



Report

Options for a growth / PSD strategy in Papua New Guinea

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Abstract

The Australian Government Department of Foreign Affairs and Trade (DFAT) is developing a strategy for its work on growth and private sector development in Papua New Guinea. This paper provides an input to that process by reviewing the current drivers and constraints to growth in PNG, and the current and previous activities of AusAid / DFAT and other donors on this agenda in PNG, and discussing some options for possible interventions or programmes that DFAT could develop or support to tackle the major constraints to growth and PSD. These include:

1. An aid for trade programme
2. Supporting public private partnerships and reform of state owned enterprises
3. Supporting the PNG Government's SME Sector Policy
4. Engaging with individual businesses to enhance their development impact
5. Promoting agricultural sector market development
6. Engaging with the private sector on technical and vocational training
7. Developing a green growth / green energy strategy

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1 Drivers and constraints to growth in PNG

This section summarises the drivers and constraints to growth and PSD in PNG, drawing heavily on existing literature, particularly Barker (2012) and a number of other key sources.

Papua New Guinea has experienced positive economic growth since the early 2000s, and around 6% or above per annum since 2007. This is a reflection largely of the strong international demand and resulting high prices for PNG's natural resource-based export products, and associated investment. However, GDP per capita remains low, at £2,600 per year in 2012. In 2011, agriculture accounted for 36% of GDP, industry for 45% and services for 20%¹.

Despite abundant natural resources, PNG has failed to provide sufficiently broad-based economic and social opportunities for the majority of its population. The challenge is how to capitalise on the natural resources to create more broad-based economic opportunities, for local producers, entrepreneurs and SMEs. The economy is also constrained by geographical factors and a widely dispersed population, which raise the costs of infrastructure and service provision and reduce market access.

Performance has been undermined by poor economic management, governance and coordination, with deficient expenditure and accountability of spending on core public goods such as transport infrastructure, but also on effective provision of law and order, education and health. This together with poorly-performing state-owned enterprises, often enjoying a monopoly position, seriously undermines service provision, pushes up the cost of doing business, and reduces the competitiveness of the private sector generally.

ADB (2012a) finds that SOEs in PNG have generated a substantial cost to the government in terms of ongoing fiscal transfers and other subsidies, and to the detriment of the poorer segments of the population due to the generally poor quality of the services provided and limited range of delivery. By absorbing large amounts of scarce capital stock on which they provide very low returns, crowding out the private sector, and diverting public funds that could otherwise be invested in such high-yielding social sectors as health and education, SOEs have acted as a drag on economic growth.

Dutch Disease is another potentially significant problem, as revenues from major extractive investments can push up the value of the currency, which undermines the competitiveness of other sectors, such as agriculture, tourism and manufacturing. Appropriate macroeconomic measures, the effective use of a sovereign wealth fund as is being planned in PNG, and a focus on budget transparency, investment in infrastructure to open up broader opportunities, and structural reforms to help develop competitive markets and broader based growth, would help to mitigate this risk. PNG should seek to prevent the creation of a dual economy, where the operations of the extractive industry and the failure of the State to manage and utilise the proceeds from that extraction, serve to undermine rather than support, the prospects for other economic sectors, as has occurred widely in developing countries with major resource assets.

The formal sector remains small, and there is a serious skills shortage – identified as one of the biggest constraints by the business community. The labour market suffers from intermittent peaks in demand, such as during the LNG construction project, where shortfalls of skilled labour are met by overseas staffing. There is a need to adapt education and training capacity to meet market needs, and create a

¹ http://devdata.worldbank.org/AAG/png_aag.pdf

suitably skilled and adaptable workforce. This will require labour market research and regular dialogue between government and the private sector, education providers and employers, and better partnerships in supporting technical and vocation training colleges and workplace training and apprenticeship, as well as education. In discussions, constraints to women's participation in labour markets including gender violence were posited as another possible factor reducing productivity and thus growth.

The smallholder agriculture sector and informal economy continue to provide subsistence and income earning opportunities for the majority of the population, producing the majority of food and most of PNG's export cash crops (such as coffee, cocoa, copra and oil palm). Around 85% of the labour force is involved in agriculture, far exceeding those in any other sectors².

It is argued that recent increased agricultural earnings gained from production and export (or import replacement) remain attributable largely to improved prices, with limited supply response or further direct investment. Some positive initiatives are being taken to encourage agricultural production and access to niche markets, but poor access to markets, credit, training and institutional support, and local law and order and land security problems reduce farmer incentives. Poor governance and management of agricultural markets in the past e.g. through dysfunctional commodity boards for example, has also had a negative impact on the development of these markets. The Kina's appreciation and lower commodity prices along with limited support to the sector from either government or development partners jeopardise prospects further. Both the coffee and cocoa sectors are currently in some difficulty, as a result of lack investment in the supply chain, lack of extension services and disease, with potentially serious implications for poverty given the numbers of people affected.

USAID funded a diagnostic on Agribusiness Commercial Legal and Institutional Reform (AgCLIR) in PNG in 2012, with additional support from NZAid and APEC. The report examined opportunities and challenges of agricultural business in PNG. Key constraints identified include: inadequate access to education and extension services; implementation failures in relation to relevant laws and regulations, including a lack of enforcement of quality standards which has undermined the potential for value addition along the supply chain; the impact of traditional social systems within PNG which undermine incentives to increase production; and traditional systems of customary land ownership, and the lack of a clear mechanism to enable investors to access land while protecting legitimate claims of smallholders, which has led to significant underinvestment and under-utilization of land. The paper sets out many detailed recommendations for reform but concludes that:

“An effective response to these issues will require advocacy, yet across each commodity subsector, industry participants lack a coherent vision and voice that represents the value chain from producer through trade, processor, and/or exporter.... The recommendations to these constraints will require a participatory process and dialogue among key stakeholders to undertake the reforms necessary to improve the enabling environment for the agricultural sector. Importantly, the recommendations made in this report will require unambiguous national leadership as well as a firm commitment to a reform agenda if there is any likelihood for success.”

Increased log exports in recent years reflect both stronger prices, weak oversight, and easier access to new forest resources, widely obtained by some interests under special agricultural and business leases (SABLs), purportedly for agricultural projects, but in practice largely to obtain timber, and usually without the owners' free and informed consent. This has undermined both sound forestry practice and genuine agricultural investment.

High commodity prices and weak governance have also fuelled speculative land and resource grabbing, marginalising the rights of customary resource owners, but also restricting options and potentially undermining genuine investment and resource management initiatives. Lack of rigorous process, entailing customary landowner consultation and free and informed consent, undermines prospects for successful project development, which requires adequate investment in thorough groundwork. Land

² http://www.indexmundi.com/papua_new_guinea/labor_force_by_occupation.html

laws have recently been amended to facilitate land-based development, and time will tell whether these reforms will be effective.

A very positive assessment by ANZ Bank (ANZ, 2013) of PNG's potential future growth prospects, argues that PNG's resource endowment and geographical location will allow it to capitalise on Asia's industrialisation and urbanisation over the next few decades, as this generates growing demand for the commodities that PNG already produces – energy, metals, wood products and foodstuffs. It estimates that PNG has the opportunity to grow resource sector export revenues by four to six times their current levels, to US\$23 billion - US\$36 billion by 2030 if the estimated US\$112 billion in required capital investment can be attracted. The report argues that the wealth generated by this resources boom in PNG should be invested in infrastructure in order to support the agricultural development which will be necessary for longer-term growth.

Increased East Asian demand also poses risks, and the PNG Government will need to negotiate contracts carefully, to ensure PNG's best economic interests are served, for example by maximising local benefits, such as local employment and capacity building, and ensuring that extraction is conducted in an environmentally sustainable way. This is particularly important given that PNG's environment and natural capital provides livelihoods for the majority of the population and will be important for sustaining longer term economic development. PNG's resource extraction industries should be encouraged or required to maintain high social and environmental standards. The business case to do this should be fairly strong anyway, given that mineral based industries in PNG are dependent upon good local community relations, particularly with the unusual hybrid tenure system for extractive operations, entailing state ownership and approval but also usage rights effectively granted by customary landowners.

Adherence to internationally accepted and verified standards (such as ISO, Roundtable on Sustainable Palm Oil, and forestry and fisheries stewardship certification), can help to build trust and facilitate collaboration and promote sustainable resource use, and support to SMEs to meet these standards can improve access to markets. The PNG government should also adopt EITI procedures for disclosure and verification of transactions.

In order to promote more sustainable and inclusive forms of growth, PNG will need to diversify, not just as a primary producer of minerals or other natural resources like agricultural and marine products, but also moving up the supply chain to provide more added value to a wide range of products such as speciality foods and essential oils. In addition, PNG should develop the service sector, which has proven the fastest growing sector in many other countries, from ITC to tourism and hospitality, finance, insurance, education, and utilities. In terms of tourism, overseas visitor numbers are growing, but remain low compared with other Pacific tourism destinations, due to concerns about security, high costs, and limited tourism infrastructure and services.

International comparisons on ease of business transactions shown in the World Bank's annual "Doing Business" survey 2013, has ranked PNG 104 out of 185, and well behind the region's leaders, like Samoa, Fiji and Tonga ranked 57th, 60th and 62nd respectively, and the regional average at 86. PNG continues to record a very poor ranking on enforcing contracts (166/185), dealing with construction permits (159), dealing with insolvency (125) and trading across borders (120), but surprisingly good rankings for getting electricity (25 – though that's registering, rather than necessarily receiving the power routinely), and protecting investors (49). In 83rd place for getting credit, PNG has shown a marked improvement from 135th place in 2005.

The Institute of National Affairs (INA) has undertaken a Private Sector Survey every five years, the latest conducted in 2012, to assess the business environment as perceived by private sector participants themselves. Most business in the 2012 survey considered that the business environment had improved since 2006, although the biggest impediments to business remained largely the same: law and order and security issues, corruption, poor transport infrastructure, deficiencies in PNG's electricity infrastructure and services, skills shortages and weak telecommunications infrastructure, although the latter has improved considerably since 2007.

Based on a diagnostic study, ADB (2012) identifies the main constraints to inclusive economic growth in PNG as (i) weaknesses in governance and institutions; (ii) poor infrastructure (transport, electricity, and water supply); (iii) shortages of skilled human capital and poor and unequal access to affordable and quality education; and (iv) lack of and unequal access to affordable and good quality health services.

Political instability and political risk remain a big concern for business. For example, in the Government's new SME Policy and Masterplan, the possibility of reserving industry for PNG citizens has been raised, and of enforced take-over of foreign owned businesses, as has happened in the case of the Ok Tedi Mine. This increased policy uncertainty is reportedly leading to a rethink of future investment plans by existing foreign-owned businesses in PNG.

As noted, service delivery in PNG has been poor, which itself drives up the cost of doing business. Yet the private sector can itself potentially contribute significantly to filling this gap in service delivery, particularly through PPPs, but also as add-ons to their core business function. Indeed, many private businesses including in the mining/petroleum field already do provide a range of local services, either working alone or in partnership with government and NGOs.

But doing business in PNG can be challenging enough, especially as many of the normal public goods provided by the State in other countries do not exist or barely function, so some businesses feel that their costs are already high enough, with back-up generators, added security measures, maintaining local access roads and communications etc., without also being expected to provide local health, education and training functions, or working with government to develop other local infrastructure and capacity. Thus it will be important to get the balance right between attracting investment into PNG, and working to maximise the development impact of private sector activity.

2 AusAid's previous growth and PSD activities in PNG

The PNG Australia Development Cooperation Strategy over the period 2006-2010 stated that AusAid's work in PNG would have a particular focus on four core areas:

- Improved governance and nation building
- Sustainable broad-based economic growth and increased productivity
- Improved service delivery and stability
- A strengthened, coordinated and effective response to the HIV/AIDS epidemic

Much though not all of AusAid's work relating to the growth and private sector development agenda was at that time located under the heading of sustainable broad-based economic growth and increased productivity, which included:

- Supporting improved macro-economic management
- Maintaining key economic transport infrastructure, including roads, bridges, airports and wharves
- Building local research capacity for technical innovation in agricultural productivity, socio-economic issues, marketing and land (including support to ACIAR, see section 3.8).
- Supporting smallholder agricultural producers through funding for research and dissemination of innovative technologies

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- Supporting small and medium enterprise development and the informal sector through basic skills training, legal and regulatory reform, capacity building for private and public service providers and access to affordable finance
 - Improving access to microfinance through support for service delivery, regulatory reform and training
 - Investing in a more productive workforce through training, including a scholarship programme and in-country support for schools, universities and the Pacific technical training facilities
 - Supporting the development of standards and certification for technical and vocational training

The document: “AusAid and the Private Sector in Papua New Guinea” (undated), sets out how AusAID’s private sector programming in PNG has aimed to reduce poverty and promote sustainable economic growth by:

- supporting the enabling environment for broad-based, private sector growth, including through supporting economic policymaking, partnering with IFC and ADB to strengthen institutions for service delivery, investment in roads, efforts to improve law and order, and supporting the Agricultural Research and Development Support Facility. The PNG Incentive Fund, for example, has provided infrastructure and public goods development by or through private sector and civil society bodies.
- contributing to programs and policies that assist the private sector to grow and prosper, including by partnering with ADB on its Microfinance and Employment Project, the Enterprise Challenge Fund, the Agriculture Innovations Grant Scheme, and the Young Entrepreneurs Scheme.
- engaging in dialogue with business to improve mutual awareness of development challenges, including by sharing information, networks and experience with private sector and professional associations engaged in development activities including the Australia PNG Business Council, and playing an active role in the Quarterly Private Sector Development Coordination meetings involving other donors. AusAID also co-funded the Consultative Implementation and Monitoring Council (CIMC) which has facilitated government-private sector-civil society dialogue.
- partnering with the private sector in delivering AusAID’s program in PNG, including sector programs such as health and education where opportunities for the private sector to play a stronger role in the delivery of basic services have been identified, particularly in rural and remote areas, in the distribution of books to schools or drugs to health centres for example, as well as supporting joint work with education institutions, industry and employer associations to identify and address skills shortages and capacity constraints to sustainable economic growth in the private sector.

Various other projects have included components of business engagement. For example, AusAid’s Effective Governance portfolio, which includes law and justice reform and strengthens government capacity for service delivery, has promoted private sector involvement through a ‘Community Crime Perception Survey,’ which as part of the research specifically targeted businesses in order to understand what they were doing about crime, the costs generated and the impact crime had on employees. AusAid also supported the Yumi Lukautim Mosbi Projek (YLM) aimed at reducing crime and enhancing public safety by engaging grassroots PNG society, in particular the residents of Moresby, and combining their efforts with appropriate law and justice sector agencies. Private sector companies, being major stakeholders in urban safety, participated in the project with a focus on better service delivery and engagement of community.

AusAid has also been closely working with the PNG Government to improve health services and offer better access to essential health care. This programme has promoted private sector involvement through a partnership with Oil Search Foundation to help implement its HIV AIDS and malaria programmes and

to provide reproductive health training and family planning. Its partnership with City Pharmacy is contributing to the fight against HIV by buying and distributing condom vending machines throughout their extensive retail network. AusAid has also explored a potential partnership with Digicel, a local telecommunications company, to provide mobile health services to rural workers and to develop a mobile phone stock management system for medicines.

AusAid ran the Enterprise Challenge Fund (ECF) for the Pacific and South East Asia from 2007 - 2013, a pilot project which provided grant funds directly to businesses in Asia and the Pacific. The fund ran competitions for private sector applications offering innovative solutions to address market failures and stimulate long-term inclusive pro-poor economic growth, with businesses providing at least 50% of their own funding. Four projects were funded in PNG. However, one of the lessons learned was that in the Pacific, limited regional business support services, perceived lack of human capital and management experience within companies looking at difficult, export focused ventures, meant that better commercial sustainability and broader impacts would have been enhanced by additional technical support services. Thus the typical challenge fund model needs to be adapted in order to address these impediments in the Pacific. Alternative approaches including equity investments and linked business support services are currently being considered.

AusAid has also been supporting the Pacific Private Sector Development Initiative, a technical assistance facility established by the Asian Development Bank and co-financed by Australian Aid to assist Pacific countries increase incomes, jobs and economic growth through private sector growth. PSDI commenced in 2006 and is now in its second phase (2009-2013). PSDI activities in PNG are discussed further in the section on ADB activities below.

AusAid has also been working in partnership with the ADB over the last decade to expand the provision of microfinance through the Papua New Guinea Microfinance and Employment Project, which linked small village-based providers with formal microfinance institutions to expand outreach and formalise the sector. Training in market research, product development and product costing was also provided to microfinance institutions, and a new legal framework with the Central Bank was prepared to facilitate the development of microfinance, and pilot the broadening of operations of a number of commercial banks and financial institutions.

In recent years however, AusAid's engagement on PSD has decreased in PNG, and improving governance has become the main focus of activity, along with service delivery and infrastructure development, as these have been considered the most binding constraint to growth and PSD, reflecting the conclusions of many of the diagnostics discussed above.

But a new Pacific Growth / PSD Strategy is currently being developed. It is proposed that the objective will be to promote "poverty reduction through economic growth in the formal sector", and that a three-pronged approach will be adopted, focusing on: (i) private sector development; (ii) aid for trade and (iii) labour mobility. Under this, there will be five work areas:

- Creating an environment for growth and investment
- Identifying, securing and growing markets
- Advocating and facilitating positive change for business
- Building a work ready and mobile labour force
- Improving economic infrastructure

The Strategy is intended to be a regional framework for the new Government's agenda in the Pacific and a guide to bilateral programming on economic growth.

3 The growth and PSD activities of other donors in PNG

3.1 Asian Development Bank

The ADB is PNG's second largest development partner, with around a US\$1 billion portfolio of current projects. The country partnership strategy (CPS), 2011-15, prioritizes investment in infrastructure (roads, seaports, and airport rehabilitation and improvement; and renewable power generation and transmission), PSD, and regional cooperation.

ADB is also running the Private Sector Development Initiative (PSDI) at the regional level, funded by AusAid / DFAT and New Zealand Aid. This has five focus areas within PNG:

1. Access to finance: including promoting financial inclusion and supporting mobile banking and capital market development. They are considering developing a regional capital market, including for SMEs, as the current market is very illiquid in the region. PNG could potentially be the host country for a new stock exchange.
2. Business law reform: including the establishment of a secured transactions registry, which in other countries has facilitated a significant increase in lending and thus has the potential to stimulate transformative change in PNG. They are also considering activities to promote improved institutional arrangements for cooperative societies. Cooperatives, which were prevalent during colonial times, declined in the face of poor management and lack of government interest in favour of individual entrepreneurs. There has been a recent modest revival, however with limited back-up and oversight, and uncertainty over government responsibility or donor support, the future of cooperatives is fragile. ADB might look at the development of an online registry for coops, or ways to promote joint branding and marketing. While there is a demand for this from some quarters, the existence of wider political will is unclear.
3. Competition policy: The Independent Consumer and Competition Commission (ICCC) has requested support from ADB on legal reforms (e.g. to their powers of enforcement) that would improve their effectiveness. The ADB are waiting for the Government to put in a formal request for this assistance. ADB has also submitted a formal proposal to AusAid / DFAT on how ADB could potentially take responsibility for DFAT's support of this agenda going forward. AusAID also provided critical ongoing support to the ICCC, notably technical inputs, which have been critical to its performance, credibility and continuity.
4. Economic empowerment of women: This is a new area, in which around 4 specific initiatives are currently being identified and designed, with a view to piloting and possible scale-up. For example, one possible initiative being explored is a project assisting women to promote community-led rural electrification through selling home solar power systems. Another might be the establishment of a women's buying centre for cash crops. PNG could well be one of the focus countries for these projects.
5. State Owned Enterprise (SOE) reform and Public-Private Partnerships (PPPs): ADB has undertaken a benchmarking study entitled 'Finding Balance', and provided advice on reform to the policy and legal framework in PNG, to promote increased commercialisation of SOEs, and

improved capacity to monitor performance. But there is not much political appetite for privatisation currently – if anything, nationalisation is being promoted. Ministerial statements in support of reforms to ownership have been inconsistent with anti-private sector actions of Trade Minister Richard Maru in relation to New Britain Palm Oil and attempts by Prime Minister O’Neill to re-nationalise Ok Tedi, as well as Central province MPs monopoly trade deals struck over rice trade and production (INA, 2014). ADB is also working with the government to develop a national community service obligation (CSO) framework for SOEs that would pave the way for the introduction of competition into the SOE sectors by ensuring that CSOs are provided on a fully commercial basis.

PPPs provide one way to promote commercialisation where privatisation is not an option. The PSDI has worked with Government to develop the PPP policy since 2008. It is hoped that the legislation may be approved soon. ADB has also been setting out how the institutions could work, including the establishment of a PPP transactions centre, and support in the identification and analysis of PPP opportunities in order to develop a pipeline of projects. However, to date, no PPPs have been established, and there is perceived to be a lack of political will within Government to facilitate the process.

AusAid / DFAT has asked if ADB could manage and make suggestions for the creation of a facility to fund more activities within the ADB’s current framework under PSDI.

ADB's Microfinance Expansion Project

ADB also runs the PNG Microfinance Expansion Project, to which AusAid has been a major contributor. The Project was set up in 2010, and builds on the achievements of the Microfinance and Employment Project, which was implemented between 2001 and 2010, and was also co-funded by the Australian and PNG Governments. This project aims to grow and improve PNG’s microfinance sector by:

- strengthening the capacity of the microfinance industry to provide financial services to a broader cross-section of the community
- strengthening the capacity of microfinance clients and potential clients to utilize these financial services
- developing appropriate regulation for, and supervision of, microfinance institutions (MFI) and savings and loan societies (SLS) through the Bank of PNG (BPNG)
- increasing lending to micro and small enterprises (MSE) to increase rural income generation

ADB's Smallholder Support Services Pilot Project

ADB ran a Smallholder Support Services Pilot Project over the period 1999-2009. This was designed to test the viability of private sector approaches to technical assistance (TA) support for smallholder agriculture in PNG. The pilot project was primarily designed to generate a mechanism for service contracting and an increase in access to these TA services.

According to an evaluation (ADB, 2013), the number of private sector service providers was increased as lead farmers became service providers in their own areas and often became consolidators and market links, generating secondary economic benefits in their respective localities. The quality of services increased, market linkages improved, and service providers established an association to promote sector development. The trust accounts established through the project continued to be an important mechanism for flexible private sector-oriented service delivery. The financial management and post-harvest processing helped farmers to become more commercially-oriented.

However, counterpart funds from the Morobe provincial government were not fully provided during the course of the project, and while the government planned to replicate the pilot project approach through its National Agriculture Development Plan, 2006–2011, in the end the resources allocated were diverted for other priorities.

3.2 The World Bank

Under the World Bank Country Partnership Strategy, the Bank aims to promote private sector dynamism and structural transformation by supporting policies and reforms that would help the private sector to take advantage of the significant economic opportunities that exist. Funding includes IDA/IBRD investments in agriculture, transport infrastructure, telecommunications, and energy. The World Bank is also facilitating regulatory reform that would open up markets to FDI and new entrants in key sectors including ICT (a sector in which the World Bank previously provided ICT analysis which facilitated the liberalisation process) and renewable energy. The World Bank is also supporting the government to continue SOE reform and leverage more diversified private sector investment. It has been taking a leading role with the Extractive Industry Transparency Initiative. It has also been involved with studies on financial competency, working with the Bank of PNG to support the development of suitable financial products, especially for low income households and informal sector SMEs.

Specific projects supported by the World Bank include:

The Self Reliance Program for Women in Mining and Petroleum Communities: This project conducted training and outreach in 14 sites across PNG, addressing governance issues and promoting institutional capacity building, income generation and skills training. The project was implemented by the PNG Chamber of Mines and Petroleum, with the support of gender staff of mining companies and NGOs, churches, and other civil society organizations, focused mainly on local women's associations.

The PNG - SME Access to Finance Project: This project seeks to improve access to credit for SMEs and increase the numbers of SMEs actively participating in the formal economy. The project has four main components i) A private sector-led SME finance risk sharing facility (US\$ 100 million) ii) performance-based technical assistance to financial institutions participating in the risk sharing facility (US\$ 3 million) iii) capacity strengthening of SMEs (US\$ 3.5 million) iv) support to the PNG Department of Commerce and Industry for SME strategy modernization (US\$ 4.0 million).

The Urban Youth Employment Project (UYEP): This project seeks to provide urban youth with income from temporary employment opportunities and to increase their employability. The Project focuses on youth between the ages of 16 - 25 years, including: a) those that have never accessed or not completed the formal school system; and b) those that may have completed their formal education but have still not been integrated into the labour market. The Project will also serve to increase economic productivity through investing in the routine maintenance and rehabilitation of infrastructure assets in the roads sector.

The Smallholder Agriculture Development Project: This project seeks to promote rapid economic growth in the rural areas in four oil palm growing provinces. This will be achieved by strengthening the smallholder oil palm sector by capitalizing on existing infrastructure, and by establishing replicable mechanisms for community-driven development.

PNG Productive Partnerships in Agriculture (PPAP): The development objective of PPAP for PNG is to improve the livelihoods of smallholder cocoa and coffee producers by improving the performance and sustainability of value chains in cocoa-and coffee-producing areas. There are three components to the project. The first component focuses on strengthening sector institutions and industry coordination. Existing stakeholder platforms for industry coordination will be consolidated to address short- and long-term issues such as sector governance, skills development in the industry, improvement in extension services, industry strategy on threats to quality, information within the industry, market development and crop diversification.

The second component of the project is focused on creating productive partnerships. The objective of this component is to increase the integration of smallholder producers in performing and remunerative value chains, by developing and implementing productive alliances between smallholders and the private sector and improving market linkages in the project areas. The third component of the project is strengthening infrastructure in order to enhance market access.

According to one source, the World Bank has in the past promoted land reform, but this resulted or contributed to the Bank's withdrawal from PNG for a period, as a result of strong sensitivities around customary land issues.

The WB and IFC have also been providing assistance to women's empowerment in business, as well as in mining, through the new business coalition for women.

3.3 The International Finance Corporation (IFC)

IFC supports business in Papua New Guinea through investments and advisory services, and working with government to create an investor-friendly environment to allow businesses to formalize easily and grow. IFC has scaled up its activity and funding commitments in PNG considerably in recent years, the latter standing at more than \$200 million in 2012. Particular areas of focus have included:

Increasing access to finance and expanding infrastructure: IFC is supporting a local bank, Bank South Pacific Rural, to develop mobile banking, providing farmers, small scale producers and rural women with a safe and secure way to transfer money. The facility is open to other banks, but no others have taken it up. IFC has also helped to develop the telecommunications sector, with investments in the telecommunications company, Digicel for example, which have expanded services and created business opportunities for entrepreneurs selling Digicel products.

Promoting sustainable businesses, and creating new markets: IFC is working to strengthen the management skills of entrepreneurs and to raise quality standards. IFC is also helping farmers adopt sustainable farming practices and capture a greater share of the certified coffee market, increasing their productivity, quality, and income.

Improving the investment climate: IFC is helping the government to simplify tax, licensing and registration processes, making it easier for businesses to comply with requirements. IFC is also bringing together the public and private sectors to address policies affecting businesses and has helped introduce an alternative dispute resolution program that is clearing the backlog of business-related disputes in court, saving businesses time and money.

In relation to agriculture, IFC is aiming to promote formalisation, through investments and advice to lead (usually large) firms in which they invest, on how to help small farmers which supply the lead firms, to formalise and increase productivity.

IFC has also been preparing the ground for PPPs to take place, responding to the many opportunities that are available, and putting in place appropriate institutional mechanisms and financing to support this. However, no PPP deals have yet been struck, perhaps reflecting a lack of political support for this approach, as noted previously.

The IFC has also provided some support to the National Working Group on improving business and investment climate, which was first set up as the group on removing impediments to business and investment in 2004.

3.4 New Zealand Aid

PNG is the second highest aid recipient from NZ Aid after the Solomon Islands. NZ Aid is interesting in that it has stuck to sectors where it has a comparative advantage, notably agriculture, and has provided long-term commitments that support domestic planning. The main objectives if NZ Aid's support are stated as being:

- Increased and sustainable income from agriculture.
- Increased electrification.
- A healthier population.
- A better trained workforce more aligned to market needs.

The NZ Aid Programme assistance to PNG is guided by a 10-year joint strategy (2008-2018). The strategy aims to improve economic development opportunities for rural people and improve social services in education and health.

Through its efforts to promote rural economic development, New Zealand provides support to strengthen PNG's agricultural sector. This includes support for:

- The Fresh Produce Development Agency, which links farmers and consumers of fresh fruit and vegetables.
- Bris Kanda, a rural enterprise development programme which focuses on building commercially productive partnerships between rural communities and service providers in Morobe province.
- A government extension programme to help rural farmers improve their agricultural and business skills.

NZAid is also exploring the potential for a fresh produce wholesale market in Moresby, due to the increased demand for fresh fruit and vegetables in Moresby and from workers involved in the PNG liquefied natural gas pipeline project. In the future, NZ states that it will look to support other market infrastructure developments in PNG.

NZAid is developing the Fresh Produce Company Initiative, with the intention of collaborating with companies and pooling funding to tackle bottlenecks in the domestic supply chain for fresh produce, with a view to increasing locally sourced fresh produce in order that domestic producers can provide a reliable substitute for expensive imports. Activities funded might include developing appropriate infrastructure e.g. the cool chain, or better quality transportation, setting up centres for consolidation and packaging, or establishing mechanisms for certification and grading of produce. They also aim to improve coordination along the supply chain through dialogue with airlines and shipping companies.

NZ also supports the business mentoring programme run by the Port Moresby Chamber of Commerce, but notes that the need for such assistance in PNG still significantly exceeds the current supply.

3.5 USAID

USAID started to re-engage in the Pacific 2 years ago. They are mainly focusing on environment and climate change issues; HIV/Aids prevention, care and management; and democracy, human rights and governance, thus have little focus on PSD issues. However, under USAID's global Enabling Agricultural Trade (EAT) project which promotes inclusive agricultural sector growth, USAID funded a one-off diagnostic on Agribusiness Commercial Legal and Institutional Reform (AgCLIR) in PNG in 2012, also with support from the New Zealand Aid Programme and APEC. The report examined opportunities and challenges of agricultural business in PNG, the findings of which were discussed above in the section on PNG's economy. The US Embassy has also been supporting the Women's Chamber of Commerce.

3.6 JICA

JICA's stated focus of assistance to Papua New Guinea is on: 1) strengthening the economic growth base, 2) improving social services, and 3) the environment and climate change. JICA provides a number of technical support and cooperation projects in PNG that directly and indirectly support private sector development. The main projects include education (enhancing teaching quality through TV), transportation (reconstruction and rehabilitation works), agricultural and rural development (promotion of small holder rice production, and the construction market), urban and regional development (e.g. The Integrated Community Development Project in the Settlement Areas in National Capital District); and the Rural Community Development Support Project (Water Supply, Primary Health Care and others) in the Gulf Province of PNG. JICA has also provided an expert advisor and capacity development to the Investment Promotion Authority.

Japan has in the past tried to promote Japanese private investment in PNG, including through an Investment Protection Agreement, and capacity development, for example conducting field studies, identifying potential local partner businesses and supporting them to help them sell to the Japanese investors. However, in the end it seems the investors were not persuaded to invest.

In the 1980s, JICA also worked to develop the extractives, fisheries and forestry sectors, including supporting a fisheries college to provide training, supporting the development of the local fish market, assisting the National Fisheries Authority, and providing grants to rehabilitate old jetties. However, PNG has subsequently taken action to manage depletion of stocks, including restricting the fishing rights of foreign companies.

3.7 The European Union

The EU has been one of the key development partners in PNG which has been the biggest recipient of EU co-operation aid within the Pacific. The EU support has focused on strengthening governance, regional integration and sustainable management of natural resources (including climate change related support) and ensuring more efficient aid delivery mechanisms. The EU has also run regional programmes on agricultural development and marketing, and tourism, and provided loans to business. The Stabex funds³ were useful and adaptable in assisting industries like agriculture, Sysmin⁴ has assisted the mineral sector with major geophysical surveys and improved institutional facilities and support, including for artisanal miners on standards, support and safety.

The current EC strategy is set out in the Country Strategy Paper for the period 2008-2013, which states that the 10th European Development Fund (EDF) will focus on two main areas: rural economic development and human resource development. Under the rural economic development component, it is stated that the support seeks to enhance access to and integration of rural communities into wider markets. Activities were expected to include:

1. Support to district development plans with a view to supporting rural economic growth;
2. Improved infrastructure and information systems to facilitate enhanced investment;
3. Support to innovative income generation activities in rural economic sectors, including business development services, skills development, best practice dissemination etc.
4. Institutional support to promote a strategic and coordinated approach to fostering rural economic growth at the national and sub-national levels.

Rural development has in the past been supported by the EC in a number of ways, including providing support to rural water and sanitation, and support to coastal fisheries and eco-forestry.

On human resource development, EU assistance will be concentrated on supporting the PNG Government's action on basic education and technical and vocational training. This was expected to include:

1. Support to basic education services in remote areas;
2. Development of effective management and leadership training for district education institutions;
3. Support to the vocational training sector, including assistance to the development of national plans, equipment, infrastructure, and in-service training support and linkages with the non-formal sector to promote self-employment;
4. Support to monitoring and evaluation capacity, and policy analysis.

They also plan to expand their provision of trade related assistance, in order to promote export led growth, including capacity building on trade policy formulation, and a trade facilitation support programme, which is intended to enable PNG to benefit from the Economic Partnership Agreement.

³ An EC compensatory finance scheme to stabilise export earnings of the ACP countries.

⁴ SYSMIN is a complex, wide-ranging instrument that provides support both for ailing mining industries and for diversification into more profitable activities

3.8 Australian Centre for International Agricultural Research (ACIAR)

Funded by the Australian Government, and previously by AusAid, ACIAR funds partnerships between Australian research organisations and specialists and PNG research and development bodies on fisheries, forestry and agriculture. In some sectors, ACIAR engages directly with businesses, which can be involved in the research design, implementation, and then subsequently uptake and scale-up. It is reported that the research is most impactful in areas where there is business engagement. This is because: business knows the information it requires to improve its own decision-making and can help to shape the research accordingly in order to maximise its value; the participating business devotes staff and resource to testing the results and developing company policy round it; the businesses have both the incentive and capability to act rapidly on the findings if they are likely to improve productivity or reduce the cost base. For example, ACIAR's research on palm oil, conducted in partnership with New Britain Palm Oil, is judged to be very successful.

4 Conclusions – options for consideration

This section sets out a number of possible interventions or programmes that DFAT could develop in order to support growth and PSD in PNG. All of these would address one or more of the constraints or challenges to growth discussed in section one above – although as previously noted, some of the most binding constraints to growth identified are already being addressed by AusAid / DFAT through other parts of the aid programme e.g. infrastructure development, governance issues and service delivery.

One option that was discussed but has not been listed below is to promote land reform with the objective of supporting investment, as land issues have been identified as a major constraint to private sector development in PNG. Other donor programmes offer possible models for this e.g. DFID's Land Investment For Transformation (LIFT) programme in Ethiopia, although any intervention would need to be designed specifically to address the constraints and institutions existing in the country context. However, this is an extremely sensitive issue, and the experience of the World Bank in trying to tackle it (mentioned previously), suggests that in the PNG context, this approach may not have a very high probability of success.

Another option would be to incorporate an element of the PSD programme focusing on women's economic empowerment, recognising the many constraints women face in PNG that are holding back growth as a result. A starting point may be to undertake a study of the role of women in the labour force – including both formal and informal employment - and the constraints they face, in order to understand how these constraints might best be tackled in order to promote growth. This could be combined or linked to the other strand of work being developed under the Business and Development Exchange in PNG, to support the Women's Business Coalition, thus is not listed below as a possible standalone programme. However, any of the interventions listed below could potentially incorporate a component focusing on women's economic empowerment.

Some of the options set out below could be achieved by collaborating with other donors to scale up existing activities, while others would be filling a gap in the donor support landscape. There are many considerations to take into account when assessing the relative merits of different approaches including:

- The extent to which it is consistent with existing AusAid / DFAT strategies and priorities;

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- The extent to which it supports or is supported by the PNG Government vs. requiring the use of ‘economic diplomacy’ to make progress;
 - The scale of DFAT resource and in-house capacity required;
 - The potential to achieve systemic impact vs. the realistic prospects of success.

The rest of this section discusses each of the proposed options in turn, and a Table summarising some of the main considerations in relation to each of the options is provided at the end.

4.1 Aid for trade programme / trading corridors approach

Aid for Trade has been part of the objective of the Australia-led PACER+ regional trade initiative, which replaced narrow Pacific trade agreements like PATCRA. Trade Minister Maru has been reluctant to engage, understandably as Australia has shown limited willingness, for example, to remove non-tariff trade restrictions on products PNG would logically export.

DFAT could work to promote trade through tackling a range of supply side barriers. This would be very much in line with the emerging DFAT Pacific Growth Strategy that is currently being developed in which aid for trade is identified as one of the three pillars on which the strategy will be based, along with private sector development, and labour mobility. Aid for trade is defined as including trade policy and regulation; building productive capacity; economic infrastructure spending; and trade related structural adjustment. Thus aid for trade programmes can include a range of different activities.

An aid for trade programme could be designed to improve trade opportunities at the macroeconomic level e.g. tackling trade policy issues or infrastructure issues that might benefit the country’s ability to trade across all sectors. Or it could be targeted at one or more particular sector/s or product markets, perhaps tackling constraints along the entire supply chain.

If a sector-specific focus was adopted, the design could be based on an initial competitiveness analysis to identify promising sectors to prioritise through the programme’s activities, and value chain analysis to identify bottlenecks in the selected supply chains that need tackling. The programme could include activities such as: creating supply chain linkages, establishing physical markets or purchasing points where goods can be sold, assistance in meeting required standards, support with use of technology, trade facilitation activities, improving port facilities and other necessary infrastructure, promoting better provision of trade finance, establishment of aggregation and processing centres to facilitate enhanced value addition, and trade promotion activities including engagement with potential buyers in trading partner countries.

To include a stronger and more innovative element of business engagement, an approach like the ‘Trading Corridors’ approach that has been implemented in Africa could be explored, whereby government, business, and donors collaborate to jointly develop a strategy to create a ‘trading corridor’ for a particular geographical region and related set of economic sectors, thereby targeting and prioritising investments in infrastructure etc. and in which each of the three partners commits to making appropriate investments, so that different constraints are tackled simultaneously. Though not necessarily considered an aid for trade strategy – perhaps it is more often seen as a regional economic development strategy - the idea of the trading corridors approach is that the total impact of the collaborative strategy is greater than the sum of the individual investments made if they were undertaken separately. This approach also potentially facilitates market entry into the country by new firms, if they can be brought into the tripartite negotiations and constraints to their entry identified and tackled through the programme.

The rationale for an aid for trade intervention is that PNG is relatively well placed geographically to serve both the Australian and Asian markets, strengthening trade could contribute significantly to growth and PSD, there is considerable production potential that is not being fulfilled as a result of underdeveloped market linkages, and there seems to be a significant gap in donor support in this area (although coordination with trade facilitation activities of the EU, and review of the earlier experience

of JICA with this kind of project in PNG is advisable). This approach would also be in line with DFAT objectives and Australian Government stated priorities.

A disadvantage to this type of intervention is that the PNG government is currently not positive towards foreign investment in the country, and this may undermine private sector incentives to engage or invest at this time. This may be a case where DFAT can develop a programme of economic diplomacy to complement any aid spending, to influence the government towards a more positive approach towards international business opportunities. DFAT seems uniquely well placed to perform such a role, though it may also be politically sensitive and thus depends on the appetite of the Australian Government for this kind of role.

Given the flexibility for different types of engagement under an aid for trade programme, it may also be possible to achieve impact in some areas and sectors even without government engagement or support, particularly where there is strong private sector engagement. However, the areas of intervention would need to be identified carefully to achieve this, and the current position and future trajectory of the PNG Government's position and related policies would still represent a risk to the success of such an approach.

4.2 Supporting public private partnerships and reform of state owned enterprises

A lack of infrastructure and poor service delivery are considered to be two of the biggest constraints to private sector development in PNG, thus supporting improvements in these two areas is a very valid way to promote PSD and growth. Indeed, AusAid has already been addressing these issues through other aspects of the aid programme. International evidence shows that infrastructure investment in particular, generates very high economic returns.

There are significant opportunities to promote infrastructure development through PPPs, and to promote improved service delivery through SOE reform, and IFC and ADB are well placed and standing ready to assist with this. However, to date, little progress has been made, in large part because of a lack of political will on the part of the PNG Government. There was some effort towards reforms in the early 2000s under Prime Minister Morauta, and again in the late 2000s when he was Minister for Public Enterprise. The Digicel revolution (ICT privatisation) has demonstrated that there are viable alternatives to public ownership, and in addition to increasing public interest, there are elements in government keen to see SOE reform.

DFAT could strengthen support to existing ADB and IFC activities on these two issues, for example by scaling up support to ADB through PSDI. This would minimise DFAT's own additional staffing and capacity requirements for implementation. However, given the lack of political will and government sign-off it is unclear that resource is the binding constraint. Thus in considering this option it would be necessary to assess how much additional impact could be made beyond what IFC and ADB have already achieved, without stronger government buy-in.

DFAT could potentially utilise its political influence to encourage government support for PPPs or SOE reform – another possible area for economic diplomacy. However, this would involve quite a lot of politics to push forward, and an associated risk of failure. It is also important to note that Australia's influence is fragile, as with many donor-recipient relationships. Indeed, there are differing views as to whether this is an area ripe for economic diplomacy of the kind that the newly merged DFAT function could potentially bring, or whether this kind of approach would represent a conflict of interests, as there are Australian business opportunities at stake. This seems to be an issue which DFAT needs to work through internally.

Another option, suggested by IFC, would be for DFAT to create an infrastructure fund, providing concessional financing for infrastructure development, or a social infrastructure fund for the development of schools and hospitals. This kind of blended /concessional finance could provide seed funding that would make new investments more financially attractive. With loans in the region of \$1 – 5 million this would provide much more significant funding than is available through challenge funds,

larger firms would be targeted, and less technical assistance would be required. However, while this could perhaps help to unlock some additional private investment at the margin, it also seems clear that finance is not really the binding constraint here.

4.3 Supporting the PNG Government's SME Sector Policy

The Government's main area of interest in relation to private sector development currently seems to be promoting the local SME sector through the Small and Medium Enterprise National Policy and Masterplan. The Government has begun work on a range of incentives aimed at encouraging and supporting SME growth, including tax breaks, state buying commitments, the provision of subsidised finance and proposals to restrict foreign investment, which is, controversially, seen as crowding out local businesses.

Developing the SME sector, and promoting supplier linkages with large extractives companies, are important ways to prevent the development of a dual economy, and promote broader-based private sector development and economic growth. Although such links obviously only work in localities where large business/extractive companies have invested. DFAT could potentially provide support in this area, which would also align it very clearly with Government priorities. This is not without risks however, as the SME policy seems to have been linked to nationalistic sentiments within PNG, which do not bode well for foreign investors, and thus may deter future investment. However, DFAT could potentially use economic diplomacy in combination with other forms of support for this policy to try and shape its evolution in a more market friendly direction.

Activities could include promoting improved access to finance, supporting business advisory centres providing entrepreneurial and business skills training, financial literacy courses and mentoring opportunities etc., and promoting relevant regulatory and policy reform to tackle barriers to entrepreneurship, business formalisation and expansion. In terms of business training skills, and beyond, the quality of basic education is an important determinant of success.

Feedback from some of those consulted suggests that access to finance is not the binding constraint in PNG for SME development. Instead, alongside the high costs of doing business (including poor infrastructure and service delivery as discussed above), weak capacity and skills in the SME sector, and indeed cultural factors, are cited as being more serious constraints. Thus there appears to be a stronger case to build SME capacity through supporting the provision of entrepreneurial training and mentoring opportunities, and the creation of business advisory centres / one stop shops. Options here could be to support and scale up existing activities such as those provided by the Chambers of Commerce, or by the IBBM Enterprise Centre, which is looking for new funding after the exit of Exxon.

Economic diplomacy from Australia could be used to encourage more suitable private sector and SME support, but this could be better done, at least in part, through supporting third party organisations – research bodies, think tanks, even business entities, which would in turn need to retain their independence to remain credible.

4.4 Engaging with individual businesses to enhance their development impact

The opportunities can be categorised into two broad areas:

1. Engagement to enhance or scale up service provision;
2. Engagement to promote income growth among local communities;

Businesses in PNG seem to be more engaged in providing services for local communities than in most other parts of the world. This is largely by necessity; they are often operating in remote areas where no other provision exists, so have needed to invest in services like health, education, law and order, and infrastructure development, simply in order to be able to operate effectively. Where their operations

create an influx of people, this can create a problem of growing demand, which can multiply well beyond commitments made to firms' own employees, which further increases already high costs of doing business. Thus businesses may be keen to engage with donors to facilitate this scale-up beyond the services they would have otherwise provided, in a way that benefits the local community while reducing their own commitments and cost, while donors may be keen to engage as this represents the most cost-effective way of enhancing services in a particular region, as the business has already put the logistical arrangements in place. There are likely to be clear opportunities here, following the model of Oil Search Foundation for example.

However, this does not really represent business engagement as such, as service provision is usually subcontracted by the business to a service provider, and the donor would do the same; there is little actual engagement with the business. Nor does this approach necessarily seem to fit within a growth strategy. Indeed, some concerns have been expressed, that by providing services without building government capacity, this could actually undermine development over the long term, as the business may exit in future (particularly if commodity prices fall at which point evidence suggests business often cut back on CSR activities) and the services will no longer be available, which could lead to problems with the local community. This therefore is perhaps best seen as support for a practical solution to service delivery in the short term, generating incremental benefits rather than transformative outcomes.

The second category – engagement to promote income growth among local communities - is much more closely aligned with a growth strategy, as this kind of approach is usually about promoting local supplier linkages, creating employment opportunities, and building skills and supply chains that can have long term impacts on local productive capacity. Promoting this kind of engagement is a potentially valuable way of capitalising on investment in PNGs' natural resources to promote more broad-based livelihoods and economic growth opportunities, and minimise the risk of Dutch Disease.

Engagement of this kind can take many forms, depending on the nature of the business and the opportunities that exist. Engagement with mining companies can be around building linkages with local suppliers, for example by encouraging firms to source catering supplies or building materials and construction services locally, at the same time as providing the necessary support to the local supplier companies so they can effectively meet the demand. Indeed, there has been some success in developing catering companies and prefabricated building materials to service large mining concessions. The Exxon / IBBM Enterprise Centre represents one model of how supplier linkages can be promoted. The capacity of local suppliers still appears to be a major constraint however, as discussed above.

Another option, and one that is currently being explored by ODI in Indonesia under the Business and Development Exchange, is to examine how mining companies might collaborate to support capacity development of local government to help them use revenues generated through mining concessions more effectively to promote local economic benefits and structural transformation.

Engagement with agribusiness companies might be around helping to develop the domestic supply chain in order to reduce their costs and promote development opportunities at the same time, perhaps through provision of extension services, training of farmers, creation of aggregation centres, coordination of transportation arrangements, or construction of necessary infrastructure. The New Zealand project on horticulture represents one possible, quite innovative, model of business engagement. Engagement with business as part of an aid for trade strategy is also clearly an option here, as discussed above.

There may also be an opportunity to engage with tourism businesses, perhaps building on the AusAid/ Carnival Australia partnership model, to develop the tourism sector more generally, particularly in areas of PNG where there are fewer security related concerns.

Or there may be an opportunity to engage with businesses to promote or scale-up disaster-risk reduction activities or adaptation to climate change, building on models developed elsewhere (such as C&A in Indonesia, which is partnering with MercyCorps to fund local communities to build flood protection) in order to improve the resilience of supply chains and hence of growth.

The development of a strategy for business engagement would need to be based on a dialogue with business, to explore where interests might be aligned, and identify what DFAT could bring to the table (in terms of additional finance, or convening power, capacity building for potential local suppliers, technical and vocational training, or a neutral facilitative / coordinating mechanism etc.) that will help to strengthen or incentivise enhanced business impact, beyond what business is already doing itself.

4.5 Promoting agricultural sector market development

While agriculture accounts for about 36% of Papua New Guinea's GDP, about 85% of PNG's labour force are engaged in the sector, many at a subsistence level. Thus a focus on the agriculture sector could have a very large impact on development and poverty reduction – potentially far greater than any other sector in terms of numbers of people reached. However, there are many significant challenges to overcome which has undermined the success of previous programmes to support agriculture. These include a lack of any government support for agricultural development or effective market institutions, major issues around land management and ownership which lead to significant underinvestment, and intermittent tribal conflicts which can undermine market linkages developed. Nonetheless there have been some successes, such as the oil palm industry, and the fisheries industry, both of which have been underpinned by donor and private sector support mechanisms.

There is still some donor activity in this area, but scope to do a lot more. For example, the World Bank has a programme on Productive Partnerships in Agriculture (PAPP) focusing on coffee and cocoa, New Zealand Aid has a market development programme in the horticulture sector, and JICA is assisting in the development of the rice market. IFC has been working with lead firms to try to reach smallholders, to increase productivity and formalisation, in order to increase rural incomes and jobs. In addition, the EU has a programme on rural economic development. Thus one option to consider would be working in partnership with other donors which would help to reduce or share risks, and reduce resource and capacity requirements in implementation.

For example, there could be a case to support the World Bank's Productive Partnerships in Agriculture (PPAP) project, which is focusing on improving the livelihoods of smallholder cocoa and coffee producers, to enable the project to be scaled up. Both sectors seem to be in some difficulty, with potentially serious implications for poverty, and a need for considerable investment and engagement has been identified in order to shore up these sectors and re-establish them as viable markets, so this could be one area where DFAT could make an important contribution at a critical juncture.

Another option would be to re-engage and provide support to ACIAR, which seems to have developed a successful model for engaging with business in the development and uptake of its research programme in some sectors.

Despite the PNG Government's stated vision for significant agricultural growth, there appears to be relatively little political will to focus on developing the agricultural market at the current time, which could hamper development efforts. However, it is possible to develop successful agricultural sectors without government support, as demonstrated in the case of oil palm for example. In that kind of situation, strong private sector interest and investment is required.

Engagement with business to develop a strategy for one or more relevant sectors may also therefore offer a way forward. This could potentially be pursued through the aid for trade or trading corridors approach outlined under option 1 above, although such an approach could also be developed with a view to supplying domestic markets rather than export markets. In either case, it would be important to start by establishing where demand is or may exist, and what potential there is to service this demand domestically. It may be that this concept could be developed through a dialogue with large businesses based in PNG with a sizeable demand for specific products that could be supplied by domestic producers rather than imported. Once the existence of a definite market has been established, ways to increase supply to effectively meet this market demand could be developed e.g. establishment of local markets, aggregation and processing plants etc.

4.6 Engaging with the private sector on technical and vocational training

Skills shortages are cited as one of the biggest constraints to doing business in PNG, and mean that foreign labour is sometimes imported as skills do not exist domestically, thus reducing the development impact of domestic business activity and foreign investment. Thus skills development / provision of technical and vocational education could make an important contribution to growth and PSD in PNG. AusAid has already been engaged on this agenda, but could scale this up. One of AusAid's previous strategy documents talks about engaging with the private sector and supporting joint work with education institutions, industry and employer associations on practical programs to identify and address skills shortages and capacity constraints to sustainable economic growth in the private sector.

DFAT could convene a dialogue with business about key areas of skills shortage and training requirements, and could potentially work in partnership with business to support the provision of appropriate training. This kind of approach could also draw on the work we are doing in other countries under the Business and Development Exchange, looking at business engagement (e.g. with business associations) in the promotion of skills development. This kind of intervention could also potentially include a partnership with Australian private sector providers of TVET.

4.7 Developing a Green Growth / Green Energy strategy

'Green Growth' is an approach that is now being more widely adopted internationally, that looks to identify new opportunities for growth through environmentally sustainable policies, initiatives and associated funding. Developing a green growth strategy can enable countries and companies to access subsidised / concessionary global climate funds which, used wisely, can make a potentially significant contribution to growth and private sector development. For example, many green growth strategies focus on the development of renewable energy sources, which can substantially improve access to electricity, thus playing an important role in reducing costs and improving competitiveness of the private sector more generally.

The government's Sustainable Development Initiative, led by Planning Minister Charles Abel, emphasises broader-based non-extractive industry development, population planning and women's empowerment, and greener industries – and serves as a good starting point for addressing the green growth agenda.

Poor access to electricity has been identified as a major constraint to doing business in PNG. Developments in electricity generation have so far been based on a short-term development perspective, which has led to reliance on diesel or heavy fuel-oil power plants and generators instead of PNG's abundant renewable energy resources. As a result, some businesses have been innovating to produce their own renewable electricity as a result, some with the support of international climate finance mechanisms. For example, New Britain Palm Oil has a number of methane capture / biogas projects under the Clean Development Mechanism, and Mainland Holdings is developing biomass as a source of energy with support from IFC.

If these opportunities (and the potentially large amounts of associated funding) are to be seized effectively for growth and private sector development, there is a need to create an enabling policy framework. For example, setting up mechanisms whereby companies could sell excess energy they generate to the national power company, could help to enhance national power supplies as well as creating a potentially lucrative new revenue generation opportunity for businesses. It is argued that the electricity needs of some entire provinces of PNG could be met through methane plants and hydroelectric schemes alone.

Thus one option might be for DFAT to support the Office of Climate Change and Development to identify and pursue new green growth / green energy opportunities that would promote private sector development. Although some donors such as USAID are already engaged on climate change programmes in PNG, these relate mainly to adaptation, rather than identifying new opportunities for

economic growth, job creation and private sector development. This therefore seems to be a significant gap in PNG's donor programme portfolio.

A green growth programme could also potentially help develop a strategy to ensure PNG's natural resources are managed in a way that promotes sustainable growth for the long term. This might include putting in place appropriate policies and market mechanisms to allow national producers to obtain environmental certification (for sustainable forest management, or sustainable agricultural practices etc.), which is likely to become increasingly necessary to be able to access export markets in future.

Table 1: Summary Table of Options for Growth / PSD Interventions

Project idea	Pros / rationale	Cons / challenges
Aid for trade / trading corridors approach	Tackles dual economy problem and promotes broader based growth In line with DFAT priorities Fills a gap Potentially transformative	Complex, multiple constraints to tackle PNG Government's position on foreign investment may not be conducive to success May require economic diplomacy
Support PPPs and SOE reform	SOEs big bottleneck to PSD, with major implications for investment climate Supports existing workstreams by ADB / IFC so low capacity requirements	Binding constraint is actually limited government support / political will
Support PNG Government's SME sector policy	In line with PNG Government priorities Would help to tackle dual economy Major need for SME capacity building and demand exceeds supply Could be implemented by scaling up activities of existing organisations	The SME policy is linked to nationalistic (anti-foreign investment) sentiments thus would require economic diplomacy
Engage with business to enhance development impact	Can leapfrog systemic governance constraints to achieve impact in the short term Can tackle dual economy problem Business in PNG is open to partnership	PNG Government position on foreign investment may reduce incentives for business to engage Risk of being perceived as financial support to big business Risk of being seen to bypass government mechanisms Thus needs careful design & accountability mechanisms
Promoting agricultural sector market development	Big potential impact on poverty Could be implemented by supporting activities of existing donors to scale-up e.g. WB's PPAP Potentially transformative	Complex, multiple constraints to tackle Limited PNG Government interest in agricultural sector
Engage with private sector on TVET	Skills a big constraint cited by business Can build on existing activities Opportunity to engage Australian providers of TVET	Training for basic literacy skills may be binding constraint
Develop Green Growth / Green Energy strategy	Energy availability a big constraint cited by business Promotes more sustainable growth Fills major gap in current donor / policy landscape Low hanging fruit exist Unlocks international climate finance	Requires political will by PNG Government

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