

A technical assistance program undertaken in partnership with:



OVERVIEW

PSDI's activities in Papua New Guinea (PNG) have rapidly expanded since 2015 due to an additional \$8.08 million in funding provided by the Government of Australia. These funds are being used to support expanded requests from the Government of Papua New Guinea to improve the enabling business environment across all of PSDI's work areas: financing growth, business law reform, competition and consumer protection, further support for reforming state-owned enterprises (SOEs), implementing the public-private partnership (PPP) framework, and mainstreaming economic empowerment of women into PSDI projects.

A PSDI coordinator has been based at the Asian Development Bank's (ADB) Papua New Guinea Resident Mission since January 2010. The expansion of PSDI's program in PNG has necessitated the engagement of an additional coordinator since November 2016. The coordinators promote effective private sector development policies and practices through dialogue with the government and other stakeholders; support the implementation of PSDI initiatives; and identify opportunities to develop ADB's private sector operations in PNG.

PAPUA NEW GUINEA SPENDING BY FOCUS AREA, 2007-2017

\$6,134,621



PAPUA NEW GUINEA SPENDING BY FOCUS AREA, 2016-2017

\$899,913



FINANCING GROWTH

PSDI provided technical assistance to MiBank (formerly Nationwide Microbank) between 2011 and 2013 to develop MiCash, an innovative, mobile phone-linked bank account. PSDI supported: the development of appropriate audit and risk management processes for MiCash, which were completed in April 2012; a review of the MiCash pilot in West New Britain Province, which was completed in June 2012; and the development of a MiCash training program for staff and agents, which was completed in March 2013.

PSDI also funded the design of the Microfinance Expansion Project (MEP), a \$24 million sector-wide program cofinanced by the governments of Australia and PNG. The MEP focuses on strengthening institutions; financial literacy and business development skills training; developing appropriate regulation for and supervision of the microfinance sector; and establishing a risk share facility for partner institutions to promote credit expansion to micro- and small-enterprises.

OUTCOMES AND RESULTS

PSDI helped establish PNG's secured transactions framework in 2011, which was fully implemented with the activation of the Personal Property Security Registry in May 2016. This reform makes it easier and safer for lenders to provide credit using non-land assets as collateral. PSDI's ongoing assistance seeks to inform lenders of the impact and potential of this system of movables finance.

PSDI is building on this success by partnering with financial services providers and businesses to enhance the use of movables finance in the agricultural sector. Agriculture accounts for approximately 25% of PNG's gross domestic product and provides the livelihoods for over 80% of rural Papua New Guineans. Farming is largely done on customary title land, which is not recognized by financial institutions as acceptable collateral. As a result, these businesses are often underserved by financial institutions and have limited access to credit that would enable business growth. PSDI is providing advice on how to structure loan products that unlock the value of farmers' non-land assets. This advice balances commercial sustainability with the practical needs of agribusinesses. These financial products are flexible enough to accept a number of moveable assets as security, including agricultural produce, confirmed contracts, and debtor books. PSDI is also conducting a scoping study on the potential introduction of warehouse financing in PNG. This type of financing would enable more smallholder farmers to obtain credit using crops as security.

CURRENT AND FUTURE PROJECTS

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CURRENT AND FUTURE PROJECTS

FINANCING GROWTH (CONT'D)

Several studies have highlighted weaknesses in PNG's financial system, which could—if left unmitigated—be destabilizing and constrain inclusive economic growth. In 2016, PSDI advised Bank of Papua New Guinea (BPNG) on an appropriate governance and operational framework to better identify, detect, and mitigate cyclical and structural risks in the PNG financial system. This support has crystallized in the establishment of the Financial Stability Committee (FSC) in the Macprudential Unit of BPNG. PSDI is currently building on this success to enhance the capacity of BPNG to manage these risks.

PSDI is also providing advice to BPNG, the Department of Treasury, and the Securities Commission on the regulation of securities markets and the introduction of alternative capital raising platforms in PNG. The goal of this technical assistance is to promote better access to capital for smaller businesses.

CURRENT AND FUTURE PROJECTS

BUSINESS LAW REFORM

The government has embarked on an ambitious business law and regulation reform program designed to promote entrepreneurship and foreign direct investment in PNG. Central to this are the mandated functions of the Investment Promotion Authority (IPA) under the *Investment Promotion Act 1992*, which provide an important link to the private sector from which reform can be launched. The IPA is responsible for a number of critical private sector support functions in PNG, including business registration, regulation, and certification of foreign enterprises; investor servicing, investment, and export promotion; protection of intellectual property rights; and regulating capital markets.

PSDI is assisting the IPA on a number of matters, including:

- supporting improvements to the IPA's business registries, including more flexible payment method options and moving registry data from office-based hard drives to secure, cloud servers;
- diagnostic work to identify issues with the potential integration of the IPA's online registry and Internal Revenue Commission's databases;
- diagnostic work on opportunities for policymakers to make better use of IPA data;
- ongoing support for IPA's day-to-day management of the *Personal Property Security Act 2011*, including the Personal Property Security Registry;
- reviewing the functions and effectiveness of the *Investment Promotion Act 1992*—including the National Investment Policy and its requirements for foreign enterprise certification processes—as well the *Associations Incorporation Act 1966*; and
- diagnostic work, and potentially technical assistance, on the introduction of a new business entity type that provides a stepping stone for small and medium-sized businesses to enter the formal economy.

OUTCOMES AND RESULTS

STATE OWNED ENTERPRISE AND PUBLIC-PRIVATE PARTNERSHIPS

In September 2014, Parliament passed the PSDI-supported *Public-Private Partnerships Act*, which was gazetted in January 2018. The act enables the creation of a public-private partnership (PPP) program and requires PPP transactions to be developed transparently and predictably, with reduced risks to private sector participation. Since its enactment, PSDI has developed: an implementation strategy; a PPP project pipeline; a business plan for a PPP Centre; position descriptions; a project development facility concept note; and supported the development of regulations. These efforts built the supporting institutions necessary to fully realize the benefits of the act before its commencement.

PSDI presented updated Port Moresby and Lae Airport PPP assessments to the National Airports Corporation in November 2013 and completed a detailed PPP options study for the new Lae Port in May 2014. This assessment enabled further ADB support for a proposed PPP at Jackson's Airport through ADB's Office of Public-Private Partnership. PSDI will continue to provide input into ADB infrastructure project designs to identify potential PPP opportunities and ensure their consistency with PNG's Community Service Obligation Policy for state-owned enterprises (SOEs).

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STATE OWNED ENTERPRISE AND PUBLIC-PRIVATE PARTNERSHIPS (CONT'D)

In May 2018, PSDI provided support to Eda Ranu to analyze options for the management of Port Moresby's water concession after the current PPP arrangement expires in 2019. This work included identifying future infrastructure investment needs as well as financing modality options. This work will contribute to managing the challenges of a rapidly expanding capital city.

PNG participated in PSDI's 2012, 2014, and 2016 *Finding Balance* regional SOE benchmarking studies. The 2016 launch of the study in Port Moresby generated substantial press coverage and public debate around the role of SOEs in the economy.

OUTCOMES
AND RESULTS

The Community Service Obligation (CSO) Policy for SOEs, which was developed with PSDI support, was approved by the National Executive Council in December 2013. CSOs are subsidized services some SOEs are instructed to provide, usually to remote populations or selected customer groups, at reduced rates. The policy requires full transparency in identifying, costing, contracting, and financing CSOs. The National Executive Council directed the policy to be piloted in three SOEs, which PSDI has been supporting since mid-2014 in collaboration with an interdepartmental working group. Of the three SOEs selected for the pilot, one—National Airports Corporation—was able to provide the necessary data to develop detailed CSO cost estimates, and a CSO contract was prepared in the fourth quarter of 2015. PSDI will continue working with relevant agencies to progress this pilot. The CSO working group intends to use the first successful CSO contract with National Airports Corporation and its underlying methodology to expand the application of the policy to additional SOEs.

PSDI is in ongoing dialogue with the Department of Public Enterprises, Department of Treasury, and Kumul Consolidated Holdings to define measures that could strengthen the legal and regulatory framework for SOEs.

PSDI has commenced work on a new *Finding Balance* study, which will focus on the performance of publicly owned and controlled banks in the Pacific. The study will include National Development Bank, People's Microbank, and MiBank. It is expected to be completed in the first half of 2019.

CURRENT AND
FUTURE PROJECTS

COMPETITION AND CONSUMER PROTECTION

PSDI began the comprehensive Consumer and Competition Framework Review (CCFR) at the request of the Department of Treasury in late 2014. The review had a broad scope, encompassing the industry regulation, price control, and productivity review functions of the Independent Consumer and Competition Commission (ICCC). The review also examined competition law and consumer protection regulation. Extensive stakeholder consultation was undertaken, including interviews, public workshops, and consumer focus groups.

The final CCFR Report was endorsed by the National Executive Council in April 2018. The report recommended a number of legislative changes, capacity building within the ICCC, and revised administrative and regulatory practices.

In mid-2015, Australia's Department of Foreign Affairs and Trade requested PSDI manage Australia's financial support to the ICCC. PSDI agreed to do so for three years and is currently supporting the ICCC in its ongoing competition, consumer protection, regulatory, price control, and productivity review functions. PSDI experts have conducted a capability assessment of the ICCC, finding that the organisation is largely well-placed to deliver on its mandate. Recommendations for change have been made, concentrated mostly on resource management, capacity to investigate violations, enforcement actions, and management capabilities.

OUTCOMES
AND RESULTS

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COMPETITION AND CONSUMER PROTECTION (CONT'D)

CURRENT AND FUTURE PROJECTS

PSDI has been providing a capacity development program to the ICCC since February 2018. This is expected to extend into 2019.

A key recommendation from the CCFR was the creation of a National Competition Policy (NCP) to articulate the Government of PNG's position on competition. PSDI provided a draft NCP in late 2017, on which public consultations were conducted in May and June 2018. Work is ongoing to refine the NCP and have it submitted to the National Executive Council in 2018.

PSDI is also supporting the government to develop sweeping changes to competition and consumer protection legislation in PNG in line with CCFR recommendations. This work will continue into 2019.

ECONOMIC EMPOWERMENT OF WOMEN

OUTCOMES AND RESULTS

PSDI implemented a pilot project to help businesswomen operating in the informal sector—in this instance, women in the fishing industry—to formalise their businesses by providing access to finance to grow their businesses and connect with markets, as well as financial literacy and vocational training. A memorandum of understanding was signed with MiBank in July 2014 to provide the finance and financial skills training components. Training on product development and business management was provided by PSDI in 2016 to strengthen the women's abilities to operate sustainable businesses over the long term. Mentoring of the women is ongoing.

PNG's PSDI-supported Consumer and Competition Framework Review recognizes the need for policies, laws, and institutions to be responsive to the needs of women as producers, consumers, and employees. A paper produced by the review, *Consumer Protection and Economic Empowerment of Women*, directly assessed how such laws affect women and made recommendations for legal reforms to economically empower women and improve their role in the private sector. Other papers produced by the review also examined the impact of competition on women and provided recommendations on how to enable women to engage more in business and employment.

CURRENT AND FUTURE PROJECTS

PSDI is working to assess and implement changes to the regulatory frameworks governing associations, which number more than 7,000 in PNG and are the business entity preferred by women. This work will include working with the IPA to analyze the unique practical and institutional challenges of women engaging in associations and recommending steps to enhance this engagement. PSDI will work with the IPA to devise ways to improve the rate of women's entry into the formal economy, including consideration of a new official business entity that is more flexible and has fewer requirements.

Economic empowerment of women considerations will continue to be mainstreamed in all work related to the CCFR.

ANALYTICAL WORK

OUTCOMES AND RESULTS

Foundation for the Future: A Private Sector Assessment for Papua New Guinea, was published in 2008, as was a booklet on the findings of the survey research undertaken for the it: *The Challenges of Doing Business in Papua New Guinea: An Analytical Summary of the 2007 Business Environment Survey by the Institute of National Affairs*.

A second private sector assessment, *Building a Dynamic Pacific Economy: Strengthening the Private Sector in Papua New Guinea*, was published in April 2015. The survey it drew from, *The Challenges of Doing Business in Papua New Guinea: An Analytical Summary of the 2012 Business Environment Survey by the Institute of National Affairs*, was published in 2014.

ASIAN DEVELOPMENT BANK

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PSDI works with ADB's 14 Pacific developing member countries to improve the enabling environment for business and address constraints to private sector development in support of sustainable and inclusive economic growth.

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PSDI is a technical assistance program undertaken in partnership with the Asian Development Bank, the Government of Australia, and the Government of New Zealand.