

PACIFIC PRIVATE  
SECTOR DEVELOPMENT  
INITIATIVE (PSDI)

# PAPUA NEW GUINEA

COUNTRY OVERVIEW  
APRIL 2020



## IN PAPUA NEW GUINEA (PNG), PSDI HAS WORKED TO:

- increase access to finance and financial services;
- promote entrepreneurship and foreign direct investment;
- improve the efficiency and transparency of state-owned enterprises (SOEs);
- develop the technical and cross-cutting capacity of PNG's Independent Consumer and Competition Commission (ICCC); and
- remove barriers to women's participation in the formal economy.

## KEY PSDI ACTIVITIES AND OUTCOMES

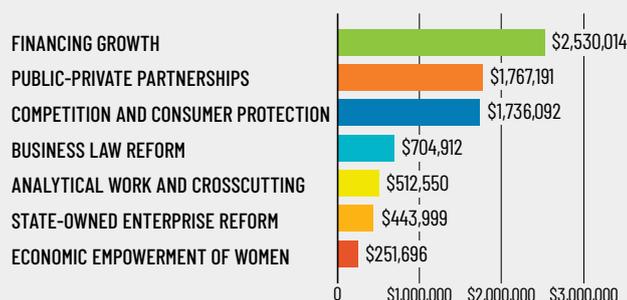
- 2008:** *Foundation for the Future: A Private Sector Assessment for Papua New Guinea* published
- 2011:** Personal Property Security Act passed by PNG Parliament
- 2011:** Public Private Partnership (PPP) Policy approved
- 2011:** Nationwide Microbank transformed into MiBank and mobile phone-linked bank account MiCash launched
- 2012:** Microfinance Expansion Program established, with PSDI support
- 2012:** *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea* published
- 2012:** Community Service Obligation Policy for SOEs passed
- 2014:** Consumer and Competition Framework (CCF) Review and ICCC Capacity Assessment initiated
- 2014:** PPP Act 2014 passed by PNG Parliament
- 2015:** Ongoing program of support to the ICCC commenced
- 2015:** *Building a Dynamic Pacific Economy: Strengthening the Private Sector in Papua New Guinea* published
- 2016:** Began providing operation and governance support to Bank of PNG to strengthen its oversight capabilities
- 2016:** Personal Property Security Act commenced and Personal Property Security Registry launched
- 2016:** Memorandum of Understanding signed to provide a support program with the Investment Promotion Authority (IPA)
- 2017:** IPA business registry data migrated to a secure, cloud-based server
- 2017:** National Competition Policy drafted
- 2017:** Strengthening the Supply Chain in Fisheries economic empowerment of women pilot project implemented
- 2018:** PPP Act commenced
- 2018:** Final CCF Review report endorsed by National Executive Council
- 2018:** ICCC Capacity Assessment finalised and development program initiated
- 2019:** Women's Senior Business Leadership program delivered

# OVERVIEW AND SPENDING

PSDI's activities in PNG have rapidly expanded since 2015 due to an additional \$8.08 million in funding provided for Phase III by the Government of Australia. The Government of Australia has again committed additional funding for PNG for PSDI Phase IV.

A PSDI coordinator has been based at the Asian Development Bank's (ADB) Papua New Guinea Resident Mission since January 2010, with an additional coordinator since November 2016. The coordinators promote effective private sector development policies and practices through dialogue with the government and other stakeholders and support the implementation of PSDI initiatives.

## SPENDING BY FOCUS AREA 2007-2019 (\$7,946,454)



# FINANCING GROWTH

## OUTCOME, RESULTS, AND FUTURE PROJECTS:

### INCREASING ACCESS TO FINANCIAL SERVICES

**PSDI has worked to make access to financial services in Papua New Guinea more widely available, by supporting the development of an innovative mobile phone-linked bank account, and funding the design of the Microfinance Expansion Project (MEP).**

PSDI provided technical assistance to MiBank (formerly Nationwide Microbank) between 2011 and 2013 to develop MiCash, an innovative, mobile phone-linked bank account. The service enables customers to deposit and withdraw funds from their bank account through an agent network, without having to travel to a bank branch, and to transfer funds to friends and family who also have a bank account with Nationwide Microbank. This reduces transaction costs, increases security, and greatly improves the ease of accessing financial services.

As part of this work, 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 MEP in 2011, and provided ongoing assistance for its implementation. The MEP, which

closed in 2019, was a \$24 million sector-wide program, cofinanced by the governments of Australia and PNG, focused 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.

### INCREASING THE PROVISION OF LOANS SECURED AGAINST MOVABLE ASSETS

**PSDI has worked to increase business access to finance through the development and implementation of a secured transactions framework—which allows lenders to accept non-land or movable assets as security—and by working with lending institutions to encourage its uptake.**

PSDI helped establish PNG's secured transactions framework in 2011, which was fully implemented with the activation of the Personal Property Securities Registry in May 2016. PSDI has worked to raise awareness among lenders of the potential of this system of movable assets finance. In particular, PSDI has worked to develop opportunities for movables financing in the agriculture sector. As agriculture accounts for approximately 25% of PNG's gross domestic product and provides the livelihoods for more than 80% of rural Papua New Guineans, financing mechanisms tailored to this sector would be broadly beneficial.

In May 2019, MiBank launched its Agriculture Value Chain Loan, which lets farmers borrow using contracted income from future crop sales as collateral. PSDI supported development of the loan product by providing advice on its structure. The initial application was for cocoa financing in East New Britain province. Other applications are now being assessed.

PSDI is also working with Women's Microbank Ltd and NKW Fresh Produce to develop a similar product for women producing fresh produce in Morobe Province. A Memorandum of Agreement to begin a trial phase of the new product was signed in March 2020. During this phase, a group of around 15 women produce growers – who have an existing supply contract with NKW Fresh – will be able to borrow up to 90% of the purchase price of a small, walk-behind tractor. With these tractors, cultivating land will become easier and far less time consuming, meaning the growers will be able to cultivate larger plots of land, helping to increase their output and improve their incomes. Training and support for the use and maintenance of the tractors will also be provided.

PSDI is also discussing other potential applications of this type of financing with Women's Microbank.

### STRENGTHENING BANK PNG OVERSIGHT AND MACROPRUDENTIAL CAPACITY

**PSDI is working with Bank PNG (BPNG) to strengthen its oversight of PNG's entire financial system through the introduction of a macro prudential framework.**

Several studies have highlighted weaknesses in PNG's financial system, which—if left unmitigated— could be destabilizing and constrain inclusive economic growth. In 2016, PSDI advised BPNG on an appropriate governance and operational framework to better identify, detect, and mitigate cyclical and structural risks in the PNG financial system. PSDI also

provided advice on the establishment and composition of a Financial Sector Stability Committee, which has now been formally established. PSDI is currently building on this work to enhance the capacity of BPNG to manage these risks.

## PREPARING FOR ALTERNATIVE FINANCING PLATFORMS

**PSDI is working to advise 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, such as peer-to-peer lending and equity crowdfunding.**

The goal of this technical assistance is to promote better access to capital for smaller businesses. As part of this advice, PSDI has prepared a comprehensive diagnostic of the existing capital markets' legal and regulatory infrastructure for capital raising and advised on the amendments that would be needed to adapt this framework to small business capital raising. Discussions with the Department of Treasury and the Securities Commission of PNG are continuing.

## KNOWLEDGE SHARING ON CRYPTOASSETS AND INITIAL COIN OFFERINGS

**PSDI has drafted a wide-ranging discussion paper and delivered a workshop for PNG regulators canvassing a number of background, technical, and regulatory issues associated with the rapid rise in popularity and availability of blockchain-backed cryptoassets (including cryptocurrencies) and use of 'initial coin offerings' (a method of crowdfunding using blockchain-backed tokens, poses a number of challenges and opportunities to PNG regulators and the private sector).**

A robust legal and regulatory framework is needed to govern the use of cryptoassets and initial coin offerings to balance extracting the benefits of this 'FinTech' innovation with other policy concerns, such as investor protection, anti-money laundering, and financial system stability. PSDI's work in this area aims to empower PNG regulators to engage more confidently with the cutting edge of FinTech and enable the PNG economy to benefit. Bank PNG now intends, with PSDI support, to draft a regulatory guide for market participants based on the earlier PSDI discussion paper.

## BUSINESS LAW REFORM

### OUTCOME, RESULTS, AND FUTURE PROJECTS:

#### INSTITUTIONAL SUPPORT FOR ENTREPRENEURSHIP AND INVESTMENT

**PSDI works to promote entrepreneurship and foreign direct investment through its ongoing assistance and advice to PNG's Investment Promotion Authority (IPA).**

PSDI is supporting a broad and ambitious business law and regulation reform program designed to promote

entrepreneurship and foreign direct investment in PNG. Central to this program are the mandated functions of the IPA under the Investment Promotion Act 1992. 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 has worked to assist the IPA on a number of matters, including:

- supporting improvements to the IPA's business registries, including support to enhance data collection and reporting, credit record development, and interaction with other Government agencies such as Internal Revenue Commission, and the 2017 migration of registry data from office-based hard drives to secure, cloud servers, which improved the availability of the registry from below 70% to 99%;
- providing ongoing support for IPA's day-to-day management of the Personal Property Security Act 2011, including the Personal Property Security Registry;
- providing intensive technical assistance on reforms to the law enabling incorporated associations, a common legal entity used in PNG for collective action. Presently, gaps in the law leave PNG vulnerable to having negative assessments made against it for failure to prevent money laundering; and
- reviewing the functions and effectiveness of the Investment Promotion Act 1992—including PNG's Investment Policy framework and its requirements for foreign enterprise certification processes.

## STATE-OWNED ENTERPRISE REFORM AND PUBLIC-PRIVATE PARTNERSHIPS

### OUTCOME, RESULTS, AND FUTURE PROJECTS:

#### STATE-OWNED ENTERPRISE REFORM

**PSDI is supporting the government in its design of a broad SOE reform program designed to reduce their fiscal liabilities while improving services.**

Working with the Ministry of State Enterprises, PSDI has prepared a new SOE reform policy, SOE director selection and appointment guidelines, debt restructuring analysis for Kumul Consolidated Holdings (KCH), and preliminary assessment of the proposed network asset sharing model for the telecoms sector.

PSDI is providing ongoing support to the Ministry of State Enterprises to strengthen the KCH Act and identify opportunities to monetize SOE assets and improve services through partnerships with the private sector.

## PUBLIC-PRIVATE PARTNERSHIP SUPPORT

PSDI is working to improve the efficiency and transparency of infrastructure service delivery by enabling public-private partnership (PPP) transactions through legislative reform and feasibility assessments.

In January 2018, the PSDI-supported Public Private Partnership Act was published in the National Gazette, after passing Parliament in September 2014. The Act enables the creation of a 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; standard operating procedures; and draft implementing regulations. In 2020, the Government of PNG signaled its intent to fully implement the PPP Act and requested PSDI support. This work will focus on updating the regulations for National Executive Council endorsement, operationalising the PPP Centre and providing technical support for its oversight of the PPP project development cycle.

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.

In the context of a Memorandum of Understanding signed with PNG Power (PPL) in late 2016, PSDI developed outline business cases for solar farm PPPs in three provincial centres: Alotau, Kavieng and Kokopo. The Alotau and Kavieng tenders were abandoned due to the lack of bankable title to the land offered to the project by local authorities. However, in Kokopo suitable land with secure title was offered by the provincial government. An outline business case confirmed the commercial viability of the project in late 2017, but it was not pursued by PPL. If a solar IPP in Kokopo fits into PPL's least cost generation plan for the 2020/21 financial year, PSDI may update the assessment.

In 2018, PSDI completed a PPP assessment for a new water treatment plan for Port Moresby. A decision on whether and how to pursue this project is pending the completion of a water supply and sewerage masterplan due to be completed in Q4 2020.



## COMPETITION AND CONSUMER PROTECTION

### OUTCOME, RESULTS, AND FUTURE PROJECTS:

#### CONSUMER AND COMPETITION FRAMEWORK REVIEW

**PSDI comprehensively assessed PNG's competition policy settings through the Consumer and Competition Framework (CCF) Review.**

The CCF Review was initiated at the request of the Department of Treasury in 2014. The CCF Review had a broad scope, encompassing consumer protection, competition, economic empowerment of women, price monitoring and controls, industry regulation, and the promotion of a competitive business environment. PSDI conducted extensive stakeholder consultation for it, including interviews, public workshops, and consumer focus groups.

The final CCF Review Report, which was endorsed by the National Executive Council in April 2018, recommended sweeping legislative changes and revised administrative and regulatory practices. A key recommendation was the creation of a National Competition Policy (NCP) to articulate the government's commitment to fostering procompetitive outcomes.

PSDI provided a draft NCP in late 2017 and held public consultations in May and June 2018. PSDI anticipates that Treasury will submit the NCP to the NEC in 2020.

PSDI is supporting the government to develop broad changes to PNG's competition and consumer protection legislation, including development of the Competition and Consumer Protection Bill. This work, which is in line with CCF Review recommendations, will continue in 2020.

#### BUILDING COMPETITION REGULATOR CAPACITY

**PSDI is supporting the Independent Consumer and Competition Commission's (ICCC) ability to apply and enforce legal frameworks.**

This work is conducted through an agreement made with Australia's Department of Foreign Affairs and Trade in 2015. In 2018, concurrent with the drafting of the CCF Review, PSDI assessed the ICCC's capability to perform its statutory responsibility of protecting consumers and promoting competition in PNG. This ICCC Capability Evaluation identified a number of areas for improvement, including internal management practices and priority setting, regulatory functions, and public education.

Based on the findings of the ICCC Capability Evaluation, PSDI commenced a capacity development program with the ICCC in February 2018, which has since provided training to staff in areas including investigations, market definition and assessment, consumer protection, mergers and acquisitions, cartel conduct, and corporate management. This support is ongoing.

# ECONOMIC EMPOWERMENT OF WOMEN

## OUTCOME, RESULTS, AND FUTURE PROJECTS:

### TARGETED PROJECTS TO ENHANCE THE ECONOMIC EMPOWERMENT OF WOMEN

**PSDI is working to remove barriers to women's participation in the formal economy through pilot initiatives helping businesswomen enter the formal economy and helping women professionals reach leadership positions.**

In early 2018, PSDI concluded a pilot project created to help businesswomen operating in the informal sector—in this instance, women in the fishing industry—to formalise their businesses. Through project partner MiBank, participants were provided with access to finance to grow their businesses and connect with markets, as well as financial literacy and vocational training. PSDI provided training on product development and business management to strengthen the women's abilities to operate sustainable businesses over the long term.

PSDI also developed a PNG-focused version of the Women's Business Leadership Program, which was delivered in partnership with the Business Coalition for Women in late-2019. The program, which PSDI has already delivered in Fiji and Tonga, demonstrates a support intervention that can help increase the number of professional women in senior roles. Through training on topics such as governance, risk management, effective communication, and board participation, and by pairing participants with mentors and engaging men in their workplaces to advocate for women's professional and economic progress, the program helps provide pathways for women to leadership positions.

### WOMEN-FRIENDLY COMPETITION AND CONSUMER PROTECTION

PNG's PSDI-supported Consumer and Competition Framework Review recognized the need for policies, laws, and institutions to be responsive to the needs of women as producers, consumers, and employees. The policies and training PSDI has supported are informed by analysis undertaken by the review team, which details the manner in which such laws affect women and specifically addresses how to economically empower women and improve their role in the private sector. Economic empowerment of women considerations will continue to be mainstreamed in all work related to the CCF Review.

## IMPROVING ASSOCIATIONS

As part of its support to the IPA, PSDI is working to assess and implement changes to the regulatory frameworks governing incorporated associations. Incorporated associations number more than 7,000 in PNG and are the legal 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 also 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.

## ANALYTICAL WORK

*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.

PNG participated in PSDI's 2014, 2016, and 2019 *Finding Balance* regional SOE benchmarking studies, and was the primary country analysed for the 2012 *Finding Balance: Benchmarking the Performance of State-Owned Enterprises in Papua New Guinea*.

PNG is also featured in PSDI's 2018 regional study on Pacific women's engagement in the private sector, *Women and Business in the Pacific*, PSDI's 2018 brief on tourism trends in the region, *Tourism as a Driver of Growth in the Pacific*, and PSDI's 2017 case studies, *Case Studies in Private Sector Participation: Franchise Shipping*, *Case Studies in Private Sector Participation: Water Supply Services*, and *Case Studies in Private Sector Participation: Solid Waste Management*.

### Pacific Private Sector Development Initiative

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