial to formalise.

On a side note, Dr Holden also mentioned how microfinance is the result of legal financial systems that exclude large number of people; it is a response to deficiencies. Financial systems that work well do not have microfinance.

In concluding his comments, Dr Holden set out some global lessons for IS policy. He noted that a large informal sector is not unique to PNG, and that there is even debate as to the extent to which subsistence farming should be considered IS as it does not involve trading. Hernando de Soto, a Peruvian economist whose country's economy was reduced to informality by the Shining Path guerrilla movement, proposed a way of dealing with the informality: by getting the government out of the way. He proposed a very simple business registration system using IT, in which businesses paid only VAT and their information was made available to lenders. Lenders could check whether potential borrowers paid taxes, and were honest about their revenue; thus, people started paying tax and registering with the government.

De Soto's ideas had enormous influence in Peru, and have transformed business lending to such an extent that the financial market is specialised into different segments, with no microfinance as such. PNG could usefully emulate such a model, but it requires much political will to lobby to free up the business environment to allow businesses to thrive.

Dr Holden concluded his remarks in order to open the floor to questions and discussion.

PNG Perspective: Theresa Arek

By Theresa Arek, spice and essential oils producer and exporter

Ms Arek set out to provide a brief general overview of her company, Pacific Spices, and its origins.

Pacific Spices is nationally owned and based in East New Britain province. It has been in operation since 1998. Shortly after it was formed, Theresa and her colleagues quickly realised that the need for a reliable alternative crop market was critical for the future of agriculture in PNG. In order to achieve this, her company developed a strategic plan focussing on the following:

- Targeting specific markets, specifically the high-end markets;
- The need to increase the quality and quantity of spice and alternate crops;
- The need for on-site value addition;
- The need to gain international market recognition;
- The need to become sustainable and consistent in supplying; and
- The need to train and educate our farmers to meet market standards.

On reaching its goals, Pacific Spices is now pioneering a new industry for PNG and the Pacific as a whole in the production of essential oils. The on-site production of essential oils has come about through successfully implementing and achieving the following:

- Growing of crops to market standard and demand;
- Successfully gaining international credited organic certification to Europe, Japanese and American standards;
- Designing and manufacturing retail spice packaging;
- Securing and supplying high-end markets in Australia, Japan and Europe;
- Encouragement of women and youth entrepreneurship at the village level;
- Better understanding of the quality circle; and
- Training farmers to monitor and manage their own organic system of farming.

The achievements to date would not have come without difficulties, such as:

- High domestic shipping freight rates;
- High international shipping freight rates;
- High cost of research and development which also involves product analysis;
- High cost of maintenance for vehicles due to deteriorated infrastructure or no infrastructure at all;

To comply with market requirements and standards, Pacific Spices needs to import equipment and technical knowledge and assistance. It also needs to address the lack of competence of farmers to diversify their crops, and import selective planting material.

The essential oil industry is a platform for agriculture diversification. Alternative crops, like lemongrass and patchouli, can be harvested every quarter and processed immediately; chilli, turmeric, and ginger can be harvested every 9 months. Once planted, these crops require minimal amounts of care and maintenance, and can be grown anywhere in PNG.

The essential oil industry offers great future potential, as the spices are easy to maintain, harvest, and process, have a quick return, are in demand globally, and can be undertaken by villagers.

The role of financial services in reducing the exclusion of informal sector operators

By Dr John Conroy, Special Consultant with the Foundation for Development Cooperation (and former director of IASER, now NRI), and a graduate of the University of Papua New Guinea

Dr Conroy aimed to discuss the role of financial services in reducing the exclusion of informal sector operators in PNG, with some overlap with Dr Holden's presentation earlier. He set out to focus on the bottom end of town, looking at both the urban and rural informal sector.

In discussing the informal sector, Dr Conroy set out some basic parameters. The urban informal sector (IS) is economic activity that is 'micro', unrecorded, often 'extra-legal' and even illegal (scrap-metal trading is the latest topic in the newspaper, which is illegal). Informal sector activity must be monetized, otherwise it counts as subsistence (though urban agriculture by migrants, if monetized, can be included). IS has the potential to be a rich and diverse set of economic activities, including trading, food-preparation, transport, repairs, other services, entertainment, handicrafts, construction, petty manufactures.

There are many fallacies about the rural informal sector. Essentially:

- It does not include traditional or subsistence agriculture (by definition, IS is monetized)
- It doesn't include cash crop production by smallholders relying on traditional modes of landholding and social organization (raising their productivity is an issue of agricultural policy; a job for the didiman)
- Most studies by World Bank, AusAID etc say that 85%-90% of PNG population is in the informal sector. This robs the informal sector concept of any meaning and confuses the issues, because it confuses agricultural sector policy with policy towards the IS.
- There is some overlap between the subsistence and informal sectors, but the two are analytically distinct and should not be lumped together

The activities that *should be* included in the rural informal sector are:

- Post-harvest processing of crops (value-adding) done by traditional landholders, especially if combined with trading and middleman functions; this is an area where agricultural policy merges with business development policy

- Those rural service activities of traditional landholders which are micro, unrecorded, and monetized. Examples include: trading, transport, food preparation, personal services, shelter provision, construction, vehicle repair, handcrafts and petty manufactures

But the urban and rural informal sectors in PNG appear relatively undeveloped. Why so?

- The range of activities is relatively limited (even compared with countries at similar levels of income) and casual observation suggests that low-return ‘copycat’ activities are very common. For example, if someone starts shining shoes, everyone starts doing it, and in the end there aren’t enough shoes to be shined.

Why this might be so is a complex issue. It’s often suggested that over-regulation stifles the informal sector, or that ‘micro-entrepreneurs’ are crippled by lack access to credit. True perhaps, but the real reasons may lie deeper than that.

Dr Conroy then set out a contrast between ‘Monsoon Asia’ and ‘the island Pacific,’ generalised types of places, by reviewing some key differences:

- Monsoon Asia (Indonesia, China, South Asia, Southeast Asia) is very different from the Pacific in terms of population scale/density, complex social structure with wide inequalities, a tradition of monetized household crafts & manufactures and provision of services. The Pacific is more horizontal in traditional social structure.
- Worsening land scarcity has forced households to seek multiple income sources, including non-agricultural sources
- A complex and differentiated set of monetized household economic activities exists in Monsoon Asia. This sits in the middle between subsistence agriculture and the formal sector of small, medium and large enterprises.

This ‘middle’ sector is ill-developed or even missing in the island Pacific. Dr Conroy’s argument was that microcredit is not the solution to ‘the missing middle’, but microfinance is part of the answer. But other policy domains are also relevant (and important):

- Lack of skills; training and human capital is important to develop
- Limited knowledge of production possibilities and opportunities
- Inadequate coverage of business development services (marketing & accounting)
- Restrictive policy and regulatory environment
- *Access to finance is necessary, but credit must be de-emphasized, in favour of financial services in a broader sense*

Following this brief introduction to the issues, Dr Conroy turned to some of the recommendations that he had made in a 2006 study for Pacific Forum Finance Ministers called ‘Successful microfinance in the Pacific’:

- i. *Microcredit is not the solution to ‘the missing middle’, but microfinance is part of the answer.*
- ii. *Rural and low-income people need a broader range of financial services.*
- iii. *Instead of focusing on microcredit, or even microfinance, Pacific governments would do better to focus on ‘financial inclusion’ as an overriding policy goal. This is particularly important for subsistence households*

There needs to be a move from microcredit, to microfinance, to financial inclusion – there may not need to be specific microfinance institutions, but there do need to be micro-products. A majority of the population is excluded in Papua New Guinea, and they need to be targeted. Some key features of exclusion are:

- It occurs when social groups are denied access to financial services

- It is due to remote location, inability to satisfy lenders' requirements, high transaction costs, restrictive service policies, etc
- In developing economies, households are both the most numerous and the most excluded economic entities
- The excluded are normally a majority of population

iv. *The importance of savings is underestimated.*

The importance of savings and offering safe savings accounts is underestimated; savings mechanisms are of far more benefit to the bulk of humanity than microcredit, as more people need it.

Governments should support well-designed programs to assist households to save, and should act to increase the financial literacy of their populations.

v. *Diversity is desirable:*

A wide range of approaches and institutions will be needed to eliminate financial exclusion. Governments need to think in a more 'systemic' manner. The meaning of 'diversity' in micro-financial services embraces:

- The ADB's definition of microfinance: 'the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises'; microfinance should be understood as including a wide range of 'products', delivered by a diversity of institutions, but also
- Diverse institutions: regulated/unregulated/informal/ private/public

vi. *We should not be too pessimistic about the value of the Grameen Bank in the Pacific*

Early Grameen 'replications' died lingering deaths, but there are some signs of new life, in VANWOODS and SPBD, targeted to relatively dense 'pockets' of humanity with good roads. They are operating at levels of efficiency not seen before in the Pacific, and both are transparent and have timely operational and financial reporting. SPBD started with deep pockets and has support of 'social investors', while VANWOODS is less financially secure and dependent on goodwill of donors and government.

vii. *Private sector investments and public/private partnerships have great potential and government should facilitate such initiatives.*

viii. *State banks charged with community service obligations may continue to play a useful role, especially in smaller states.*

ix. *Some public initiatives do more harm than good. Governments should avoid 'packaging' ill-conceived microcredit schemes into other sectoral projects.*

x. *Telecoms reform in Forum island countries will increase the potential for sustainable microfinance in the region using new information technologies.*

xi. *Governments should support microfinance directly, through support for financial system-building at the grass-roots, and indirectly by providing an enabling policy and regulatory environment.*

xii. *Government's role is not to lend, nor to fund lending.*

xiii. *Governments should avoid the 'rush to regulate' voluntary MFIs.*

xiv. *By demonstrating strong interest in microfinance, finance ministers and central bank Governors will show that they regard these as financial sector issues rather than as social welfare projects*

Microfinance and financial inclusion should be seen as *financial sector* issues.

xv. *Some regional initiatives are desirable, to generate and share information relevant to the effort to establish sustainable microfinance processes in Forum island countries and to reduce the financial exclusion of their peoples.*

Dr Conroy's presentation then set out some interesting examples from elsewhere in the Pacific:

Example 1: iMex Remittance Services of Samoa

- A private, for profit, entity associated with a travel agency
- Provides cheap and rapid transfer of funds, to and from agencies in NZ, Aust, Cooks, elsewhere in eastern Pacific
- Licensed foreign exchange dealer and money transfer agent
- Reports regularly to Samoa Central Bank and is monitored by it
- Several other agencies exist, both licensed and unlicensed (aside from the commercial banks and Western Union)
- The commercial banks are not very happy!

Example 2: 'Condominium' S&L Cooperative Ltd, Port Vila

- History and governance: no longer a membership organization, deals with public
- Has a novel approach to the collateral problem
- Requires cash deposit (70% to 100% of loan), blocked until repayment of loans
- Loans at 16% pa, reducing monthly, deposits earn 2.75% pa
- O/s portfolio about \$0.8m, deposits \$0.5m, about 20% of loans in 'some difficulty'. Arrears recovered in court
- Condominium S&L has been operating some years and is said to be profitable

Example 3: A state commercial bank tries micro-lending: National Bank of Vanuatu

- Recent history: back from the brink of insolvency, now has 20 branches, widely dispersed, retains community service obligations
- Started micro-lending to individuals in 2003, with ADB technical assistance; 7 branches now active
- Micro-loans now about 25% of loans (by number) or 2% (by value, cumulative). Mean size USD2200
- Terms 12 or 24 months, i/r 1.25% /m, flat (abt. 27% effective)
- Repayment performance good (130/475 loans discharged, arrears on o/s portfolio abt. 1%)
- Good spread of projects financed: NOT only focused on retail trade

Example 4: Mobile banking services in Fiji and Samoa: ANZ opens markets using savings products

- Large 'unbanked' populations (Fiji 340/825K, Samoa 100/180K)
- Fiji: 6 mobile banks serve 150 settlements and schools. Target to reduce the un-banked by 140K in 3 years.
- 52,000 new accounts (almost all 'first-timers') in first 15 months of operation. Deposits \$F 3.0 Mn. Made 400 loans to individuals totalling \$F 0.26 Mn (average \$F650).
- Helpful for rural MFIs, potential to deliver other services
- Rural clients can access wide range of 'urban' services
- Role of UNDP & NMFU ('financial literacy' training)
- Government subsidy (sales tax concessions, security costs)

Example 5: Specialized microbanks in PNG: PNG Microfinance Ltd (PML) and Wau Microbank (WMB)

- Two regulated ‘microbanks’; they are experiments in regulation by the central bank
- WMB is an ADB initiative; PML is a ‘CSR’ initiative, with IFC and commercial bank equity
- Both are licensed finance companies, though WMB has a restricted license
- Both licensed to take deposits from the public

Lessons learned (and reasons for optimism)

- There are some interesting and promising experiments underway in the region
- They go well beyond the usual models of voluntary sector MFI (eg, Grameen replication)
- They include private, for profit, entities and public/private partnerships
- Private commercial banks are innovating
- Some state-owned banks are learning from microfinance experience
- A wider range of MF ‘products’ is available
- A hunger for deposit services is evident in many cases!

In conclusion, the ‘the island Pacific’ and ‘monsoon Asia’ have different paths to financial inclusion. They have differing priorities for household enterprise development (flowing from economic structure), and these suggest differing financial service needs. They require different policy and regulatory initiatives and financial innovations, and they need different governance and supervision arrangements.

Q&A

The discussion following the first three presentations of the day raised the following points:

- Regarding Dr Conroy’s presentation, a participant noted that there is the possibility that microcredit can substitute for savings, especially as the risk of holding cash is even higher in insecure areas. However, PNG Microfinance Limited acknowledged that there is more demand for savings deposits; it has half a million depositors, and only 5,000 borrowers.
- The definition of informality was discussed, and the issue of the inclusion of subsistence farming was raised. In favour of including subsistence farming in the definition, it was argued that the full range of businesses need to be addressed in PNG, and neglecting farming unnecessarily excludes a significant sector of the population.
- It was agreed that traditional street-sellers have no capacity to grow and expand, and will never be able to be formalised; however, not all businesses will (or should) succeed. The point of IS or SME policy is to create an environment in which good businesses and new ideas will succeed and grow. A policy question in this regard is whether the sector should be subsidised or not; for example, for training, perhaps only those who would be willing to pay for it should receive it, and it does not work as effectively as a subsidy.
- Regarding the generation of new ideas for businesses, several ideas were put forward, including information dissemination on ideas and experiences from other places, training, and importing ideas from Asia, potentially through videos or studies on agriculture, markets and small business.
- Regarding Pacific Spices, Theresa explained how it bridges farming-to-market. Pacific Spices cultivates its producers from the start, working closely with a group of around 600 at a time to get them certified. It has set up a training centre that provides farming equipment and training to farmers to increase their productivity, and encourages them to make the most of their activities through diversification and other techniques. Pacific

Spices works with over 6,000 farmers in this way, in New Ireland, Bougainville and West New Britain in addition to its home base of East New Britain.

Small group work

Group 1: Opportunities and Constraints for Small to Medium Enterprise

Group Chair: Dr David Kavanamur, School of Business, University of PNG

The group determined that, if Informal Sector participants are going to progress into the Formal Sector, there need to be changes focused on the following constraints:

1. **Lack of marketing.** If there is no market, then what is point of marketing?
2. **Too many regulations for business.** Why would anyone enter a business environment where there are too many regulations?
3. **Infrastructure.** If there is no access to the services in the towns then what is the point of being formal?
4. **Information on standards.** How will a business know whether what it is producing meets certain standards?
5. **Banking system.** Why invest and integrate when the banking system is complex?

The question to ask is: **How can the Informal Sector become more dynamic and diversified?**

Group 2: Opportunities and Constraints for the Informal Sector and partnership with and access into the Formal Sector

Group Chair: Max Kep, Chairman, CIMC Informal Sector Committee

Addressee: Tiri Kuimbakul, Agromarketing and writer

The group started its discussion by trying to define SME and IS. Informal Sector comprises the businesses operating under the radar of various legislative requirements. At a higher level are Small and Medium Enterprises (SME), and on top of the classification are the big businesses of the Formal Sector.

There were many possible constraints identified in the group discussions, and they were categorized as follows:

1. **Access to capital and related advisory services.** These apply not only for business start-ups, but also for ongoing businesses. Questions IS and SMEs face include:
 - How do SMEs access capital and advisory services?
 - Who is the point of contact that they should see on how to comply with certain regulatory requirements?
 - How do they deal with financial statements, book keeping, accounting and so on?Support in these areas is either non-existent or not provided efficiently and effectively.
2. **Skills development and training.** How to develop ideas and skills is important to successful entrepreneurship. PNG businesspeople must move from basic subsistence to entrepreneurship. Some outstanding questions in this regard were:
 - How do SMEs do that in terms of skills development?
 - What are the sources of assistance that SMEs can go to?
 - Who are the sorts of people that provide relevant capacity building?
3. **Issues with taxes.** Mining and petroleum have secured greater benefits in this area and witness growth, unlike in agriculture, tourism etc.

4. **Road infrastructure.** Having accessible roads is very important for PNG's little farmers, who make up the bulk of the rural informal sector. The group discussed and raised concerns that road infrastructure is one of the major hindrances in empowering small people in order for them to meaningfully engage in income-generating activities.
5. **Farming.** Why is farming not generating enough income for both the Informal Sector and Formal Sector.

Summary: Government should empower both the Informal Sector and the Small & Medium Enterprise for the betterment of the economy.

Group 3: Informal Sector needs (informal and skills training), standards and incentives and requirements to step out of poverty and avoid crime

Addressee: John Varey, Program Officer, AusAID (former Program Manager Informal Sector, CIMC)

The constraints identified in the group were regarding:

1. **Informal Sector Policy.** Relevant government bodies and organizations should develop an appropriate Informal Sector policy that addresses all issues.
2. **Skills training.** There is a need to develop an appropriate education curriculum to start teaching children about entrepreneurship and business / trading skills from primary school on. This would change the mentality of going to school and end up in a formal employment, which is unrealistic for the majority at the moment.
3. **Access to the market, both domestically and out of the country.** Previously-held Informal Sector Skills Expos has identified that PNG people are able to produce quality products, meeting international standards. Establishing markets would be a great incentive for business people.
4. **Linking the Informal Sector to the Formal Sector.** The formal private sector must open its doors and integrate the Informal Sector into what they are doing. This is crucial and would provide opportunities to develop the Informal Sector.

Group 4: Opportunities and constraints to Micro-finance and formal banking for small business

Group Chair: Judith Day

Addressee: Paul Thornton/John Conroy

Constraints were identified by Group Four in the following areas:

1. **Banking system.** A lot of people do not understand the banking system, how to access it, how to manage accounts etc. Government bodies should also stay out of financial services.
2. **Political issues.** People often hang around waiting for free handouts from the government. This is unhealthy and promotes indolence, rather than innovation or self-help.
3. **Legal issues.** How and where can people trade? The application of Informal Sector policies as applied by some urban authorities forces the people back to the settlements and away from potential real markets outlets, which is unproductive and undermines business prospects.

Summary of Morning Session

Avia Koisen summed up the discussion from the morning session and introduced the lunch break.

Afternoon Session: Competition, Services and Business Conditions

Chairperson for Afternoon Session: **Michael Mayberry**, President, PNG Chamber of Commerce and Industry

Opening Address

By Anton Kulit, Secretary for Commerce and Industry, on behalf of the Honourable Michael Nali, MP, Minister for Commerce and Industry

Full text of speech:

Mr Paul Barker, Director of the Institute of National Affairs; distinguished guests; ladies and gentlemen.

Introduction

On behalf of the Ministry of Commerce and Industry and the Government of Papua New Guinea, I wish to extend our thank you to the INA for the invitation.

I bring to you best wishes for a constructive workshop and a fruitful outcomes that will further enhance Business Opportunities and Investment Conditions in Papua New Guinea.

This workshop is a timely and welcome development. It provides us all a tremendous opportunity and an unique selling point in both the public and private sectors through sharing of information related to the development in the business sectors to explore possibilities for forging new partnerships; strengthening existing business links; and improving domestic and international regulatory regimes to secure long-term sustainable growth that will contribute not only to the improvement of the lives of our people but foster an environment conducive for business and investment to flourish.

The support of PNG Chamber of Commerce and Industry and ADB is commended under its programme of support for private sector development in Papua New Guinea.

Setting Conditions for Investment and Economic Development

The Ministry is responsible for facilitation of commerce, industry and investment. Vast opportunities in business development, as well as challenges, exist for domestic and foreign entrepreneurs who are willing to become genuine development partners in Papua New Guinea. These business opportunities, investment conditions and challenges exist for all sectors.

The Government supports, encourages and welcomes private sector development and growth through three main strategies. These include the establishment of a stable investment climate; creation and strengthening of a competitive and dynamic private sector; and provision of an efficient, effective, and affordable public sector. These initiatives are aimed at achieving the PNG Government's overall objective of an export-led economic recovery, good governance and institutional reforms to improve to lives of our people.

The most important condition for a stable investment climate is political stability. Over the past four years both political stability and consistent development policies have improved. Political stability has been enhanced by a range of measures, including the introduction of the Political Parties and Integrity Act and stringent judicial application of laws and regulations related to provisions on good governance.

This has resulted in the setting of an historical milestone in Papua New Guinea's three decades of independence, where for the first time the present ruling Government of Papua New Guinea will serve out its five year tenure, unlike in the past where governments were replaced every so often through constitutional means of a parliamentary vote of no-confidence, which in turn adversely impacted on the business climate.

Responsible, disciplined and steady political and economic leadership and appropriate and clear development policies established under the current Government's Medium Term Fiscal Strategy and the Five-Year Medium Development Strategy now serve as cornerstones for Papua New Guinea's macroeconomic stability, including steady economic growth, employment and income generation, low inflation and interest rates, and a stable exchange rate regime.

Under the current Government's Medium Term Development Strategy for the period 2005 – 2010, the highest priority is placed on promoting direct private investment and the expansion and diversification of the non-mining private sector.

Our policies have set the scene for special attention towards the manufacturing sector and other impact projects that have the potential to improve national employment rural development and foreign exchange earnings.

Some of these policies include the National Investment Policy, Small and Medium Enterprises Policy, Free Trade Zone Policy & Act and the Cooperative Societies Policy and Act and the Manufacturing Policy and Act (in progress). Other Policy initiatives undertaken by other sectoral agencies complement this principle.

In addition, the Ministry is playing a supportive role in the current Tariff Review to have wider consultations with all stakeholders regarding the various social, private sector initiatives and the public sector capacity issues, if any. Currently, the National Investment Policy is undergoing a process of reviewing incentives by respective agencies through various impediment committee processes.

The above policy initiatives entail specific and lucrative investment incentives purposely to lure direct foreign investment.

- Generally, fiscal incentives such as tax holidays are given to encourage investment in remote or economically disadvantaged areas.
- Agricultural incentives aim at encouraging capital investment and extension services.
- Manufacturing incentives are designed to promote investment in the manufacturing sector.
- Mining and Petroleum incentives are aimed at encouraging exploration, mining and extraction whilst at the same time promoting development of areas around the project sites.

Business Climate Conditions in Papua New Guinea

Political stability combined with institutional reforms, good governance, upholding of laws in the country and appropriate investment and other business incentives has had a positive impact on the business environment in Papua New Guinea, including increased foreign direct investment in the mining, agriculture and fisheries and other sectors.

Major potential projects that are a testament to the business-friendly initiatives and appropriate policy framework of the Government include the competitive proposals to establish multi-billion kina onshore downstream processing gas and petrochemical industries. These projects offer an immense significance to PNG in the long-term since it will not only generate employment and income generation for us but aid the country's infrastructure development from the project's proceeds.

There has also been a remarkable increase in mining explorations and development over the last few years with several small to medium-sized gold and copper mines in the country expected to begin production in the near future.

The most significant development in this sector is the US\$1.3 billion Ramu nickel and cobalt mine, which has begun its construction phase following the signing of the mine development agreement between the Prime Minister and his Chinese counterpart HE Mr Wen Jiabao in 2006 in Fiji. The PNG Government is looking forward with keen interest to realise this important project.

Since late 2006 PNG has expected to receive bids from multinational oil companies, including Exxon-Mobil, Shell, British Petroleum, and BHP Billiton for exploration and future development of oil fields located offshore in 15 blocks covering 106,800 square kilometres in Papua New Guinea's Gulf basin.

To lure potential investors to take part in this project the Government has devised arrangements for lower tax to be applied to potential developers of this project.

The Somare Government's strong commitment to fiscal discipline, incentives for private sector development, aggressive export driven growth strategies and with improved performances in the agriculture and mining sectors, complemented by favourable commodity prices on world markets, enhanced the economic turnaround and continued economic growth has been sustained for the last 3 to 4 years.

We are looking to further this healthy economic growth trend by reviewing and adjusting our development policies to reflect the changing circumstances in the domestic and international environments and strengthen political stability measures to facilitate further growth of business in the country.

We would like to process ore of our natural resources and promote the expansion of the domestic manufacturing sector for exports and impact replacement as we spend millions every year on imported goods.

The Government of Papua New Guinea is keen on promoting investments into downstream processing in order to develop and add value to our vast natural resources base. Views are sought from all sector of the community, including the private sector whilst reviewing these policies and incentives.

Finally, as the Ministry/Department responsible for promoting and facilitating commerce, investment and industry, I would like to extend an invitation to any interested domestic or foreign investor to explore the potential business opportunities that this country has for you. I therefore urge all of you PNG business leaders, researchers and officials to be involved in and take advantage of our policies and investment incentives as they offer rewarding benefits for all stakeholders involved as partners in the development of Papua New Guinea.

Investment, Competition and Service Provision

An International Perspective

By Dr. Paul Holden, ADB Business Specialist and Director, Enterprise Research Institute, Washington

Dr Holden was asked to speak on a general level about business environment issues. He elected to approach the discussion by asking how an international investor views coming to PNG to make an investment.

He first posed the question: what makes a good business environment? A good business environment has two features:

- It has low transaction costs and it is easy to do business.

- It has what economists call “public goods” which are available and of quality.

Well-delivered public goods are things like:

- A good legal framework for doing business;
- Systems in which contracts are easily entered and enforced;
- Property ownership is easily identifiable;
- Rights are protected;
- Political stability;
- Infrastructure is in good condition and can be utilised relatively easily;
- The financial system funds all ownership and investments;
- Businesses can be easily formed without high cost; and
- The cost of interacting with other business and with the public sector is relatively low.

The morning session has already aired some of the issues that face business in PNG. In many cases, the *public goods* listed above are not in over-abundance. That does not mean that progress is not being made. Clearly, if one had looked at PNG five years ago compared to today, one would have to say that there have been substantial improvements.

One of the *public goods* is political stability, and what PNG has experienced over the past five years is a period of good political stability. It has been a period in which macroeconomic indicators have registered a very substantial improvement, including:

- The inflation rate is down;
- Public finances are looking better; and
- Foreign exchange has improved.

The economy has responded positively to these macroeconomic indicators. Having said that, the economic response has also been accompanied by reforms at the macroeconomic and at the business environment level.

Papua New Guinea, despite having huge potential in terms of mineral resources, is one of the poorest countries in the world. Resources are no guarantee of long term growth.

On one hand, the country needs factories. However, large *resource sales* result in a lot of foreign reserves; the exchange rate goes up and there is no way around it. Without sophisticated management on the flow of resources, what happens is either the exchange rate appreciates or inflation increases as reserves increase. Its manufacturing industries and industries producing tradeable goods are going to have a hard time. They must ensure that they have a high degree of productivity in order to survive.

PNG is a country in which communication is vital. Communication consists of telecommunication, air transport, road transport and sea transport. Telecommunication in PNG is very expensive. PNG international calls are the most expensive in the world. Why is this happening in PNG?

Somalia has twelve telecommunication providers and one can phone anywhere in the world for less than fifty US cents per minute. Comparing that to PNG, where there is a single State-owned telecommunication monopoly, people are not getting quality service for their money. Looking at examples from around the world offer important lessons and assistance in making the best out of what the competition provides.

It is not the duty of the Government to improve the business environment. It is the duty of the government to improve competition. The fact that a State-owned enterprise might be making profit does not mean that it should have a monopoly.

Another aspect in PNG is that security places a large tax on businesses. Security tax is about 5 percent of the business sales. If one is paying 10 percent of their income on security, then they

have to make a 20 percent return, which is difficult compared to those businesses in low crime areas. This means business becomes relatively risky, it eliminates a lot of investments and the whole process of business becomes more complicated.

There is also a misconception about employment in PNG. Bringing a skilled, well trained expatriate does not displace a local employee. It creates additional employment in the organisation.

Improving the business environment means going well beyond removing some regulations. It means an ongoing dialogue at a very high level between government and the private sector. Countries that have this dialogue are countries that grow very rapidly.

ICCC Position on Competition and markets

By Thomas Abe, Commissioner, Independent Consumer and Competition Commission (ICCC)

Background

The 2000 regulatory review found that:

- The economic regulation of SOEs had been ineffective;
- The approach to economic regulation was too focused on pricing outcomes;
- There were insufficient funds to enable efficient operation and maintenance of the existing SOEs due to tariffs being below cost recovery levels;
- As a result, economic regulation did not achieve the objective of providing cost effective services at acceptable service levels.

The recommendations of the regulatory review were approved by NEC in August 2001. The enactment of the Independent Consumer and Competition Act 2002 and the subsequent establishment of the Independent Consumer and Competition Commission (ICCC) was one of the many recommendations.

Overview of the ICCC Act 2002

The Act is a competition statute; it is PNG's Competition Law. It establishes the ICCC as an independent statutory body and as PNG's premier economic regulator, mandating the ICCC to undertake its regulatory roles and functions into industry, business and consumer-related matters.

The Act enables the ICCC to structure appropriate regulatory arrangements and safeguard consumers' bona fide interests. It prohibits anti-competitive conduct and arrangements, and applies to businesses in general, corporations, individuals, the State (where it is engaged in business) and business conduct outside PNG to the extent that the conduct affects a market in PNG.

Overview of ICCC's roles and functions

The ICCC's role is to administer and enforce the ICCC Act 2002. Specifically:

- To promote competition & fair trading
- To regulate declared goods/services and industries
- To protect consumers' bona fide interests

The objectives of ICCC is therefore to:

- Enhance the welfare of the people of PNG
- Promote economic efficiency in industry structure, investment & conduct
- Protect the long term interest of PNG with regard to price, quality and reliability of goods and services

ICCC is not directly responsible for Investment & Business Development. It works towards creating an appropriate competitive and economic regulatory environment under which businesses can operate through promoting and safeguarding competition in the economy.

Regulatory reform has brought changes to how price regulation was conducted for monopoly service providers. It has provided some certainty for investment undertaken by the service providers, and also allows for efficiency savings to be passed on to consumers in the form of prices and minimum service standards. The regulatory reform and associated legislative changes introduced new investment opportunities. E.g. telecommunication (mobile services), and electricity (generation, distribution and retailing services).

The PNG Coastal Shipping Review

The review is part of Govt's 2006 Budget Strategy. The ICCC was tasked under Section 123 of the ICCC Act to undertake the review. The objective was to identify regulatory and non-regulatory impediments and competition constraints in order to foster greater levels of efficiency and cost competitiveness in the coastal shipping industry.

The major issues identified in the review include:

- **Infrastructure needs:** Currently infrastructure is poor and in urgent need for investment. There is a need to identify appropriate and workable funding arrangement; these include
 - Commercial experts on Board representation
 - Public Private Partnership
 - Government funding

Recommendation was made that Govt urgently address the port infrastructure issue nationwide

- **Cabotage:** is a form of regulation. PNG cabotage laws are relaxed compared to other countries. Cabotage is a contentious issue, and careful consideration needed.

On balance and on the basis of net benefit to the public and the economy, (see details on www.iccc.gov.pg) recommendations were to retain the current cabotage system. In addition, it was also recommended that the current licensing arrangement be restructured.

- **Restructuring of licensing arrangements:** Currently, the Coastal Trade Committee (CTC) advises the Minister for Transport on matters relating to coastal trade and licensing. CTC members are also license holders, and the Minister makes decisions based on CTC's advice. There is a likelihood of conflict of interest in the issuance of license, and it was recommended that the current licensing arrangement be restructured and vested with an independent body/ (ICCC) to enable a fair, equitable and transparent process. It was also recommended that CTC be retained but provide industry advice to the independent body/ (ICCC).
- **Regulation of freight rates:** The Department of Transport regulates prices for coastal freight. The approach to pricing is consistent with best industry practice. ICCC notes a large number of operators in the industry and considers that rates should be left to the market.

It was recommended that freight rates be deregulated, and an independent body/ (ICCC) provide oversight over anti-competitive behaviour and arbitrate on any disputes on rates.

Conclusion

The ICCC advocates transparency in all its decisions by way of greater public consultation and input. This includes reviews into declared goods and services, declared industries and mergers and acquisition determinations, amongst others. Competition policy advocates improvement to services quality/delivery at competitive prices. An effective and transparent competition policy facilitates a level playing field for businesses and consumers. Promotion

of competition creates an enabling environment for business and consumers which aids economic growth and social development. The establishment of ICCC and legislative changes supports a framework for new investment and business development in PNG.

Infrastructure, Utilities, Services and Competition

ICT Policy discussion paper

By Veali Vagi, Acting Secretary, Department of Prime Minister & NEC

Full text of speech:

1. Introduction

Distinguished Ladies and Gentlemen, it is a pleasure for me to be given this opportunity to make this address at this INA facilitated Workshop on Business Opportunities and Investment Conditions in PNG on behalf of the outgoing Chief Secretary to Government, Mr. Joshua Kalinoe and also Chairmen of the National ICT Task Force.

In this address, I would like to outline the work done by the National ICT Taskforce in terms of the development of a National Information and Communication Technology (ICT).

2. Setting up of the National ICT Taskforce

The term “ICT” includes hardware, systems and processes for creating, storing, managing and sharing information. Some elements of ICT have progressed so quickly that they have changed the lives of people dramatically. Some striking examples are the Internet; mobile communication technologies; and innovations in broadcasting.

The Government through the Medium Term Development Strategy has identified Information Communication Technology as an important tool to facilitate development. In recognition of that fact, on 22 December 2005, the National Executive Council (NEC) through decision 280/2005 approved the establishment of an Inter-departmental ICT Taskforce, chaired by the outgoing Chief Secretary to Government, to facilitate the development of a National ICT Policy and Strategy. The Taskforce comprised of: Department of Prime Minister & NEC, Department of State Enterprises & Information, Department of Treasury, IPBC, Pangtel, ICCC and Telikom.

In accordance with NEC decision 280/2005, a Strategic Adviser, Ethan Group Limited (Australia) was engaged by the ICT Taskforce through an open international tender, in order to formulate an independent assessment of the status of ICT in PNG and to assist the Taskforce in the development of an ICT Policy. Ethan Group submitted their final report to the Taskforce on 17th October 2006.

Using this report as a basis, the Taskforce have collectively prepared a draft National ICT Policy which has been submitted to the Minister for State Enterprises in November 2006 to submit to NEC for their approval for its release.

3. The Need for a National ICT Policy

Our national Medium Term Development Strategy highlights the fact that our current primary national imperatives are: good governance, export driven economic growth and rural development, poverty reduction and empowerment through human resource development. The poor state of the national ICT infrastructure has contributed to service delivery failures by the government during the period of the previous of the MTDS and the current one.

An ICT policy seeks to adapt ICT to serve the nation most efficiently. However, a policy is only a statement of the mission and goals, from which detailed strategies and action plans need to be developed and implemented. Without an overarching policy, however, coordinated and efficient adoption of ICT is difficult.

4. The Overarching Principles of the National ICT Policy developed by the ICT Taskforce

The draft policy sets out the principles and goals for an ICT policy that will encourage the development of the sector to make significant changes to life of ordinary Papua New Guineans, especially the vast majority that live in rural and remote areas.

I would now like to outline the guiding principles which have been set out in the Policy Paper. The principles which guide this policy are:

- Improving the lives of ordinary Papua New Guineans, especially those most disadvantaged;
- Facilitating equity of access to ICT by all citizens;
- Overcoming the impediments to ICT development to enable PNG to arrive at a level of national development that reflects the aspirations of its people;
- Encouraging the establishment of industry structures for the ICT sector which work most efficiently and effectively; and
- Establishing political and administrative processes which facilitate achievement of the ICT objectives most efficiently and effectively.

Now, I would like to highlight some of the key areas that the ICT Policy delineates guiding principles for.

4.1 Guiding Principles: ICT as an Enabler of Development

The key policy objectives in relation to ICT for Development are to:

- Design an affordable ICT network that touches as many digitally disconnected people as possible;
- Promote network development by government, commerce, health and educational institutions;
- Encourage regional centres to create their own “hot spots” or access zones as local Internet Service Providers;
- Ensure that connectivity to the rest of the world is resilient, high capacity and high speed;
- Promote the development of ICT based businesses to address market opportunities both inside PNG and elsewhere in the world;
- Promote entrepreneurial activity in PNG particularly where such activity would enhance the technology sector, the intellectual property of the country or the education of its people; and
- Promote Papua New Guinea as a business destination to the world at large and to encourage skills transfer and capital investment.

4.2 Guiding Principles: ICT for Education

The key policy objectives in relation to ICT for Education are to:

- Encourage online learning in the educational institutions and universities of Papua New Guinea;
- Promote centres of excellence that are held up as beacons of online learning for other institutions to emulate;
- Create awareness of the educational possibilities of ICT enabled learning;
- Facilitate the sharing of e-learning knowledge and resources between educational institutions.

4.3 Guiding Principles: ICT for Economic Opportunity

The key policy objectives in relation to ICT for Economic Opportunity are:

- Develop the ICT network sufficiently to encompass the rural areas that can be reached within realistic economic parameters;
- Foster the development of appropriate applications that make the rural adoption of ICT relevant and attractive;
- Create a government web site for farming communities which provides information about farming practices, weather patterns, crop prices and advice about which crops to plant or animals to farm.
- Encourage this web site's adoption by the rural community;
- Adopt a government strategy to express a preference for web based supply and service delivery so as to incubate the nation's ICT sector.

4.4 Guiding Principles: E-commerce & E-Government

The following should be key areas of focus for e-commerce, e-health, education, agriculture, mining, fishing:

- Enhancing the PNG Government portal providing e-health and e-educational services;
- Establishing an ICT Infrastructure and Applications platform that can be shared across government departments within an efficient shared services model; and
- Facilitating an e-marketplace to provide opportunities for participants in the Agriculture, Mining and Fishing sectors to trade goods and services via e-commerce.

4.5 Guiding Principles: ICT for Health

The key policy objectives in relation to ICT for Health include:

- To the extent practicable, encourage the adoption of tele-medicine as a method of bringing medicine to remote communities and allowing medical practitioners to obtain second opinions from overseas surgeons where necessary;
- Explore ways in which national medical conditions (such as malaria) are able to be mitigated or eradicated using ICT as an enabler;
- Encourage the widespread adoption of mobile phones together with an awareness campaign sufficient to assist medical practitioners deal with outbreaks as and when they occur;
- Set as a priority in all public hospitals the development of ICT systems that provide medical information access for all medical practitioners, database and patient management services and other applications as necessary such that medical services in Papua New Guinea are constantly improving.

4.6 Guiding Principles: ICT and the media

The 1987 Report of the Board of Inquiry into Broadcasting (including Television) lays the appropriate groundwork for policies to provide some legislative direction in operating broadcast services.

Building upon this, the policy objectives in broadcasting and new media include the following:

- Broadcasting services in the media forms of television and sound broadcasting shall be made available on a nationwide basis free of charge in reception to all citizens of Papua New Guinea.
- Where necessary the interconnection or inter-operation of the Internet and broadcasting services shall be encouraged particularly in areas where the access and or use of the Internet is not achievable by a large majority of people that do have access to broadcast signals.

- Community broadcasting service for a given community defined by language or culture will be encouraged as a means of among other values, the preservation of cultural and traditional identities.
- Ownership of broadcasting services by citizens of Papua New Guinea shall be promoted and encouraged.
- Cross ownership of broadcasting and other forms of media shall be allowed on merit taking into consideration the effect of the extent of the media ownership on other legitimate members of the broadcasting industry and,
- The development of commercial television and radio broadcasting shall be supported by government.

4.7 Guiding Principles: ICT for Justice and law enforcement

International cooperation in law enforcement is enormously enhanced by efficient use of ICT. The goals of ICT for law and justice over the medium to longer term are:

- Expand the PNGInLaw utility of an electronic database of legislation and cases for Papua New Guinea;
- Investigate the workability of migrating from paper based filings to online court documents (including the scanning of all statements, affidavits and exhibits);
- Initiate a process of publishing court lists and judgments on court web sites to improve efficiency and transparency in the administration of justice; and
- Add real time transcription to court proceedings with a view to improving access to transcripts and decreasing administration costs; and facilitate use of ICT by law enforcement agencies.

5. The Role of Government in ICT and Development

The PNG Government has a key ICT role in:

- Fostering the development of ICT strategies which will provide the framework for the delivery of ICT policy objectives;
- Facilitating private investment in ICT by creating an environment that is conducive to its growth and provides clear and transparent rules for all sectors;
- Ensuring effective policy-making, regulation and service provision; and
- Ensuring competitive and technological neutrality in regulation of the ICT sector.

The benefits of a well defined ICT Policy outworked through an ICT strategic plan also has direct benefits for government in that the ICT sector can offer products and services across all sectors of government.

6. The Role of the Private Sector in ICT and Development

The government recognises the significance of the private sector to the development of ICT, in partnership with the Government.

The private sector can be a useful avenue to get industry best practice advice on how the government can achieve ICT goals and objectives.

The government on its own would not be able to effectively implement ICT development through infrastructure investment for the benefit of the country and its citizens, simply because government resources are limited and there are many competing demands for their use.

Competition is generally acknowledged to be the most effective means of increasing supply of services, widening choice, reducing prices and improving efficiency, innovation, service quality and national economic performance. Competition has the capacity to deliver lower prices and greater choice for consumers in the market for telecommunication services as well

as provide an incentive for improved services and infrastructure maintenance. For these reasons, the Government has decided to introduce mobile competition, with two new mobile operators due to commence operations at the earliest feasible date this year.

7. ICT Infrastructure Development

A successful Government ICT infrastructure plan must support the broader policy and plan of the government to deliver services into the community, encourage economic growth and investment while not losing sight of the need to involve the private sector.

The key policy objectives for developing a Government ICT infrastructure plan are to:

- Establish a Government ICT infrastructure that will allow the introduction of technology needed to increase both the number and richness of government services available electronically (e-government);
- Assess the existing Government ICT infrastructure and where appropriate, share infrastructure services across government agencies to reduce costs by exploiting economies of scale, while preserving market contestability;
- Encourage wide provision of reliable telecommunication infrastructure to facilitate access to information and services by all citizens;
- Provide high speed data services to schools, hospitals and local government departments to facilitate access by all citizens to electronic education, health and government services; and
- Ensure adequate capacity and connectivity of international communication links.

8. Community Service Obligations (CSOs)

The Government recognises the need to develop a Policy on Community Service Obligations which most effectively advances the objective of infrastructure expansion.

Quick and efficient expansion of communication networks to deliver the full suite of services to outlying areas of the country will not only provide the opportunity to service new customers, but provide these remote villages with telecommunications services that facilitate economic and social advancement of the communities. The CSO policy should ensure that all citizens have access to ICT services; and that basic ICT services are made available at affordable prices;

The application of a comprehensive CSO should include consideration of the following key issues:

- The scope of the telecommunications fixed, mobile or satellite services provided,
- The geographic locations and / or size of communities that should be supported,
- The funding arrangements to be established ie Government, carrier or user funded or shared arrangements, and
- How costs would be assessed and funding distributed.

9. Government financing, Internal Resource Mobilization, Privatisation and Competition

In most parts of the world, telecommunications companies will fund the capital expenditure for their network renewal, upgrading or expansion from internally generated revenues, or from borrowings serviced by internal revenues.

In PNG, for the government to be able to secure the necessary funding to establish the required ICT infrastructure, it can adopt three possible options: Government borrowings, privatisation, and deregulation.

a. Government Borrowings

The current national outstanding debt and continuous short term borrowings by the government to finance the budgets will make it undesirable to adopt this option to fund the ICT infrastructure establishment and development.

b. Privatisation of State owned Entities

The option of privatisation is appropriate and desirable but it not the current policy of the government to privatise SOEs. Hence this option is not favoured.

c. Deregulation of the Industry

The option of deregulation is appropriate as it is the current policy of the Government. The NEC decision to introduce partial competition in the industry by introducing competition in the mobile segment reflects this view and is the beginning of that process.

10. Institutional Frameworks

This draft policy outlines the role and functions of existing institutions with a stake in ICT policy, strategy and implementation, with suggestions for re-evaluation and change where necessary or desirable.

a) Department of Public Enterprise, Information and Development Cooperation

The department has overall responsibility and oversight for the industry with respect to policy development, coordination and implementation. This responsibility should be exclusive, with clear reporting lines. The relevant ministerial portfolio responsibilities should also be reflective of the department's policy responsibilities.

b) Department of National Planning and Monitoring

The Department of National Planning and Monitoring will need to play a crucial role in the infrastructure expansion priorities and programme to ensure consistency with the MTDS objectives.

The Department should work closely in the design and implementation phases of the infrastructure development priorities and programme.

c) ICCC

The Independent Consumer and Competition Commission is mandated as per its Act to be an economic regulator which promotes of competition and the protection of consumers' interests. As such, the ICCC has the statutory responsibility for, among other things, regulating Telikom PNG and other telecommunications carriers and telecommunications service providers (including internet service providers), and issuing telecommunications licences under the Telecommunications Act. This should continue to be its role.

d) Pangtel

PANGTEL is the technical regulator of the radio-communications and telecommunications networks of Papua New Guinea. PANGTEL has the responsibility of promoting and facilitating ICT development in Papua New Guinea.

e) IPBC

The Independent Public Business Corporation (IPBC) is the government body responsible for the management of the State's assets and was established under the Independent Public Business Corporation Act 2002. Its role should be to continue to be involved in the management of any state entities involved in the ICT sector.

f) Industry Groups (IG)

The industry groups play a significant role in the actual implementation of ICT policy in their various areas of operations. The role of the IG is to act as a central advisory consultative and coordinating body for all telecommunication service providers and suppliers. The AITSP, which was formed to act as a central advisory consultative and coordinating body for the

Information Technology Suppliers in Papua New Guinea, is one such group. Industry Groups have a significant role to play in:

- Assisting the Government's office of the CIO (Central Information Officer), to ensure representation together with protection of current investment and competition to other government based enterprises such as Telikom;
- Provide update to the government on evolving ICT technologies, international standards and practice and overseas implementation of standards.

g) Censorship Board

The Censorship Board is the regulator of content in all media. Greater access to the world and, in particular, the internet raise a number of Censorship issues. The Censorship Board, therefore, will need to:

- Involve itself closely with industry groups and civil society interests to ensure that there are adequate safeguards to prevent access to pornographic or seditious material, or material of an offensive or defamatory nature within PNG; and
- Work with carriers during the planning stages of the network remediation/rehabilitation and expansion projects to confirm that at the carrier level the flow of this material is also blocked and preventative measures are put in place to stop access to this material.

11. Evaluation, Monitoring and Feedback

ICT policy is not an end in itself – it is a means of contributing to the achievement of national goals and objectives.

The success of ICT policy can only be assessed by objective measurement.

Performance indexes should be designed and adopted by Papua New Guinea and used as measures of progress towards the achievement of ICT goals.

12. Implementation Strategies

The process of policy-formulation implies implementation. It is envisaged that the public consultation to be commenced by the exposure of this draft policy for comment will also generate discussion about its implementation.

The action plans required to implement this policy will also be based on feedback from the wider community.

Following release of this draft policy as a public discussion paper, it is envisaged that various sectors of civil society will be invited to consider and comment on the policy issues. Sufficient opportunity will be provided for interested parties, including the education, health, women's groups and other civil society participants to make submissions.

A conference of delegates representing the various segments of civil society will be held to consider issues relating to the formulation of the policy.

Only after such an inter-active process of consultation has been completed, will the policy be finalised and published.

13. So when will the draft ICT Policy be ready for public dissemination?

A submission was drafted and the ICT Policy paper attached. This was presented to the Minister for State Enterprises by the Chairman of the National ICT Taskforce in November, 2006. However, it is still before the NEC, and may be introduced to Parliament thereafter. It is only when an affirmative decision is taken on the policy that it will be made public.

PNG Sustainable Infrastructure Ltd

By Camilus Midire, General Manager, PNG Sustainable Infrastructure Limited

Mr Midire aimed to give an overview of both PNG Sustainable Development Program Ltd and its subsidiary, PNG Sustainable Infrastructure Limited, reviewing their mandates and business models to highlight the wider applicability of their approach to sustainable development.

PNG Sustainable Development Program (PNGSDP) was created by the State and BHP, registering in Singapore 2001 as a non-profit company based on the revenue from BHP's mine in Western province. Its main objective is to promote and support projects and programmes supporting sustainable development for the benefit of people of PNG, especially in Western province. Its functions are to a) ensure the mine continues to operate profitably, b) provide prudent advice on the investment of revenues, and c) support sustainable development initiatives.

Its main source of revenue is mine profits. Two-thirds of profit is invested in long-term funds, to be withdrawn only after the mine closes. A third is used for sustainable development projects before the mine closes. Projects are delivered by implementing partners, which can be government, NGOs, CBOs or the private sector.

PNGSDP creates subsidiaries to engage in areas of sustainable development, which engages with partners and technical assistance to seize opportunities. The model is based on the oil palm industry, and usefully ensures appropriate investment in and utilisation of sustainable development projects.

Some successful initiatives that PNGSDP has supported included:

PNG Microfinance (PML) is the result of an assessment indicating the great need of microfinance in the informal sector, due to needs not being met by current banking institutions. PNGSDP created PML with BSP and IFC, and it has provided consumer training as well as providing financial services. It is active particularly in urban centres, but PNGSDP is subsidising initiatives in Western province that would not otherwise exist.

PNG Sustainable Energy Ltd: PNG has an identified need for sustainable energy and electricity, so PNGSDP created PNG SEL to look into the development of sustainable energy. The intention was to work closely with government agencies to bring significant value-added in improving the power supply. However, there have been some setbacks due to the discomfort of the government with the involvement of outsiders in power delivery, and a reluctance on their side to partner.

The company is being used for a rural electricity programme, and has delivered power supply to major centres of the country. It has a major programme on solar power, and is also looking at bio-diesel and wind power where feasible.

Another major intention was to provide energy en route of major power pipelines, ensuring that communities along the way have appropriate energy infrastructure. This is not happening in all cases, however, and communities are being left out. There is growing resentment that PNG SEL would like to address and change.

Mr Midire then turned to PNG Sustainable Infrastructure Ltd (PNGSIL), created by PNGSDP. It has been recognised that the lack of infrastructure is a major constraint to health, education, economic activities. This is even more so in Western province. PNGSIL's mandate is, correspondingly, to provide infrastructure that allows access to markets in Western province and eventually elsewhere.

As had been recognised previously in the workshop, the challenge in infrastructure is not in the initial cost, but rather in maintenance. The emphasis of government has been on building, but PNG SIL wants to change that, and has adopted a life-cycle management approach. It issues contracts on both construction and maintenance, guaranteeing small contractors work over longer periods of time. It is easier said than done, but PNG SIL believes in the concept.

In conclusion, Mr Midire suggested that PNGSDP's model has shown that partnerships can be created to achieve sustainable development. However, in order for partnerships to be successful, they need to be well-supported by people in authority. Experience so far suggests that there is reluctance for the State to accept that there are alternatives to government-run services, and also shows that the methods of the past were not successful. If PNG is serious about public-private partnerships, the State must clearly define its role; maybe it should no longer steer and control the ship, but rather set it in a direction and sit back.

Provision of Infrastructure, utilities and services by other suppliers and partners

By Sundar Ramamurthy, Managing Director, Data Nets Ltd.

Full text of speech:

We (Data Nets) are an internet provider in Papua New Guinea. We obviously are heavily dependent on electricity and our telecommunication company, Telikom PNG.

The current environment is that there is only one communication supplier in the country which means there is one gateway to the internet. Therefore all the internet service providers have to go to the government monopoly gateway (Telikom) and what Telikom PNG do and say dictates what happens to the rest of the country.

The internet side of service provision is actually regulated. That means that PNG is unable to enjoy the benefits of competition, and competition is very useful to Papua New Guinea. It is useful because it allows internet service providers to be innovative and provide better services, for example, receiving your emails on your mobile phones. Currently we are one of the last countries in the world where we cannot actually do that.

Ultimately as internet service providers, we are unable to reduce the price for the internet service because we all buy from one person. And that price is determined by Telekom PNG. In 1997 we had one of the lowest prices for internet but now we have the highest price in the Pacific.

The last 10 months have been stressful because the monopoly gateway provider (Telekom PNG) also wanted to be a retailer and its retail price is 30 to 40 percent below our price. For example, if SP Brewery was selling 30 to 40 percent less for a carton, no one would go to Andersons Foodland to buy a carton. It is a ridiculous situation where you have got a monopoly provider also wanting to enter a retail space.

What happens to all the companies who have spent the last ten years trying to develop the market? BAD LUCK

The internet has a major impact on the society. The impact it has on an average society in terms of commerce, trade, information etc is phenomenal.

The internet service providers would cover every major and small town of Papua New Guinea if we could do these two things:

1. Reduce the price of internet by 50 percent overnight
2. Increase the speed of internet by 4 to 5 times of what we get today.

Right now we have 50,000 phone lines. We would give access to over 300 000 people if we did the two things mentioned. Imagine the impact, for example, of someone from the Waghi valley accessing information on what the price for coffee would be, what the climatic changes would be, should he start planting coffee, should he start pruning his coffee etc. This is valuable information he would acquire without any cost.

Some of the major impediments for us as internet service providers in Papua New Guinea are:

1. Electricity – computers do not work well without electricity or with inconsistent electricity supply.

2. Security – security is a huge issue. We put expensive equipment on top of buildings, towers, poles etc and we do not want it to disappear or get damaged.
3. Land tenure – stability in land tenure is a major issue for us. If we could get stable land tenure then we could engage in commercial relationships. For example, if landowners allowed us to put a transmitter on their land, we would provide them internet services at low cost.

Right now we have students coming out of universities that do not know what the internet is all about. They do not know how to access the internet. In most countries if you come out of grade five without any knowledge of the internet, you do not qualify to enter the sixth grade. We can not afford to have university graduates that do not know about the internet.

Whether it is provided in a subsidized manner or not students, must have the access to internet. There is so much potential for the internet in PNG, in e-commerce and internet banking, as just two possibilities. It takes time to develop these systems, to build trust over time, but they are not difficult. Without it we are so far behind the rest of the competitive world, and are held back from so much that needs to be done. After all, it is not hard to get these things done.

Recommendation: There is no need to subsidise access to internet, from the government's point of view. All the government needs to do is to remove the impediments to organizations who want to deliver the services. It does take an enormous amount of effort but it really is not that hard to do.

Thank you.

Q&A

In the discussion period that followed the three presentations, the following points were raised:

- Regarding the creation of community-based internet centres in Western Province or elsewhere in the country, another subsidiary of PNG SDP is addressing the communication network, and is establishing community-based communications centres. It will expand this work on the basis of need.
- The paper on ICT has been awaiting consideration by the NEC for months (but appears to have been withheld by one Minister), and may have to be tabled in Parliament if it is approved. It will not become public until a decision is taken on it.
- Regarding internet access throughout PNG, Mr Ramamurthy assured the group that it would not be a problem in urban centres. In smaller communities, there are many tried and tested methods of ensuring service delivery. One example is for all internet providers to put a portion of revenue into a basket. Then they all bid to provide services, which would entitle them to the basket of money. This method is implemented in large parts of Africa, and is an efficient use of capital and making remote internet access commercially feasible.

Small group work

Group 1: Improving investment opportunities and competition

Group Chair: **David Kavanamur**, School of Business, University of PNG

The Chair summarised the group's discussion in the following three points:

- PNG over the years relied heavily on the fiscal regime to provide incentives.
- Legislation, priorities and conflict between different plans, regulations, priorities etc. There is a need to harmonize the different policies as well as the legislation, the

government approach and priorities, so there is some consistency. There must be consistency in the legal framework for the business environment to achieve productivity. Right now it is highly volatile.

- Role of the State: the State should not get itself involved in business or sponsoring business; it sets policies. It should stand back and play the role of a referee.

Group 2: State enterprises, privatisation and Public Private Partnerships: Their Role and future?

Group Chair: **David Conn**, President, Port Moresby Chamber of Commerce and Industry

The group looked at the issues of state enterprises, privatization, public-private partnership and their role in the future; a brief summary of their discussion is as follows:

Privatization: government should make organizations more effective and efficient then privatize them. In the interests of business and consumers, they should be subject to competition. The questions regarding monopolies are:

- What have they done so far?
- Was their service that effective given the time of the ruling to retain their ownership and monopoly?

With the case of PNGBC and BSP, it has been a success story. The question discussed by the group was who owned BSP; as far as they were concerned, it is 99% nationally owned.

They also considered the question of whether the PNG Government wants a business environment that competition would bring. There has been nostalgia for the old SOEs and thoughts of restoring them, but now business and the public are fed up with second-rate or non-existent services and utilities. With the rest of the world racing ahead of us, if other private businesses can provide the services more cheaply and reliably, they should be permitted to. There is enough policy to deal with competition but it needs to be implemented.

SUMMARY: If businesses want to be in a competitive market, they have to be more efficient and effective. They should be given a chance to invest and reform.

Summary and concluding comments

Ivan Pomaleu, Managing Director of the Investment Promotion Authority summed up the discussions from the afternoon session and concluded the Business Opportunities workshop.

Acronyms

ADB	Asian Development Bank
CIMC	Consultative Implementation and Monitoring Council
CTC	Coastal Trade Committee
GST	Goods & Services Tax
IASER	Institute of Applied Social and Economic Research (now NRI)
ICCC	Independent Consumer and Competition Commission
ICT	Information Communications Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
INA	Institute of National Affairs (PNG)
IPBC	Independent Public Business Corporation
IS	Informal Sector
MFI	Micro-finance institutions
MTDS	Medium-Term Development Strategy
NMFU	National Micro-Finance Unit (Fiji)
NEC	National Executive Council
NRI	National Research Institute
PML	PNG Microfinance Ltd
PNG	Papua New Guinea
PNGSDP	PNG Sustainable Development Program Ltd
PNGSEL	PNG Sustainable Energy Ltd
PNGSIL	PNG Sustainable Infrastructure Ltd
SME	Small / medium-sized enterprise
SOEs	State-owned enterprises
SPBD	South Pacific Business Development (Samoa)
UNDP	United Nations Development Programme
VANWODS	(former) Vanuatu Women's Development Scheme, now VANWODS Microfinance Inc
VAT	Value-added tax
WMB	Wau Microbank