



**The BUSINESS and INVESTMENT ENVIRONMENT in  
PAPUA NEW GUINEA in 2012:  
*PRIVATE SECTOR PERSPECTIVE***



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**The Business and Investment  
Environment in Papua New Guinea in 2012:  
Private Sector Perspective**

**A Private Sector Survey**

**REPORT**

**INSTITUTE OF NATIONAL AFFAIRS**

**Discussion Paper No. 94**

**August 2013**

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## List of Acronyms and Abbreviations

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BPNG	Bank of Papua New Guinea
CIMC	Consultative Implementation and Monitoring Council
DBI	Doing Business Indicators (under World Bank’s ‘Ease of Doing Business’)
FOB	Free on Board (as opposed to CIF – Carriage, Insurance Freight)
GDP	Gross Domestic Product
GFC	Global Financial Crisis (with GEC – Global Economic Crisis – ‘Great Recession’)
GST	Goods and Services Tax (as with VAT – value added tax)
CIMC	Consultative Implementation and Monitoring Council
HR	Human Resources
ICT	Information and Communications Technology
IE	Informal Economy
IT	Information Technology
INA	Institute of National Affairs
LNG	Liquefied Natural Gas
MYEFO	Mid-Year Economic and Fiscal Outlook
NCD	National Capital District
NEFC	National Economic & Fiscal Commission
NSO	National Statistics Office
PFTAC	Pacific Financial Technical Assistance Centre (with IMF)
PNGBC	PNG Business Council
PNG LNG	Papua New Guinea Liquefied Natural Gas (Project)
PPAP	Productive Partnerships in Agriculture Project
REER	Real Effective Exchange Rate
SME	Small-Medium Enterprise
SOE	State-Owned Enterprises
SWF	Sovereign Wealth Fund
TVET	Technical and Vocational Education and Training

## Foreword

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 and particularly the prevailing major impediments to business and investment, as perceived by private sector participants themselves. It also seeks to gauge the private sector's views on their priorities for policy reform and practical action to encourage sound business activity and investment.

The survey is intended also to provide some comparison with the views prevailing in 2007 and hitherto, although a number of additional questions were also asked in the 2012 survey, notably related to security and the cost of crime (linked in turn to associated research being conducted by the World Bank). As the number of respondents and composition of the respondents (across the country and across industries) differed somewhat from the 2007 and 2002 surveys, caution should be taken in making direct comparisons between the findings of the three surveys, and especially between the views from different industries and regions, as the views reflected in these sub-groups invariably will be based upon relatively small numbers of respondents.

Businesses for the purposes of this survey range from sole traders, partnerships, cooperatives, through to public companies, but also embrace some State-owned enterprises (SOEs), which in Papua New Guinea are still providing some critical service and utility functions, albeit in certain cases under monopolistic or partially protected trading arrangements. They nevertheless share many of the same operating conditions and challenges faced by private enterprises in PNG's business environment.

Businesses in PNG range from the smallest individual or family-owned micro-enterprises to the largest multi-national corporations. Although a large portion of the country's exports and most of its revenue emanates from the formal sector, and particularly the major extractive industries, nevertheless much of the country's GDP is generated outside the still relatively undeveloped formal sector, with the majority of employment and household income-earning opportunities provided in micro-enterprises in the urban informal economy and particularly from the smallholder cash-crop and semi-subsistence agriculture sector.

This survey, however, focuses upon the formal sector businesses, and their perceptions of their needs and the constraints they face in undertaking business in PNG. Nevertheless, it is recognised, notably from findings from other surveys in which the INA has participated, that the informal economy shares many of the same constraints as formal sector businesses, albeit to differing degrees, whilst having some specific needs and concerns of their own. It should also be recognised that there are various other synergies between the formal and informal economies, which widely enjoy a mutual dependence (e.g. with agro-nucleus enterprises),

whilst many larger informal sector businesses have adopted aspects of formality, perhaps employing staff, holding micro bank accounts, owning mobile phones and some form of registration, and perhaps affiliation with a cooperative entity. There is a diverse spectrum of enterprises falling between full formality and informality, with some making the transition to the former, but others sliding back into the safety net of informality, perhaps in the face of tough economic or commercial conditions or maybe the bureaucratic demands of formality.

In 2013 the Government has shown an increased recognition of the role of small to medium enterprises (albeit with some ambiguity over their definition) in generating employment and broad-based income earning opportunities and is proposing a range of measures to facilitate opportunities, particularly for locally-owned businesses and entrepreneurs. The need to address the requirements of Papua New Guinean entrepreneurs (including farmers) has been long overlooked, for example since the discontinuation of effective agricultural and business extension services in the provinces and districts, and the failure to develop and sustain broad-based quality education capacity, including basic literacy and technical and vocation training. However, before leaping into wholesale restrictive new measures (including ownership restrictions, export bans and export taxes, e.g. on agricultural products), the Government would be well advised to examine and address the real, rather than assumed, constraints to locally-owned businesses, otherwise the measures applied, or even just proposed, might merely discourage needed investment, drive disinvestment and capital flight and undermine essential employment generation and service provision for the country and its people.

Businesses in PNG face many constraints, whether they are locally or internationally owned, as highlighted in this survey. For various reasons the country is uncompetitive, or disadvantaged in various export and import-competing industries. Whilst increased participation by Papua New Guineans in innovation, business development and ownership is valuable and a sound public policy objective, nevertheless, it is widely recognised that other businesses and consumers (in this case the PNG public) benefit from sound investment by credible investors, who are or intend to be good corporate citizens (paying taxes and following social and environmental laws and standards), whether they are PNG or overseas-owned enterprises. For example, in recent years one of the major social and economic revolutions which PNG has experienced resulted from the arrival of competition (in the form of overseas investment) in the mobile phone network; it generated extensive opportunities and reduced costs for small PNG businesses and consumers, including from associated new technology and services, such as mobile banking etc., and this scenario can be repeated in other industries.

Identifying and addressing the constraints to (credible) businesses across the board should, therefore, be the priority, whilst specifically also trying to facilitate and address the specific constraints to PNG-owned business (such as access to financial and business skills, security for credit etc.). This needs to be done, whilst seeking to ensure a level playing field for investors

across the board, particularly countering preferential and uncompetitive arrangements being granted to any businesses, domestic or overseas, (e.g. in the form of licenses, permits, land deals, exclusive market access), which are at the expense of consumers, raise production or consumer costs and based upon unscrupulous business practices.

Once again in the 2012 survey, law and order problems have been highlighted as the most serious impediment to business and investment, but closely followed by corruption, poor transport and other public infrastructure. It is clear for this survey, and other reports and sources, that in 2013 there are some companies (both foreign and locally-owned) which are good corporate citizens, which pay their taxes and customs in full, generate extensive employment and comply with PNG's labour laws, in terms of training, health and safety standards and wage rates, and seek to adhere to lands and environmental laws and standards. Others, however, clearly do not, and are ready to ignore or by-pass these requirements, taking advantage of PNG's weak administrative and oversight capacity, in some cases ready to provide some inducement to relevant officials to turn a blind eye, but in other cases presumably paying larger rewards (or sharing proceeds) to secure contracts, licenses, land or whatever, in the process leap-frogging their competitors.

Such prevalent corruption and malpractice is certainly the perception of respondent businesses, and has been highlighted in many reports, notably emanating from State entities themselves. Corruption, distortion of markets and favoured treatment for some businesses and contractors is clearly to the disadvantage of the other (law-biding) businesses, but also to the wider economy and public of PNG, who in many cases are paying far more than needed for the provision of public goods, but also privately-provided goods and services. Clearly, for example, the awarding of a road construction or restoration contract for well over its competitive price to a 'favoured' firm, which then also provides a substandard product which rapidly deteriorates, results in the public being denied efficient use of its public funds, undermines genuine investors and results in a public good which fails to improve access or lower transport costs to market.

The INA has conducted similar surveys to this one in 1999, 2002 and 2007. The 2012 survey was conducted to update and make government and the wider public aware of the private sector's current perception of the country's changing business environment. PNG has enjoyed a decade of positive economic growth, even during the global financial and economic crisis of 2008-9, partly as a result of stronger commodity prices of PNG's main export products during much of that period and the current and prospective demand for certain major resources, notably gas, which have helped drive much recent investment and business activity. Formal sector growth has progressed across most sectors, albeit from a relatively low base, but the private sector, including financial markets, nevertheless are not yet well developed, or diversified.

Papua New Guinea has an increasingly dual, or two speed economy, with its enclaves of growth largely focused upon extractive industries and a few main centres, and the relatively lagging agricultural and other industries, especially in rural areas. The economy needs to be transformed to safeguard established industries and diversify business and investment opportunities particularly into more sustainable economic activities, which can generate not just exports and revenue, but broad-based employment, through a wide range of production, value-adding, including manufacturing, and service industries. But this transformation can only occur if the current substantial impediments to business and investment are tackled, enabling these more sustainable industries to prove viable and competitive. The set of constraints to business and investment highlighted in this survey, and the largely bureaucratic and legal constraints highlighted by the World Bank's Doing Business Survey, need to be addressed in the face of constantly changing overall economic conditions, including evolving external market conditions, but also how PNG manages its own resource boom; taking advantage, but not wasting the associated opportunities, by investing prudently in priority infrastructure (and its maintenance) and human resources, whilst minimising potential negative impacts of so-called 'Dutch disease', (where a dominant industry undermines the competitiveness of other sectors)..

In all 130 questionnaires were completed in 2012, as opposed to 243 for the 2007 survey, perhaps because of the 2012 questionnaire's greater size and multiple extra questions, and despite the extra cost and effort of more provincial briefing sessions and extended deadlines for responses, (and despite additional initiatives, such as providing a version in Mandarin to assist some potential respondents). The lower response rate was slightly disappointing, considering that a response rate nearer 300 was sought; nevertheless, considering the questionnaire size, the high level of business activity in PNG during 2012, and the various distractions related to political uncertainty and then the General Election, it is felt the response rate remains satisfactory. It was also noted that other researchers found poor questionnaire response rates in recent years, resulting perhaps from high levels of business activity, but also a negative perception of the responsiveness of government to business concerns.

The survey identified the key impediments highlighted by the business sector as restraining private sector investment and development in PNG. In doing so, the survey aims to contribute to a better understanding of the private sector's current needs and constraints to enable the business environment to be improved. Private sector needs and interests, of course do not coincide entirely with those of government, with companies, for example, not eager to pay inordinately to the public purse, and individual enterprises enjoying market advantage where available, rather than pure competition. However, good corporate citizens recognise the need to make their contributions to the public purse, so long as taxes are not excessive (including in relation to other markets), and so long as the proceeds are utilised by government effectively in providing quality and reliable public goods and services, including ensuring good transport

infrastructure for use by businesses themselves; likewise, businesses recognise the need for open market conditions, so long as other businesses are not given unfair advantage. Some companies are prepared to go much further than others in being ‘good corporate citizens’ and providing a range of what would normally be deemed ‘public goods’ for the benefit of local communities, including through development foundations; others are more reticent. But generally, what is good for responsible business, as the driver of growth, investment and employment and provider of revenue, is generally also good for government and the country and their collective views and concerns should be heard, albeit that the interests of individual firms may not always coincide with local or national interests.

It is hoped, therefore, that the survey can assist government in developing suitable and comprehensive policy interventions for sound business and economic performance. This is not simply about achieving strong economic growth and opportunities for a portion of business and a slice of the community, but driving sustainable development which is more embracive of the whole population, without leaving whole segments of the economy, community or regions behind; including providing the basis for a dynamic, competitive, diverse and responsible private sector (both international and PNG-owned and operated firms) best able to contribute to the nation’s sustainable development.

**Paul Barker**

Executive Director, Institute of National Affairs



*new developments in the CBD on the National Capital’s waterfront – 2013*



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The Institute acknowledges the valued effort of the private sector representative bodies, including the PNG Business Council, sectoral chambers and councils, and respective Chambers of Commerce and Industry, in assisting in circulating questionnaires and hosting presentations for the INA to brief their members on the survey. The INA is especially appreciative of the private sector respondents to the survey who made a major commitment of time and effort to complete what has been an even more demanding questionnaire than in previous years. We hope that you will all feel that the effort proves to be worthwhile, in contributing to informed and constructive policy, which is responsive to the real, rather than imagined, needs and priorities of businesses and investors in Papua New Guinea.

Finally, the Institute wishes to acknowledge the considerable efforts of its own staff, particularly Steven Goie, who has been the backbone of the team circulating and following up the questionnaires, inputting and analysing the data, supported by Douveri Henao in making initial presentations on the survey to private sector representatives around PNG, and assisted by research assistants operating in the provinces, and administrative staff in the INA office.

Disclaimer: The Institute of National Affairs (INA) has commissioned this survey, with funding support from the ADB and AusAID. The views expressed in the report are based upon the findings of the survey, supported by authoritative sources, but do not necessarily reflect the views of the Institute or its funding partners.

## Executive Summary and Key Findings and Recommendations



*Agriculture – PNG's forgotten but critical sector: here, transporting copra – Madang province*

- Most business in the survey considered that business prospects and the overall business environment had improved from 2007 to 2012, when the survey was conducted (and in most respects from the 2002 survey), with 56% considering that there was a 'fair' to 'big' improvement in business prospects, and most of the balance considering there to be a more modest improvement over this period. Just over half the respondents indicated they were 'likely' or 'highly likely' to consider major new investment in the next two years; (note: conditions affecting some business have modified since the survey was conducted, e.g. with agriculture are facing tougher times in 2013).
- Although Papua New Guinea provides many potential opportunities for business and investment, particularly related to utilisation of its natural resources and growing regional and domestic markets, the challenges to such business are considerable, particularly for longer term investment which generates employment and sustainable development. Continued law and order problems, poor infrastructure and services, including deficient skill levels from inadequate education and training capacity, raise

costs and risks, and leave investors having to provide private utilities and other facilities, widely considered, to be public goods funded (partly) from taxation. In an increasingly globalised economy these extra costs impinge upon competitiveness and viability and jeopardise some of the investment, reinvestment and business opportunities which PNG should enjoy, including needed employment, spin-off industries and other benefits from the major resource-based projects.

- Law and order concerns again headed the list of impediments to business and investment; followed closely by corruption and poor transport infrastructure, and then the deficient state of PNG's electricity infrastructure and services; the power problem is judged as a slightly worse impediment than 'skills shortages' and PNG's 'telecommunications infrastructure', which had been ranked third major impediment in the 2007 survey, before the roll-out of mobile phone competition from mid-2007. Telecommunications have improved considerably since 2007, but internet access for businesses (and households) still remains slow, very costly and unreliable by regional and global standards. This is reflected in the business responses, which still mark telecommunications as one of the major impediments.
- Although most concerns and priorities were shared across all businesses, there were some variations in emphasis between PNG and foreign-owned businesses, and also between the small-medium enterprises and large businesses. For example, the PNG-owned and SME respondents both marked corruption as their worst impediment, followed by law and order and transport infrastructure, respectively. Issues where there was a marked variation between SMEs and Large enterprises were: - political uncertainty and stability of rules, which were a markedly greater concern to SMEs, and likewise, lack of access to business information and to international markets, and the application of GST, which, although not one of the principle concerns to business, was nevertheless a significantly greater concern to SMEs. Access to skilled labour, land and compensation issues and poor port services were of greater concern to the large businesses than to SMEs.
- In terms of the first priority to be addressed, 30% of responding businesses specified law and order, followed by corruption (17%) and then tackling the state of transport infrastructure (9%). This reflects findings from recent community surveys in which INA participated<sup>1</sup>, and the 2013 CIMC Regional Development Forums, wherein respondents emphasised the priority of addressing crime as a precondition to accessing quality education, employment or other individual or household priorities. Likewise, reliable transport infrastructure is a prerequisite for economic activity, as well as social development.

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<sup>1</sup> Including a Gender and Economic Opportunities survey of 16 communities (in 2012, with the World Bank) and the UNDP/GoPNG Post 2015 Development Agenda 'Setting the Stage' survey of Disadvantaged Communities.

- Businesses continued to rate government services to be 'poor' to 'very poor' in 2012, especially over infrastructure and utilities provision, including a deterioration in port services, but recognising some improvement in post and telecommunications (recognising that since 2007 these are provided substantially by the private sector) and an improvement in banking and financial services (also provided largely by the private sector, although perhaps reflecting a favourable assessment of the Regulators, notably the Bank of PNG); access to financial services was a greater concern to SMEs than larger businesses.
- In terms of policy reforms and action needed to improve the Quality of Services in PNG, businesses particularly favoured 'greater financial and operational transparency in government' and 'improved public sector management and oversight' as requirements to improve use of public funds and service delivery.
- Respondents remained concerned in 2012 over political instability and its impact on business and investment, but the level of concern was nevertheless somewhat reduced from 2007, with less 'very highly concerned', but more 'fairly concerned'. (It should be noted that, after a decade of political stability, 2011 and 2012 demonstrated heightened political uncertainty, including tense clashes between Parliament, the Executive and Judiciary during much of the year leading up to the 2012 National Election).
- The most frequent crimes experienced by businesses comprised theft by staff (27%), followed by break-ins, theft without violence, vandalism, theft of vehicles, but assault of staff was reported as entailing (15%) of incidents and kidnapping (2%). Confidence in the law and justice agencies was low, with 56% of businesses indicating that they were 'fairly' to 'completely lacking in confidence' in the police, customs and related law enforcement agencies and only 68% reporting incidences of crime to the police.
- In terms of government controls imposing a hindrance to business, visa difficulties, followed by work permits still came out the worst, as in 2007, despite various commitments by government over intervening years to address these problems; these were followed, with significantly lower levels of concern, by labour regulations and currency restrictions, planning/zoning restrictions, state lease difficulties and borrowing restraints. There were significant differences between SMEs and large businesses over priority concerns, although not in overall terms, with labour restrictions, leases and zoning of greater concern to SMEs, whilst marginally greater concern was expressed by the large businesses over restrictions on foreign employment.
- 56% of respondents considered gaining access to land as a 'big' to 'very big' hindrance to their business and investment, and corruption over land was viewed as having the highest impact by far on business, followed by corruption in finance/tax/customs and then corruption over tenders; (this will partly reflect the considered severity of the

problem, but also the widespread need for land by businesses, with far fewer businesses engaging with government over tenders and contracts).

- Although businesses' perception of the performance of government in providing essential public goods, including law and order services and infrastructure, generally remains very poor, the 2012 survey indicated some slight improvements in service provision in specific aspects since 2007, indicating a degree of positive government responsiveness to business and public concerns; however, other areas remain relatively entrenched and unresponsive.
- Corruption was perceived by business to be both highly prevalent and persistent, and widely deemed to affect businesses seriously, however, respondents overall in 2012 suggested there might have been a marginal improvement since 2007. Nevertheless, significantly more businesses acknowledged 'frequently' to 'always' making 'irregular additional payments' to officials than in 2002. Another concern is the substantial decline in confidence in the Judicial and Court system since 2002, (having been held in generally high regard in 2002).
- Access to land has become an increasing problem for businesses, partly as a result of the maladministration and considered malpractice in land administration, but it also reflects the growing pressure on very limited stock of State, or other accessible land across PNG.
- Recruitment and retention of skilled staff was identified as a major impediment, with salary/wages as the major difficulty over retaining staff, followed by accommodation. In-house training was the main approach used by companies for upgrading staff skills, although significant numbers sponsored formal overseas and domestic courses of study.



*PNG's telecommunications in need of maintenance and upgrade*

## The Papua New Guinea Business and Investment Environment in 2013



Papua New Guinea has enjoyed a decade of economic growth since 2003, strengthening in the mid-2000s and into the new decade, and only slightly restrained during the Global Financial and Economic Crises of 2008-2009. The growth was fuelled by strong commodity prices for PNG's major mineral and agricultural exports, but this was combined with the effects of major structural reforms undertaken in the early 2000s and prudent fiscal management for much of the decade (including application of fiscal and debt management strategies and legislation), which helped extend revitalised economic activity across all sectors, and away from just the enclave industries. The proposed PNG-Queensland gas pipeline, and its successor, the PNG-LNG project, were focal points encouraging business confidence and investment from the mid-2000s, including in urban real estate, reinforced in turn by the relatively liquid banking sector. The fiscal stimulus contained in the 2013 Budget, may help sustain economic activity, in the face of the near completion of the PNG LNG facilities and decline of commodity prices in 2012-2013, but is only likely to achieve positive and sustainable impact if funds are used cost-effectively (and not absorbed in over-priced contracts or low priority projects) and don't end up crowding out private sector investment.

The structural reforms of the early 2000s included autonomy to the Central Bank (BPNG) for monetary policy, independence and better supervision for the superannuation funds, and the privatisation of some state-owned enterprises, notably the major commercial bank; other privatisations, including of telecommunications, were forestalled with the change of government in 2002. The new government did, however, enhance conditions for exploration and investment in the minerals sector, and, controversially, in forestry, but, apart from the onset of competition in mobile telephony in 2007, there was little apparent concerted effort to reform the SOEs or improve their accountability and performance. The continued monopoly

over major utilities, lack of capital and poor governance of the SOEs, resulted in high charges but generally poor service provision. The belated onset of competition in the mobile phone market contributed to investment and economic growth, including opportunities extending into rural areas, particularly with subsequent technology upgrades and associated applications enabling mobile banking and internet access. Various other major potential markets for services and utilities, however, have remained (largely) off-limits to private investment, such as power, ports and other data transmission, raising costs and undermining opportunities for business.

The unparalleled period of apparent political stability from 2002 was concluded with a Parliamentary revolt in August 2011, leading to several months of political uncertainty and challenges to the balance between the Executive, Legislature and Judiciary. However, following a relatively peaceful, though problematic 2012 Election, political stability was restored, and reinforced by further Constitutional changes, further diminishing opportunities for legal leadership challenges.

Despite continued uncertainty in commodity, including energy, markets, economic growth is currently forecast to remain robust over the medium-long term, based particularly upon PNG's gas/energy and other natural resource wealth, albeit that the PNG LNG project in itself may merely be replacing declining earnings from existing but mature natural resource projects. Concerns focused particularly upon ensuring that economic (and social) development is sustainable and broad-based, and that the negative effects associated with dual-economies, notably so-called 'Dutch Disease', are minimised. This includes avoiding undue borrowing against expected future revenue, and subsequently restraining currency appreciation, partly by sanitising proceeds through an accountable Sovereign Wealth Fund, restraining undue government profligacy in unproductive expenditure (and avoiding associated crowding-out of potentially more productive investment by the private sector and ensuring effective public investment in infrastructure (maintenance and upgrading) and well-targeted human resource development to enhance capacity and reduce costs of doing business.

Since the change of Government in 2011 and again in 2012 there have been mixed signals over government commitment to reform, performance standards, increasing competition, private investment and partnership in the provision of the public utilities and related SOEs, as well as over ownership and investment conditions applicable to mining and other business; this has generated uncertainty for existing and prospective investors over prospects and likely future costs, especially with a further round of minimum wages hearings also commencing.

With law and order problems highlighted routinely as the primary impediment to business and investment, as emphasised by respondents in this survey, addressing this and other major challenges, will be fundamental to achieving sustainable and broad-based economic development. Income disparities have increased over the past decade, with PNG now considered one of the most unequal societies in the Asia-Pacific region, where poverty has also

increased overall over the past two decades (Gibson), despite the strong economic growth (and in contrast to the more positive regional trend). Such inequality, rural and urban-based poverty and poor access to services, in turn jeopardise the prospects for law and order, business, investment, employment and sustainable development, posing a vicious cycle which needs to be broken, as a major policy priority.

### Economic Growth

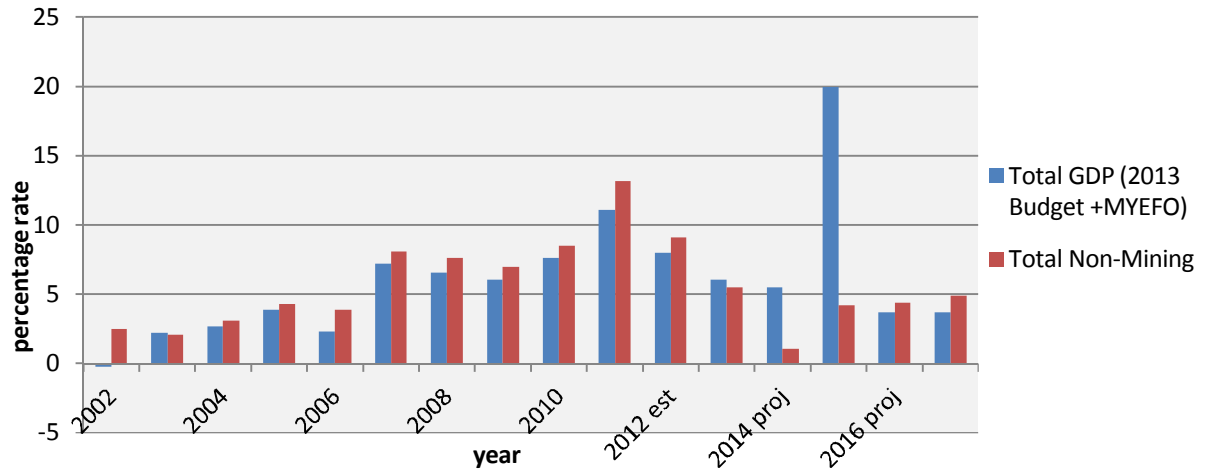
GDP and associated growth figures for Papua New Guinea have been estimated by Treasury, during recent years, with NSO no longer collecting required data on economic activity for several years. This absence of relatively hard data in PNG undermines government's capacity to plan and monitor the country's economic performance. Despite global economic instability and uncertainty since 2008, total real GDP growth rates, which were recorded as having leapt from 2.3% in 2006 to 7.2% in 2007 (8.1% non-mining), remained largely strong, peaking at 11.1% in 2011, before slipping back, but remaining apparently above 6% right through to 2013.

A slight lag in the PNG LNG project construction, resulted in extended activity over the first months of 2013, helping sustain economic activity during the year, when the Budget forecast was for growth to decline to 4%. The lag has also made up for delays in implementing government infrastructure projects. Growth is expected to dip slightly to 5.5% in 2014, with continued lower commodity prices, prior to commencement of LNG production in the second half of the year, rising to 20% in 2015, before slipping back to a steadier 3-4%, at least in the absence of further major new developments and with the progressive winding down of some current major extractive mineral/oil projects. Non-mining growth has at least kept apace during most of this period, although future prospects will depend partially upon maintaining and reviving the competitiveness and viability of these non-mining industries. Major loss of fiscal control in the next years would alter this scenario.

A widely held view that the 'good times' are ahead, has been somewhat dispelled by analysis from the Pacific Financial Technical Assistance Centre (PFTAC) working with BPNG, highlighting that the good times have been with PNG for several years (albeit not shared universally) and that the next years will not necessarily see the level of recent economic sustained, nor employment growth. This highlights again the need for prudent economic (and social) policies to be applied and effective investment, rather than excessive and carefree expenditure on poorly targeted, implemented and overpriced investment and heavy consumption.



**Figure 1: GDP Real Growth Rates, Total and Non-Mining 2002-2016 (actual 2002-2011, thereafter Budget estimates, projections and revised Treasury projections)**

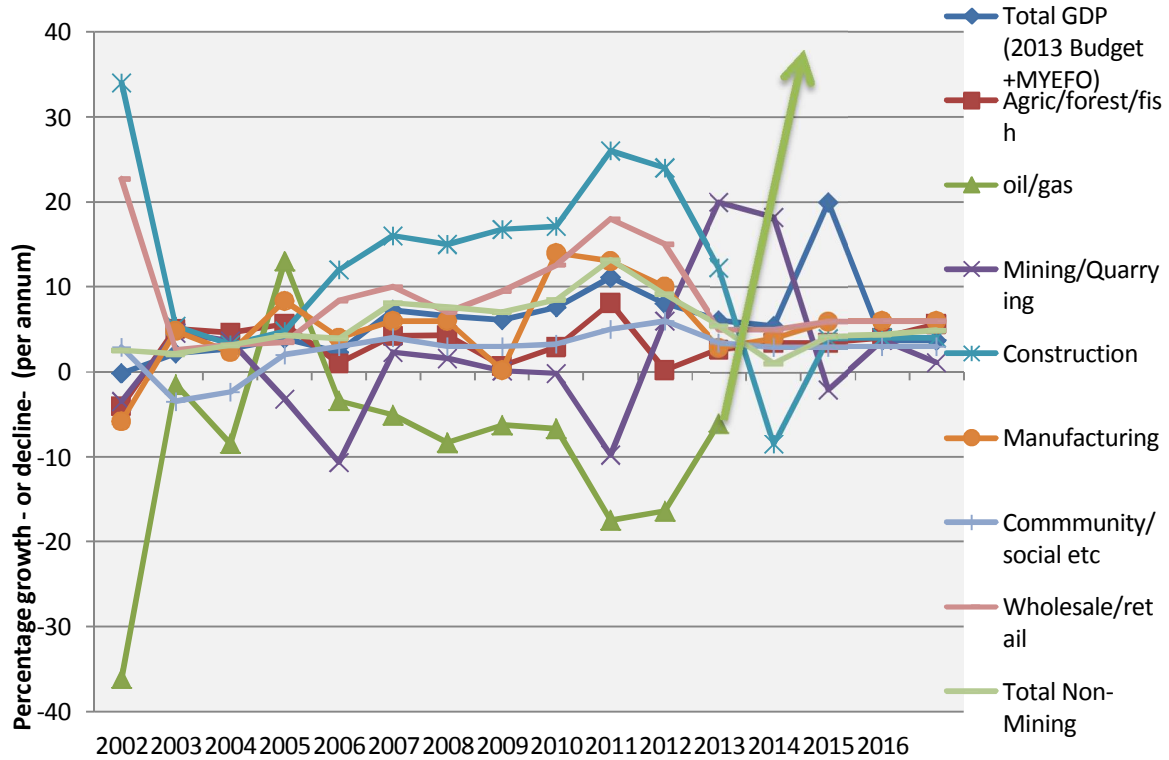


As with its larger developed country neighbour, Australia, Papua New Guinea’s economy has been partly driven by the extractive industry sector, and will likely be more so in the future, albeit that much of the recent growth also came from other industries. Nevertheless, agriculture still comprises nearly 30% of GDP in 2012 (according to Treasury calculations), down from nearly 40% ten years earlier. Agriculture, also still provides the majority of employment, broad-based income-earning and livelihood opportunities across the country, directly and indirectly, and its sustenance and viability will be critical for PNG’s economic and social prospects for many years to come, together with other diversified industries.

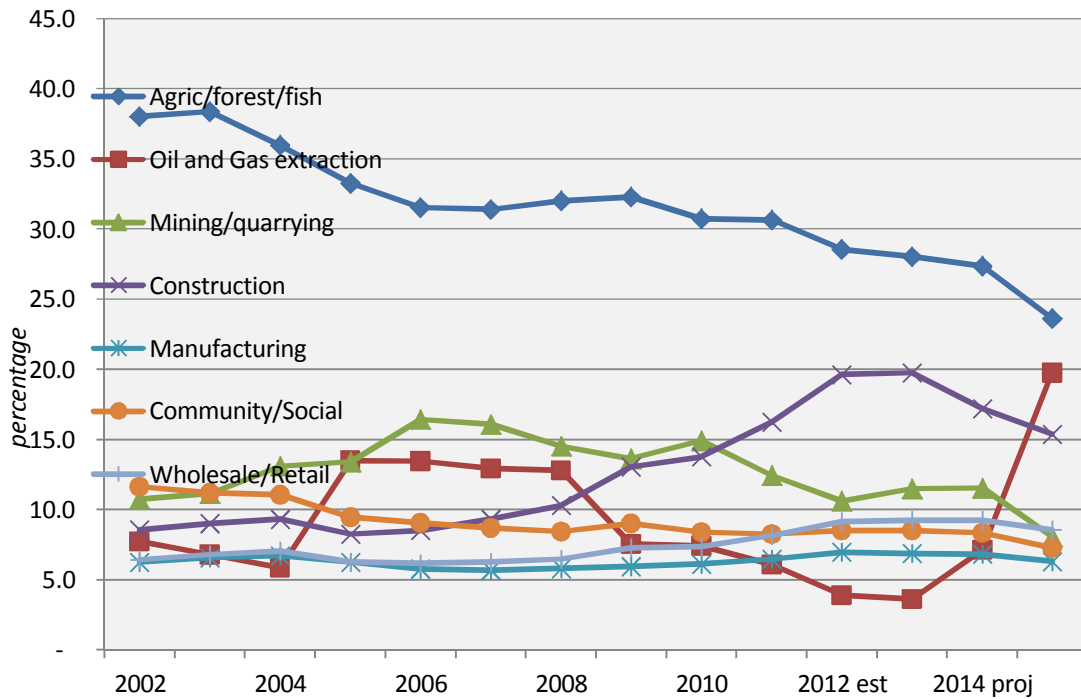


*new cocoa nursery, East New Britain, under PPAP*

**Figure 2: Growth Rates (GDP) by Sector 2003-2016 (Treasury est. and forecasts)**



**Figure 3: Percentage of GDP by Economic Activity (source: NSO and Treasury forecast)**

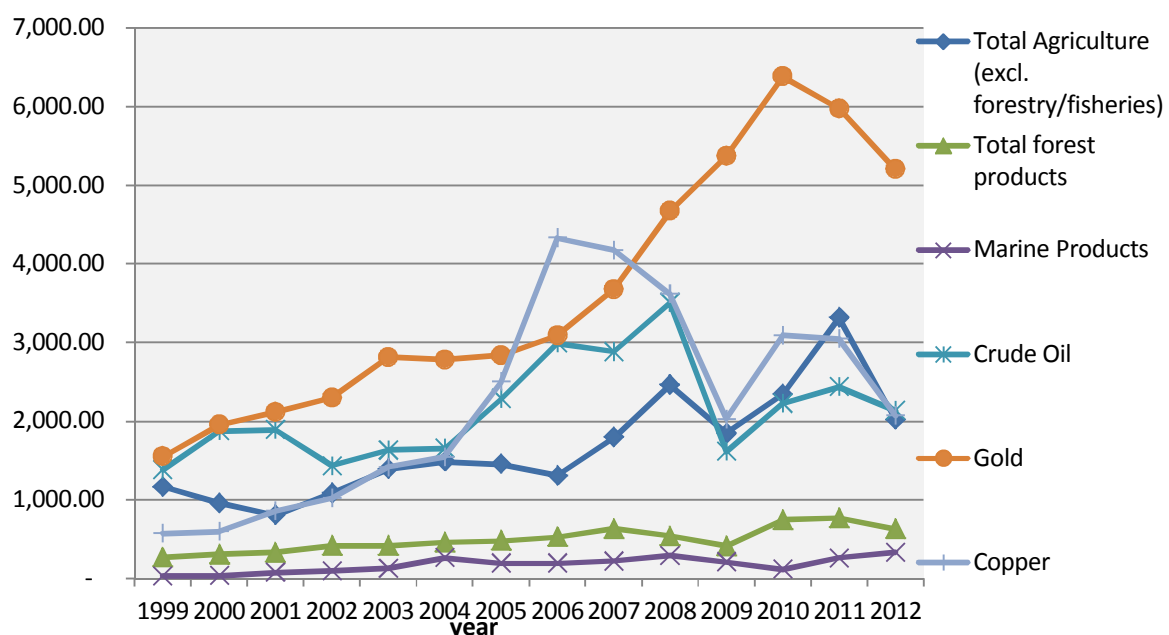


## Production, Exports and Commodity Markets

Whilst the extractive industries play an important and growing role in the overall economy, particularly with the ongoing PNG LNG construction and production phase from 2014, GDP tends to exaggerate their importance, particularly with LNG production providing few jobs and multiplier effects, (except from the use of future revenue). GNI provides a better reflection of their economic contribution, recording what is retained within the country. In terms of exports, the mineral/hydrocarbon sector clearly dominates, having overtaken agriculture in 1984 as a exporter earner. Likewise as a contributor to government revenue, the extractive industries play a central role, albeit with wildly fluctuating tax contributions, associated largely with prevailing commodity prices, but also with specific project investment arrangements, including tax holidays and other concessions, secured by some projects.

For much of the past decade gold, copper and oil exports paralleled each other as PNG's leading export earners, but in 2008/9, when commodity prices mostly fell, gold prices continued to rise, as the reserve investment during the Global Financial Crisis (GFC) and 'great recession', and gold export earnings continued to rise strongly, despite some major mines in PNG being in late mature stages. Oil and copper production steadily declined from the 1990s and 2006, respectively.

**Figure 4: Exports -Value FOB (million kina) 1999-2012 (BPNG)**

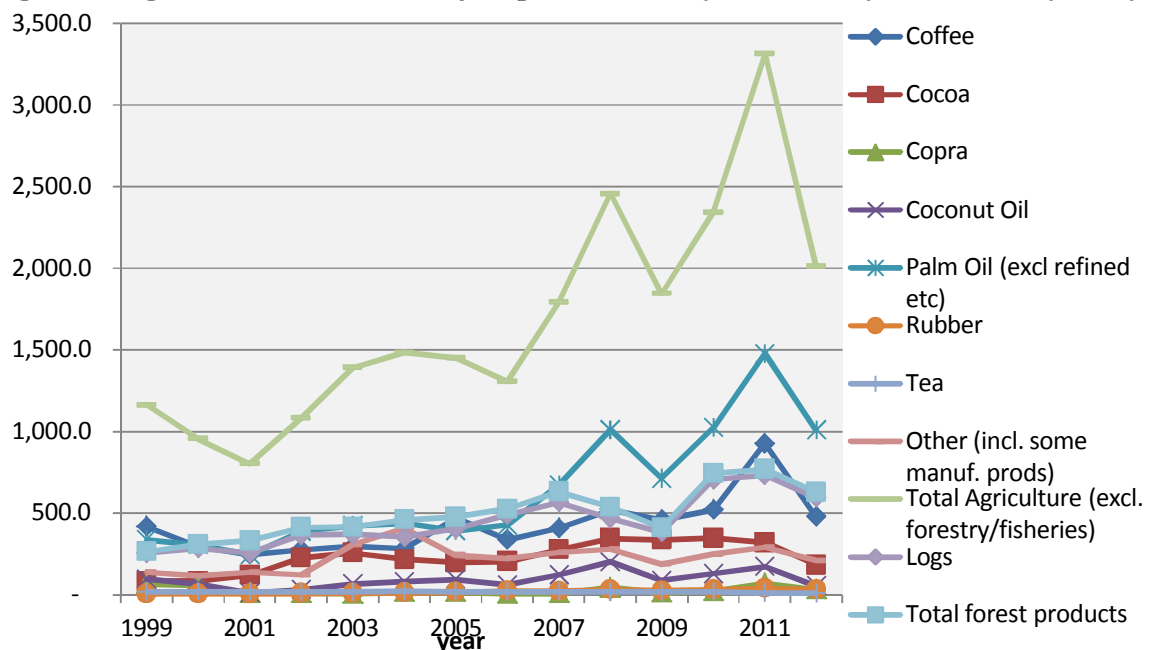


Agricultural export earnings also grew strongly with the higher prices of the mid-2000s, until 2008, with some crops, notably cocoa enjoying continued strong prices even during the GFC, but most agricultural commodity prices, including vegetable oils, like palm oil, PNG's main agricultural export) recovered firmly again, until the beginning of 2012, when prices fell sharply

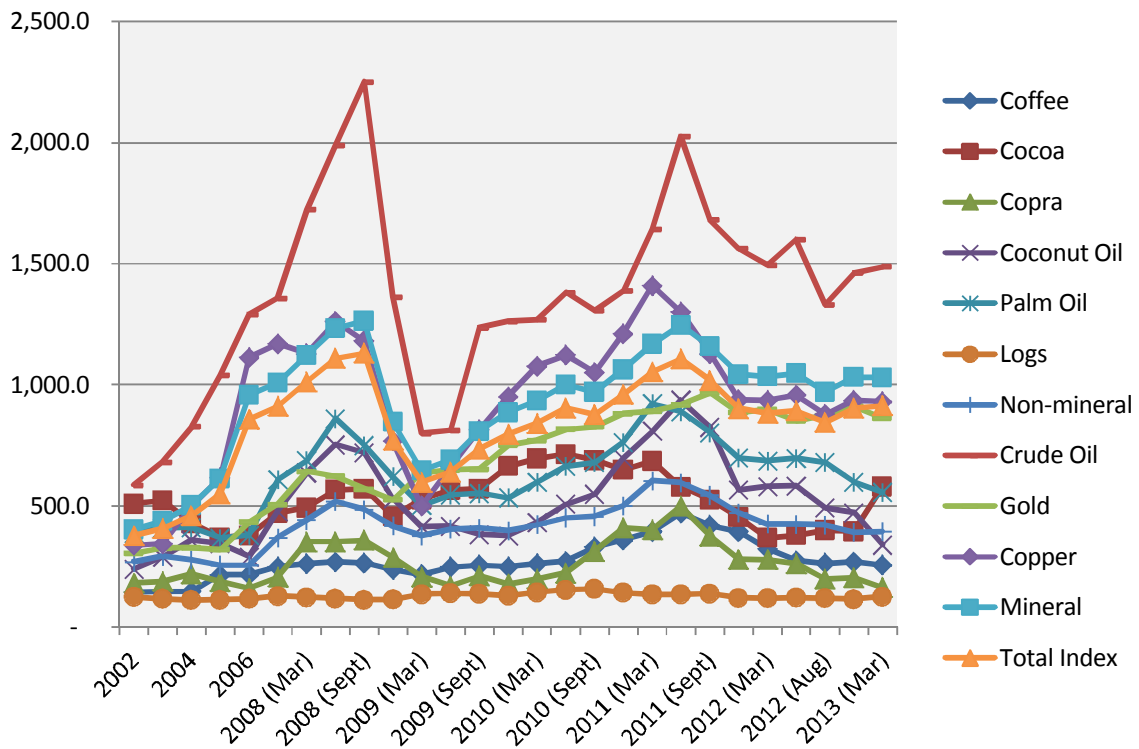
and the stronger kina (associated with the LNG construction phase, but also the strong exports) combined to reduce kina earnings.

A matter of concern has been that much of the increased export earnings (and import substitution) of the 2000s, was associated with the high prices, with production in most agricultural crops remaining relatively static, except in palm oil. Until the advent of LNG (and nickel/cobalt from the new Madang project), minerals production, apart from gold, has also seen a decline. So, whilst economic activity has picked up, notably in urban and project construction (buildings, ports etc.), it is not reflected in production from the country's other major export industries, restrained by a range of external and domestic factors, including the investment and business constraints highlighted in this survey, but also specific factors affecting specific industries, such as pests and diseases in cocoa (CPB) and some other agricultural industries. This again reflects the relative neglect of agriculture sector and deficient research, disease control, extension and financial support.

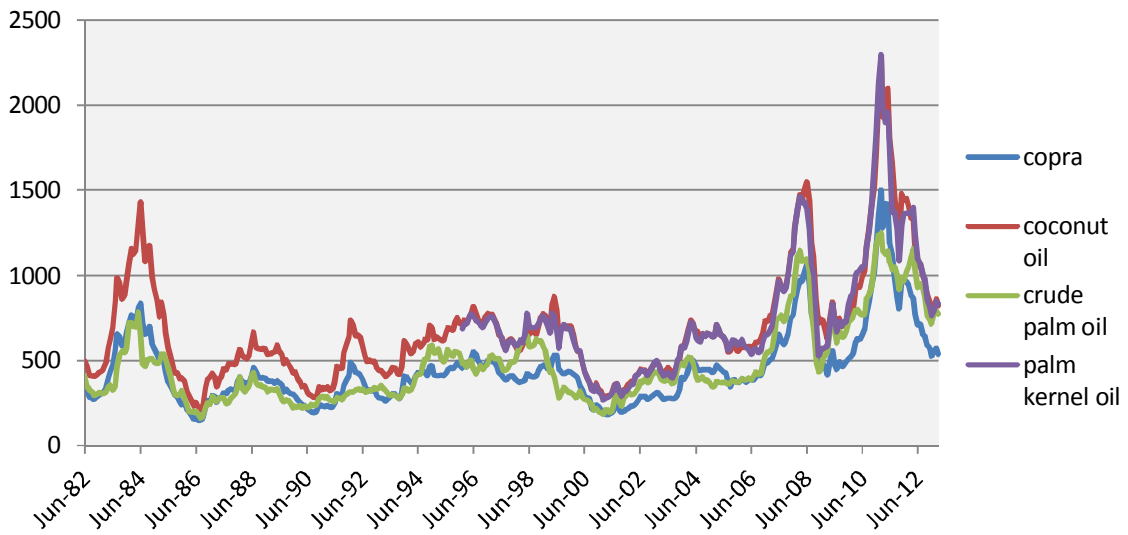
**Figure 5: Agriculture and Forestry Exports - Value (million kina) 1999-2012 (BPNG).**



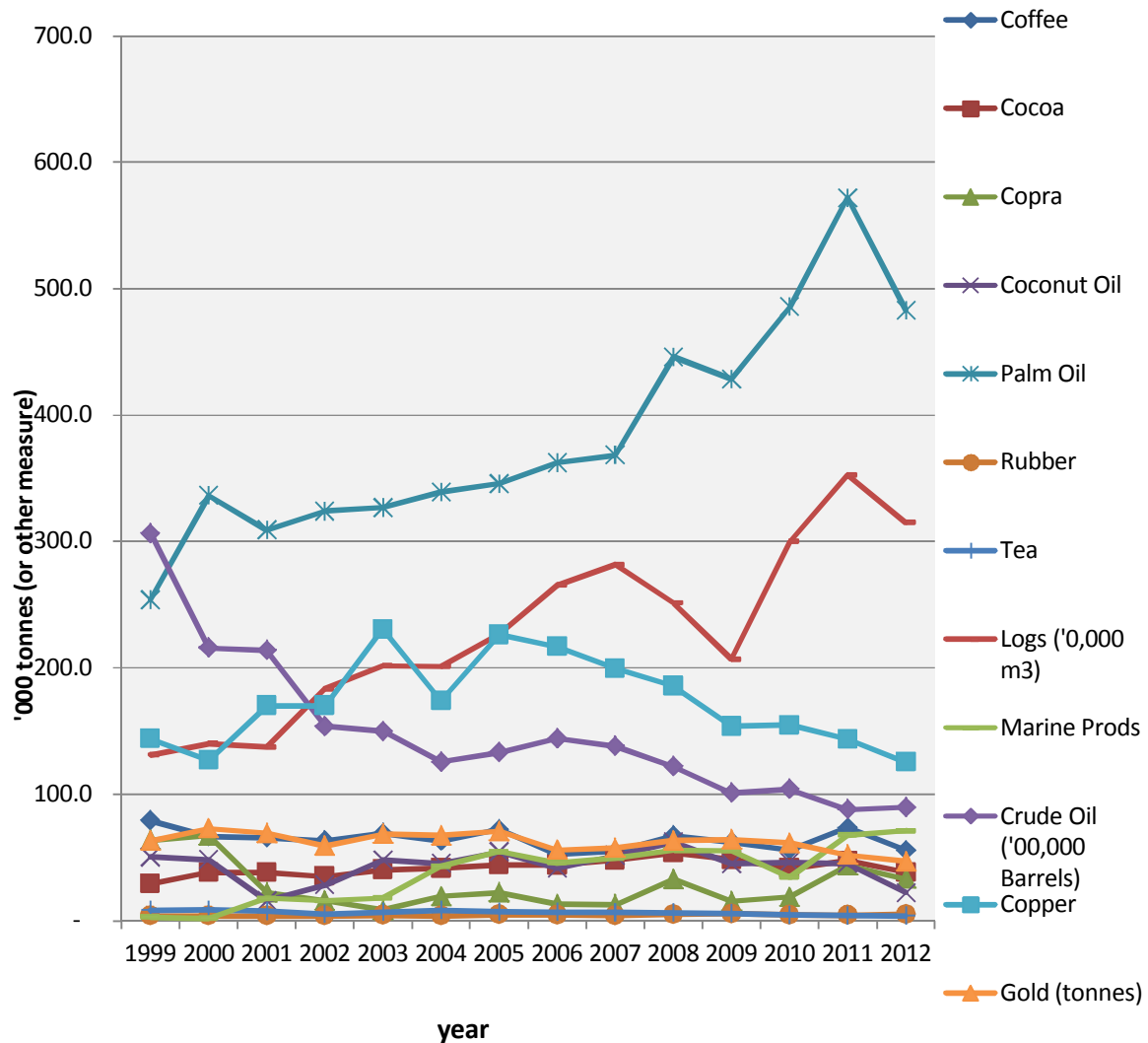
**Figure 6: Export Price Index (1994=100) source: BPNG**



**Figure 7: Palm Oil and Coconut Oil Prices (fob), Jun 1982-Mar 2013 USD/tonne**



**Figure 8: Commodity Exports - Quantity 1999- 2012 ('000 tonnes or specified)**  
(BPNG & Treasury Est.)

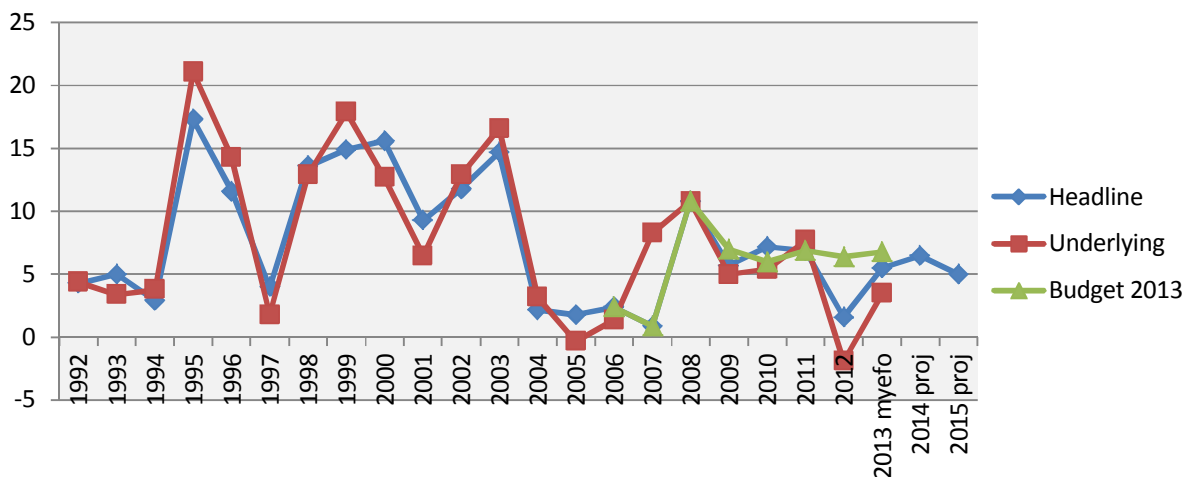


### Inflation

Again, the reliability of inflation figures in PNG is weakened by the paucity of data, notably the obsolete basket of goods and services monitored (due for update following the 2009/10 HIES). Following a decade of volatile, but largely high inflation in the 1990s, inflation rates have been lower and steadier since 2002, albeit rising strongly in 2007-8 with the high global commodity prices, including many staple foods. For some critical household expenditure items, such as housing and accommodation, prices have risen strongly since about 2007, whilst a few goods/services, notably telecommunication unit costs have declined from late 2007 (as opposed to total household expenditure on them, which rose). Inflation fell back in 2012 (to 1.6%) with the stronger kina.

Although costs of imported items, particularly, edged back up during 2013, with the kina's slippage, accommodation costs have come off their peak, with the growing stock of new (albeit largely up-market) houses, and some dampening demand also in major cities for high end rented properties. Headline inflation has been forecast (mid-year) by the Bank of PNG at 5.5% for 2013, (well below the 8% Budget forecast). Future inflation will depend upon external factors (notably global commodity prices), the openness of the economy (notably encouraging competition, rather than further restrictive and protectionist policies) and coordinated monetary and fiscal management, to smooth out volatility, and for the State to synchronise major expenditure with the private sector to limit competition for scarce capacity. With so many, sometimes new variables at play, there is certainly a risk of inflation rising to more problematic levels unless careful monitoring and prudent measures are maintained.

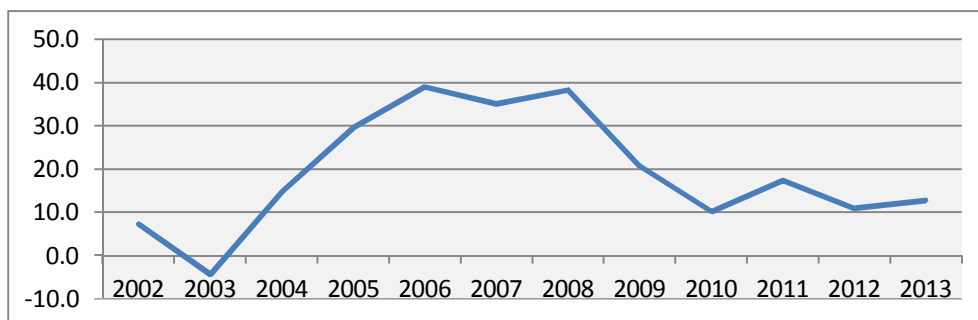
**Figure 9: Consumer Price Index 1992-2015 (proj.) NSO and Treasury forecast**



### Money Supply

The broad money supply increase has remained lower and steadier at around 10-15% annual increases since 2010, after the faster annual growth from 2004 to 2008. It is forecast at 13% for 2013, with major government borrowing to finance the forecast K2.5 billion deficit for its increased (K13 billion) annual Budget, and a 14% growth in private sector credit.

**Figure 10: Broad Money Supply - Annual Changes % (BPNG) Actual (2013 Proj)**



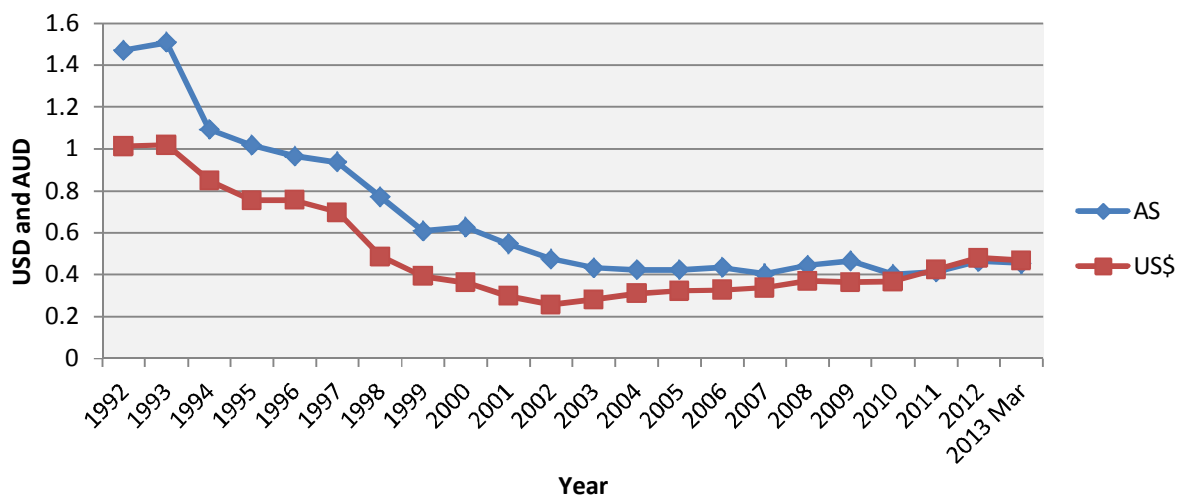
## Exchange Rate

The exchange rate against the Australian dollar was relatively steady from 2002, apart from modest but short-lived strengthening in 2008/2009 and in 2011-12. There was a steady strengthening against the US dollar since 2002 to approx. 0.5 by mid-2012, but subsequently falling back. This appreciation of the kina was reflected clearly in the Real Effective Exchange Rate (REER) since 2007, again with the blip in 2008/9. Since the mid-2012 the kina has slipped back off its peak, notably against the US dollar, with weaker commodity export prices and earnings, the winding down of the LNG construction phase, increased import demand and service payments, but also, latterly, the strengthening of the US dollar against most other currencies.

With limited proceeds from LNG retained in kina, particularly in early years, increased public expenditure on imported goods and services, and substantial subsequent debt servicing, there may be less upward currency pressure on the kina than initially feared, but the potential remains, particularly if commodity prices rebound, new extractive projects progress and in the absence of a functional Sovereign Wealth Fund, which invests and stabilises funds offshore.

Substantial currency appreciation comprises a major component of so-called Dutch Disease, wherein the competitiveness, and therefore prospects, of the export and import-replacement industries are jeopardised (other - largely - than the boom sector itself); with these other sectors providing most of the employment and income-earning opportunities for the majority of Papua New Guineans (less-so foreign exchange earnings and revenue), it is critical that government and Central Bank continue its focus on financial stability and inflation restraint, particularly when these industries already face a wide range of other costs and uncertainty, undermining their viability.

**Figure 11: Kina Exchange Rates, 1992-1<sup>st</sup>Qtr 2013 (against US\$ and AU\$)**

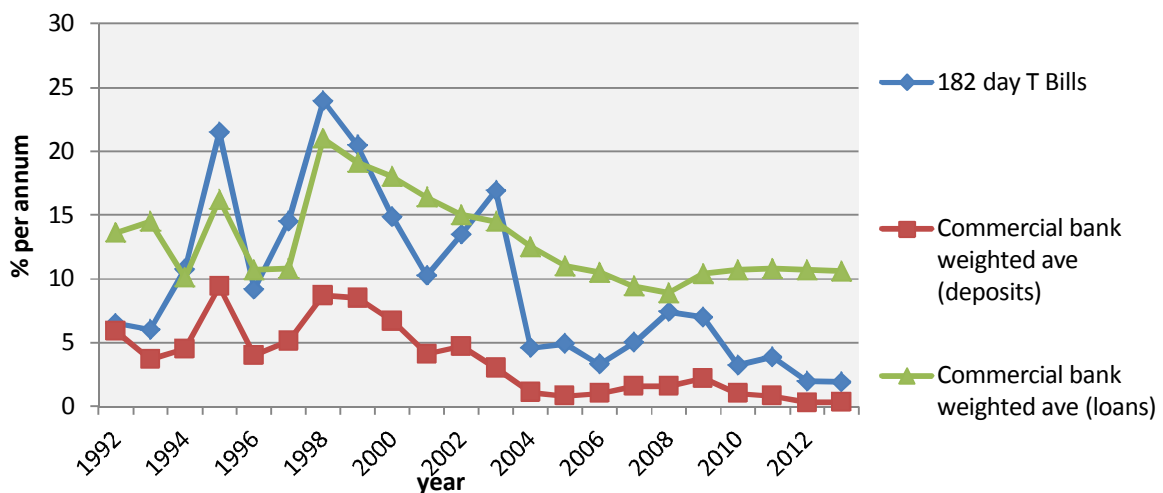




### Interest Rates:

After the generally high, though sharply fluctuating interest rates of the 1990s, commercial banks' lending rates declined to around 10% (weighted average) from 2008, with (average weighted) deposit rates between about 1-2.5% since 2004, and little above 0% since 2011. The substantial continued spread is a reflection partly of the high costs of banking operations in PNG, including poor access, crime and crime prevention, other high operating costs and lending risk, but also reflective of limited competition. Government stock, hitherto restricted to Treasury Bills, diversified in the 2000s into longer term instruments, such as Inscribed Stock. T-Bill interest rates (on 182 day stock) reached 25% in the late 1990s, falling to around 2% since 2011. With independence granted to the Bank of Papua New Guinea in 2002 over monetary policy, its focus is financial stability and keeping inflation restrained to an acceptable level, although only achievable in cooperation with fiscal management. With PNG still having one of the lowest rates of financial inclusion in the Asia-Pacific region (albeit rising from 8% in 2006, to 14.6% in 2013 - BPNG estimate), the Bank has also given attention to encouraging greater financial inclusion and literacy, working with commercial banks, micro-finance institutions, ICT providers, international agencies and other civil society organisations

**Figure12: Interest Rates 1992-2013 (1<sup>st</sup> Qtr)** (source BPNG)

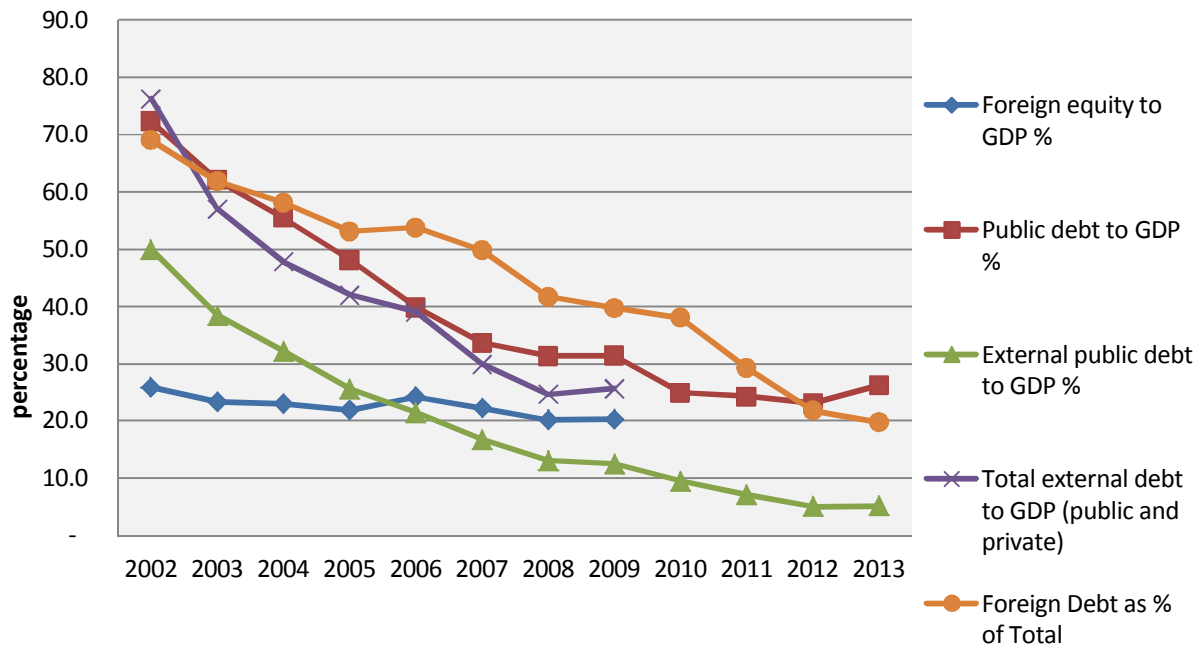


### Debt to GDP:

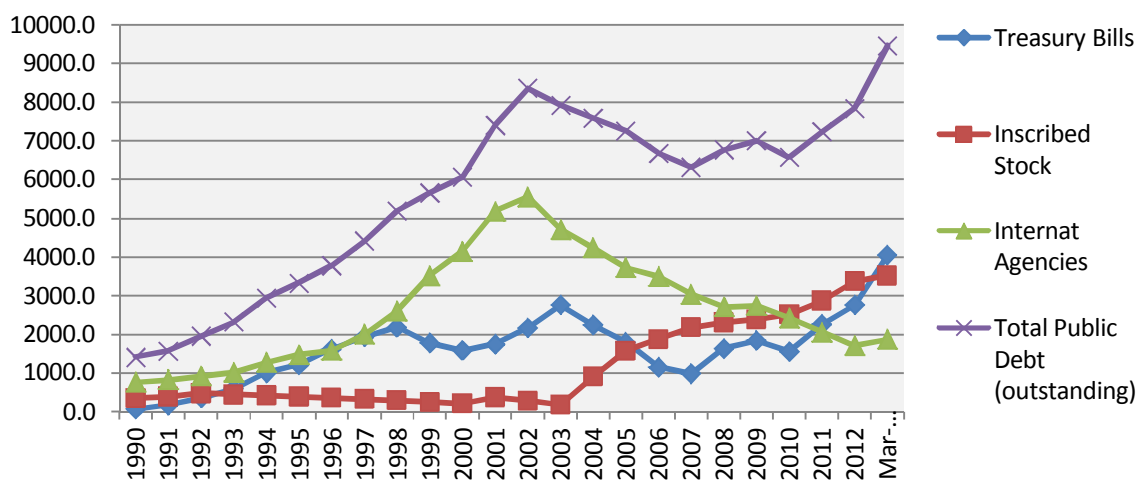
One of the major achievements of the 2000s was the reduction of debt to GDP to around 25% in 2012 from around 70% in 2002, following a severe build up, notably of high cost overseas commercial borrowing, and a lack of economic growth in the 1990s. The debt reduction was largely the result of positive economic growth, but also entailed repayment, in some cases prematurely, particularly of higher cost overseas credit. With the planned deficit financing of the 2013/14 Budgets, debt is forecast to rise to around 35%, depending upon factors, including

revenue collection capacity, actual commodity prices and project implementation capacity. However, with added contingent (and other) liabilities, notably associated with borrowings to finance the State's equity in PNG LNG and to superannuation funds, the State's overall debt and financial obligation is realistically re-entering more problematic territory, requiring fiscal prudence, particularly in view of ongoing international economic uncertainty.

**Figure 13: Debt to GDP % (Treasury and BPNG 2002 – 2013-Q1 )**



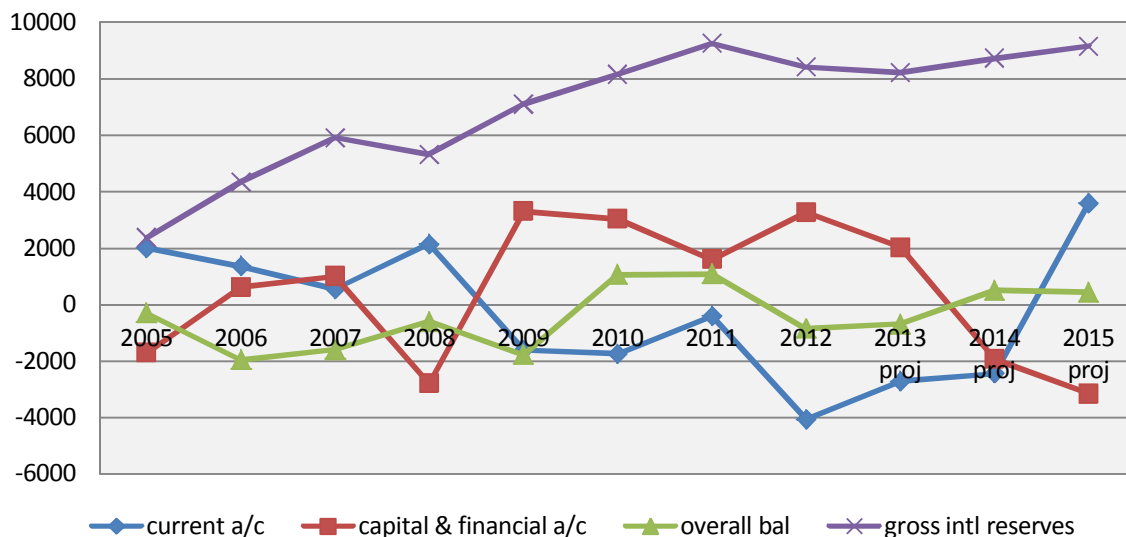
**Figure 14: Public Debt Outstanding (K million) 1990-Mar 2013 (BPNG)**



## Balance of Payments

The lower commodity prices in 2012 reduced PNG exports and dragged the net balance of payments back into deficit for 2012 and 2013 (K850 million and a projected K700 respectively), after two years of positive balance. The balance is forecast to return to positive territory in 2014 and beyond, despite a strong rise in the deficit in the capital and financial account. The current account balance had been positive until 2008, but dropped into negative territory with the lower commodity export prices in 2009/10 and more deeply in 2012 and 2013 (over 10% of GDP), when combined with the major capital imports driven by FDI into PNG LNG and, to a lesser extent, other extractive industries' construction phases. This is expected to turn around as PNG LNG enters production and construction is completed, building up in 2015.

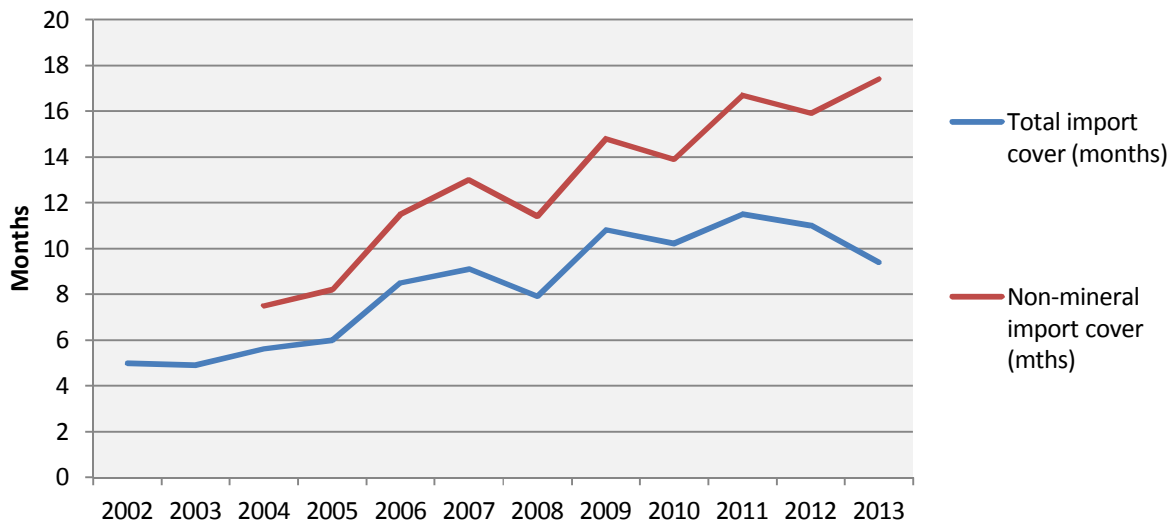
**Figure 15: Balance of Payments 2005-2015 proj.** (Source BPNG and Treasury) (Kina millions)



## Foreign Exchange Reserves:

Gross foreign exchange reserves built up since the mid-2000s, to kina 9 billion kina in 2011, before slipping back to K8.3 billion in 2012, and expected to drop significantly below the K8.2 billion forecast (at end of Q1 of 2013 – or 9.4 months of total export cover) with the lower export earnings during the year, but forecast to strengthen again upon PNG LNG production, despite declining production from some other resource projects. These figures will clearly be affected by the level of expenditure and imported goods and services by the government over the next years, and the extent and nature of financial commitments, including over project funding and equity acquisition by government in major projects. Intervention levels by the Central Bank to sustain the kina value during from mid-2013-2014 will also be a factor.

**Figure 16: Months of Import Cover** (Treasury & BPNG) -actuals and 2013 (proj.)



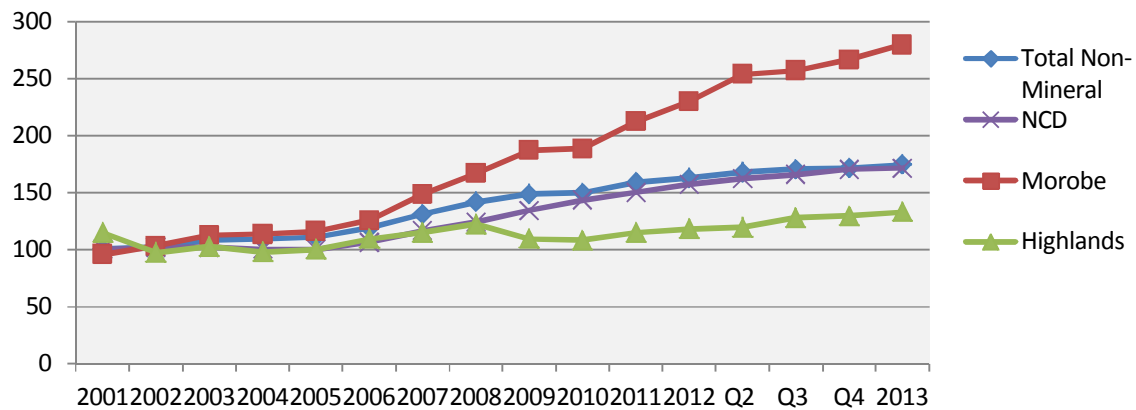
### Employment and Wages:

Formal sector employment has seen a firm rise since 2005, albeit from a low level and portion of the total workforce. For the most part this has embraced most sectors and regions, albeit at different rates, with major industrial and port centres and provinces, such as Morobe well above average, and the Highlands provinces, largely lagging well behind, with their dependence upon a few major cash crops (notably coffee and tea, which experience little if any production growth over the decade, despite some years of strong prices and incomes). NCD has been closer to the average, with its strong boom segments and areas, but with a major growing urban population with limited skill-base, most labour absorption been into an ill-developed and poorly supported informal economy. With peak construction of the PNG LNG project in late 2012, albeit some carryover into 2014, the adjustment will occur in 2013 and 2014, with laid off staff seeking absorption elsewhere in the formal sector, where possible. This should provide some boost to other industries and the public sector (including teaching and health services) drained in recent years of skilled Papua New Guinean staff (and in some cases forced to resort to overseas skilled employees for tasks, hitherto localised), although adaptation to non-LNG remuneration may be difficult for some employees;

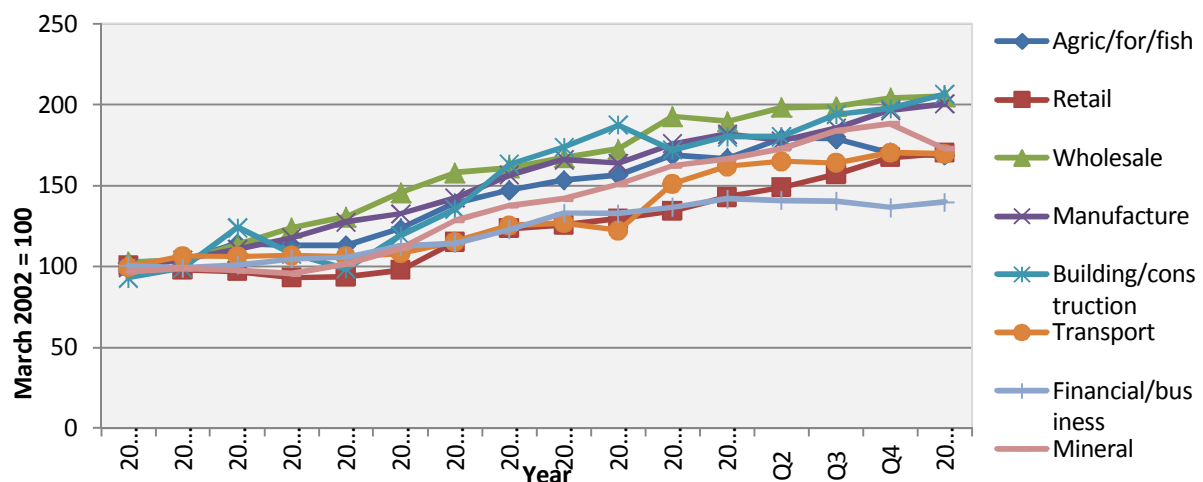
Average wage rates have appreciated significantly in recent years, driven by demand for, and shortages of, skilled staff for the PNG LNG development particularly, and pushed by the appreciating living cost. Earnings for lower income workers, however, have not kept pace with the rising living costs, and this is more apparent for those working in the informal economy (as highlighted by J Gibson). Employment and incomes in rural sector have been affected badly by the recent decline of agricultural commodity prices and the localised effects of major pest and

disease outbreaks; (for example, with cocoa pod borer removing some 80% of the cocoa harvest in East New Britain, where cocoa was the backbone of the local economy for decades).

**Figure 17: Formal Employment Trend 2001-Qtr1 2013 (BPNG employment survey)**



**Figure 18: Formal Sector Employment Growth 2001-13 (BPNG Employment Survey)**



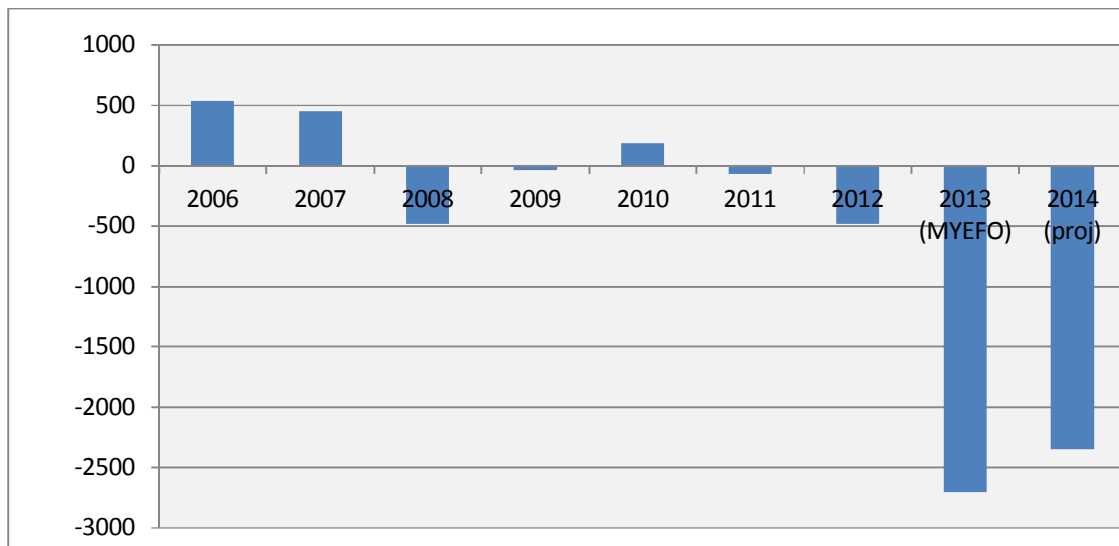
### Fiscal Conditions

With the Budget for 2013 set at a record level of 13 billion kina, roughly K3 billion above the 2012 actual expenditure, the Government determined to step outside the former fiscal (and debt management) stance restraining borrowing, by planning for an estimated K2.5 billion deficit budget (approximately 7.2% of GDP; revised to K2.7 billion or 7.6% in the MYEFO), and raising debt levels back above 30% of GDP by the end of 2013, and further during 2014. Their justification for this major policy shift was expressed as the need to achieve a major breakthrough in restoring and upgrading infrastructure, education and health capacity and service provision, sub-national access and facilities and addressing law and order issues. It was stated that this would also entail substantial overseas borrowing, notably on commercial terms (notably from Exim banks), although the Bank of PNG strongly argued for lower risk domestic borrowing, except from concessional sources. 2013 was tagged by the Government as the 'year

of implementation', although, in reality, after years of weak public sector planning, operational and oversight capacity, there would inevitably be severe lags in implementation and expenditure of the increased allocations, particularly at sub-national levels, at least in terms of compliance and accountability for these public funds.

The Government made a commitment to the use of overseas contractors, tied to Exim bank financing, but this comes at a cost, with limited, if any, competitive tendering and utilisation of overseas labour, thereby defeating much of the purpose of the infrastructure projects following the completion of the LNG construction, namely generating domestic economic activity and local employment. The Government stated a shift in emphasis from annual budgets to multi-year budgeting, thereby, in principle, replacing annual deficits with envisaged longer term budget balance, dependent upon later resource-based revenue. The need to enhance infrastructure, services and capacity is self-evident, including driving the process with greater focus than hitherto. However, there is a substantial risk and potential lost opportunity if expenditure is pushed well ahead of planning and oversight capacity, entailing a major waste and poor, or misdirected use of public funds, including those borrowed on commercial terms in foreign currency loans, financed on expected, but uncertain future earnings (notably with volatile, but shifting energy markets). Emphasis on restoring capacity, systems and standards and effective oversight is critical as a parallel prerequisite to effective outcomes, and to minimise waste and inevitable abuse.

**Figure 19: Central Government Financing surplus-deficit (million kina)**



### World Bank's 'Ease of Doing Business':

In the World Bank's 'Ease of Doing Business' Report for 2013, which focuses largely upon the institutional framework for business and investment, Papua New Guinea ranked 104 out of 185 countries analysed on the ten criteria assessed (marginally improved from the 2012 ranking). PNG had particularly poor rankings for enforcing contracts (166) and dealing with construction permits (159), but, a more positive for a few categories, notably, ranking for protecting investors (49).

PNG is ranked substantially lower overall than the developed countries in the region, with Singapore, Hong Kong and New Zealand ranked 1, 2 and 3, and Australia ranked 10, worldwide. More relevantly, perhaps, it is also significantly behind most other Pacific Island (i.e. developing) country neighbours covered in the survey, on the criteria assessed, notably:

Samoa	57	But PNG is ranked ahead of:	
Fiji	60	Kiribati	117
Tonga	62	Timor Leste	169
Vanuatu	80	Indonesia	128
Solomon Is	92		
(PNG)	104)		

The Bank's Doing Business Indicators (DBI) provide informative comparisons of specific regulatory and bureaucratic processes, some of which play a major role in influencing investment and business conditions and decisions. However, they need to be taken in context. For example, if power provision and reliability are deficient, as they are currently even in the main centres in PNG, then the relatively prompt power connection service (recorded for PNG in the 2013 Survey) is clearly of secondary importance. So the DBIs need to be taken in the context of the over-arching impediments to business and prioritises for action, as highlighted by businesses in this survey, wherein various prerequisites to business opportunities are highlighted, notably, sound law and order and governance (low corruption levels), transport and communications infrastructure, power provision and the stability of investment rules.



## Introduction



*private sector developed/operated port and vessel repair facility, National Capital*

The Institute of National Affairs (INA) undertook the 2012 Private Sector Survey with the objective to ascertain the main impediments to business and investment, and to gauge the private sector's views on priorities for reform. The survey was part-funded by the Asian Development Bank (ADB) with the Australian Agency for International Development (AusAID), through the ADB-managed Pacific Private Sector Development Initiative. The survey was designed to provide comparison with a similar exercise undertaken in 2007 (and prior surveys), although significantly more questions were asked in the 2012 survey, notably related to the costs of crime and its effect upon business and investment.

The survey comprised seventy (70) questions under the following six general themes:

- Information about the Business
- Government Policies and Regulations
- Business Security
- The Government-Business Relationship
- Effectiveness of Government Service Provision
- Rating Hindrances to Business and Investment



The survey comprises the views of a sample of businesses spread across the whole of Papua New Guinea, notably those that chose to complete the questionnaire, which was widely circulated and promoted by the INA, including through various regional consultations with Chambers of Commerce (in Alotau, Kokopo, Goroka and Lae) and other provincial field visits. Researchers also held meetings and consultations with various other stakeholders to help gauge business sentiment.

The survey covers firms operating in a diverse range of businesses activities, but it does not pretend to be comprehensive, as certain business operators and perhaps types of operators, may have chosen, for their own reasons, not to complete the questionnaire, which required a certain level of attention, effort and, clearly, literacy. (As well as the English language version of the questionnaire, a Mandarin language version was also circulated to some businesses owned or managed by persons for whom Mandarin may have been their first language).

Comparisons of the responses between the different survey years will provide useful insights, but must be treated judiciously, as the respondents partly differ and the sample size is substantially smaller in 2012, (perhaps because of the larger size of the questionnaire, and other factors, such as, maybe, the greater level of business activity in many sectors in 2012, dampening or precluding commitment to completing major questionnaires).

The questions were designed to monitor the views of businesses, (i.e., small, medium and large) on a number of significant issues under the aforementioned broad headings and to gauge the relevance of those issues with respect to their business operations.

The survey was conducted over an extended period between May and December 2012, (with several extensions to encourage feedback). Businesses completed the questionnaire via four means: (1) through the postal network, (2) the INA's corporate website and email, (3) facsimile transmission, and (4) collection of the survey questionnaires directly from businesses by field assistants. Under the latter arrangement survey questionnaires were provided to smaller business and data was entered with assistance from the respective field assistant, if sought.

No focus group discussions were held with the businesses. Nor did the survey resort to other data collecting methodologies. However, a series of presentations were made at meetings with business houses in selected provincial capitals to explain the purpose of the survey and respond to questions. A total of 130 questionnaires were successfully completed and returned (compared to 243 in 2007 and 166 for the 2002 survey). The survey questionnaire is reproduced in Appendix 1. The general survey methodology was to invite respondents to gauge, on a 6-point scale, the degree to which the issue in question affects their business and investment operations. The issues covered in the survey are those commonly cited as affecting

business and investment in PNG, although, as indicated, for the 2012 there were also a series of more detailed questions related to crime prevention and the impact of crime and crime, as part of the World Bank's 'Cost of Crime and Violence Survey'.

As in 2007, businesses were categorised into nine (9) broad economic industry categories:

- i. Agriculture/Forestry/Fisheries
- ii. Building and Construction
- iii. Finance/Investment
- iv. Hotels/Restaurants
- v. Manufacturing
- vi. Mining-oil-gas/Quarrying
- vii. Retail/wholesale
- viii. Transport/Communications
- ix. Other (including activities like gaming/pokies, hair salons and sporting enterprises)



*Women take a heavy share of PNG's subsistence and parts of the informal economy*

## Part 1: Business information



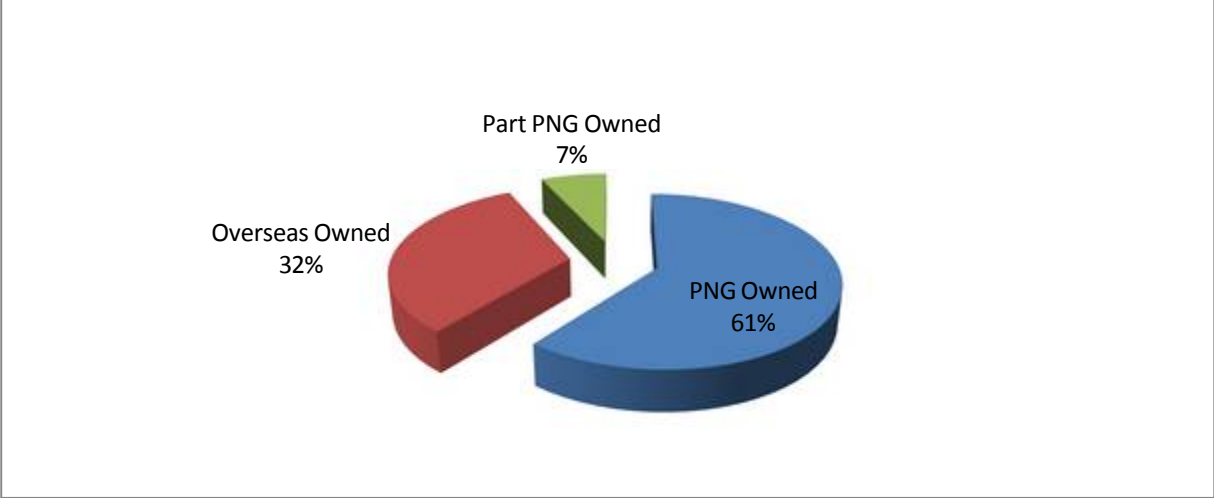
Part 1 of the survey is intended to extract general information on the nature of business in which respondents are engaged, with specific data collected on the following areas;

1. Business ownership
2. Location of the business
3. Business registration status
4. Length of business operations
5. Annual turnover of the business
6. Nature of business industry and
7. The exporting profile of the business

### Business Ownership Profile

From the survey, 61% of the respondents are PNG owned businesses, followed by overseas owned with 32% and 7 % were businesses part locally and part overseas owned (Figure 20).

Figure 20: Profile of respondents by Business Ownership



**Business Location**

Out of the businesses which took part in the survey, 44% of respondents specified that they are based in ‘other’ centres and towns in the country. Businesses based in Port Moresby make up 29% and 11% of the respondents are based in Lae. The other 16% are based in ‘multiple locations’, which include businesses operating in Port Moresby and Lae. Profiles of business location are depicted in Figure 21 below.

The majority of the businesses surveyed are based in urban settings (78%), 18% indicated that they are based in rural areas and the remaining 4% are based in both rural and urban areas, as shown in Figure 22.

Figure 21: Profile of Respondents by Location of Business

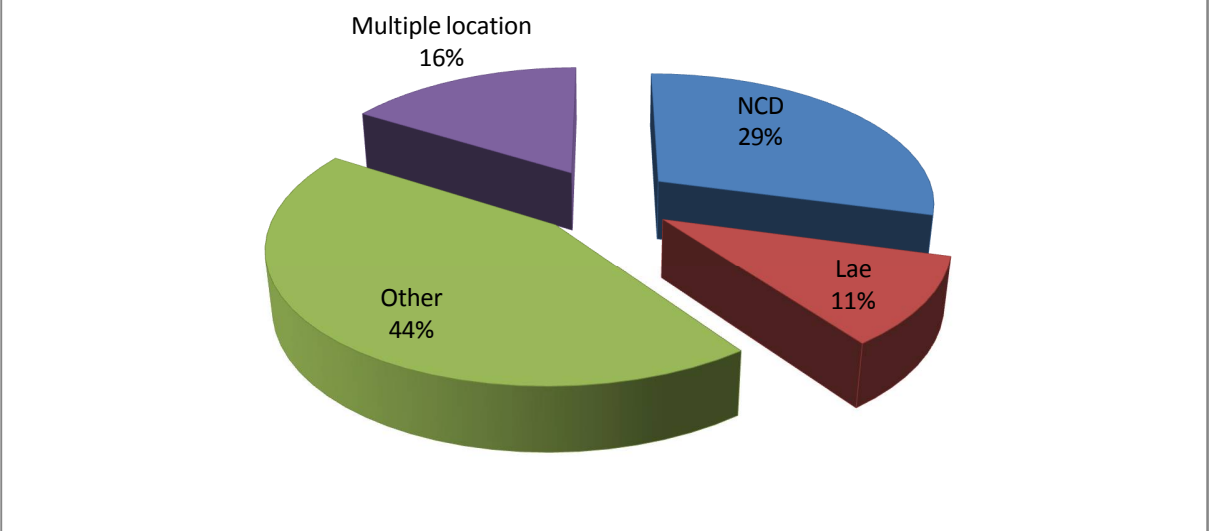
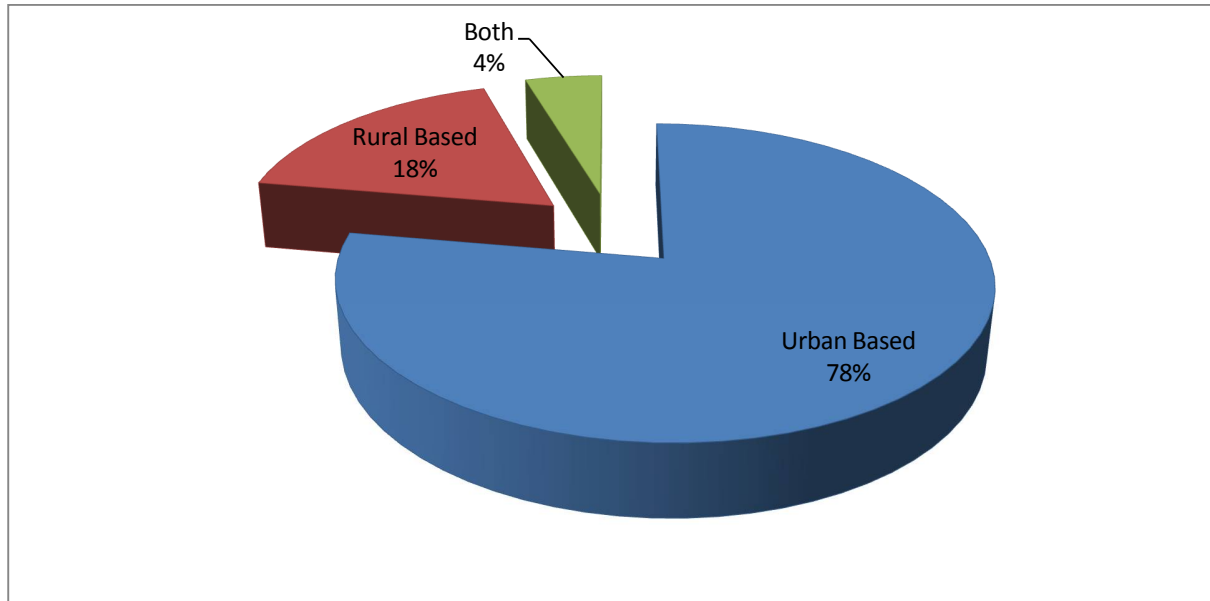


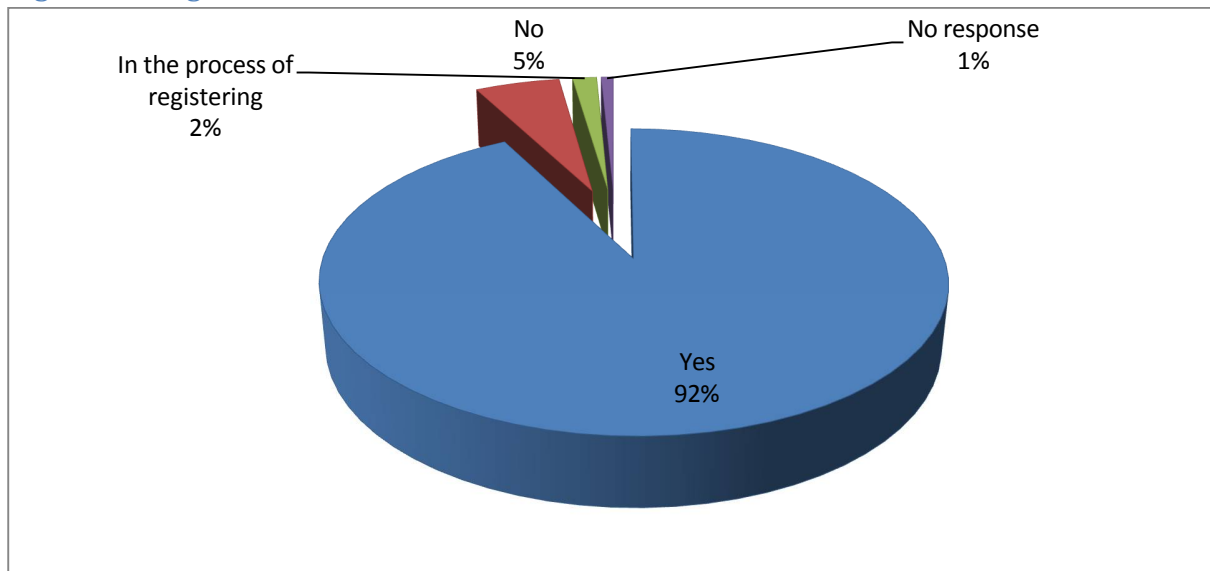
Figure 22: Urban vs. Rural Profile of Respondents in the Survey



### Registration Profile of Business

When businesses were asked to indicate their registration status, 92% of the respondents indicated that they are registered (Figure 23), 5% indicated that they not registered and 2% of the businesses are 'in the processes' of registering their business. The other 1% did not indicate their business registration status.

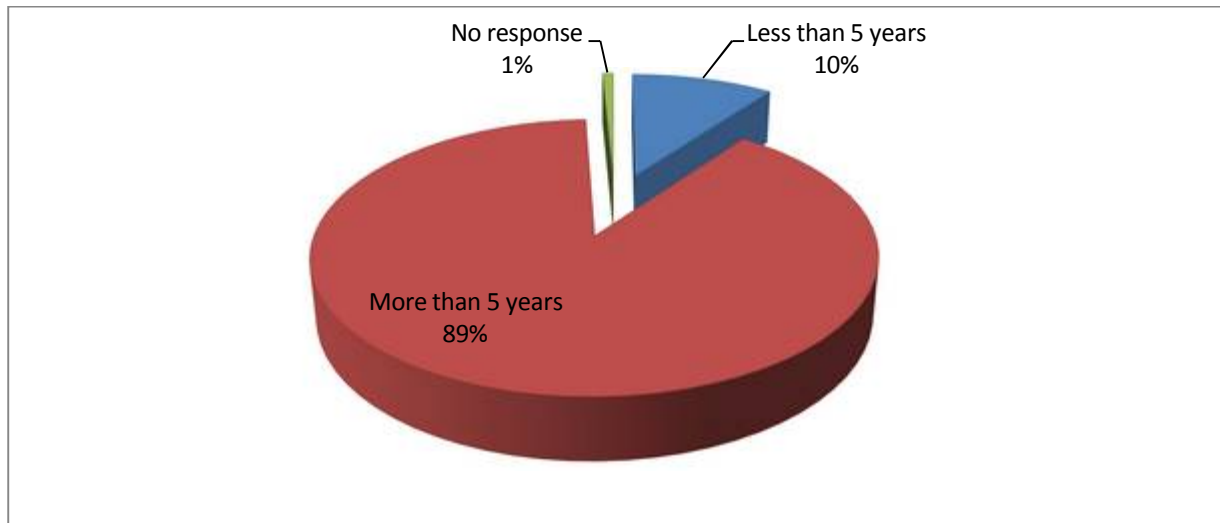
Figure 23: Registration Profile of Business



### The length of Business Operations

From the survey, 89% of the respondents indicated that their business has been operating in PNG for more than 5 years (Figure 24), 10% stated that they started operations during the course of the last 5 years and the remaining 1% did not indicate the duration of their operations.

Figure 24: Length of Business Operation



### Annual Turnover

There are four categories of annual turnover used in this study;

1. Less than K500,000
2. Between K500,000 and K5 Million
3. Between K5 Million and K50 Million; and
4. More than K50 Million

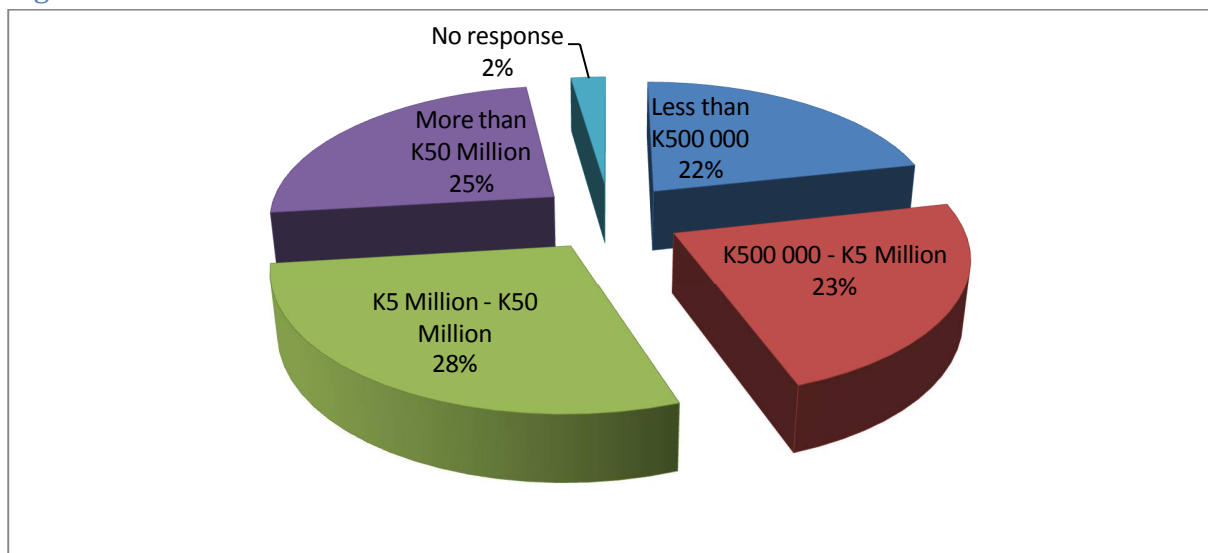
28% of respondents indicated that their annual turnover is between K5 million and K50 million, followed by 23% of respondents whose annual turnover falls between the K500 000 and K5 million category. Businesses whose annual turnover is more than K50 million make up 25% of the respondents, with another 22% with less than K500 000 annual turnover. The remaining 2% did not specify under which category of annual turnover they fall (Figure 25).

There is no universal definition of Small to Medium Enterprises (SMEs), and what is termed an SME is some developed economies, would be deemed a very large business in PNG. Within PNG there is also considerable inconsistency in the application of the term, with some using it to embrace micro, or informal economy enterprises, whereas normally it would be used to describe businesses in the formal economy, which are larger than those in the informal economy. Needless to say, whilst most IE enterprises are very small, usually individual or household operations, there are some enterprises which remain informal, for

various reasons, despite a significant turnover and employing staff on paid (albeit untaxed) wages, which in other senses would be deemed SMEs.

PNG would do well to determine and apply a consistent definition of SME. In some countries they're defined by number of employees, however with very contrasted and often fluid labour markets, turnover is generally considered a more suitable measure of scale and composition of the business, albeit with different factor prices, setting comparable international yardsticks is problematic. For the purpose of this survey the SMEs are merely defined as those with an annual turnover less than 5 million kina and which is in the formal economy, even though it may have a turnover well below K0.5 million.

Figure 25: Business Annual Turnover

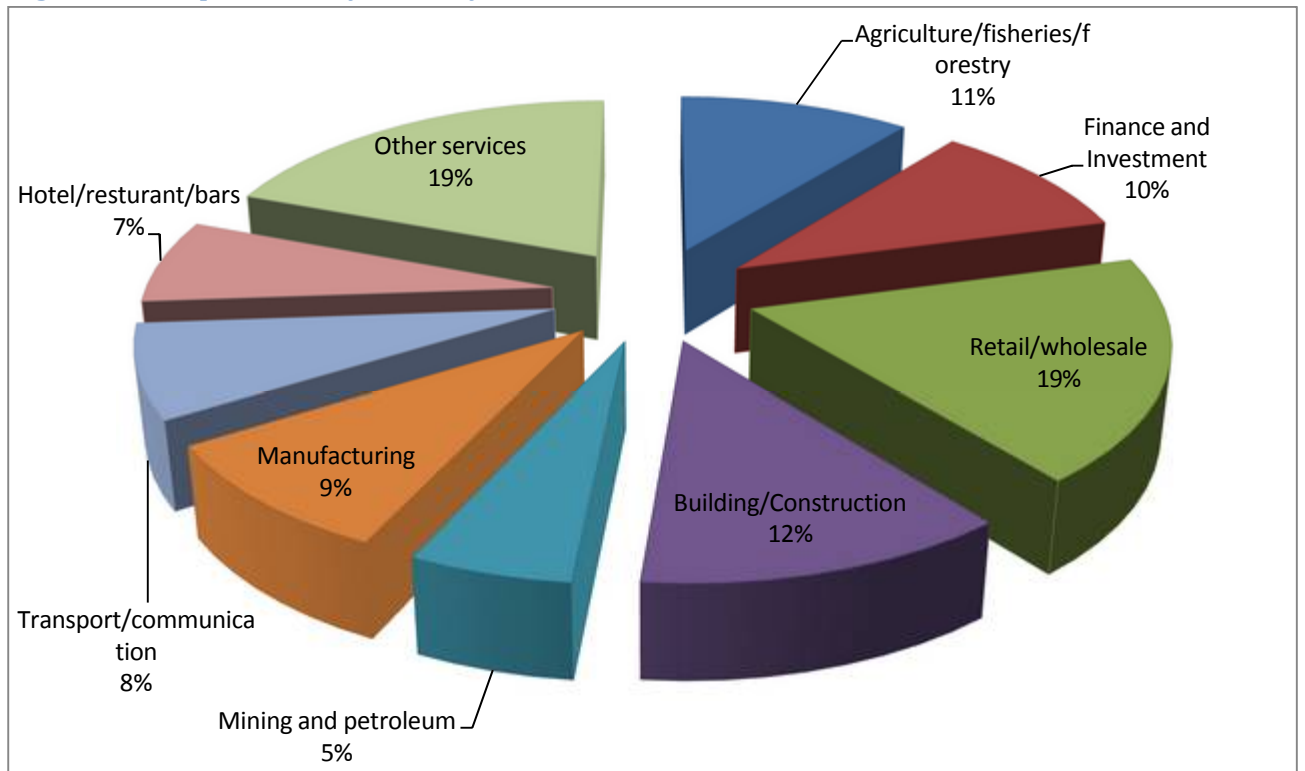


### Categories of Industry

The respondents are categorized into 9 industries and/or economic sectors: - (1) agriculture, fisheries and forestry; (2) finance and investment; (3) retail and, wholesale; (4) building and construction; (5) mining and petroleum; (6) manufacturing; (7) transport and communication; (8) hotels, restaurants and bars; and (9) other services.

Businesses in the 'services' and 'retail/wholesale' sector comprised the largest number of respondents with 29% each (Figure 26), followed by the building/construction sector with 12%. The agriculture/fisheries/forestry and finance/investment sector had 11% and 10% of respondents respectively, followed by the manufacturing sector with 9%. 8% of the respondents are from the transport/communication sector, 7% from the hotels/restaurants/bars sector, with the remaining 5% from the mining/petroleum sector.

Figure 26: Respondents by Industry



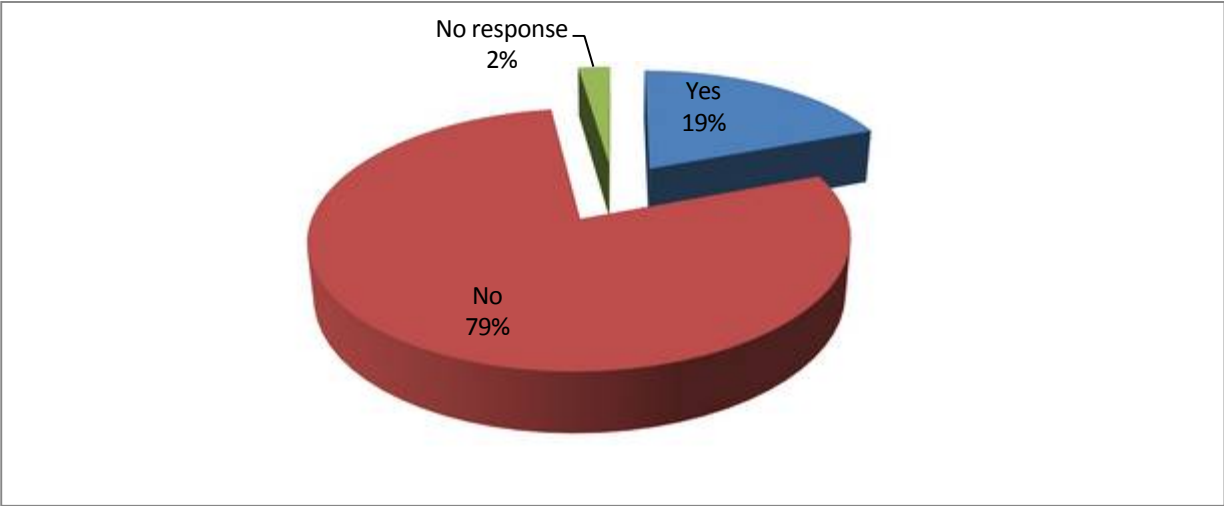
*Kumul Eco-tourism Lodge, Enga Province*



**Exporting Profile of Respondents**

When asked whether or not the businesses engaged in exporting, around 79% of the respondents indicated that they are not engaged in exporting (Figure 27), 19% stated that they are and the remaining 2% did not indicate whether they are engaged or not.

**Figure 27: Exporting profile of Respondents**



*Wewak CBD, including fresh produce*

## Part 2: Government Policies and Regulations



The questions in Part 2 of the survey seek to ascertain businesses' perception and approach towards government policies and regulations.

### **Business Awareness of Government Policies and Mechanisms to Assist their Business**

When businesses were asked if they knew of government policies that could assist their business, 63% of them responded that they are unaware of any such government policies (Figure 28). 35% of the respondents indicated that they are aware of such government policies and the other 2% did not respond to the question.

When asked if they had used any of these policies to assist their business, 61% of the respondents indicated that they have not used any government policies to assist their business (Figure 29), 31% indicated that they have and the remaining 8% did not respond to the question.

**Figure 28: Business Awareness of Government Policies that Assist them**

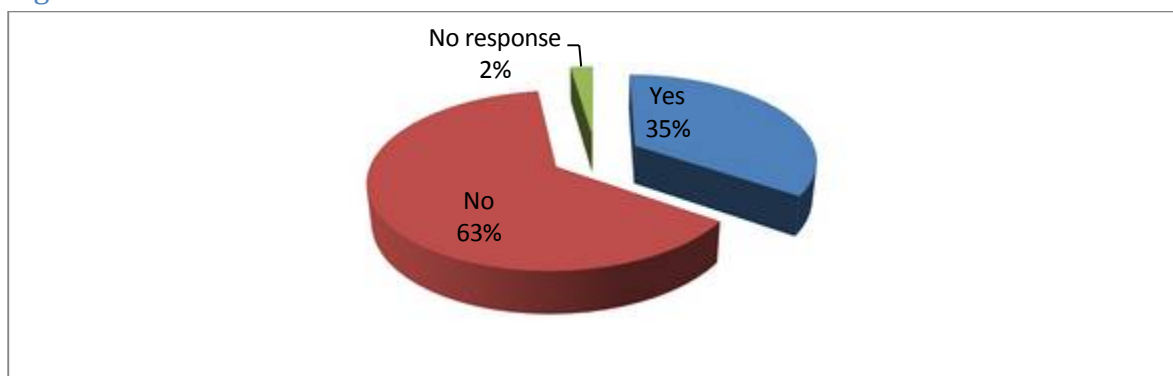
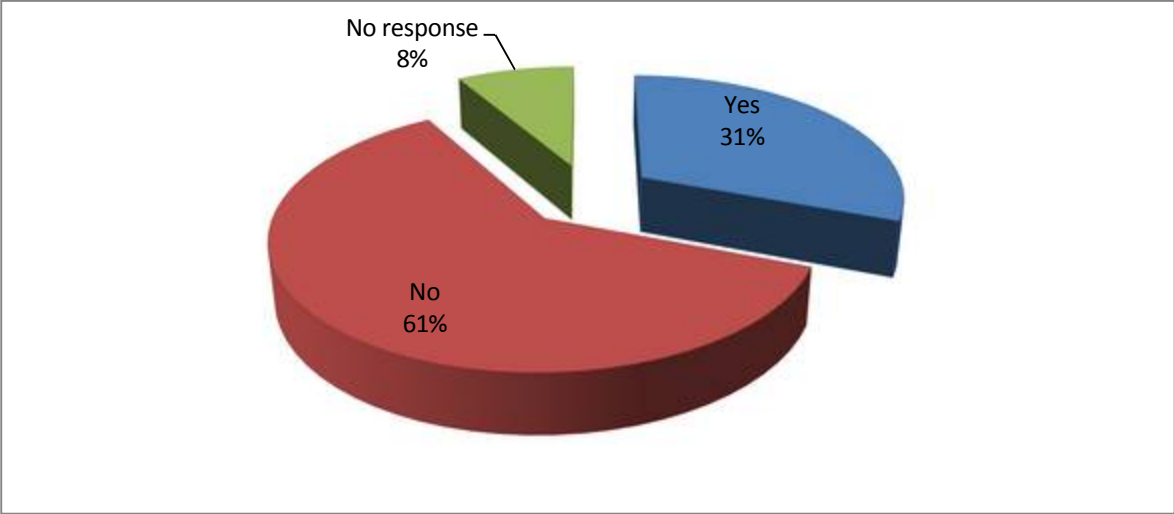


Figure 29: Businesses Using Government Policies to Assist their Business



**Business Awareness of Government Laws, Rules and Regulations and Use them to Assist their Business**

Around 52% of the respondents indicated that they are unaware of government laws, rules and regulations that can assist their business (Figure 30). 44% of respondents said they are aware of laws, government regulations and rules that assist their business and the remaining 4% did not respond to the question.

When the businesses were asked if they had used the prevailing laws, rules and regulations to assist their firms' operations, 55% of the respondents said no (Figure 31). 37% of respondents indicated that they did use laws, rules and regulations to assist in their firms' operations, whilst the remaining 8% did not respond to the question.

Figure 30: Business Awareness of Government Laws, Rules and Regulations that Assist Businesses

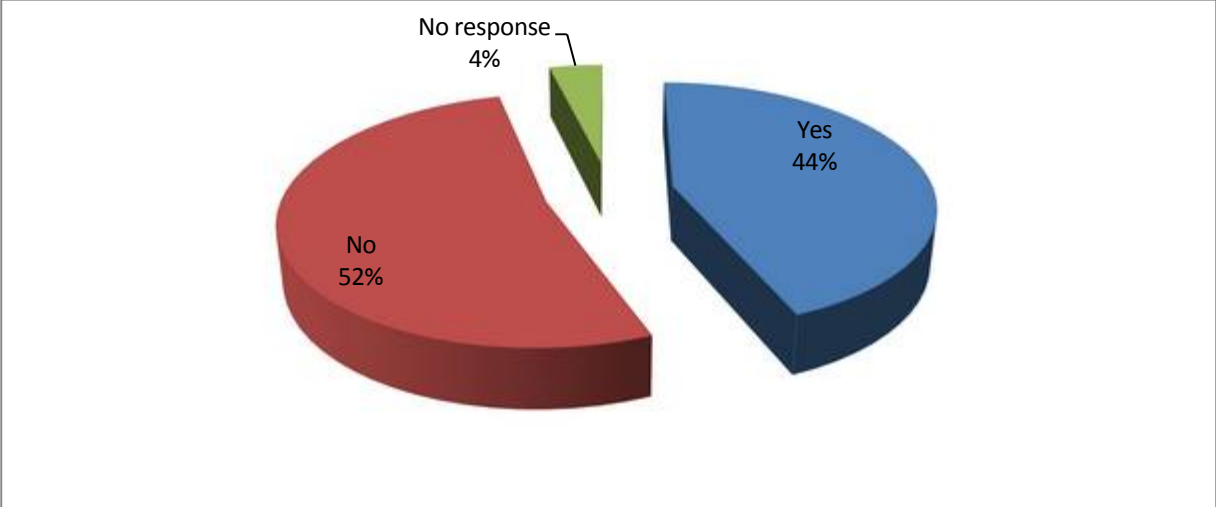
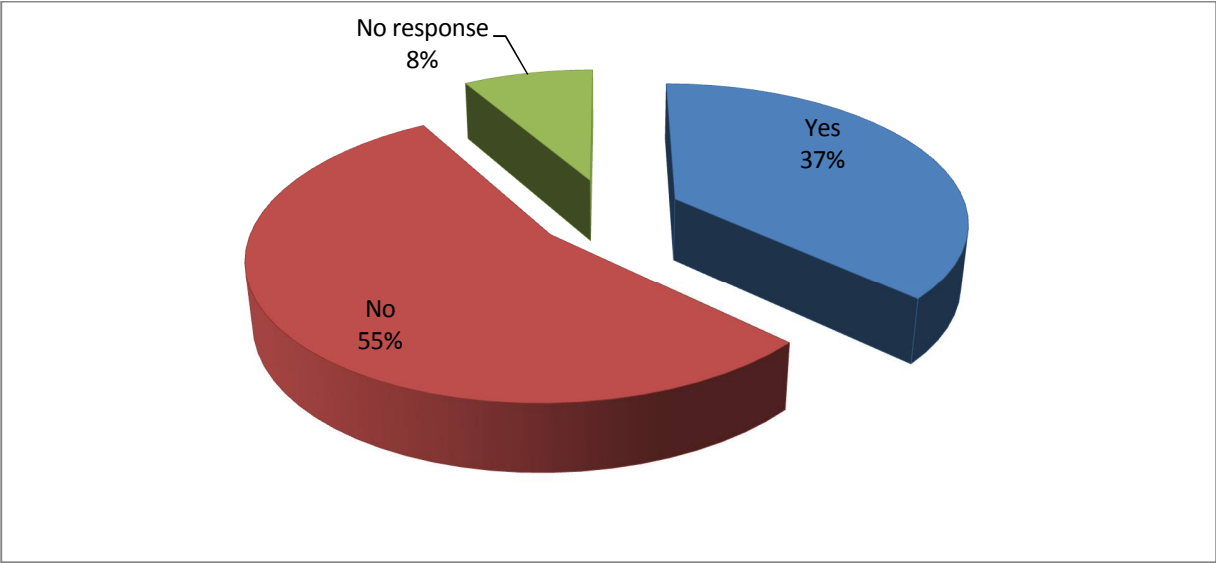


Figure 31: Businesses Using Government Laws, Regulations and Rules to Assist their Operations



### Level of Concern for the Stability of Rules, Policies & Regulations

This question was designed to identify the level of concern over the stability of government policies and regulations affecting businesses. Around 84.6% (Figure 32a) of the respondents specified that they are either 'very highly concerned', 'highly concerned' or 'fairly concerned'. Only 0.8% of the respondents are 'completely unconcerned', 10% are 'fairly unconcerned' and the remaining 4.6% of the respondents did not indicate their level of concern over the stability of government policies, rules and regulations. That contrasts with 95.9% specifying 'concern' to 'very high concern' in the 2002 survey and 93.4 in 2007, seemingly indicating a reduction in the level of concern, albeit that it remains a predominant and probably significant influence on decision-making over investment.

Responses by sector (Figure 32b) showed that the service sector is very highly concerned with 48% and the mining and petroleum sector is highly concerned for the stability of government policies with 71.4%. Generally all sectors showed high levels of concern, with the retail/wholesale, hospitality industry and manufacturers indicating the least concern over the stability of government policies, rules and regulations.

The comparisons of responses from the Small to Medium Enterprises (SMEs') and the 'Large Businesses' indicated similar rates of overall concern, with 86.1% of SMEs expressing concern over the stability of government rules, as opposed to 82.6% of large businesses, but generally, the SMEs show greater concern, with 37.9% 'very highly concerned', as depicted in Figure 32c below.

Figure 32a: Concern over Stability of Government Policies, Rules & Regulations

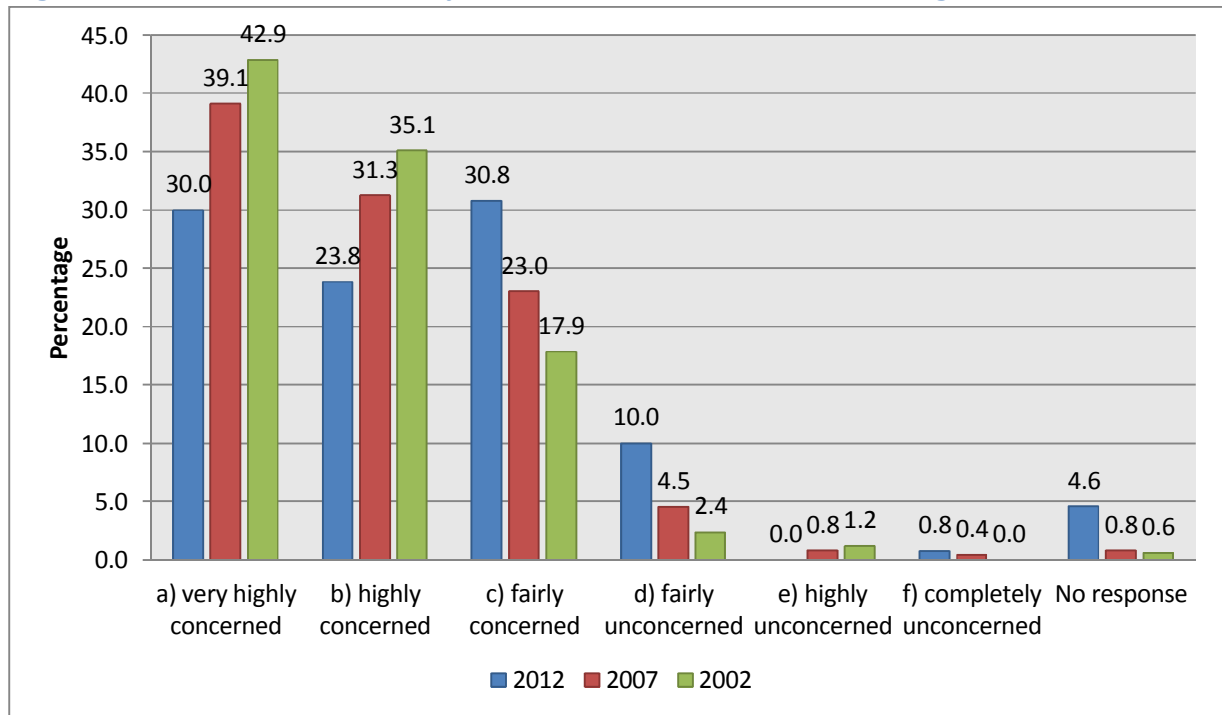


Figure 32b: Level of Concern for the Stability of Government Policies, Rules and Regulations by Sector

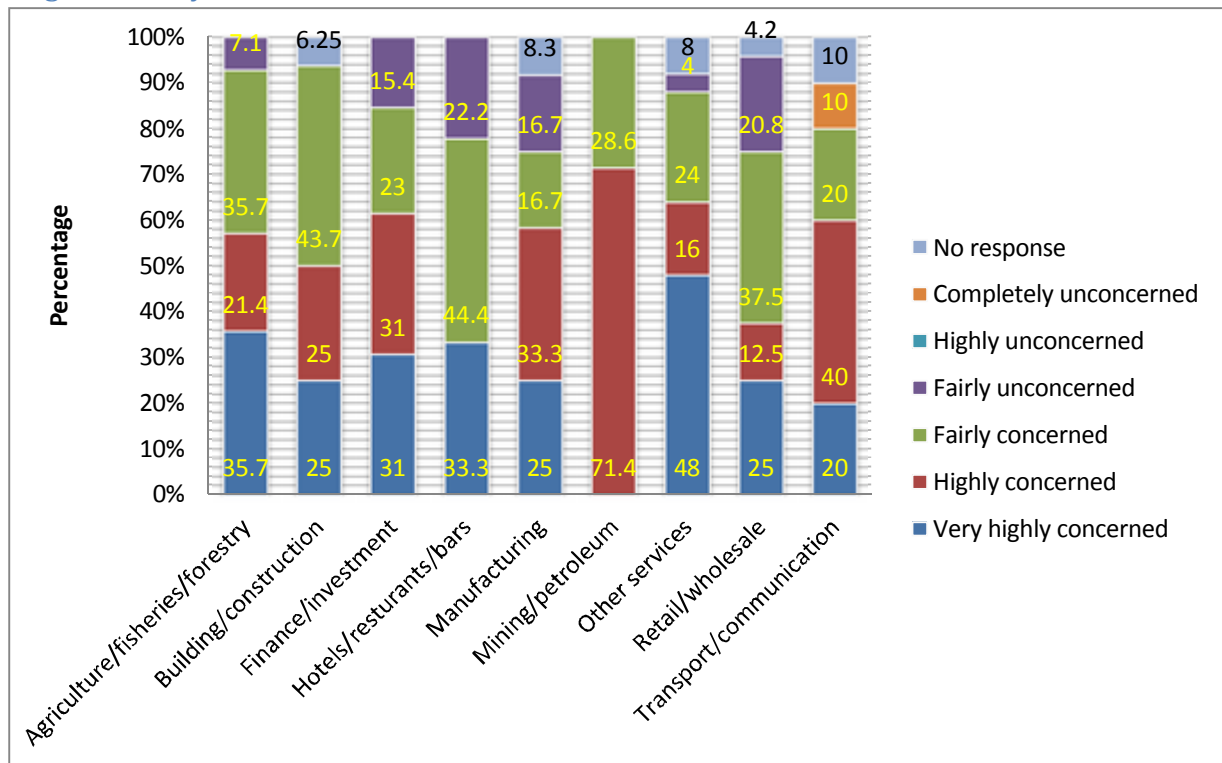
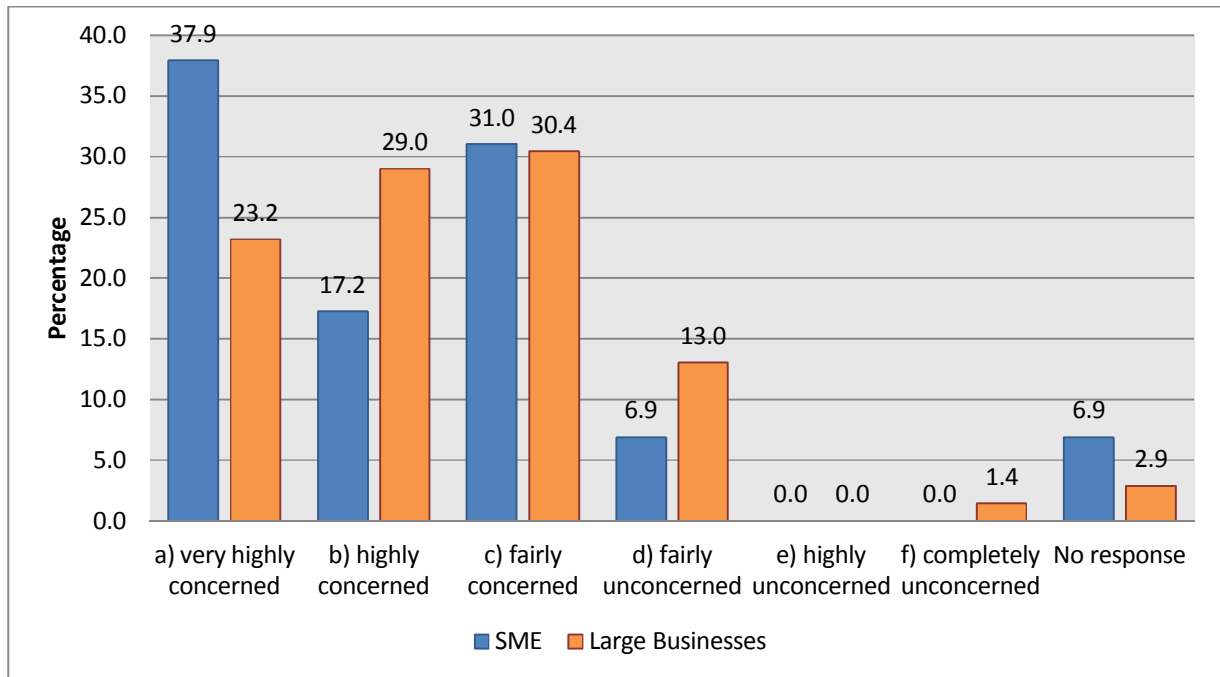


Figure 32c: Level of Concern for the Stability of Government Policies, Rules and Regulation; the SME versus Large Businesses Perspective



### Fear of Retrospective Changes to Rules and Regulations

This question is closely linked to the previous question, in which respondents were requested to advise whether they fear retrospective changes to the government policies and rules. The majority of the respondents, 76.9%, are either 'very highly concerned', 'highly concerned' or 'fairly concerned' (Figure 33a). Only 2.3% of the respondents are both 'highly unconcerned', and 'completely unconcerned' and 16.9% are 'fairly unconcerned'. The remaining 4% of the respondents did not indicate their level of concern and/or did not respond to the question. This suggests a slight decline in the level of concern from hitherto, with 83.9% and 86% of respondents expressing 'fairly' to 'very high concerned' in 2002 and 2007 respectively.

Responses by sector (Figure 33b) indicated that businesses in all sectors (except seemingly the hospitality industry) are either 'very highly concerned', 'highly concerned' or 'fairly concerned' at retrospective rule changes. The highest levels of concern are apparently in the finance and construction sectors. There was a higher level of general concern amongst SMEs', at 81%, than with large businesses, at 72.4%, but most notably more SMEs indicated they are 'very highly concerned'; see Figure 33c below.

Figure 33a: Fear of Retrospective Changes to Rules and Regulations

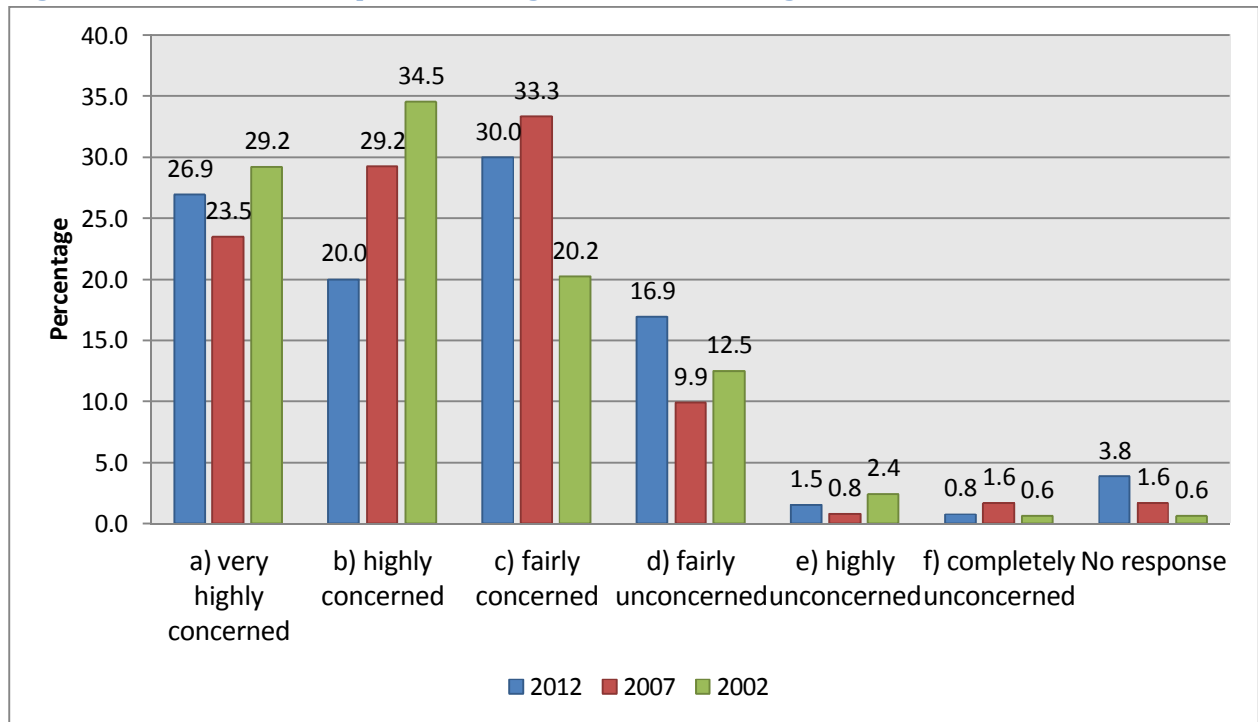


Figure 33b: Fear of Retrospective Changes to Rules and Regulations by Sector

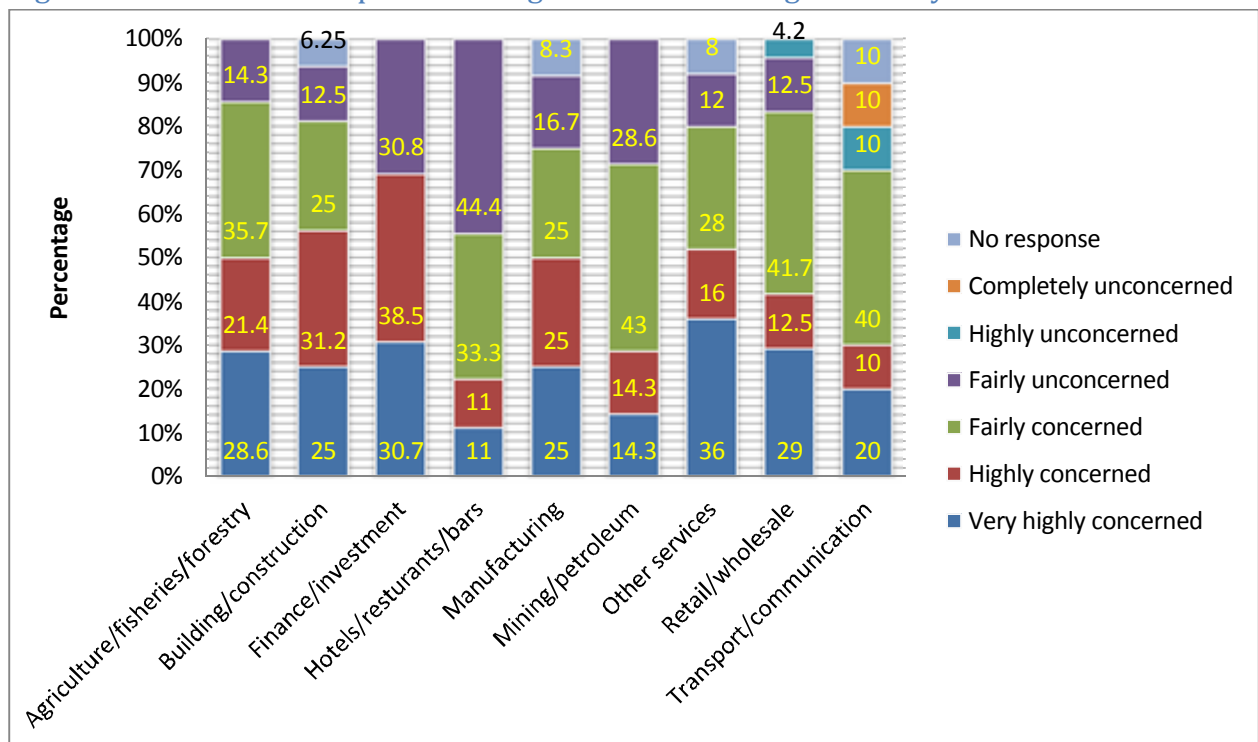
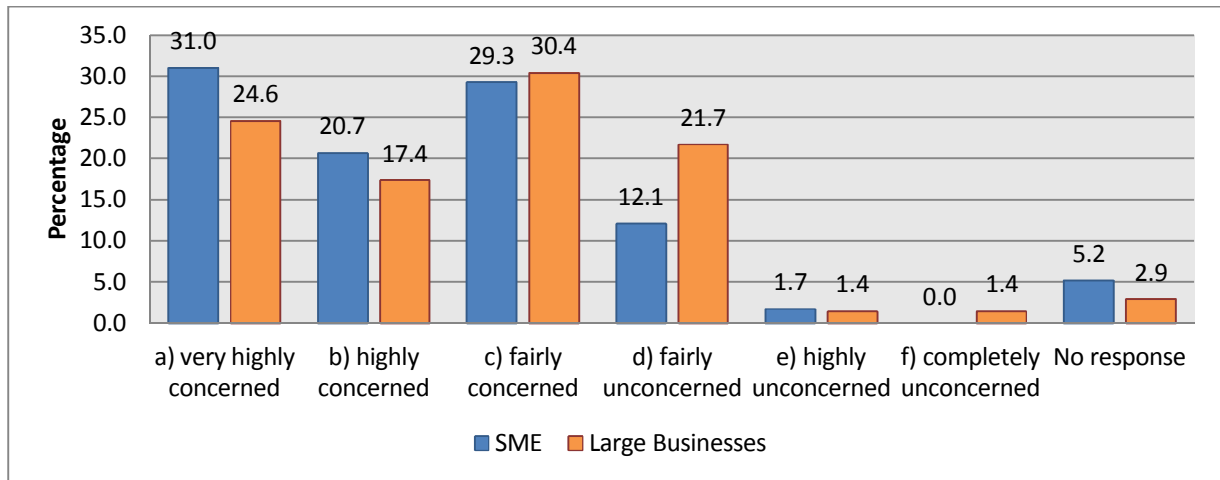


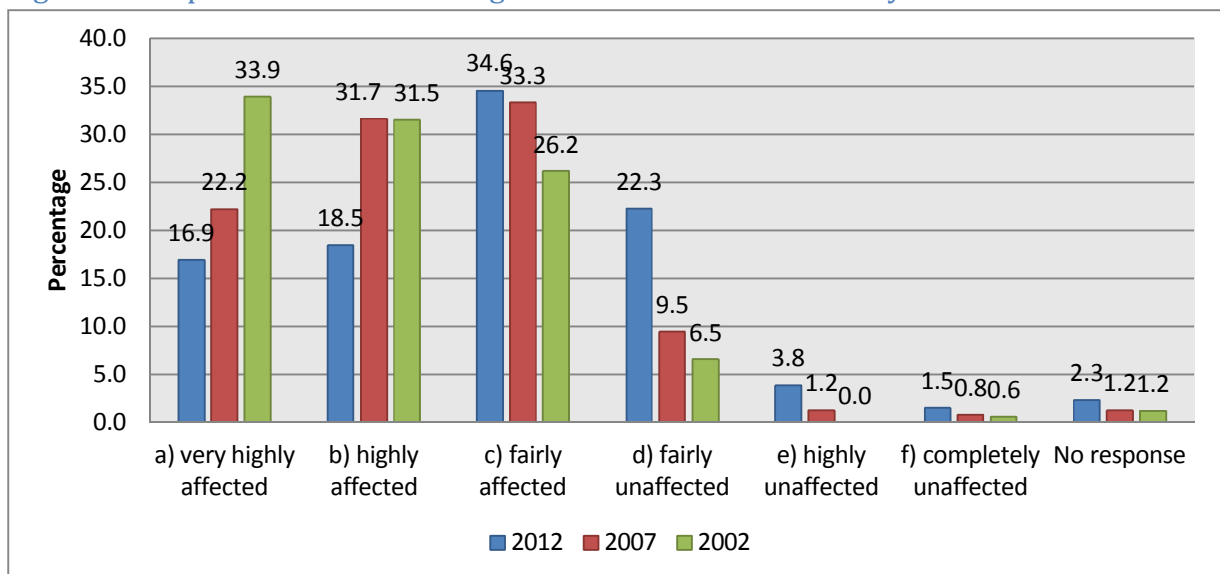
Figure 33c: Fear of Retrospective Changes to Rules and Regulations; the SME versus Large Businesses Perspective



### Impact on Business Owing to Political Uncertainty

This question was aimed at finding out the impact of political stability on businesses. 35.4% of the respondents indicated that they are either ‘very highly affected’ or ‘highly affected’ (Figure 34), with around 34.6% specifying ‘fairly affected’. 22.3% of the businesses indicated that they are ‘fairly unaffected’ by political stability, 5.3% are ‘completely unaffected’ or ‘highly unaffected’, with the remaining 2.3% not indicating whether their business operations are affected by political uncertainty or not. There seemed to be a markedly lower level of concern over the impact of political stability on business in 2012 than in both 2007 and even more so 2002. In 2012 70% considered political instability to ‘fairly’ to ‘very highly affect’ business, as against 88.5% in 2007 and 91.6% of respondents in 2002.

Figure 34: Impact on Business during Periods of Political Instability

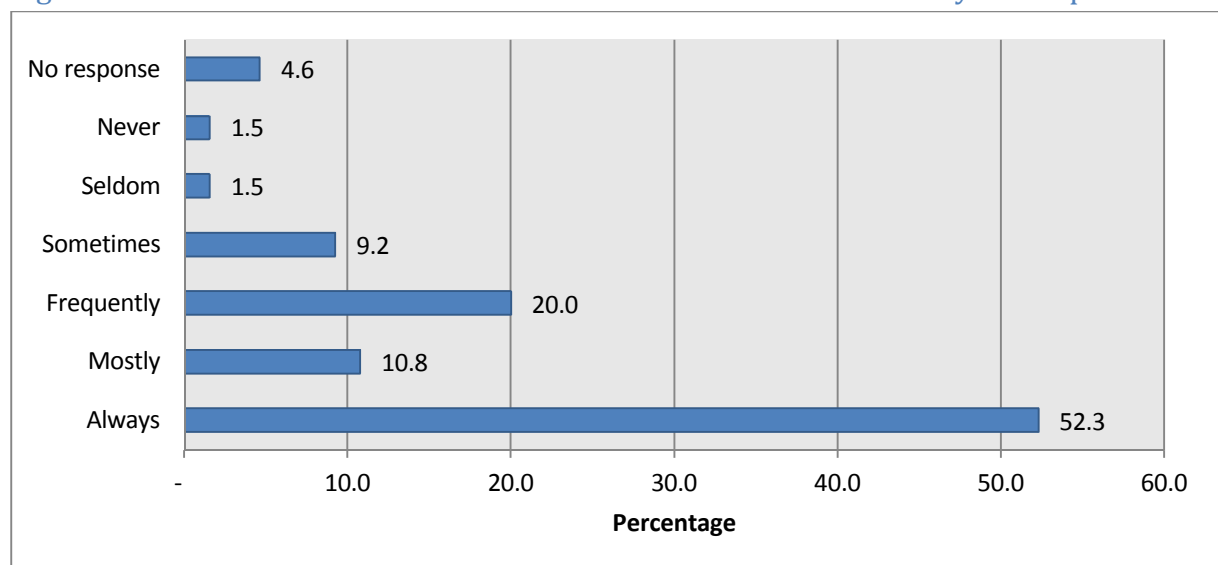




### Level of Information and Consultation in Developing Policy and Regulations

This question was gauged to ascertain the extent to which businesses feel they should be consulted in the process of policy formulation. 52% of the businesses responded that they feel that they should 'always' be consulted in the process of developing regulations and policies (Figure 35); 31% indicated that they should be consulted, 'most' of the time and/or 'frequently' during the process of developing regulations and policies; 9% felt that they should 'sometimes' be consulted; whilst 4.6% of the businesses did not indicate whether they should be consulted or not. The other 3% of the respondents however indicated that they should 'never' be consulted during any process of developing government policies.

Figure 35: Level of Information and Consultation in the Process of Policy Development

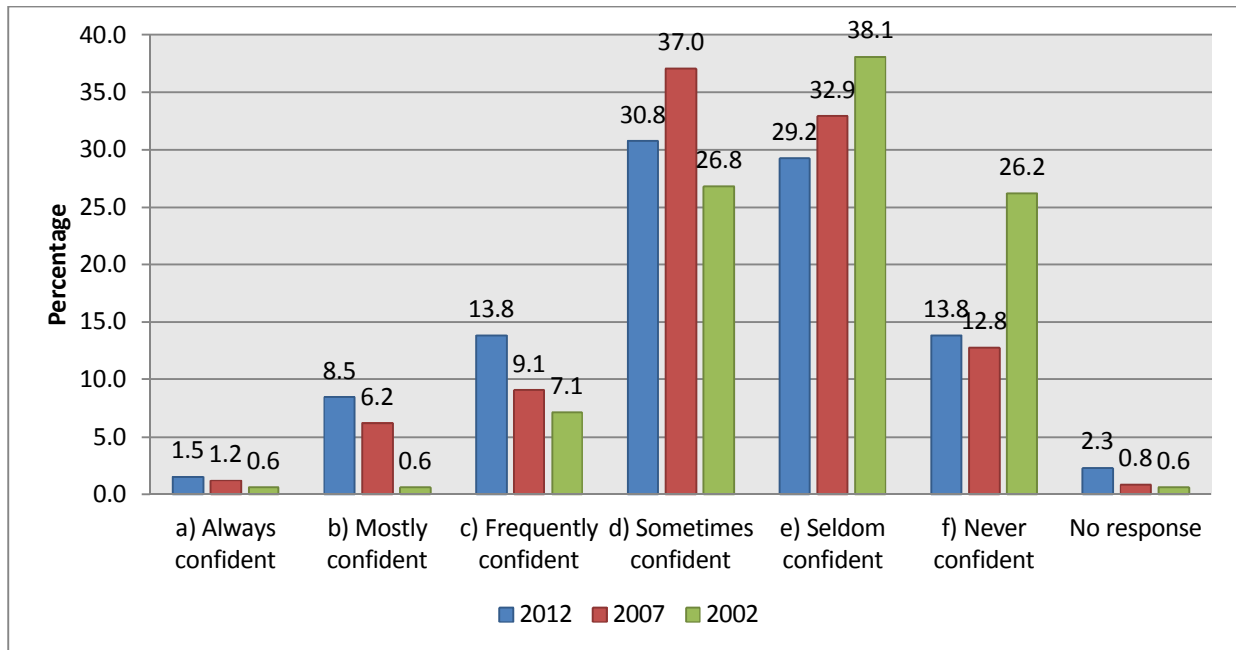


### Confidence in the Implementation of Policy Announcements

When businesses were asked if they were confident in the government implementing major announced policies, 30.8% of the respondents indicated that they are 'sometimes confident' (Figure 36a); 29.2% indicated that they are 'seldom confident'; around 22.3% of the businesses suggested that they are either 'mostly confident' or 'frequently confident', whilst 13.8% of respondents indicated that they are 'never confident' in the government implementing major policies; and 1.5% of the businesses suggested that they are 'always confident'. The remaining 2.3% did not indicate their level of confidence in the government implementing major policy initiatives. The figures suggest a modest improvement in confidence from 2007 over implementation of major policy implementation and a great improvement since 2002, but generally the level of confidence remains low and unsatisfactory; ('sometimes' to 'always confident' rose from 35.1% in 2002, to 53.5% in 2007 and 54.6% in 2012, but with a more marked improvement in 'frequently' to 'always confident' with only 8.3% in 2002, 16.5% 2007 and 23.8% in 2012).

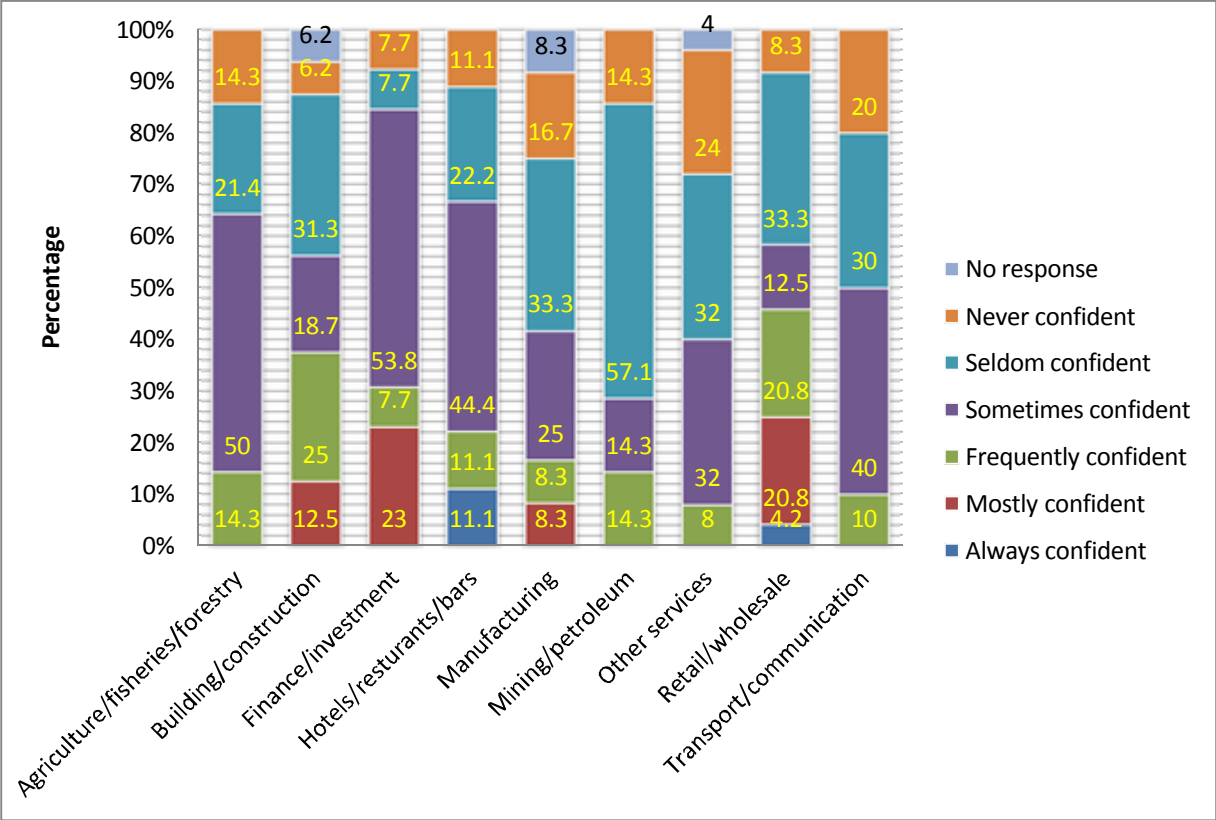
Most respondents in all sectors, especially in transport, agriculture, other services and the mining/petroleum sector, indicated that they are either ‘sometimes’ or ‘seldom’ confident in the implementation of policies announced (Figure 36b). A considerable portion of respondents marked that they are ‘never’ confident in the government implementing any major announced policies.

Figure 36a: Confidence in the Implementation of Policy Announcements



Auditor-General briefing a CIMC forum on deficient government accountability

Figure 36b: Confidence in the Implementation of Policy Announcements by Sector



Propensity for Rules and Regulations Impacting Business to Change with Changes in Government

Businesses were asked to what extent they think that changes of Government are accompanied with large changes to rules and regulations that have an impact on their business. 66.2% (Figure 37a) ‘generally’ to ‘fully agree’ that changes in government cause a major impact on rules and regulations, 18.5% fully agree, 16.9% in most cases and 30.8% of the businesses ‘tend to agree’; 20% of the respondents ‘tend to disagree’; whilst 11.5% of the businesses either ‘disagree in most cases’ and/or ‘strongly disagree’. The remaining 2.3% of the respondents did not respond to this question. The survey indicates a minor improvement in outlook from 2007 with respect to major rule changing occurring upon a change of government, and a more substantial positive shift from 2002, with 66.2% agreeing to some extent in 2012, 75.3% in 2007 and 91.6% in 2002.

Responses by sector (Figure 37b) showed somewhat mixed views. While for manufacturing and agriculture/fisheries/forestry sectors around 50% generally disagreed with the contention that rule changes affecting business occur with changes of government, those in most other sectors were in general agreement with the contention.

Figure 37a: Propensity for Major Rules and Regulations Impacting Business to Change with Changes in Government

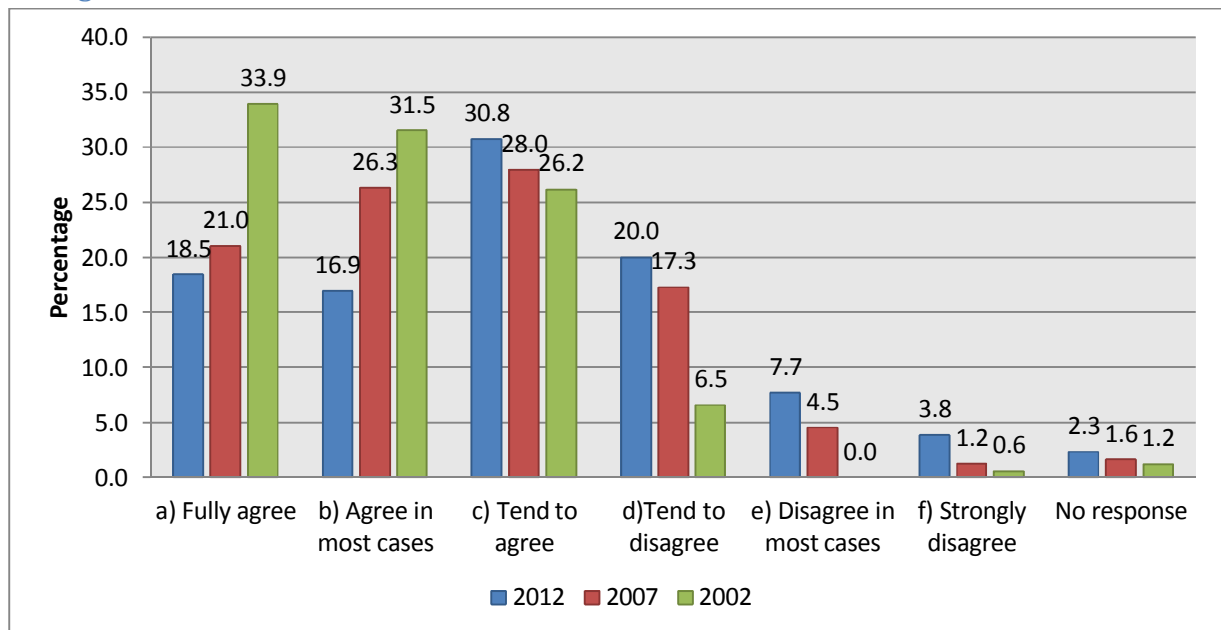
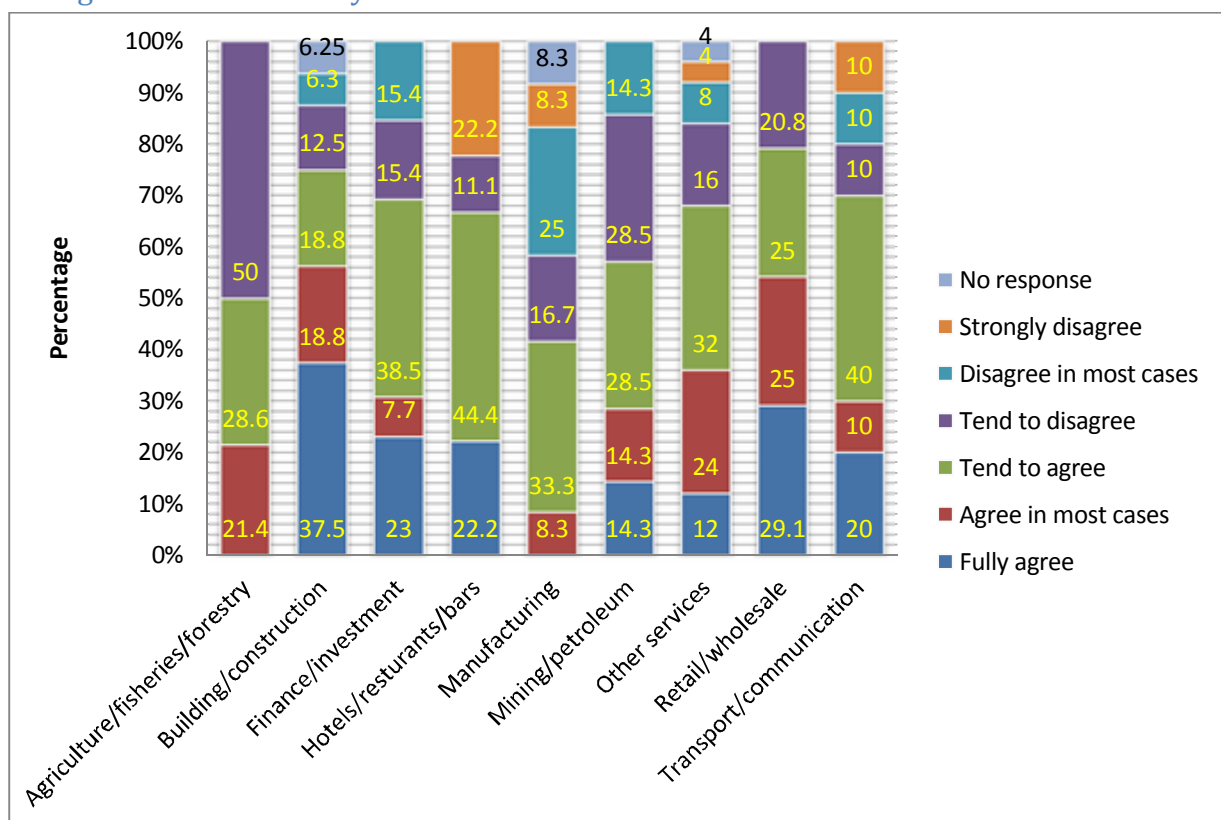


Figure 37b: Propensity for Major Rules and Regulations Impacting Business to Change with Changes in Government by Sector



### Concern for the Stability of the Political Environment in PNG

This question was asked to gauge business’s level of concern over the stability of PNG’s political environment. 89.3% of them responded that they are either ‘very highly concerned’, ‘highly concerned’ or ‘fairly concerned’ over PNGs’ political stability, albeit down from 94.3% in 2007 and 98.2% in 2002 (Figure 38a). Only 6.9% of the respondents are ‘fairly unconcerned’ and 1.6% are either ‘highly unconcerned’ or ‘completely unconcerned’. The remaining 2.3% of the respondents did not indicate their level of concern over the stability of PNGs’ political environment. There was, however, a substantial reduction in the portion showing considerable concern in relation from both 2002 and 2007, down from 64.3% in 2002, to 46.1% in 2007 and 33.1% in 2012, with similar level ‘highly concerned’ and an increase in 2012 defining themselves as ‘fairly concerned’.

A closer look at responses per sector (Figure 38b) indicates high levels of concern in all sectors over the stability of PNGs’ political environment, with those in mining and petroleum showing the greatest general concern (100%), closely followed by several other sectors, with building/construction showing the greatest level of ‘high concern’ with 83%, followed by the extractive industry with 81.2%.

Figure 38a: Concern over Stability of PNGs’ Political Environment

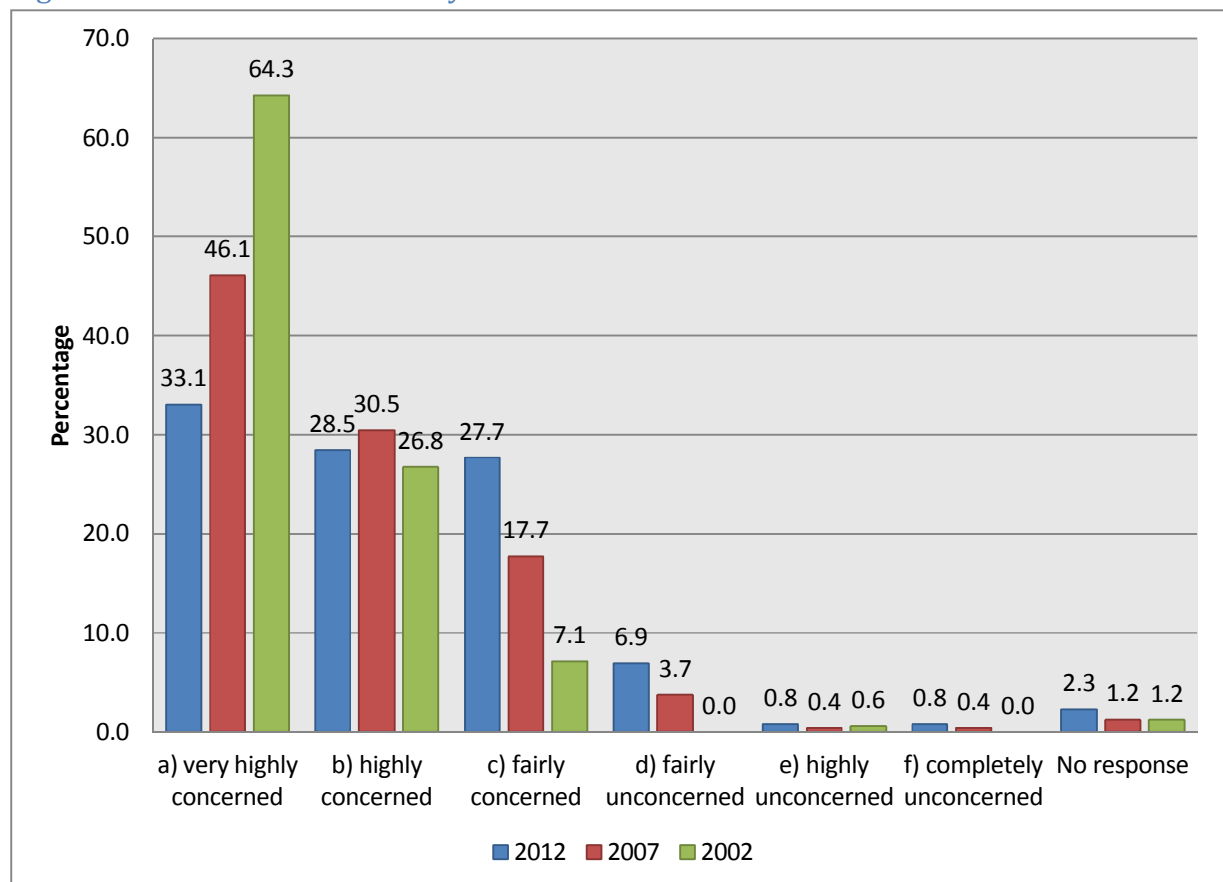
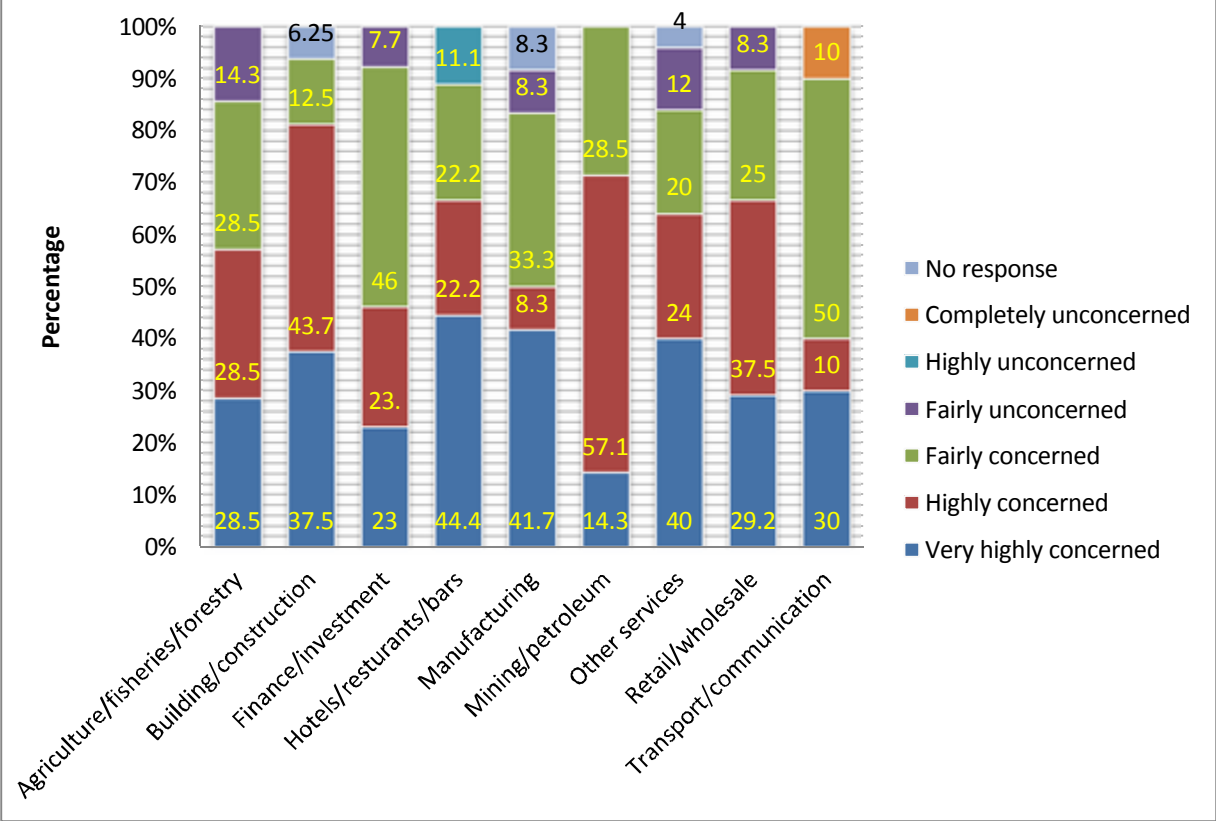


Figure 38b: Concern over Stability of PNGs' Political Environment by Sector



Problems of Compliance with Government Regulations and main Compliance Problems

This question asked businesses whether they have decided against proceeding with new investments because of problems related to compliance with government regulations. If the businesses answered yes, then they were asked to highlight the compliance issue that made them decide not to proceed with further investments.

About 30% of the respondents indicated that they had decided against further investments because of compliance problems with government regulations. The other 67% indicated that compliance problems had not prevented investments, which in some cases would indicate that investments proceeded, but in other cases that other factors might have been responsible for lack of investment. The remaining 3% did not answer the question (Figure 39a).

Out of the 30% who decided against major investments because of compliance problems with government regulations, 44% indicated 'long processing time' as the main compliance problem that affected their decisions. Another 20% suggested that they decided against further investments because the process was 'too complex and haphazard', whilst 18% indicated that 'excessive compliance fees' were their main compliance problem against investing. 5% did not specify their compliance problems and the remaining 13% indicated 'other' issues preventing them from further investments (Figure 40).

Further comparisons indicated that SMEs are more concerned than large businesses over regulation compliance issues (36.2% against 23.2%), when making decisions to invest (Figure 39b).

Figure 39a: Problems of Compliance with Government Regulations Preventing Investment

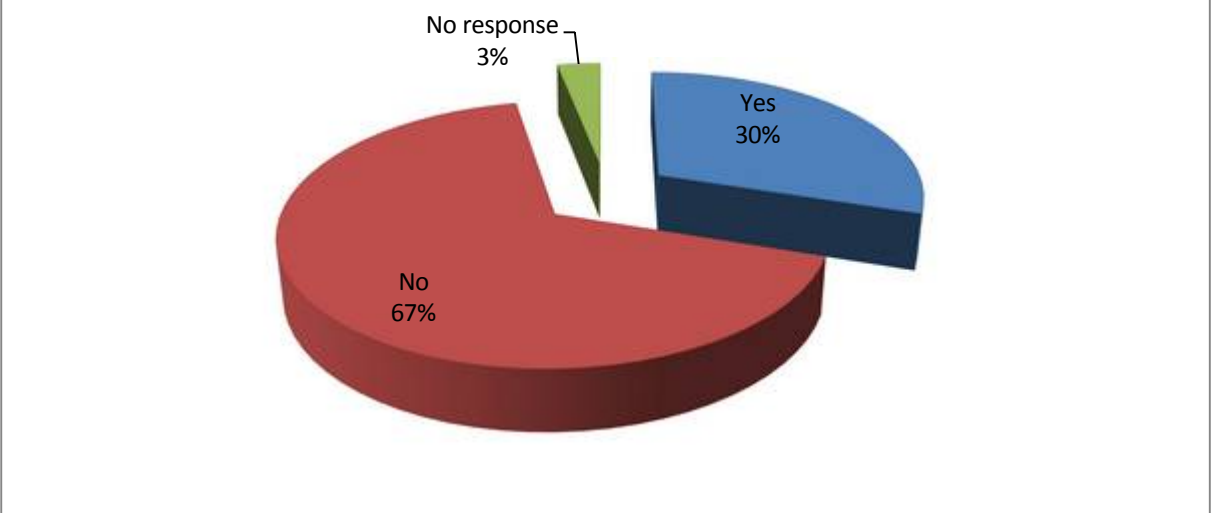


Figure 39b: Problems of Compliance with Government Regulations Preventing Investment; the SME versus Large Businesses Perspective

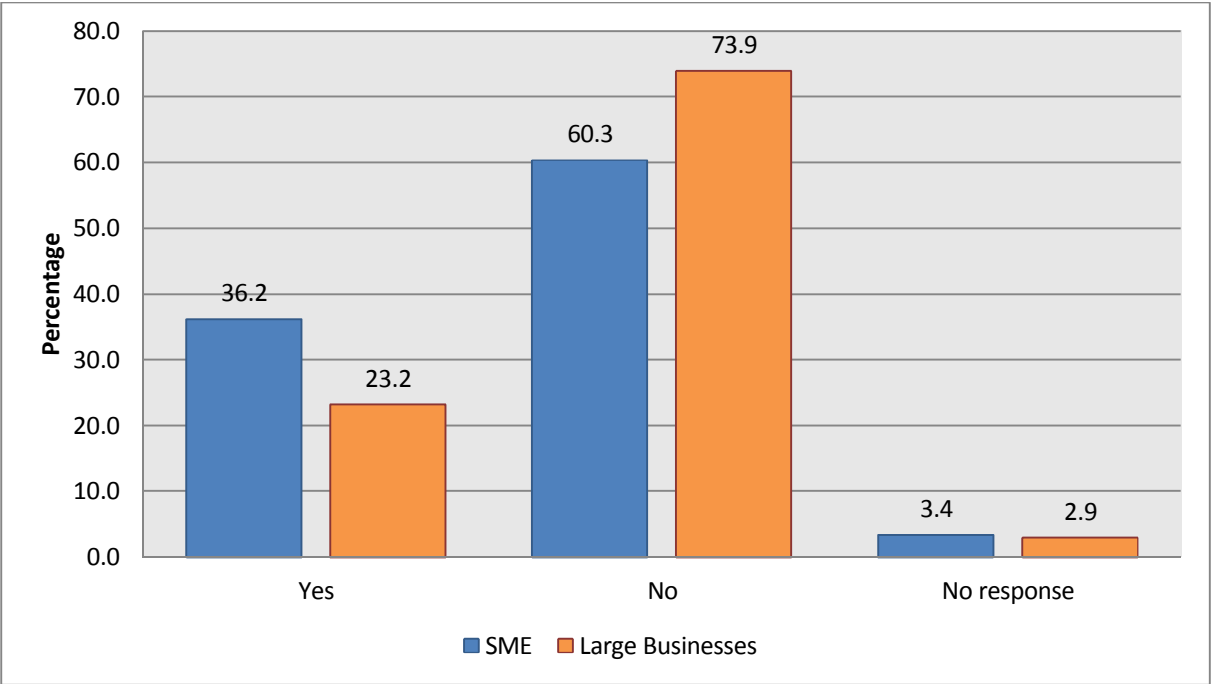
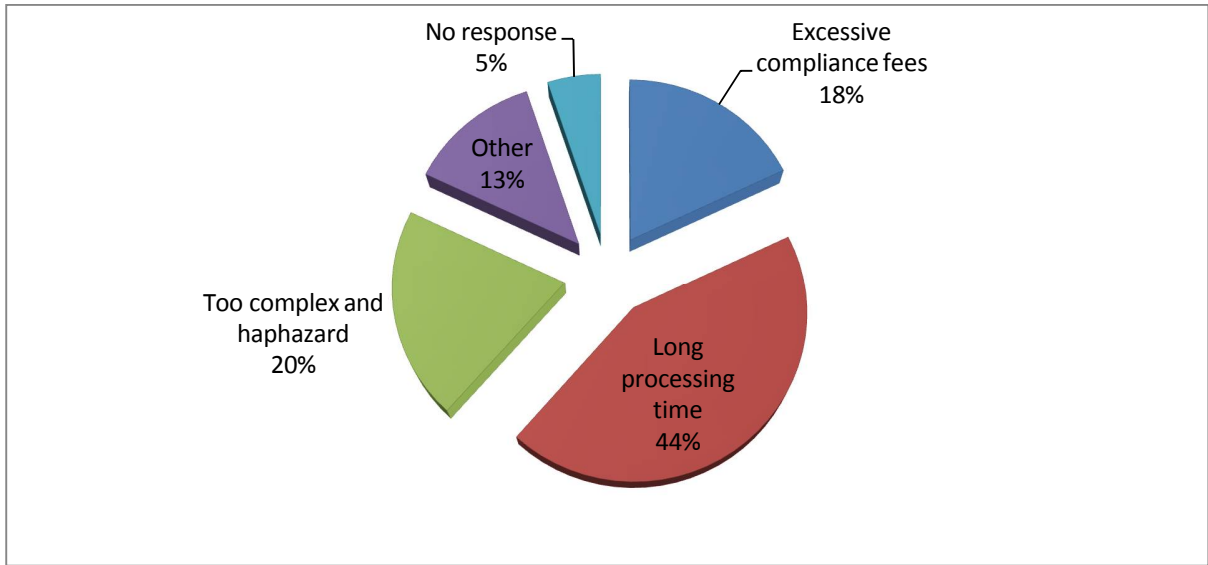


Figure 40: Main Source of Compliance Problems



*PNG LNG plant site and marine terminal under construction, in Central Province*



## Part 3: Business Security



*CIMC Regional Development Forum, Popondetta, 2013 – including law and order consultation*

Part 3 of the survey aims to discover businesses' perceptions over security aspects of doing business in PNG

### **Impact on Investments and Expansion Plans resulting from the Law and Order Situation**

The first question seeks to ascertain the extent to which the law and order situation has affected businesses and their decisions for further investment. 35.4% suggested that they are highly to very highly affected by law and order problems and 44.6% of the respondents are 'fairly affected' (Figure 41a). Only 17.7% of the respondents indicated that they are either 'highly unaffected' or 'completely unaffected' by law and order problems when making investment decisions, with 2.3% unresponsive. From the respondents there appears to have been a marked reduction in the level of 'highly' to 'very highly affected' businesses between 2007 and 2012 (35.4% against 53.1% in 2007) and more so from 2002 (59.5%). Many more defined themselves as 'fairly affected', and in terms of being 'fairly' through to 'very highly affected' there is an increase from 75.6% in 2002, 74.5% in 2008 and 80% in 2012..

Although business in most sectors mostly feel negatively affected by the law and order situation when making investment decisions (Figure 41b), there is considerable variation, with 96-100% respondents in agriculture and transport/communications indicating law and order affected their decisions. Figure 41c suggested that large businesses feel more 'highly affected' (56%) than SMEs (45%) by the law and order situation when making investment decisions.

Figure 41a: Impact on further Investment Decisions of the Law and Order Situation

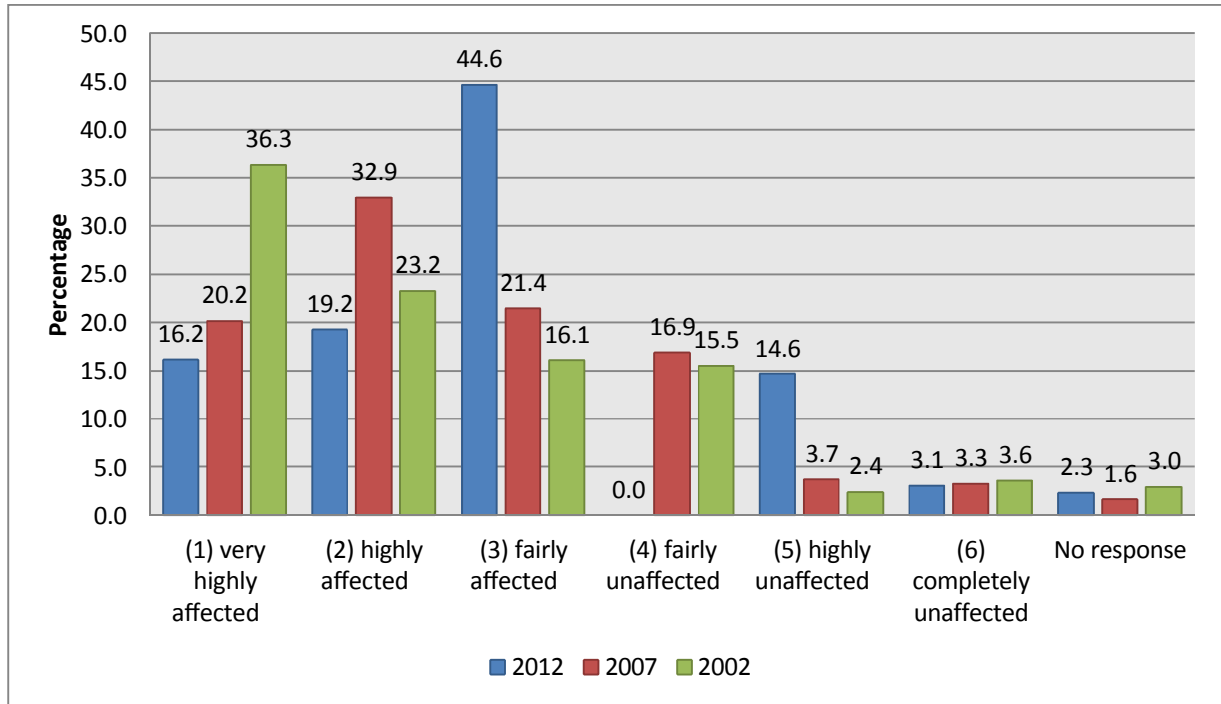


Figure 41b: Impact on further Investment Decisions of the Law and Order Situation by Sector

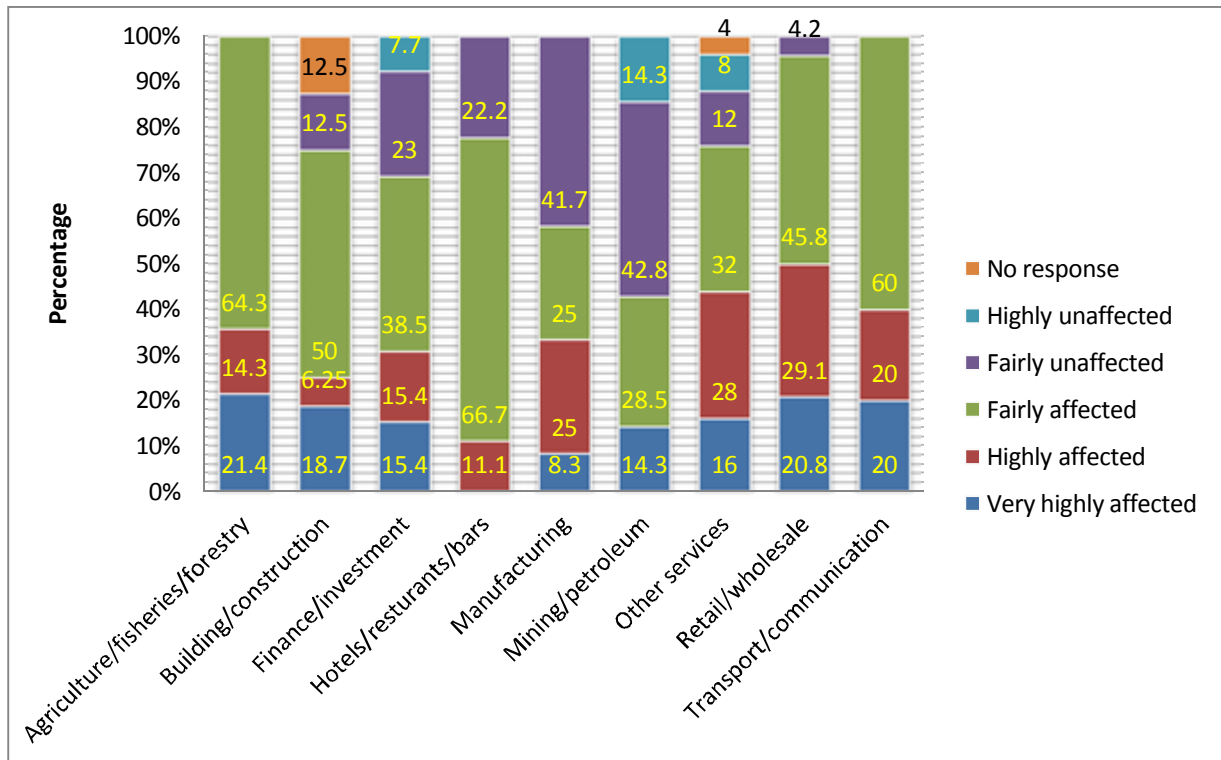
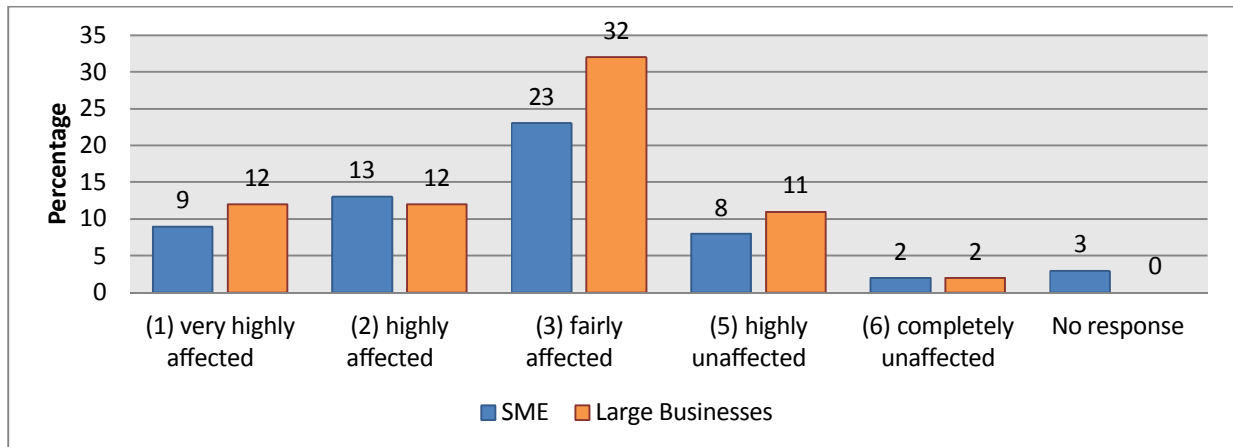


Figure 41c: Impact on further Investment Decisions of the Law and Order Situation; the SME versus Large Businesses Perspective



### Confidence in the Judicial System

This question seeks to find out the level of confidence the private sector has in the judicial and court system. About 43.8% of respondents indicated that they are ‘fairly confident’ in the judicial system; 17.7% indicated that they are ‘fairly not confident’ and 22.3% that they are either ‘highly’ or ‘completely not confident’ in the judicial and court system. Around 13.9% of respondents are either ‘highly confident’ or ‘very highly confident’ in the judicial system (Figure 42a). Although the responses are similar to those in 2007, far less are ‘highly’ or ‘very highly confident’ than in 2002 (down from 44% in 2002, to 17.6% in 2007 and 13.9% in 2012), and it is a concern that 40% show lack of confidence to some extent (up from 20.7% in 2002), with a worrying increase in the portion showing complete lack of confidence. Only 57.7% indicate some degree of positive confidence.

Although few business expressed a high level of confidence, businesses in most sectors indicated that they are ‘fairly confident’ in the judiciary and court system. However, 66.7% of the respondents in the manufacturing sector indicated that they are ‘fairly’ to ‘very highly not confident’ in the judiciary/courts (Figure 42b).



Figure 42a: Confidence in the Judiciary and Courts System

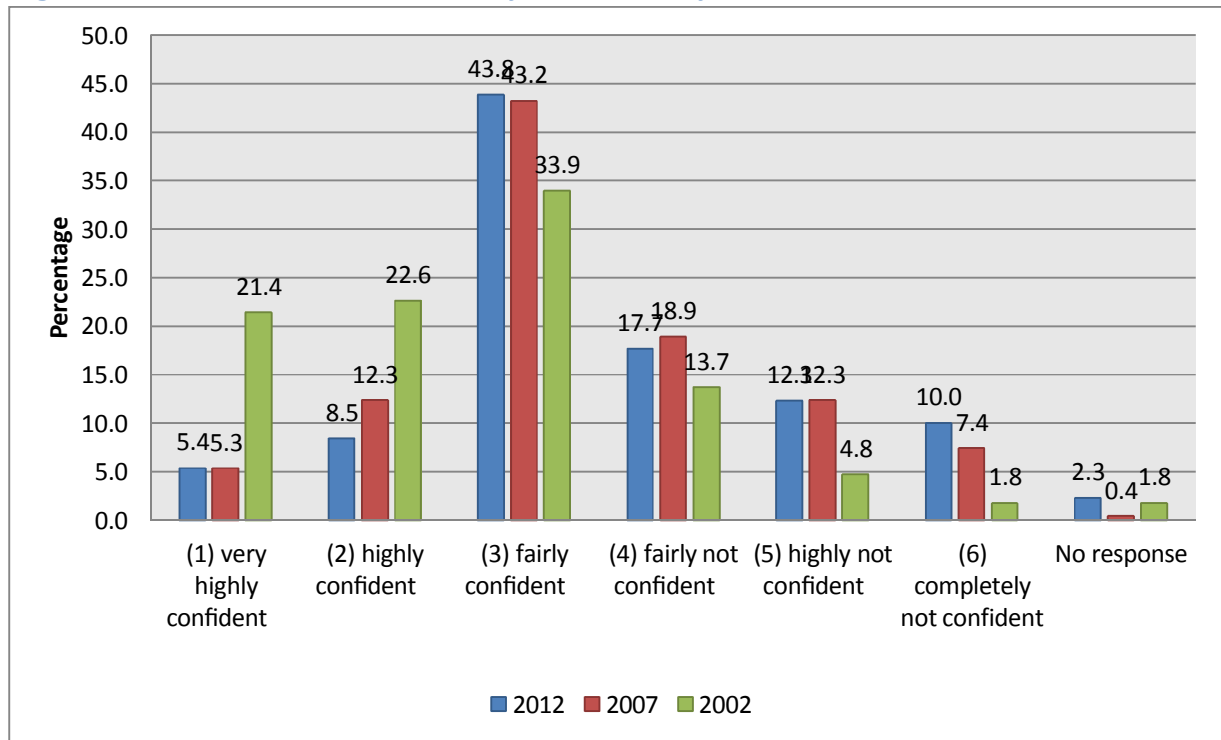
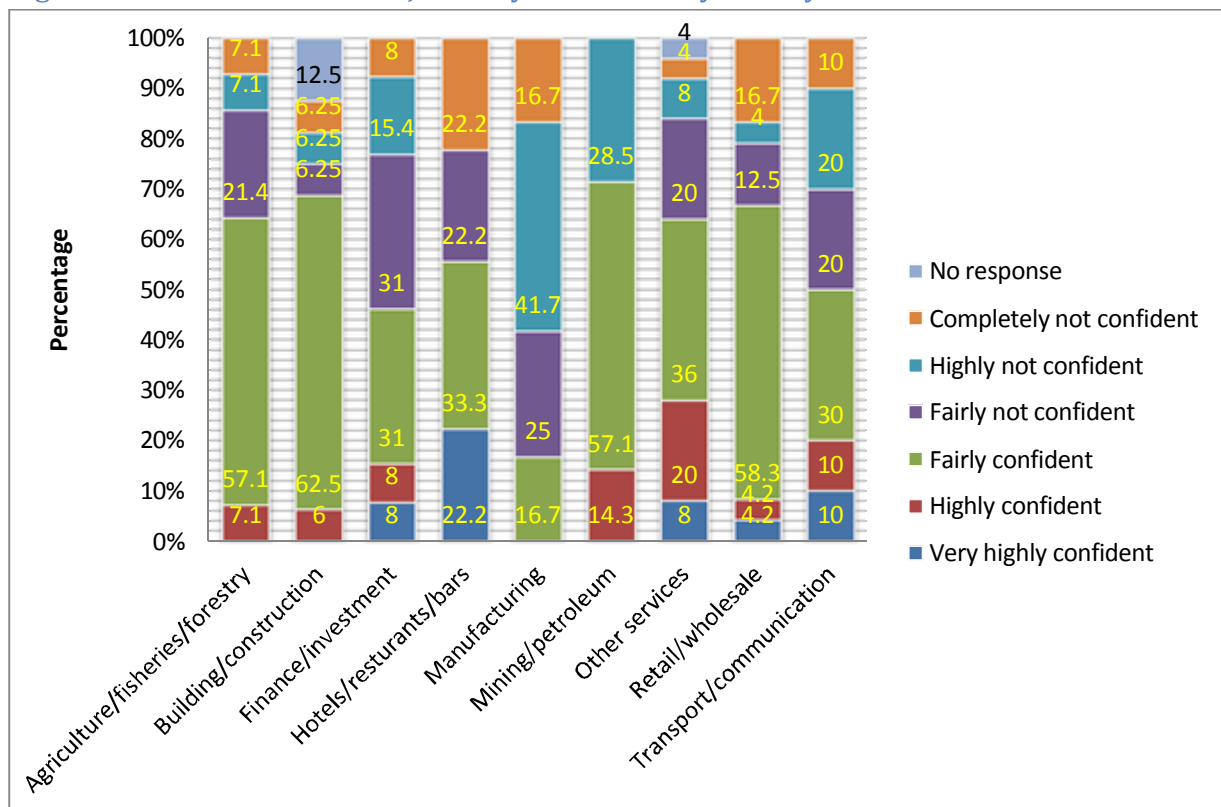


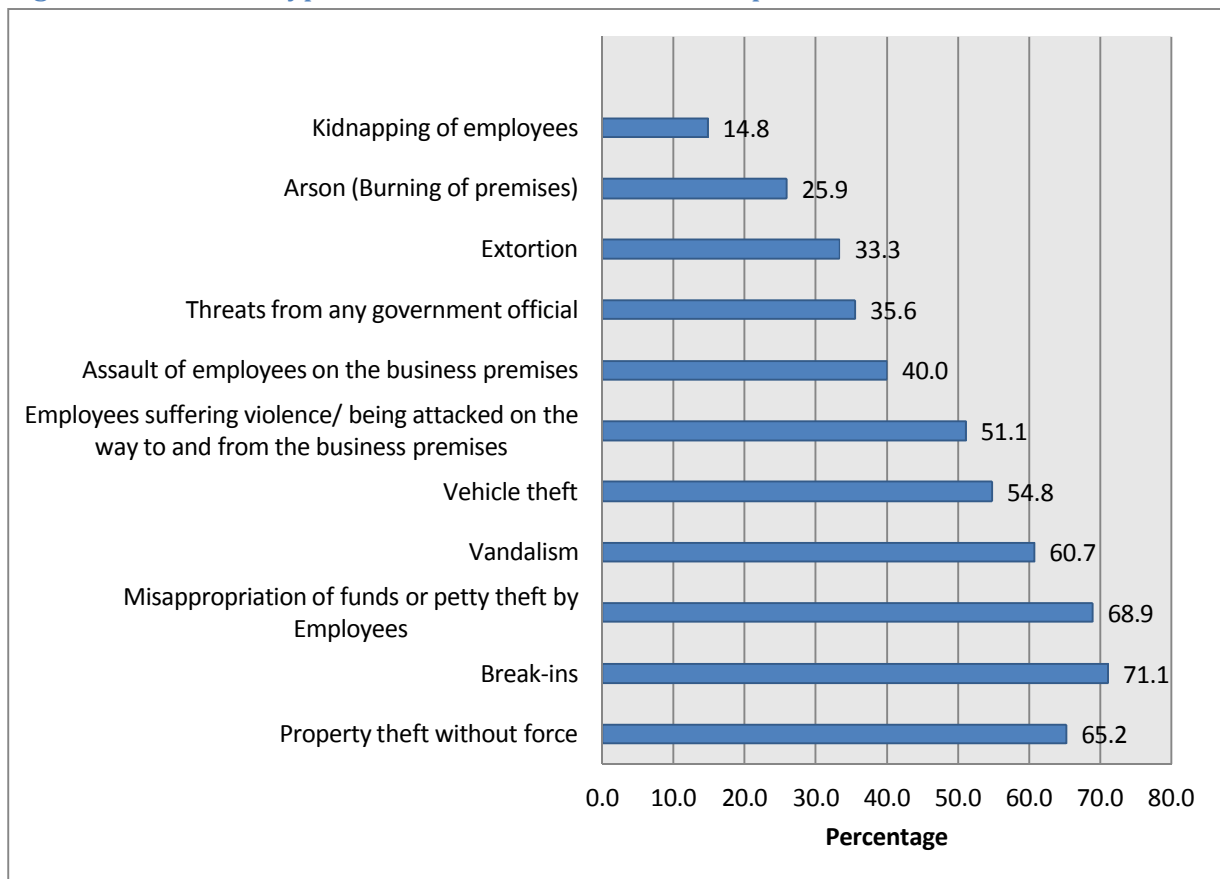
Figure 42b: Confidence in the Judiciary and Courts System by Sector



### Extent of Impact, Different Types of Crime have on Business

This question aims to ascertain the severity of different crimes for the responding businesses, with 1 being 'not a problem', 2 'a small problem' and 3, 'a big problem'. A percentage score was derived for each crime indicated by the respondents as problematic to their operations. From the data, 'break – ins' are recorded as having the greatest impact for business, with the highest percentage score of 74.1%, followed closely by 'misappropriation of funds or 'petty theft by employees' and 'property theft without force' with 68.9% and 65.2% respectively. 'Arson' and 'Kidnapping of employees' are seen as the least impacting of crimes to business at the time of this survey, with scores of 25.9% and 14.8% respectively. The rankings are illustrated in Figure 43. (Note that the percentage score represents respondents' indication of 2 'a small problem' and 3 'a big problem' in totality).

Figure 43: Different types of Crime and their Level of Impact on Business

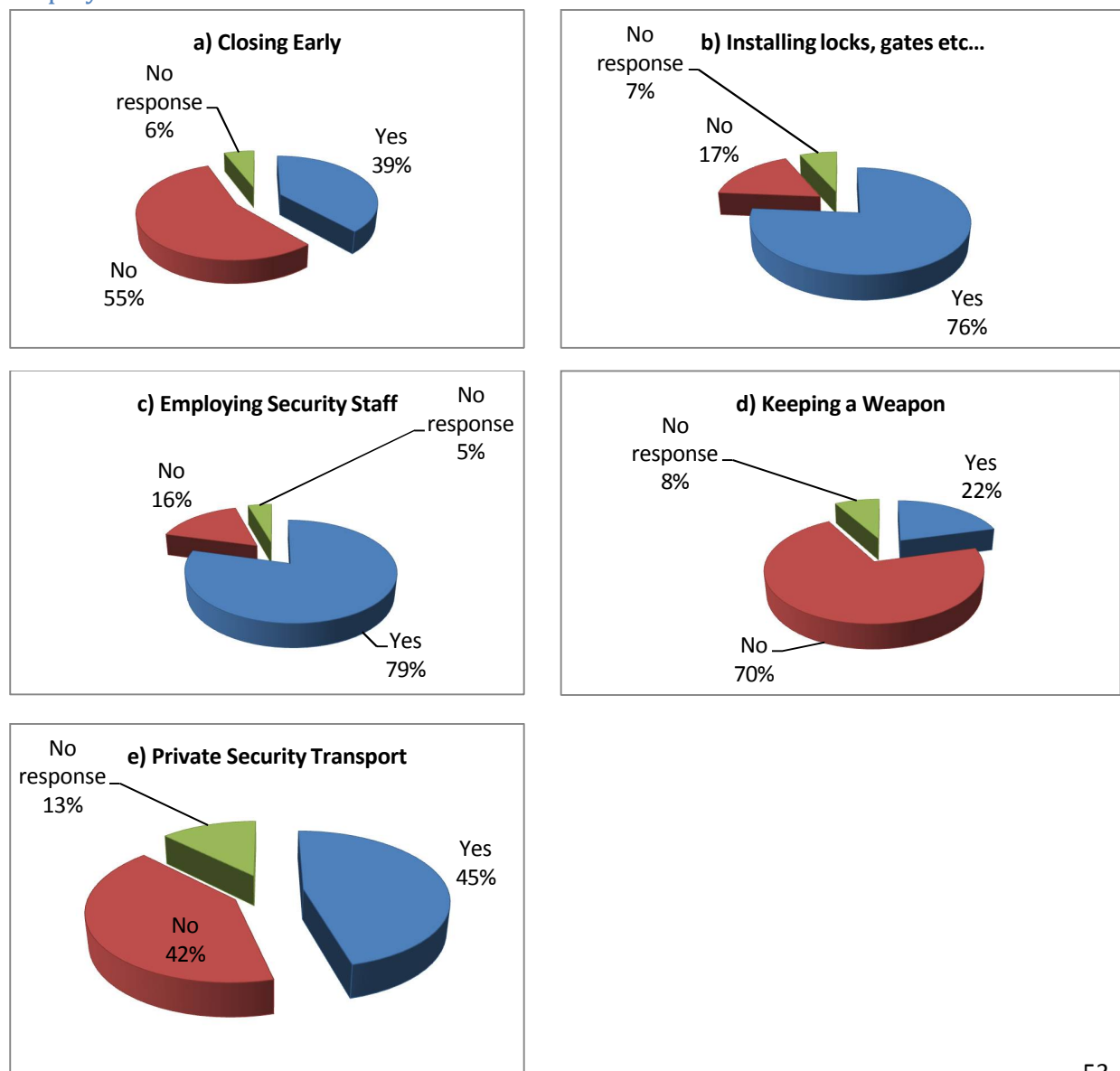


### Precautionary Measures taken to Protect Business

As a follow up to question 3, question 4 asked respondents if there are any precautionary measures taken to protect their business from crime. When asked if they close business early to protect it from crime, 55% indicated that they did not close early to avoid crime. The other 39% indicated that they close early to protect their business from crime. 76% of the respondents

indicated that they have installed locks, gates, security systems, CCTV, alarms or other security hardware to protect their business from crime. When asked if they employed security staff, 79% of the respondents confirmed that they employ security personnel to protect their business from crime. Only 16% of the respondents indicated that they do not employ security staff to protect their business. When asked whether they keep weapons to protect their business from crime, 70% said 'no'. The other 22% indicated 'yes', they kept weapons in their business premises to protect their business against crime. Businesses were also asked if they have private security transport for their employees. 45% of respondents confirmed that they have private security transport arrangements for their employees, whilst the other 42% indicated that they do not have such transport arrangements (Figure 44).

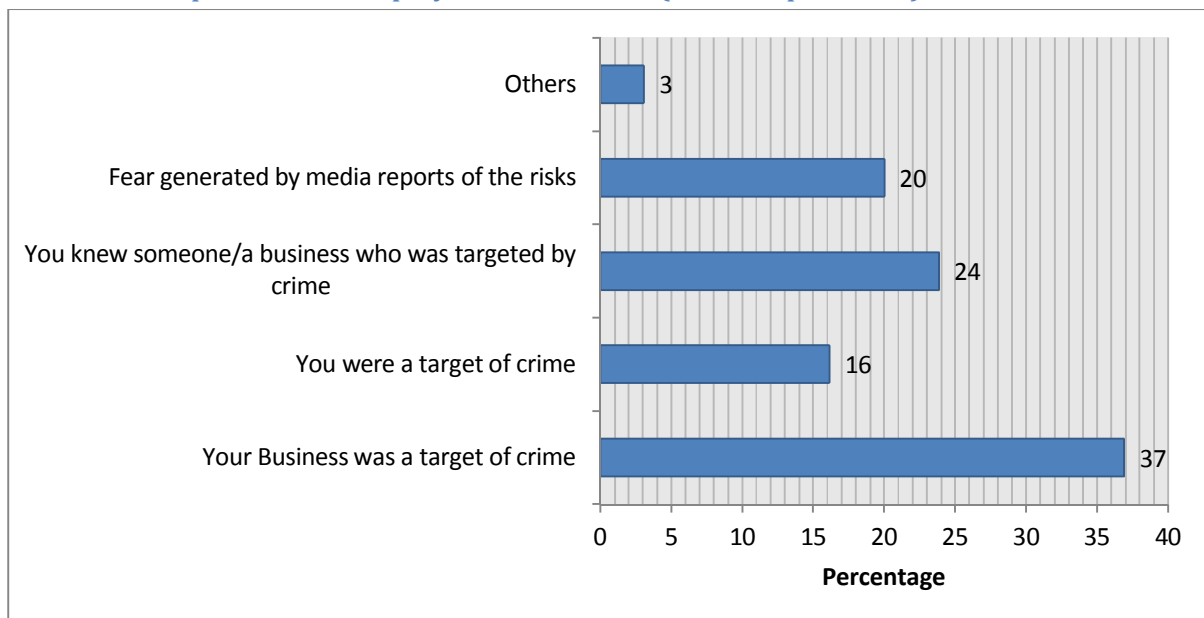
Figure 44: Precautionary measures taken to Protect Business premises, properties and employees from Crime



### Factors Prompting Businesses to take Precautionary Actions

In the previous question, certain precautionary measures were specified to protect business property, premises and employees. As a follow up, businesses were asked why these measures were taken. As indicated in Figure 45, 37% of the respondents showed that measures were taken to protect the business premises and employees because their *business was a target of crime*. About 24% of the respondents indicated that they *knew someone/a business who was targeted by crime* that it prompted them to take actions to protect their business and properties. Around 20% of the businesses indicated that it was *fear generated by the media* that made them to take actions to protect their businesses premises and employees. 16% indicated the reason being that that they themselves were the target of crime.

Figure 45: Primary Reasons for taking Precautionary measures to Protect Business Premises, Properties and Employees from Crime (% of Respondents).



### Cost incurred to protect Business from Crime

This question was asked to find out the cost incurred to business from their actions taken to protect their business from crime. The respondents were asked to indicate their estimated expenses on: - 1) Locks/Gates, 2) Security cameras and 3) Security alarms. From their response, businesses indicated that they spend an average K14,548 yearly on installing and maintaining lock and gates to protect their business from crime. An average of K25,528 is spent yearly on installing and maintaining the operations of security cameras and K12,214 is spent yearly on average by each firm on the security alarms system in order to protect their business from crime; (clearly costs vary in relation to type and the nature of the business)

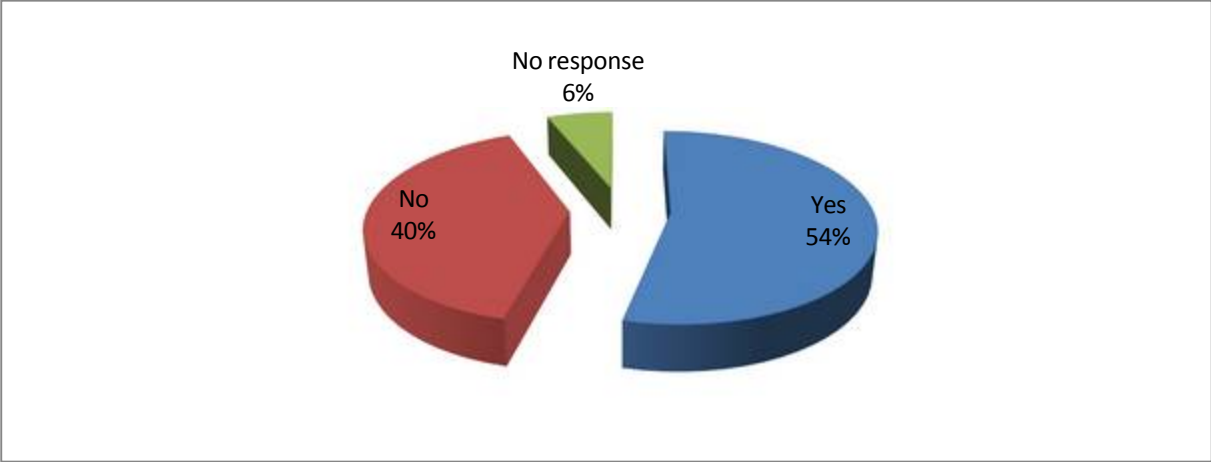
### Employment of Security Guards to Protect Businesses

This question asks businesses to indicate if they employed private security personnel to protect their businesses. About 54% of the respondents indicated that they do employ private security personnel to protect their business premises and employees from crime. The other 38.5% showed that they do not employ private security personnel (although, as per Q5 above, businesses in many cases also employ security staff on their own payroll) and the remaining 6% did not respond to the question (Figure 46).

As a follow up to the previous question, businesses were asked to indicate how much in percentage, the security personnel employed make-up of the total workforce for the business. From those respondents who responded previously that they employed private security personnel, they indicated that on average, security staff make up about 7.74% of the total employees.

When asked how much is spent on security guards as a percentage of total cost to the business, the respondents indicated that on average, 5.8% of total cost to the business is incurred on employing security guards. Furthermore, respondents indicate that the cost incurred to their business on 'payments of item or stock stolen' make up on average 3.9% of total expense.

Figure 46: Firms Employing Private Security Personnel

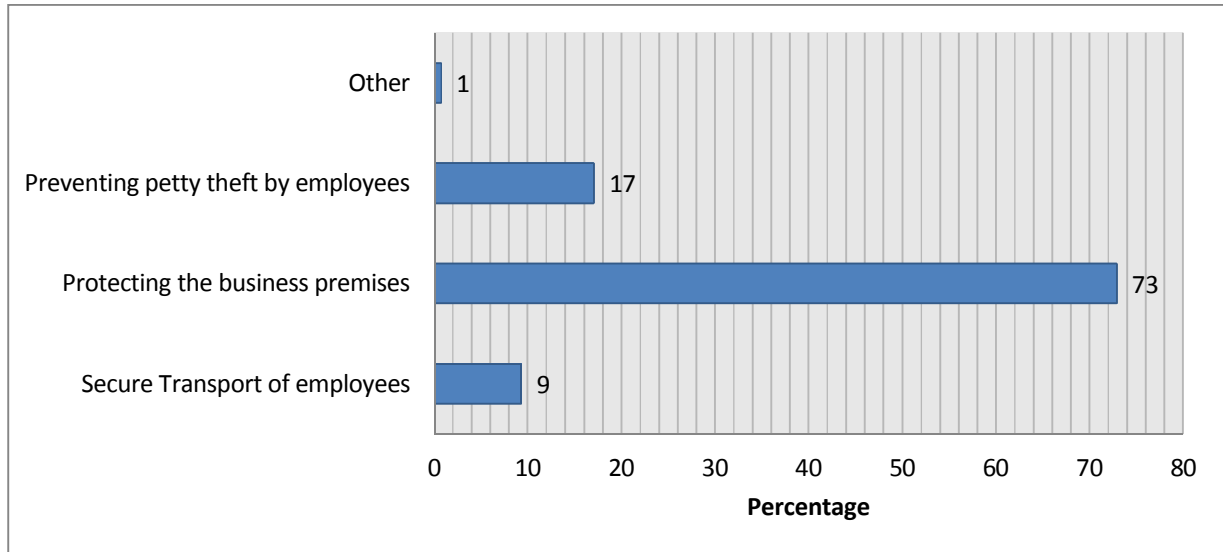


### Main Functions of the Security Guards Employed by Businesses

This question asked businesses to indicate the main tasks of the security guards they employ. 73% of the respondents specified that the main tasks of the security guards entail 'protecting the business premises'. This is done by providing surveillance in and around the business property, monitoring the gates, doors, security cameras etc. 17% of the respondents indicated that the security guards' main task is to 'prevent petty theft by employees' and 9% said that their main task is to provide 'secure transport' for their employees (Figure 47).



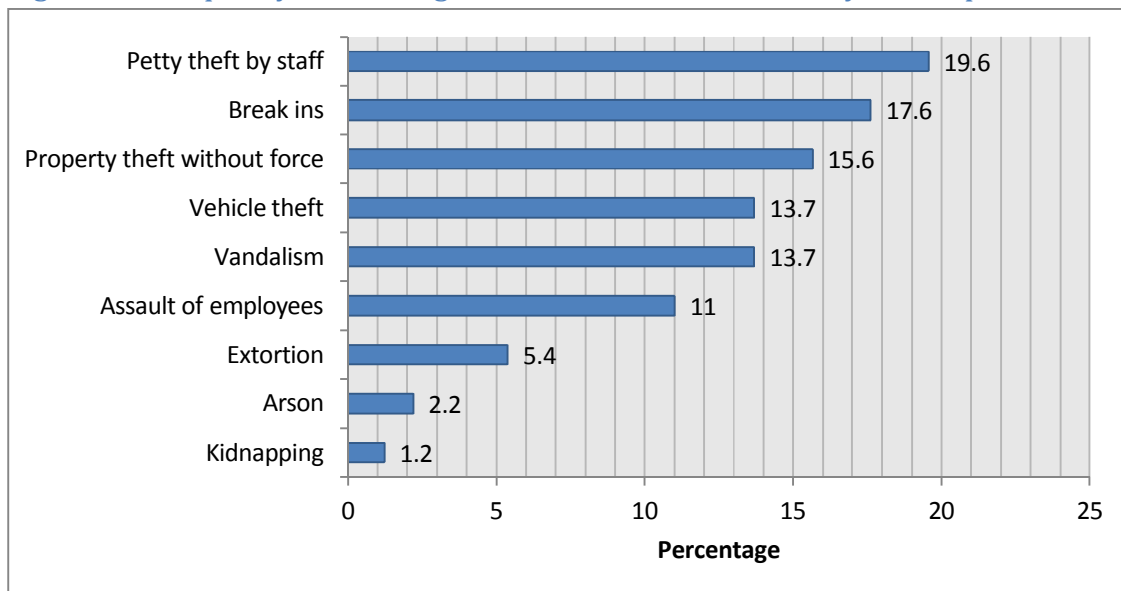
Figure 47: Main Tasks of Security Personnel Employed (% of respondents)



### Frequency of Crime against Businesses over the Last Year of Operations

This question asks businesses to indicate the type of crime that is most common and/or the affects their business the most. From information gathered, 19.6% of the respondents indicated that ‘petty theft by staff’ is the most common crime to their business. The second most common crime to their business is ‘break – in’ with 17.6%. The least common crimes to businesses are ‘kidnapping’ and ‘arson’, with 1.2% and 2.2% respondents respectively (Figure 48).

Figure 48: Frequency of Crime against Businesses over the last year of Operations



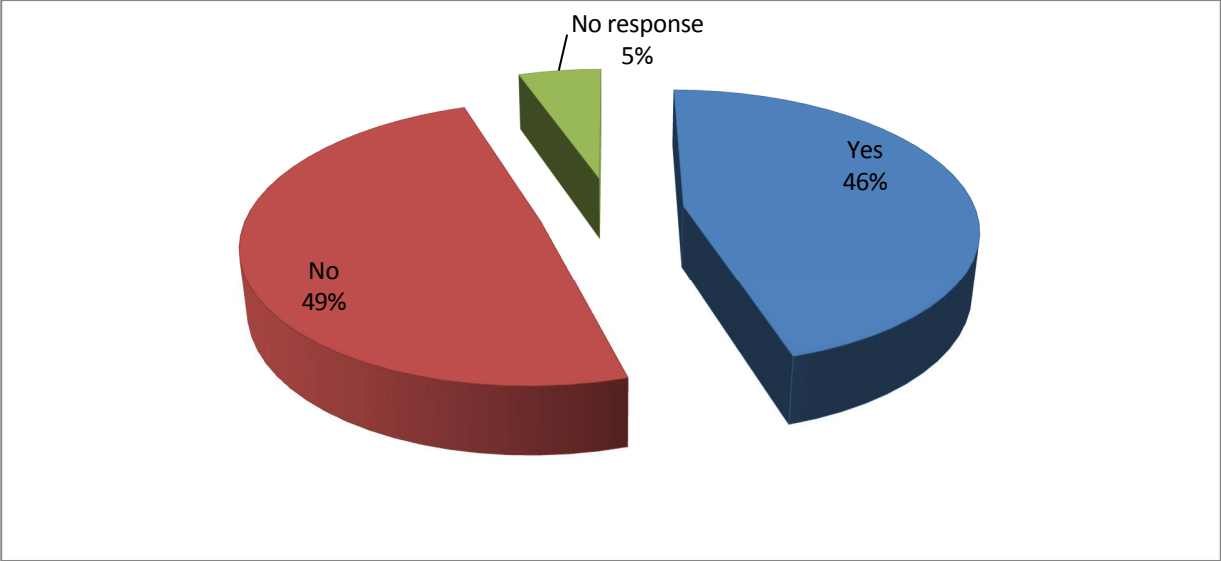
### Loss Incurred to Business because of Crime

This question asks businesses to indicate losses incurred by businesses from crime related activities. Respondents indicated losing, on average, around K69,360 per year, because they ‘closed their business temporarily’ mainly for security reasons. That is, on average, K 5,780 per month loss incurred when businesses close temporarily. When asked to indicate losses made from ‘replacement of stolen merchandise and property’, respondents indicated that an average of K7,060 per month is spent. That is, on average, K84,700 annual loss incurred to businesses to replace stolen merchandise and other properties. ‘Petty theft by employees’, on average, adds up to around K60,885 annually lost by businesses. Loss to businesses because of ‘broken security infrastructure, such as windows, gates, alarms, CCTV etc.’ incurs loss to businesses around K22,230 annually on average. When businesses were asked to estimate the loss incurred because of ‘staff time off work due to injuries and security reasons’, it was indicated that on average K25,420 is lost annually when employees do not work because of injuries or security reasons. That is K2,120 per month loss incurred to businesses when employees are absent from work because of security/crime-related reasons.

### Periods in a Year when Crime is Common

This question asks business if there were certain times or period of the year when crime was common to business. 49% of the respondents indicated that there is no specific time or period of the year that crime is more common to their business. This could mean that crime is prevalent all year around. 46% of the respondents indicated that ‘yes’, there are certain specific times and periods of the year when crime is more frequent than other times. The other 5% of the respondents did not respond to this question (Figure 49).

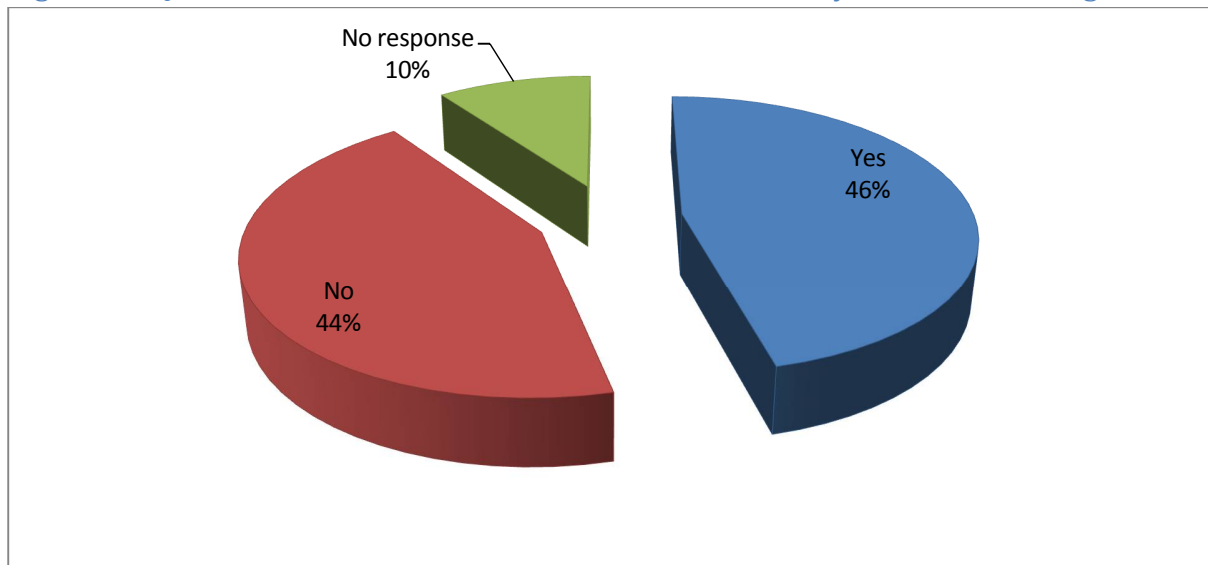
Figure 49: Question on whether there are certain Periods in a Year when Crime is high



### Times in a Day when Crime is High

This question, unlike the previous question, inquires whether there are certain times of the day when crime is more of a threat to business. 44% of the respondents showed that there is no specific time in a day when crime is more prevalent to their business. The other 46% of the respondents indicated that 'yes', there are certain specific times of the day when crime is more frequent than other times. The other 10% of the respondents did not respond to this question (Figure 50).

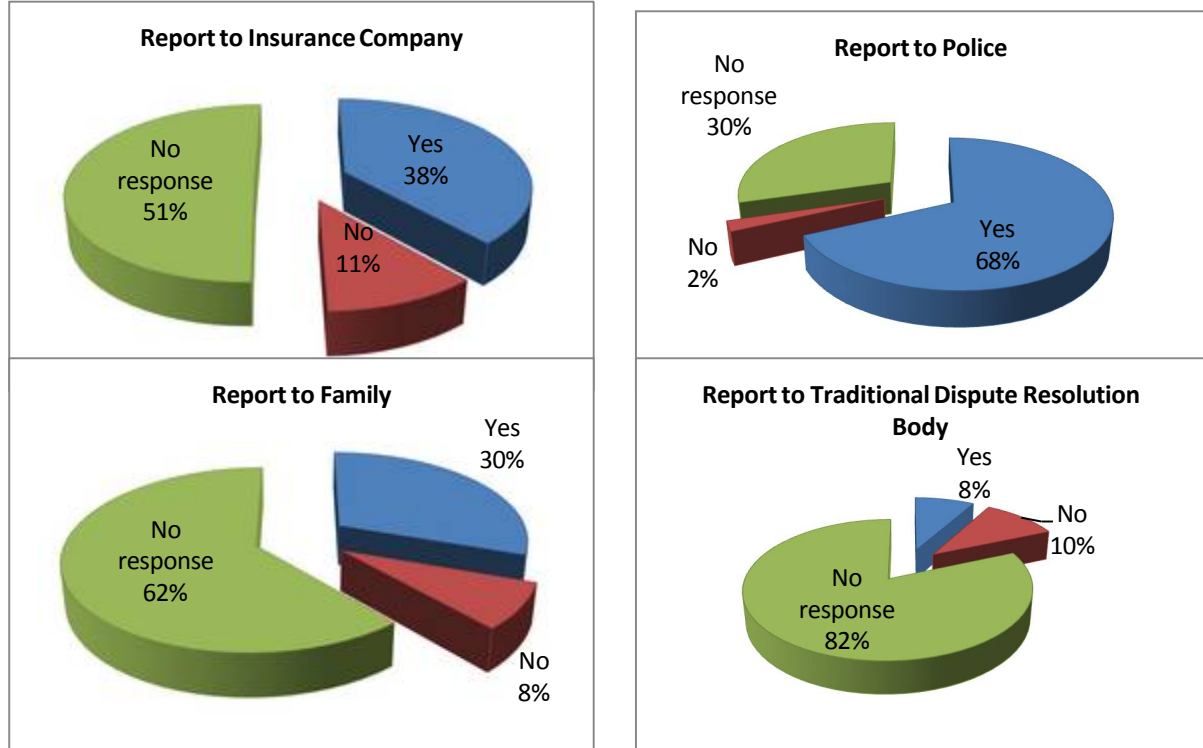
Figure 50: Question on whether there are certain times in a day when Crime is High



### Business Reporting of Crime

In this question, businesses were asked, to which authorities and/or institutions did they report when their business became a victim of crime. When they were asked if they reported any crime to their business to their insurance company, 38% responded 'yes' and 11% responded 'no' whilst the remaining 50% did not answer this question. When asked if they had reported to the police, 68% indicated that 'yes' they reported the matter to the police and the other 2% showed that they did not report the matter to the police, whilst 30% did not show whether they reported the matter to the police or not. When asked if they reported any crime to their families, 30% indicated 'yes' and 8% said 'no' they did not report crimes to their families. When businesses were asked whether they reported crimes affecting their businesses to any traditional dispute resolution body, only 8% of the respondents indicated that 'yes' they did, for example to village courts, local peace mediators or local leaders. More than half, 82% did not respond to this question and 10% showed that they did not report the matter to any traditional dispute resolution authority (Figure 51). It would be most unusual for overseas-owned or larger businesses to use traditional or village-based mechanisms, but this will apply with some locally-owned or based businesses over community-based demands, claims and disputes.

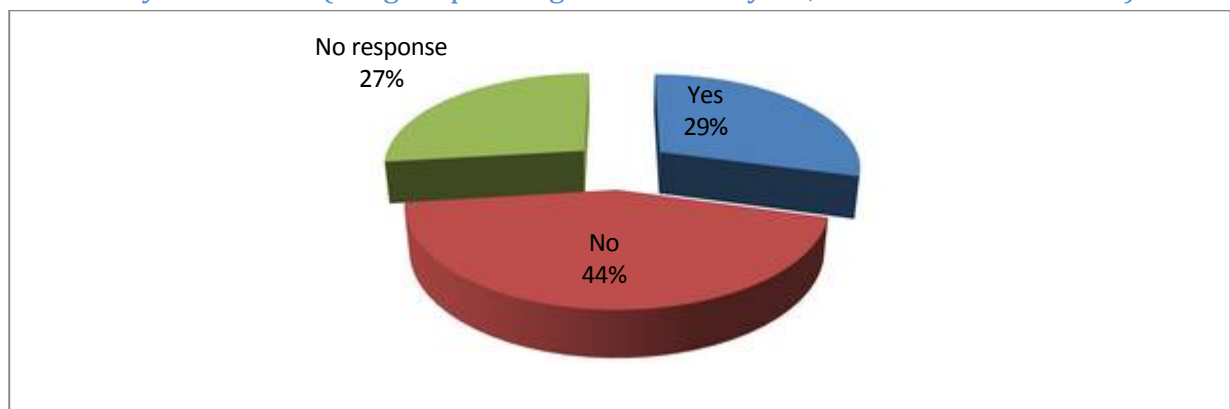
Figure 51: Question on which Agency/Authority Businesses reported Crimes



**Level of Satisfaction Gained on the Manner in which Crimes Reported are Handled**

This question seeks to find out the level of satisfaction over authorities’ handling of reported crimes to. 44% of the respondents indicated that they were not satisfied over the manner in which crimes reported to authorities were handled. The other 29% showed that they were satisfied with the way the authorities dealt with reported crimes. The remaining 27% did not indicate whether they were satisfied or not over the handling of reported crimes (Figure 52).

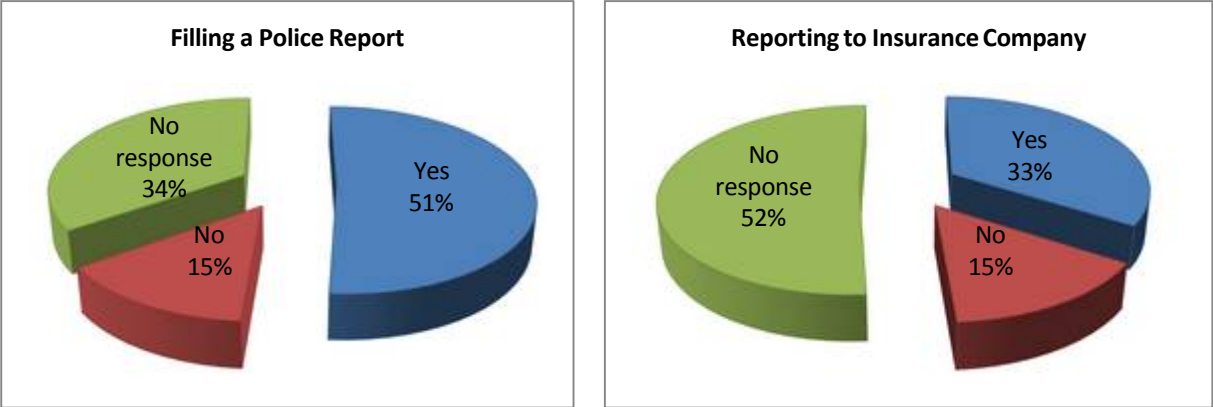
Figure 52: Question on Satisfaction Gained from the way in which Reported Crimes are handled by Authorities (% age expressing satisfaction - yes- , or dissatisfaction –no -)



**Cost Associated with Reporting Crimes**

This question was asked to find out the cost associated with reporting crime to businesses. The respondents were asked to provide an estimate on how much they spent reporting the most recent crime and to which authority it was reported. As shown in Figure 53, 51% of the respondents indicated that they reported incidents of crime affecting their business to the police and the process cost them an average of K1,850. When asked if the business had reported incidents of crime to an insurance company, 33% of the respondents showed that they did and the process cost them on average K7,660. 38% of the respondents indicated that there were transportation costs involved during the process of reporting the most recent crime to their business and, on average, they spent around K3,430.

**Figure 53: Were Costs involved when reporting to Responsible Authorities?**

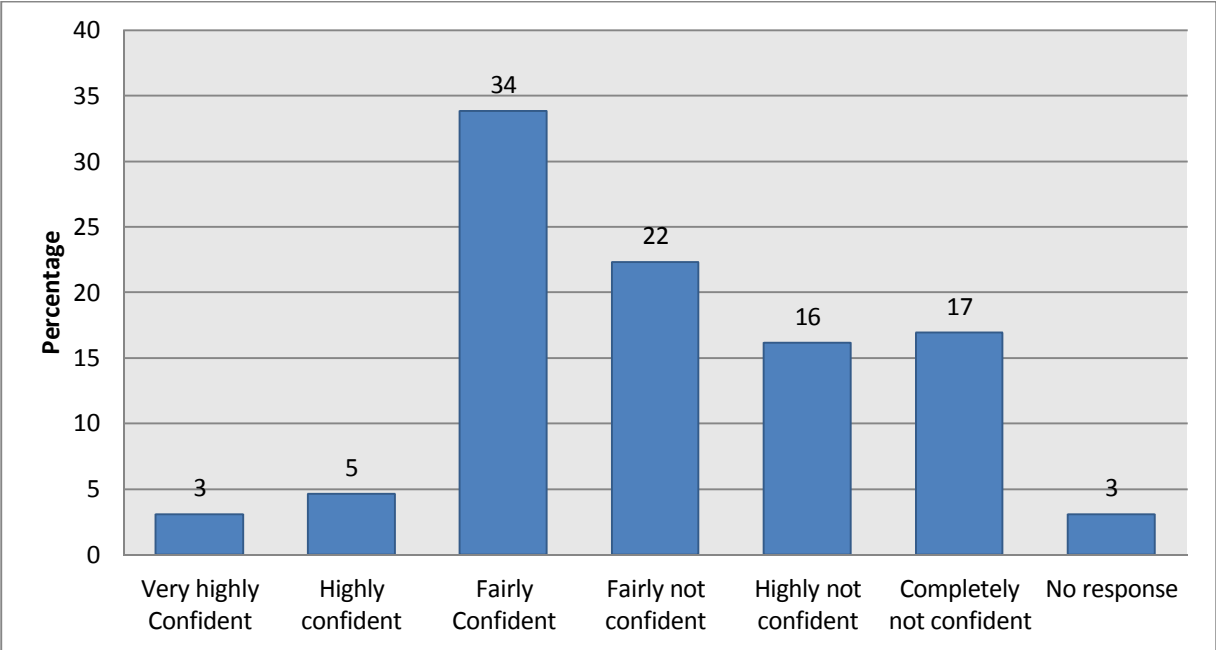


**Confidence in the Law Enforcement Institutions**

This question asks the businesses to gauge their confidence in the law enforcing agencies (including police, customs, immigration etc.). 55% indicated that they were fairly to completely unconfident; 34% of the respondents showed that they are 'fairly confident' in the law enforcing agencies. 22% showed that they are 'fairly not confident', 17% are 'completely not confident' and 16% of respondents are 'highly not confident' in the law enforcing agencies (Figure 54a). Only 8% indicate that they are either 'very highly confident' or 'highly confident' in the law enforcement agencies.

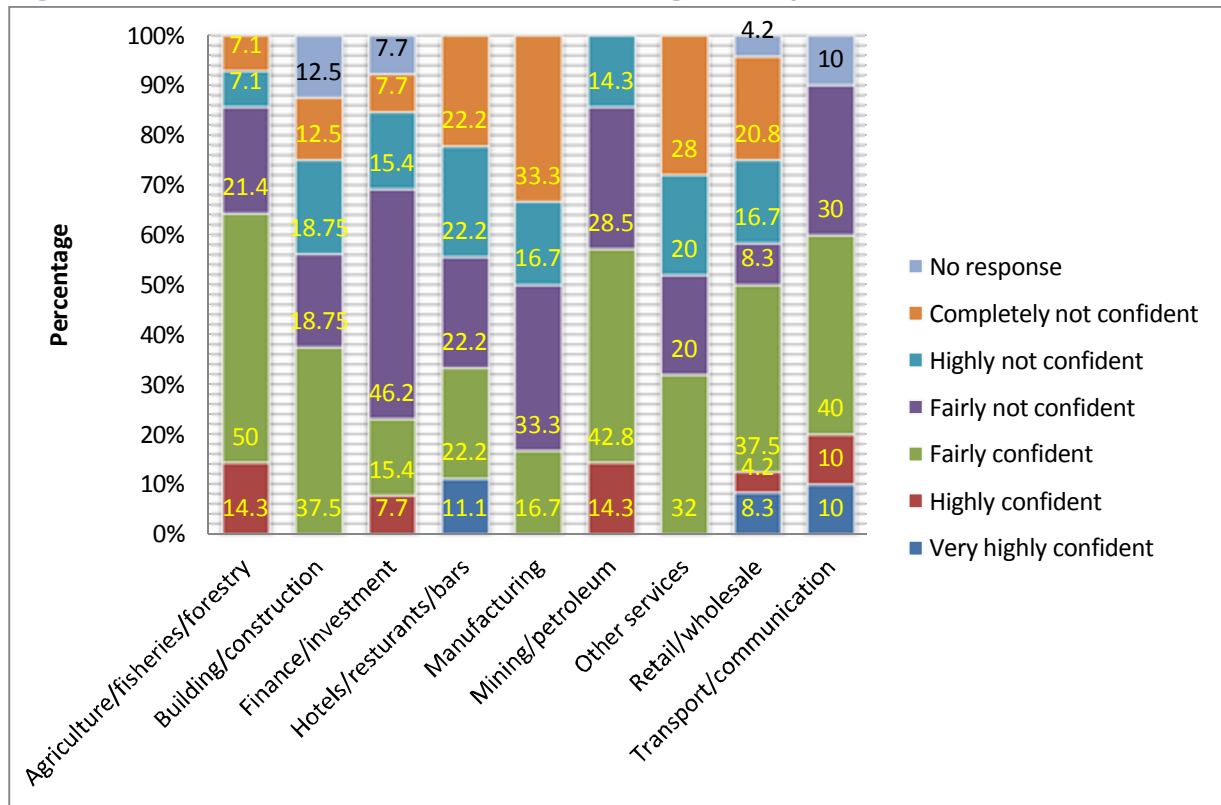
Responses per industry indicated mixed views over their level of confidence in the law enforcement institutions. Less than half of industry respondents were 'fairly confident', and when they were, they were not 'highly confident', whereas those industries which were strongly 'not confident' (like manufacturing and finance/investment), were also substantially 'highly not confident' or worse (Figure 54b).

Figure 54a: Level of Confidence in the Police, Customs, Immigration and other Law Enforcement Institutions



**A CIMC regional consultative forum in 2013 on priorities for restoring public infrastructure and services at the district level**

Figure 54b: Confidence in the Law Enforcement Agencies by Sector

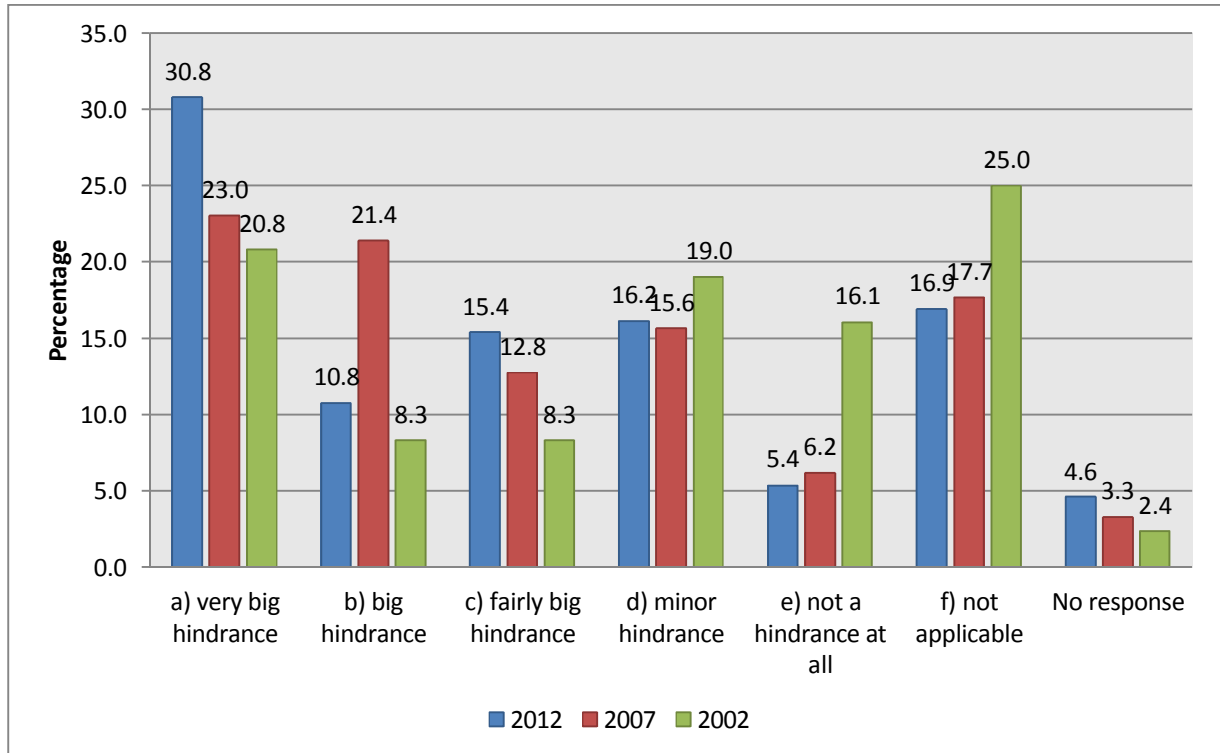


### Hindrance to Investment and Business due to Non – Accessibility to Land

This question asks businesses if gaining access to land was a problem to their business or not. 73.2% of respondents specified gaining access to land as a ‘minor’ to ‘very major hindrance’ to their business, comprising 30.8% seeing it as a ‘very big hindrance’ to their business, impacting greatly on their investment decision-making; about 26.2% of respondents showed gaining access to land either as a ‘big hindrance’ or ‘fairly big hindrance’ to their business, with 16.2% suggesting a ‘minor hindrance’. Only 5.4% of respondents indicated gaining access to land is ‘not a hindrance at all’ to them, with 16.9% of the respondents indicating it as ‘not applicable’ to their nature of business, and 4.6% not responding to the question. There seems to have been some increase in those defining access to land as a very big hindrance from the 2007 to 2012 surveys, although there’s an apparent marked reduction in those defining it as a big hindrance, but with 73% having difficulties with access in 2012, and a similar number recorded for 2007, this issue remains serious and has shown no signs of going away, despite well-publicised government focus in recent years on reform of land administration. 57% deemed access to land a ‘fairly big’ to ‘very big hindrance’, as against only 37.4% in 2002.

Respondents in all industries indicated that access to land is at least a ‘big’ or ‘very big hindrance’ to investment, notably in extractive industries, hospitality, agriculture/forestry and building and construction, (Figure 55b).

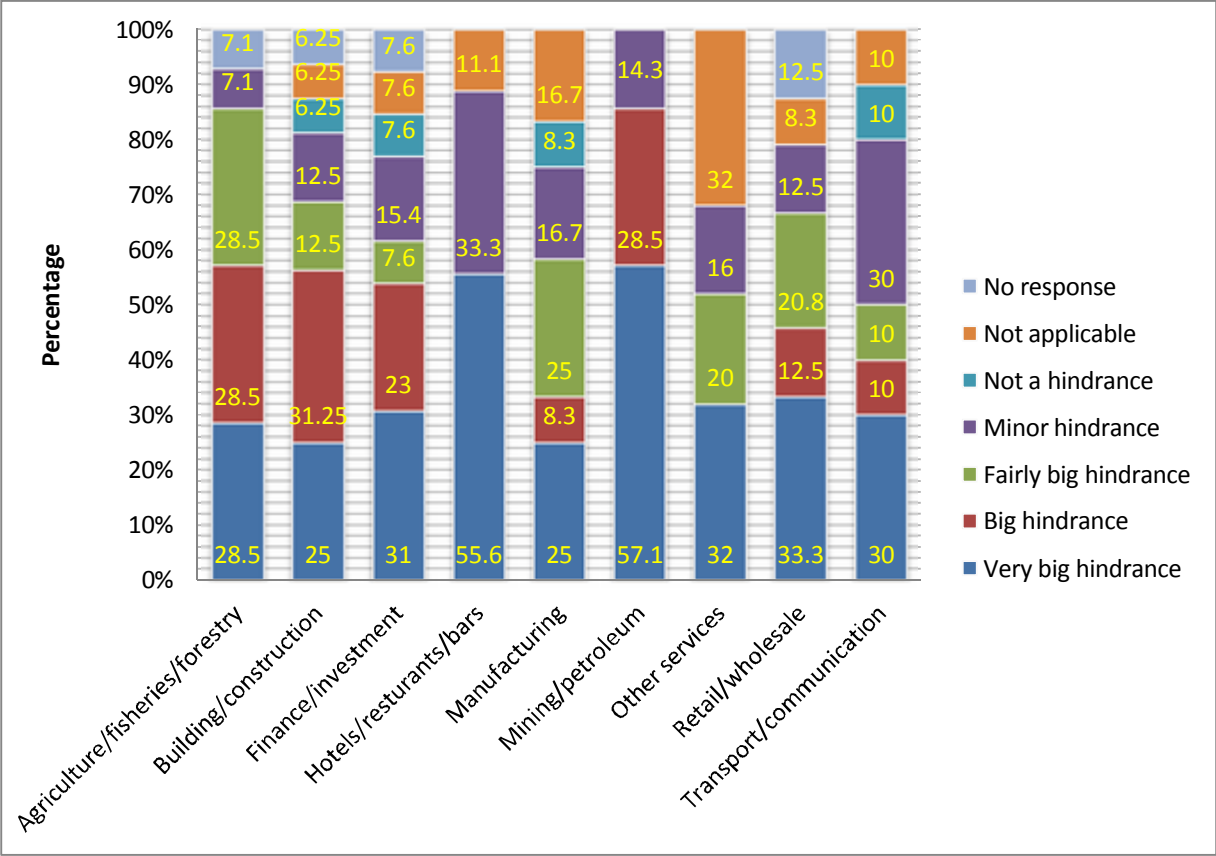
Figure 55a: Access to Land as Hindrance to Investment



*new urban housing development, 2013, but much unaffordable for the PNG workforce, Gerehu, NCD*



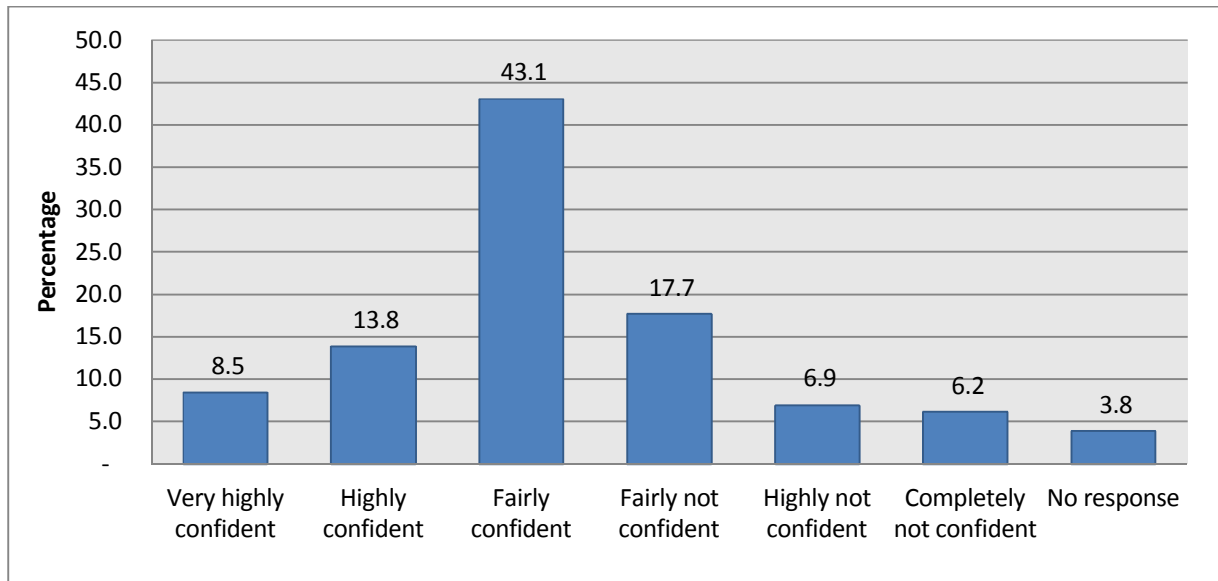
Figure 55b: Access to Land as Hindrance to Investment by Sector



Confidence in the Institutions Protecting Shareholders’ Interest and Enforcing Principles of Corporate Governance

This question asks businesses to indicate their level of confidence in the Registrars of Companies & Business Groups and the Securities Commission on their work of protecting interests of shareholders and enforcing principles of corporate governance. As depicted in Figure 56, 65.5% indicated that they are ‘fairly’ to ‘very highly confident’, comprising 43% of the respondents stating that they are ‘fairly confident’ in the institutions regulating and protecting their business interests and about 22.5% showing that they are either ‘very highly confident’ or ‘highly confident’. 18% responded that they are ‘fairly not confident’ in the institutions protecting and regulating their business interest and applying the principles of corporate governance and 13% indicating that they are either ‘highly not confident’ or ‘completely not confident’ in these institutions The remaining 4% did not respond to the question. (There was no such question in the 2007 survey).

Figure 56: Level of Confidence in Institutions Protecting Business Interests and Enforcing Principles of Corporate Governance



#### Confidence in the Banks and Financial Institutions

This question asked businesses to indicate their level of confidence in the banks and financial institutions. 40% responded that they are ‘highly confident’ in the banks and financial institutions. The other 39% indicate that they are ‘fairly confident’; whilst 13% responded that they are ‘very highly confident’. Only 2% did not respond to the question. The remaining 5% are either ‘fairly not confident’, ‘highly not confident’ or ‘completely not confident’ in the banks and financial institution, as illustrated in Figure 57a below.

Most respondents in most industries indicated that they are at least ‘fairly confident’ in the banks and financial institutions, whilst 50% or more indicated a high level of confidence (Figure 57b).

Figure 57a: Confidence in the Banks and Financial Institutions

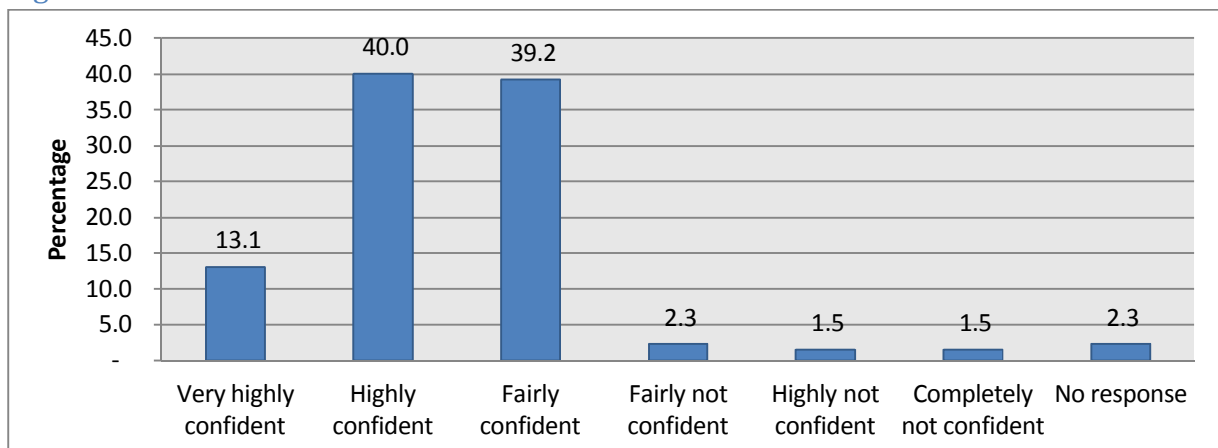
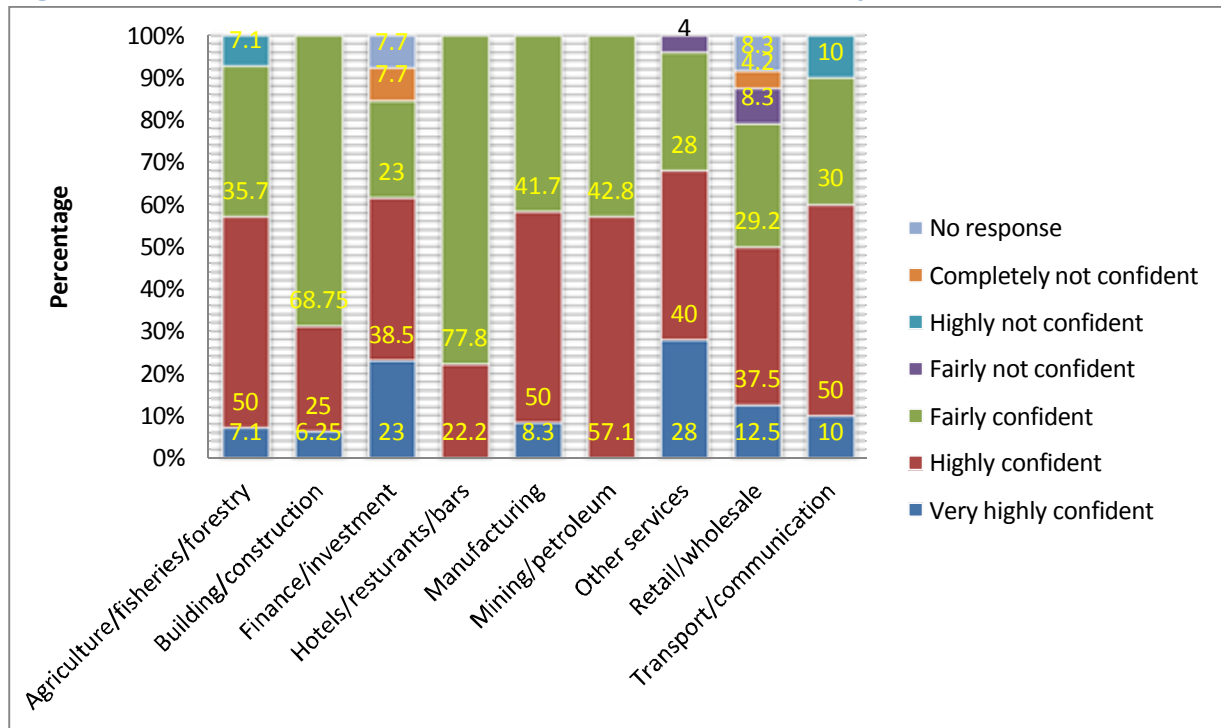


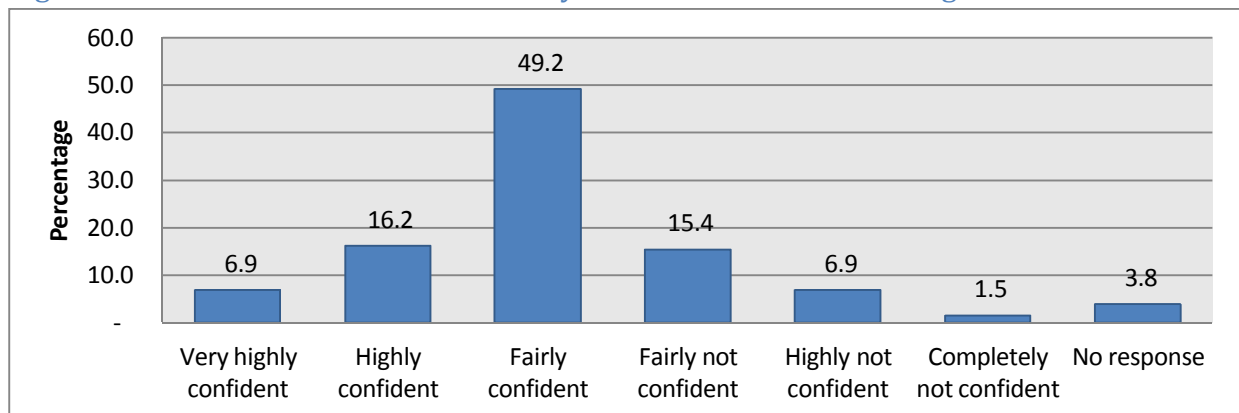
Figure 57b: Confidence in the Banks and Financial Institutions by Sector



### Confidence in Statutory Bodies and Professional Organizations

This question asked to gauge the level of confidence the private sector has in statutory and professional organisations, like the PNG Law Society, CPA, Institute of Engineers PNG. 73% indicated a generally positive perception of confidence in these professional bodies, with about 49% of the respondents indicating that they are ‘fairly confident’, 16% that they are ‘highly confident’, and 7% that they are ‘very highly confident’. About 15% suggested that they are ‘fairly not confident’ and 7% ‘highly not confident’, whilst 4% did not respond to this question (Figure 58).

Figure 58: Level of Confidence in Statutory Bodies and Professional Organizations



## Part 4: Government Business Relationship

In Part 4 of the survey, questions were asked to identify the nature of the relationship between the private sector and government.

### Business Awareness of Public/Private Sector Consultations in Developing Government Policies and Law Reform related to Developing the Private Sector

This question was asked to find out if the businesses were aware of the consultations between the public and private sector during public policy development and law reform preparation on issues pertinent to the private sector. Figure 59 shows that around 51% of the businesses are unaware of public/private consultations related to policy development and law reform; 46% of responding businesses indicated that they are aware of such consultations; the remaining 3% did not respond to the question.

Those businesses that answered in the affirmative, (i.e. that they are aware of public/private consultations), were further asked to indicate the frequency of updates on these consultations, for example from business organisations of which they might be a member. Of the 46% that were aware of the consultations, 25% said that they were ‘frequently’ updated on the consultations’ outcome, 30% indicated that they are either ‘mostly’ or ‘always’ updated on the outcome of these public/private consultations, 18% are ‘sometimes’ updated and the remaining 27% of respondents indicated that they are either ‘seldom’ or ‘never’ informed of any outcomes of consultations with the public and private sector; (response rates are shown in Figure 60.)

Figure 59: Business Awareness of Public/Private Sector Consultations in Developing Government Policies and Law Reform related to Developing the Private Sector

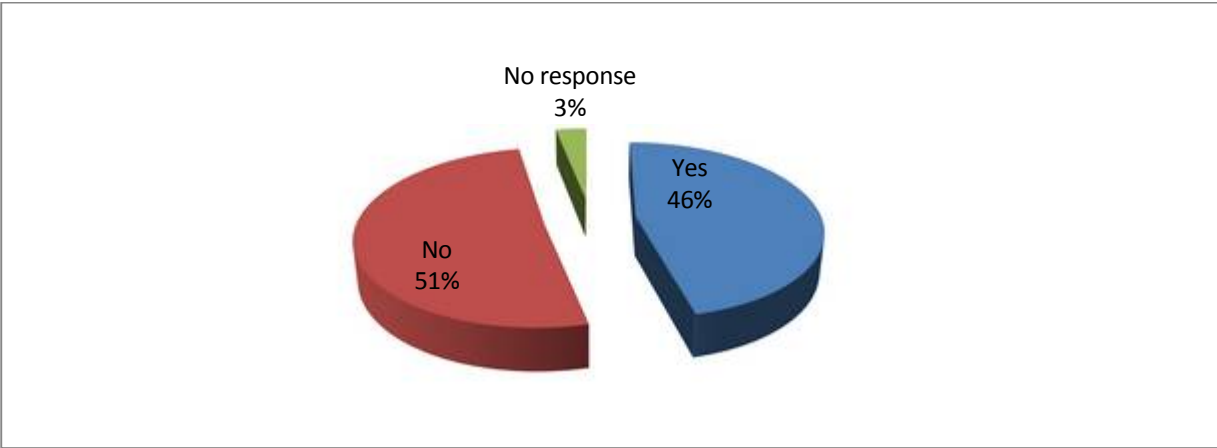
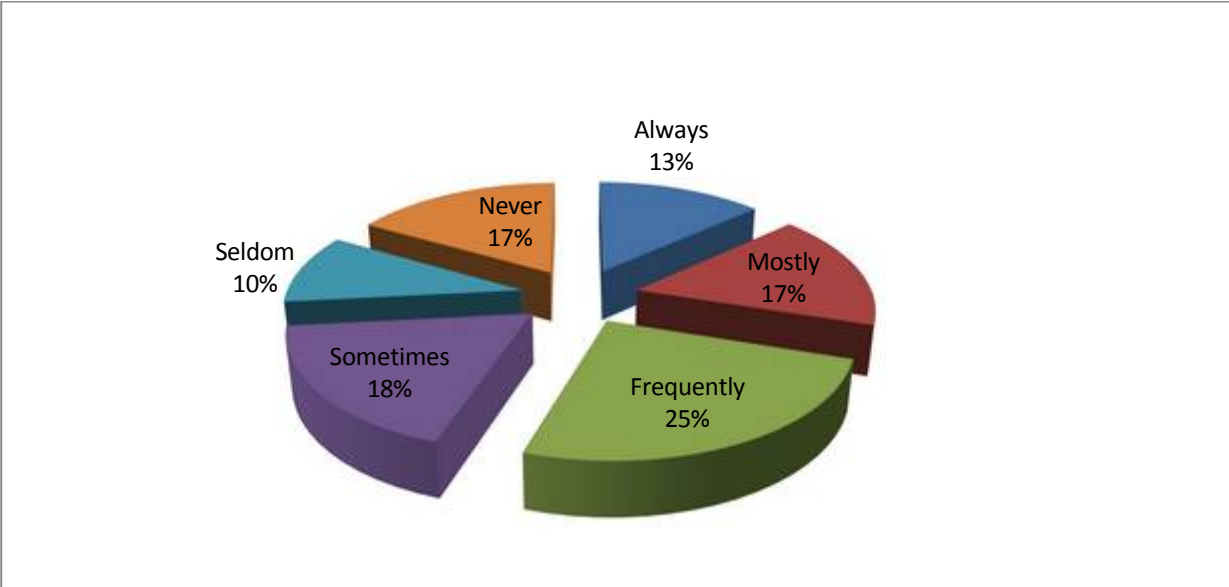


Figure 60: Question on Whether Businesses have been Updated on the Outcome of the Consultations.

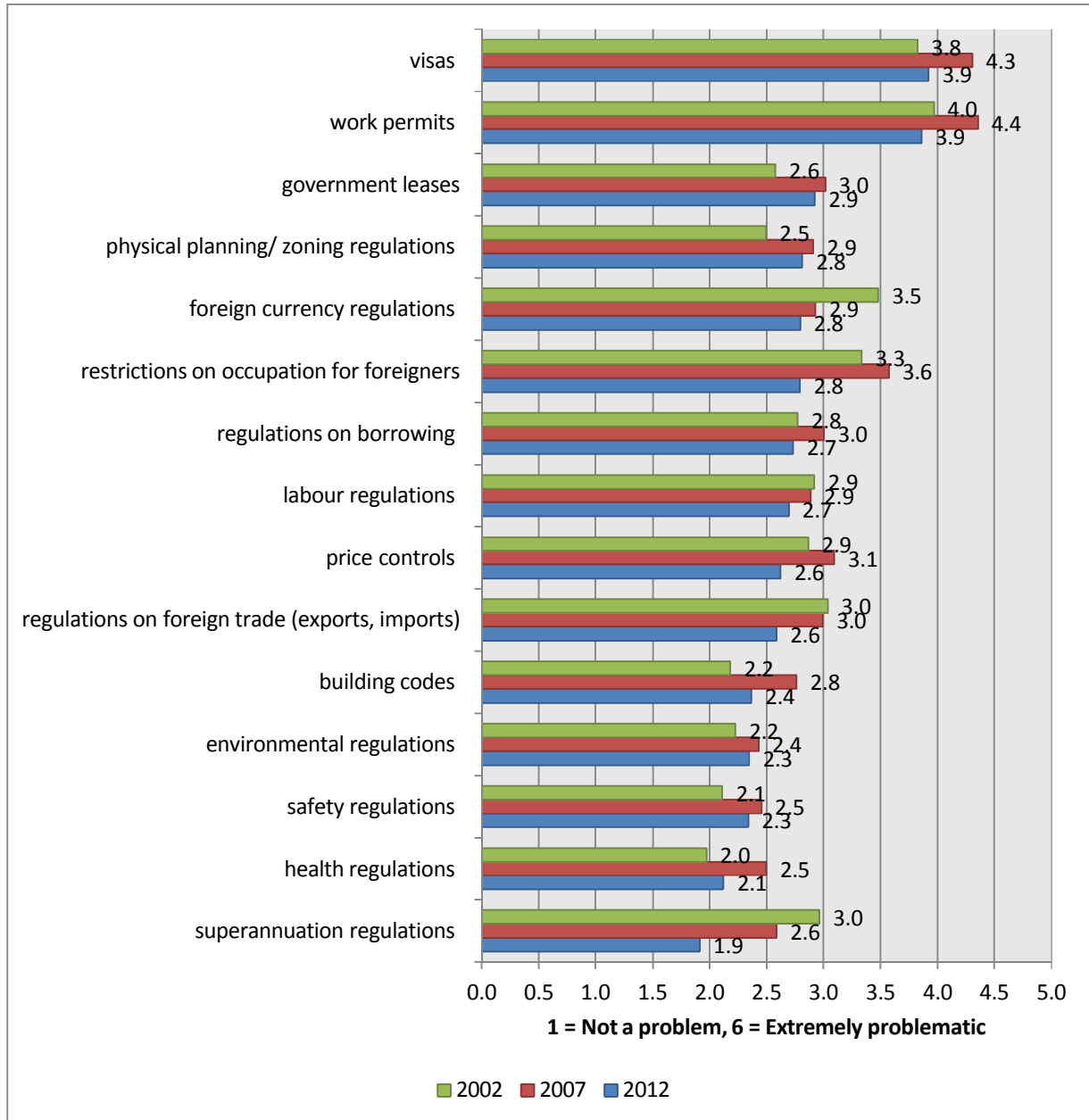


**Government Regulations and the Perception of Business**

This question requested businesses to indicate on a 6-point scale their opinion on selected issues in which government regulations or controls are a problem and/or hindrance to business operations and investment. The rankings are shown in Figure 61a, (with higher points indicating a greater hindrance). Based on average scores generated from the aggregated data, government regulations and control over visa and issue of work permits are considered the most problematic issues in 2012 for businesses with both rating 3.9 each. The other areas where government controls are seen as substantially problematic to the private sector are: - government leases (2.9), physical planning/zoning regulations (2.8), foreign currency regulations (2.8), regulations on borrowing (2.7) and labour regulations (2.7). The least problematic area identified from the survey relates to superannuation regulations, with a ranking of 1.9. In relation to the responses from 2007, there appears to be just a marginal perceived Improvement with respect to work permits and visas, despite extensive consultations and commitments to reform over many years. Over most other issues of concern, there appears to be a modest, but in a few cases significant, improvement in perception over bureaucratic impediments, notably over superannuation and health regulations, price controls and regulations over borrowing, (recognising the limitations over the samples, referred to earlier).

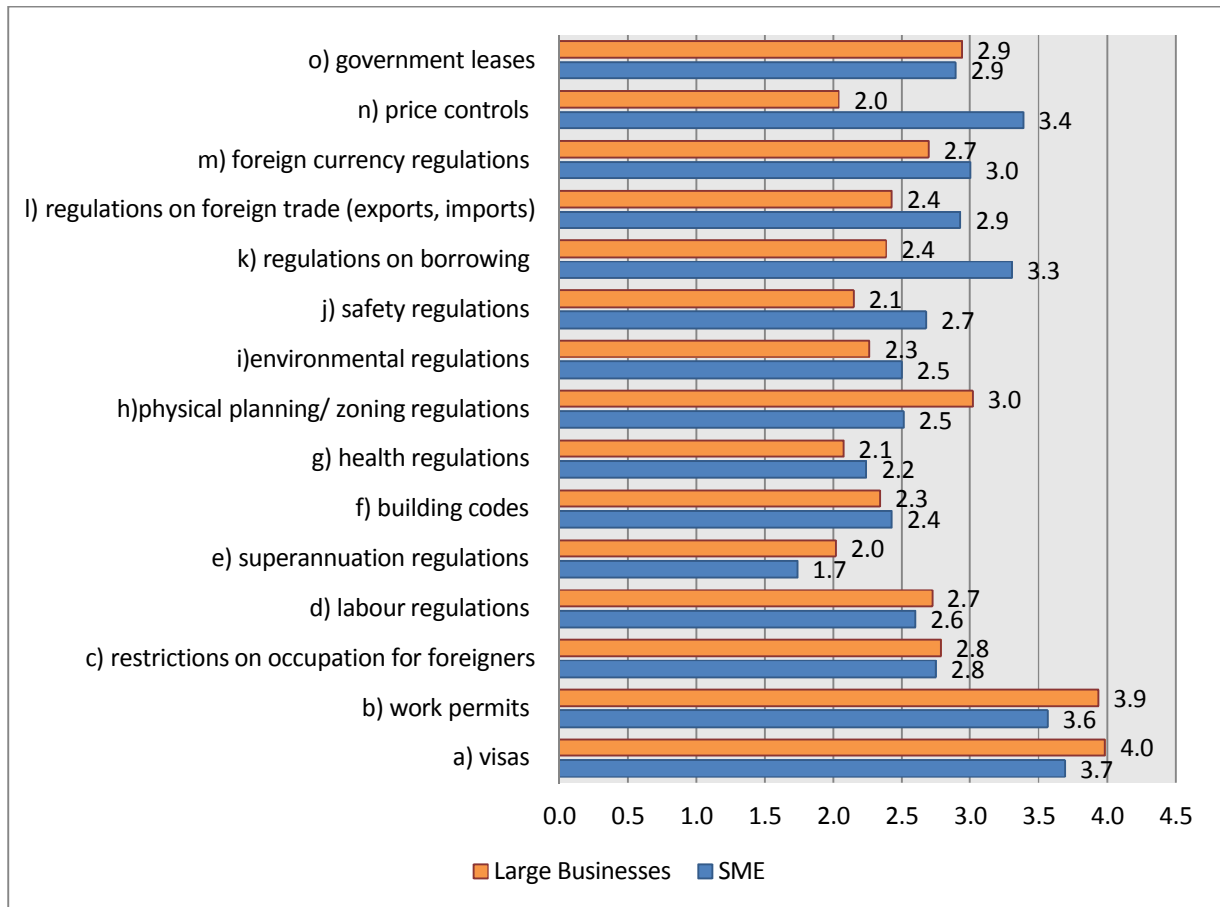
In relation to 2002 the perceived improvements have been sustained in relation to foreign currency regulations, and superannuation regulations, foreign employment, trade and price regulations, but worse in relation to lands matters and physical planning/zoning, building codes, safety and health regulations.

Figure 61a: Governments Control as a Problem/Hindrane to Business by a 6-point Scale



Large businesses and SMEs shared similar concerns with each other for the most part, but there were some marked variations, notably over price control and borrowing regulations, which were specified as of substantial concern to SMEs, but not so much to the large businesses. Safety regulations were also considered a greater problem for SMEs, whereas physical planning and zoning regulations and their application were of greater concern to the larger businesses than the SMEs.

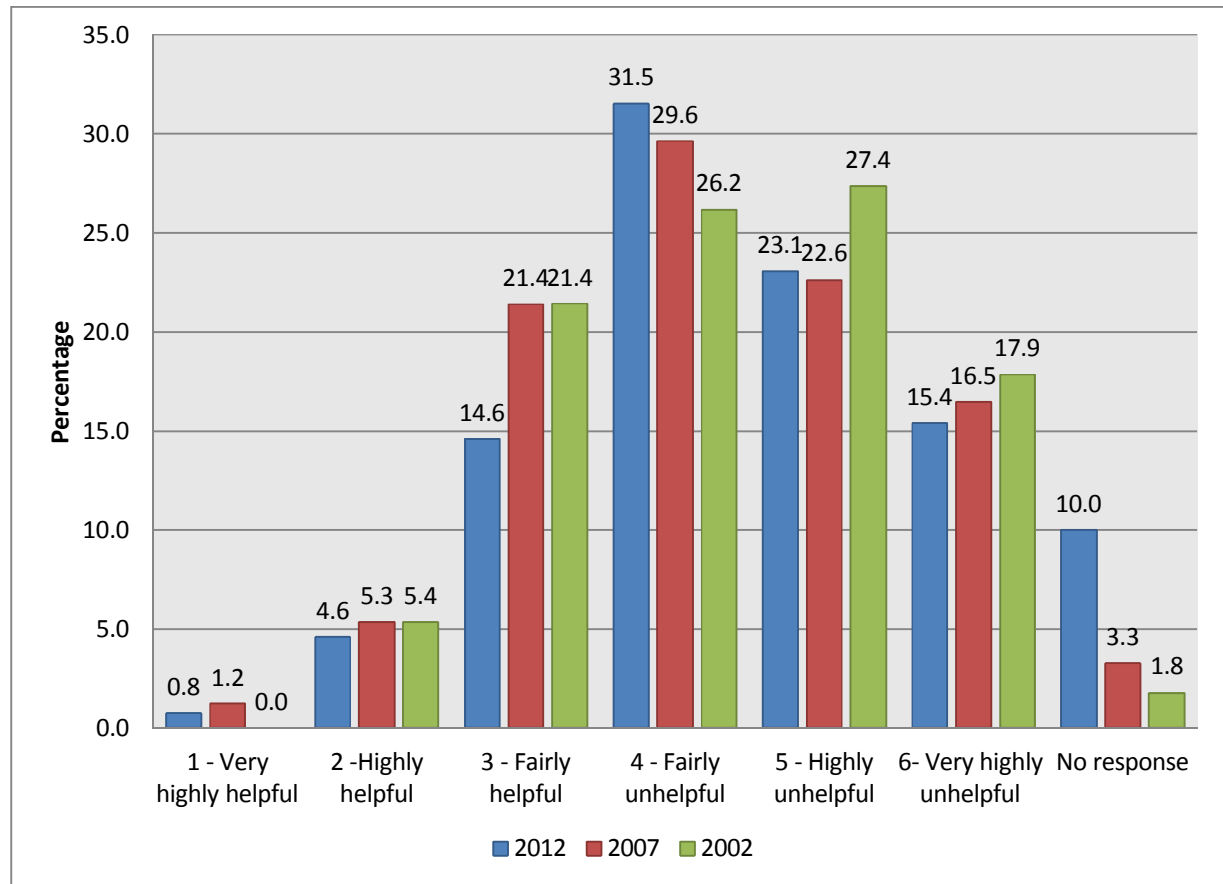
Figure 61b: Government Control as a Problem/Hindrane to Business by a 6-point Scale; the SME versus Large Businesses Perspective



### Overall Perception of the Government – Business Relationship

This question aims to find out perceptions over the overall working relationship between businesses and government. 70% categorised the relationship as ‘generally unhelpful’, with 31.5% of respondents indicating that government is ‘fairly unhelpful’ and around 38.5% viewing government as ‘highly unhelpful’ or ‘completely unhelpful’ to the private sector (Figure 62). Only 5.4% indicated that the government is either ‘very helpful’ or ‘highly helpful’, with 14.6% suggesting that it is ‘fairly helpful’. There is little variation from 2007 until 2012, except there seems to be a reduction in the portion of businesses finding government ‘fairly helpful’ and a slight increase finding it ‘fairly unhelpful’. The figure of 70% of businesses finding the relationship with government ‘fairly’ to ‘very highly unhelpful’ is similar to 2002 (71.5%), although, perhaps positively, less seem to have found it highly to very highly unhelpful in 2012 than 2002; so perhaps some improvement there.

Figure 62: Perception of Overall Relationship between Government and Private Firms



### Extent of Corruption and Impact on Business

This question seeks to gauge the incidence and impact of corruption on businesses when dealing with government. 28.4% of the respondents indicated that they are 'highly' or 'very highly affected' by official corruption, whilst another 28.5% of respondents said that they are 'fairly affected' (Figure 63a). Only 17.7% suggested that they are either 'highly unaffected' or 'completely unaffected', with 3.8% of businesses not responding to the question. Comparing responses with those from 2007 suggests that the portion of businesses which feel that they are affected, and especially highly affected by corruption has fallen (from 67.1-56.9%, the latter figure being closer to the 2002 reported level of 54.8%), and those claiming to be unaffected have risen. Although the level remains very serious and a major factor undermining business, particularly in some industries, the survey does indicate a positive or trend, although recognising the (repeated) caveat over the sample size and variation between the two surveys.

At least 50% of respondents in all industries indicated that that their business was at least 'very highly' to 'fairly affected' by corruption in dealing with government, and 80% of respondents in transport/communications indicated as such. Responses by industry/sector are depicted in Figure 63b below.



Figure 63a: The Extent of Corruption in Dealing with Government as Being Detrimental to Business

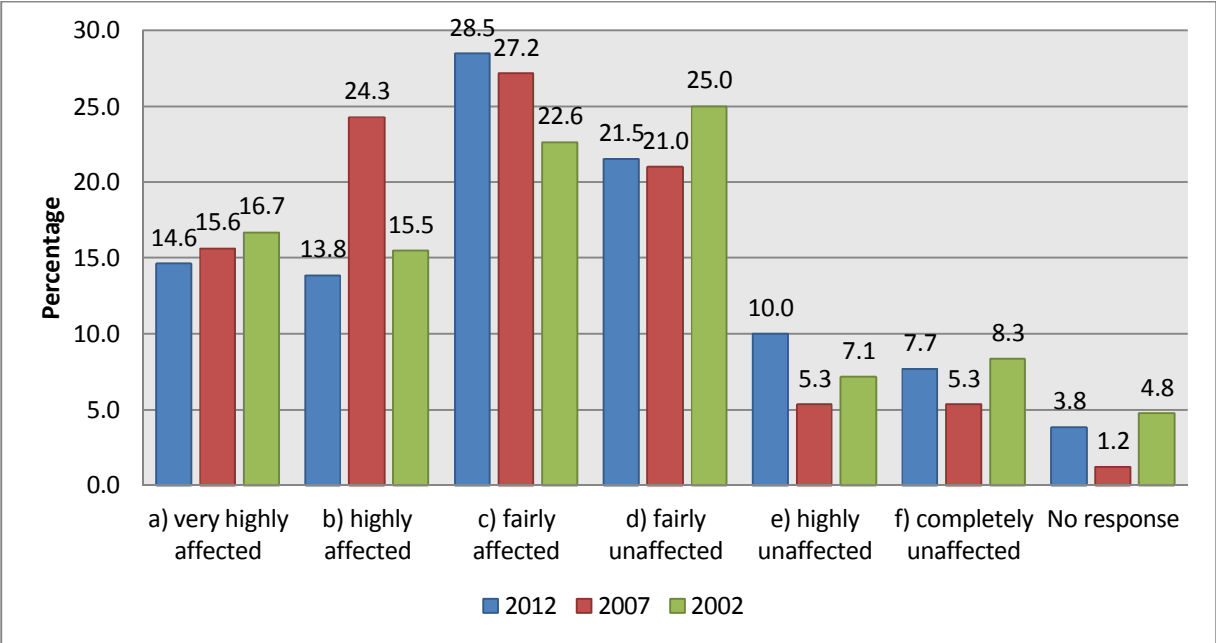
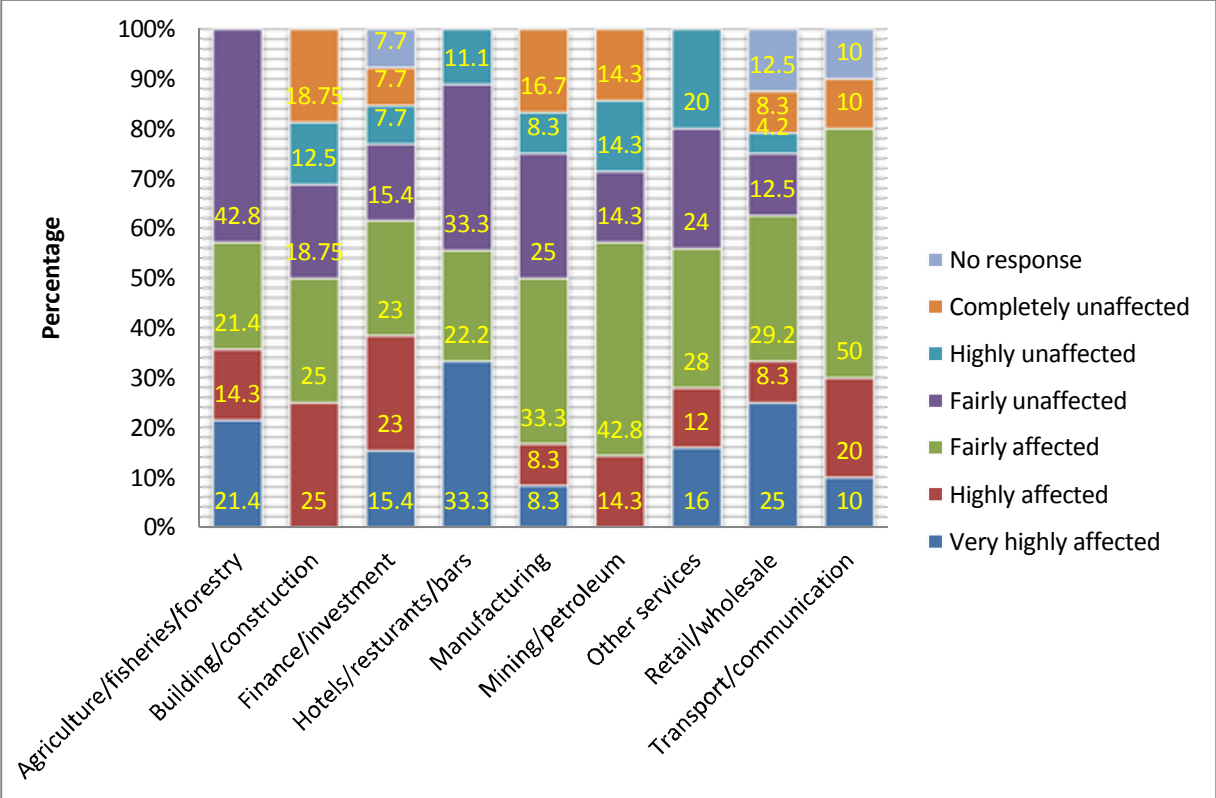


Figure 63b: The Extent of Corruption in Dealing with Government as being Detrimental to Business by Sector



### Frequency of Irregular Payments to Officials

This question asks respondents to indicate whether it is normal for firms in ‘my line of business’ to make ‘irregular additional payments’ to government officers to get things done. According to the responses, around 30% indicated that this practice ‘always’ occurs or occurs ‘most’ of the time, 13.1% suggested that it occurs ‘frequently’, whilst 20.8% indicated that such practice occurs ‘sometimes’, (i.e. 63.9% saying it at least sometimes occurred). The other 32.3% indicated that such practice ‘seldom’ or ‘never’ occurs in firms in their ‘line of business’. 3.8% did not respond to the question (Figure 64a). About the same proportion indicated they sometimes-always make ‘irregular payments’ to official (63.9% in 2012 to 64.5% in 2008, albeit that in 2012 far more said they did it frequently-always - 43.1% against 37.8%). The level sometimes-always making such payments was much lower in 2002, at 52.8%.

The response by industry is illustrative of the pressures and perhaps readiness to comply, but it suggests that the most affected sector is agriculture, forestry and fisheries, where around 78.5% of respondents considered it is at least ‘always’ to ‘sometimes’ normal to make such irregular payments, (see Figure 64b below). They were followed by transport and communications, retail/wholesale and mining/petroleum, where the figure was around 70%; Transport/communications showed the highest extent (around 50%) where it was ‘always or mostly’. The lowest rate, where it is considered to occur only ‘seldom’, is in manufacturing, where it is suggested to be only 50% prevalent ‘sometimes’.

Figure 64a: Extent of ‘Irregular Additional Payments’ to Government Officials for Services Rendered

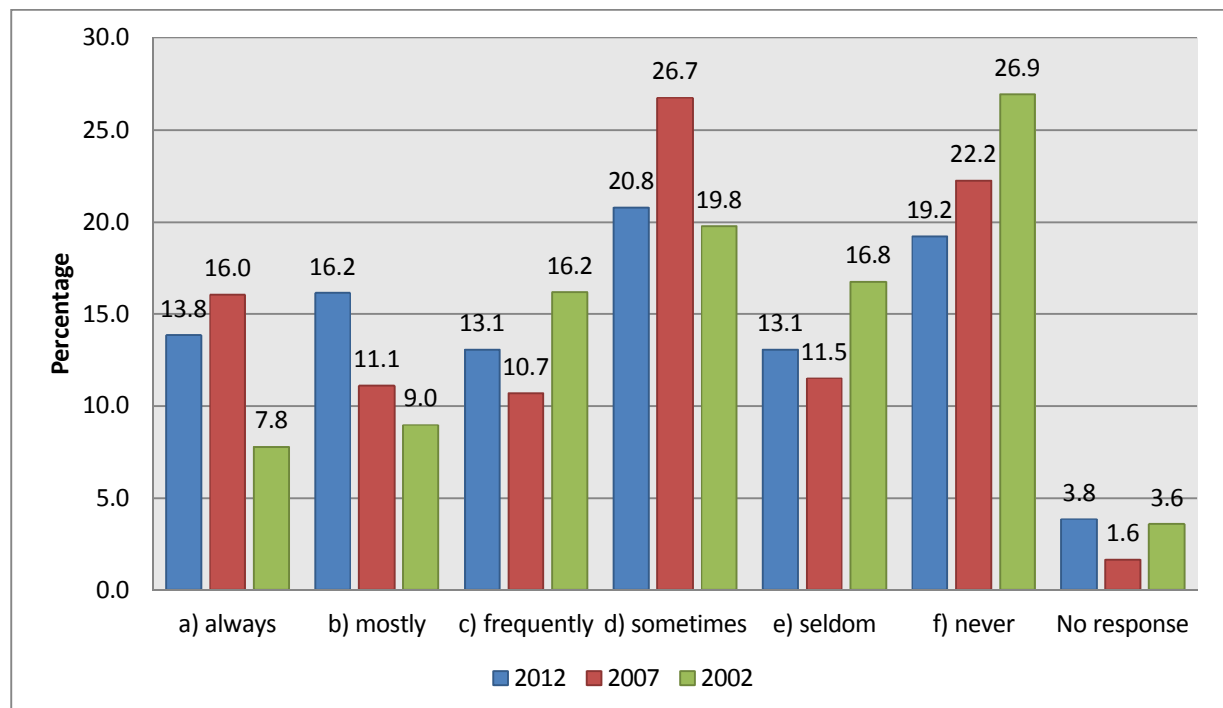
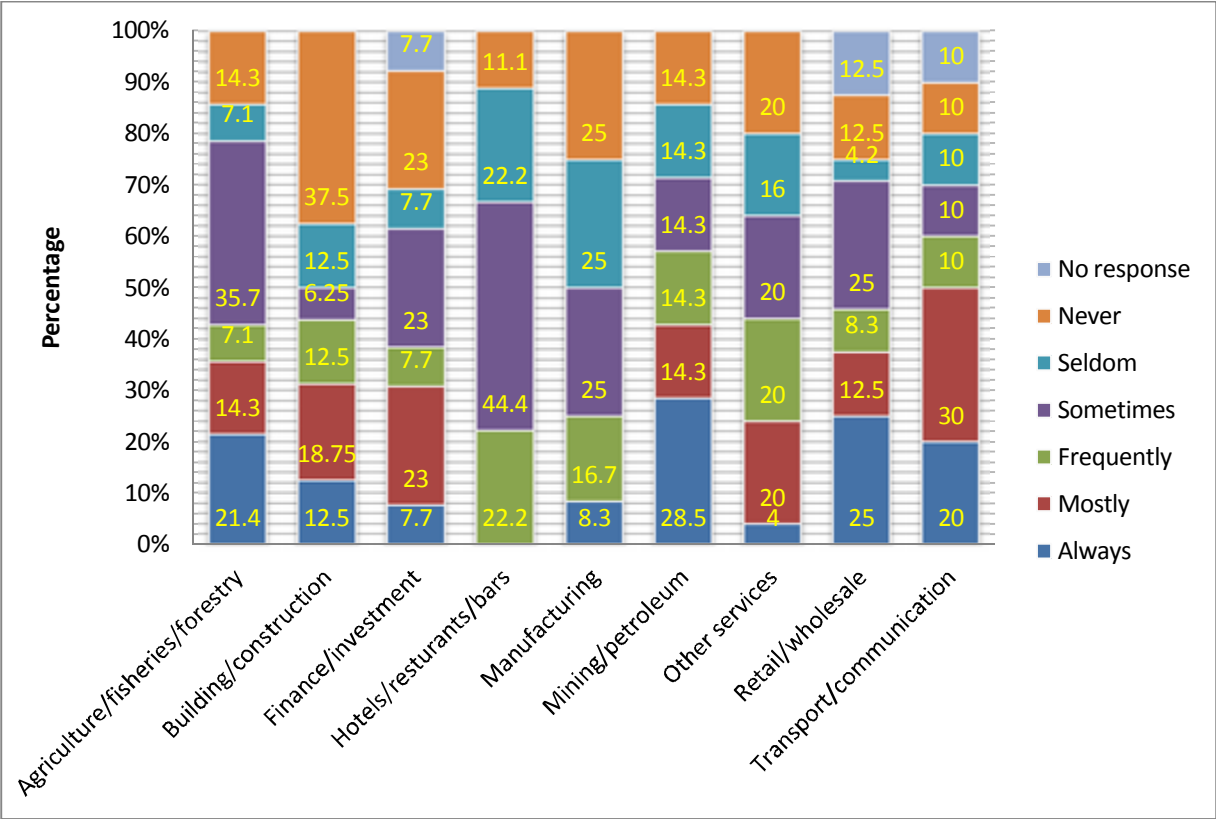


Figure 64b: Extent of 'Irregular Additional Payments' to Government Officials for Services Rendered by Sector



The Impact of Irregular Additional Payments

This question seeks to find out whether irregular additional payments made by private firms to government officials results in services requested by the firms being delivered without requests for additional payments. Results illustrated in Figure 65a show that 43% of the respondents felt that irregular additional payments are effective frequently or at least most of the time, including 11.5% who indicated they felt it always works; 28% of the businesses indicated that 'sometimes' their requests obtain positive results, whilst 11.7% suggested that such practices either 'seldom' or 'never' result in any outcomes requested by them, at least without further demands being made., The remaining 17.7% did not respond to the question for reasons of their preference, (e.g. perhaps because they don't participate in this practice, are unaware of the application and its outcomes or would prefer to remain discreet on this sensitive subject).

A substantial portion of respondents, (50% each) from the agriculture/forestry/fisheries and transport/communications sectors gave their impression that 'irregular additional payments 'mostly' or 'always' result in 'positive outcomes', whilst about 55.6% and 43% from the hospitality and mining/petrol industries, respectively, responded that 'sometimes' irregular ; additional payments lead to positive outcomes. In the manufacturing, and the building and

construction industries a large portion (41.6% and 37.5% respectively) indicated that such additional payments seldom provide positive outcomes. 18% of respondents chose not answer this question (Figure 65b)

Figure 65a: Extent to Which Irregular Additional Payments Lead to 'Positive' Outcomes

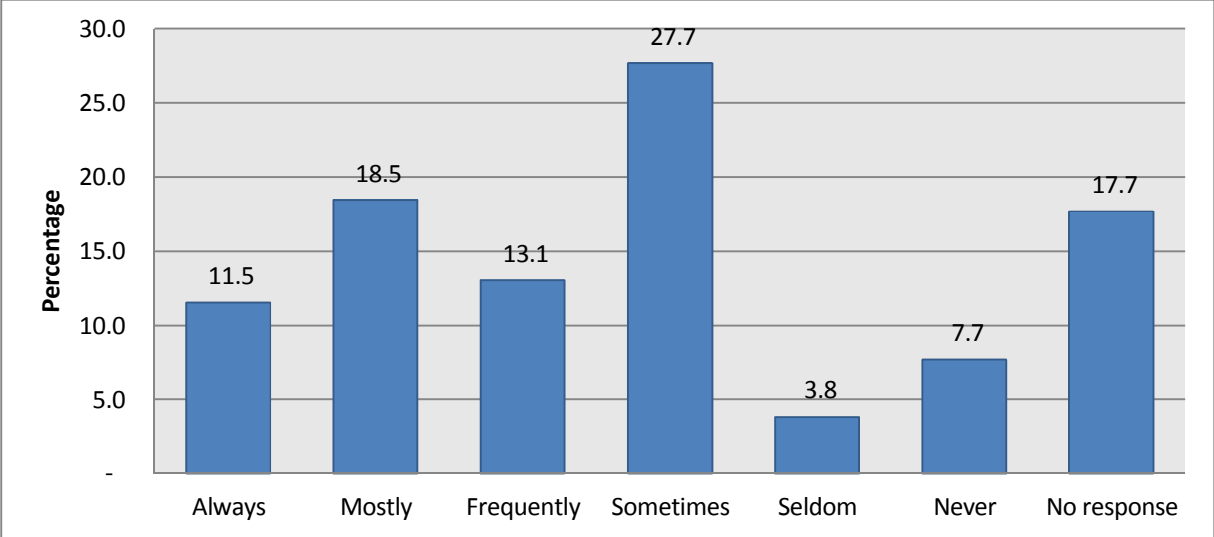
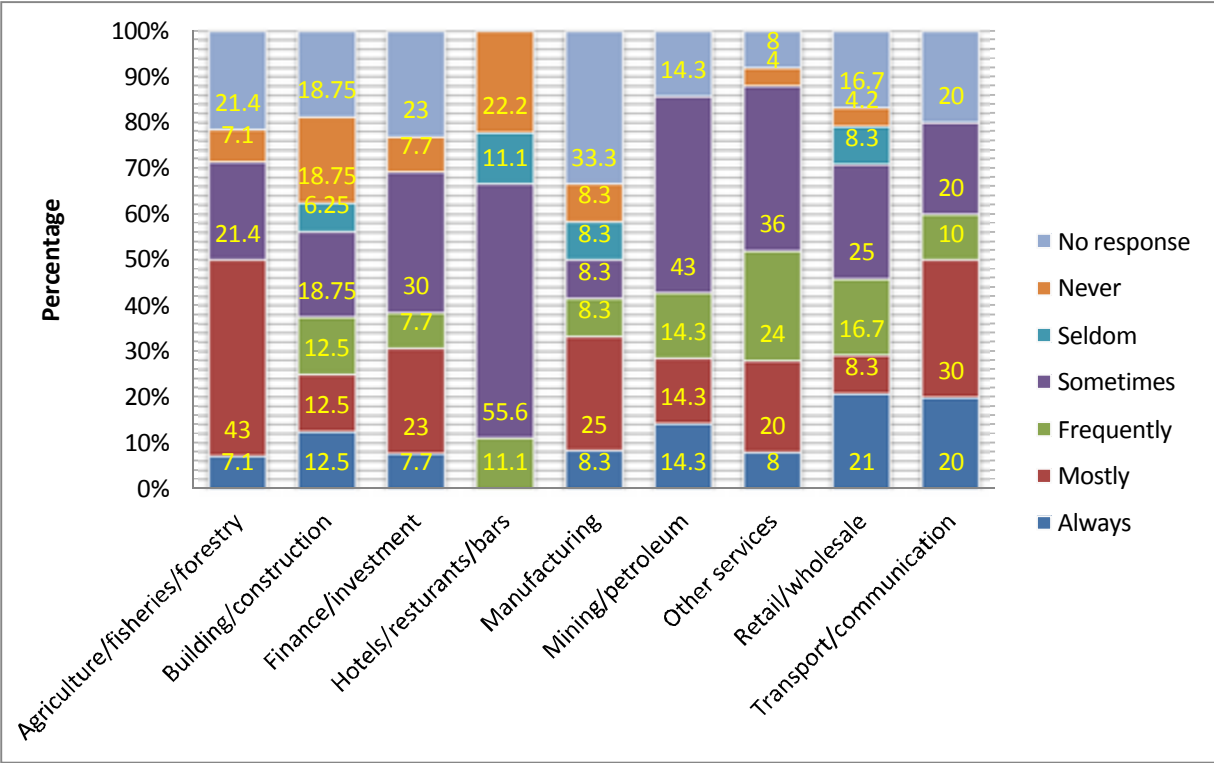


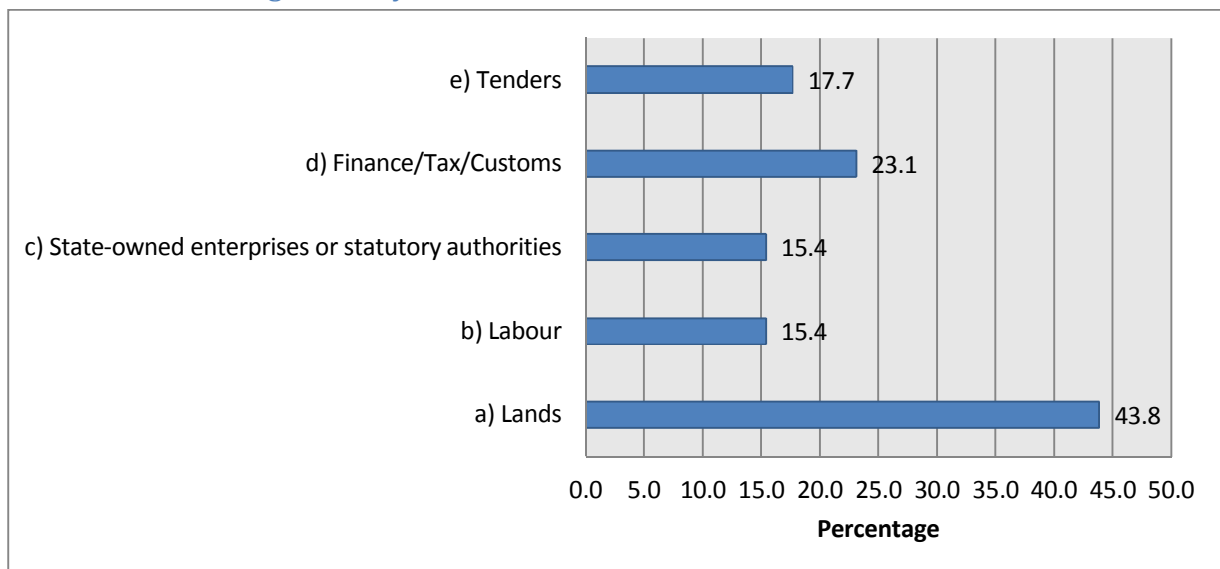
Figure 65b: Extent to Which Irregular Additional Payments Leads to 'Positive Outcomes' by Sector



### Private Sector View on Government Fields/Institutions where Corruption Affects Business and Investment Plans

Businesses were asked to identify areas and/or institutions in government where apparent corruption affects their businesses and their investment plans. 43.8% of the respondents indicated that (perceived) corruption related to 'land' issues significantly affects their business and investment plans. Around 23.1% indicated apparent corruption in the 'finance/tax/customs' institutions; 17.7% of the respondents highlighted corruption in the 'tender process', whilst apparent corruption in the 'state-owned enterprises/statutory authorities' and over 'labour' issues were highlighted by 15.4% of respondents apiece (Figure 66).

Figure 66: Fields and/or Institutions in Government where Corruption affects Business and Investment Plans significantly



2013 launch of the Extractive Industries Transparency Initiative (EITI) by Treasurer Hon. Don Polye

### Seeking Recourse from Corrupt Practices

This question asks business whether businesses seek assistance from other government officials, including from their superiors, to resolve issues when they encounter problems dealing with apparently corrupt officials. 19.2% indicated that they ‘frequently’ to ‘always’, seek such recourse in circumstances when dealing with corrupt government officials, whilst 19.2% felt that they were ‘sometimes’ able to seek recourse, (Figure 67a); 33.8% of the respondents stated that they were ‘seldom’ or ‘never’ able to seek recourse, whilst 16% indicated that they didn’t know whether they’d seek recourse and 11.5% did not respond to the question. In 2012 respondents seemed less inclined to ‘sometimes’ or even ‘occasionally’ attempt bypass, or go over the head of, apparently corrupt officials, with more suggesting that they would never follow this route, perhaps perceiving that it would not help resolve the contentious issue. Far less indicated they didn’t know whether to seek assistance for other government officials than either in 2007 or 2002,

70% of the respondents in the transport/communications industries indicated that they would at least sometimes use this recourse of trying to by-pass seemingly corrupt officials, followed by those in agriculture/forestry/fisheries at 57.1%, whilst those in other sectors mostly had markedly lower rates. 57.3% of respondents in the mining/petroleum sector either didn’t respond to this question or didn’t know (Figure 67b).

Figure 67a: Extent to which Recourse can be sought when dealing with Corrupt Government Officials

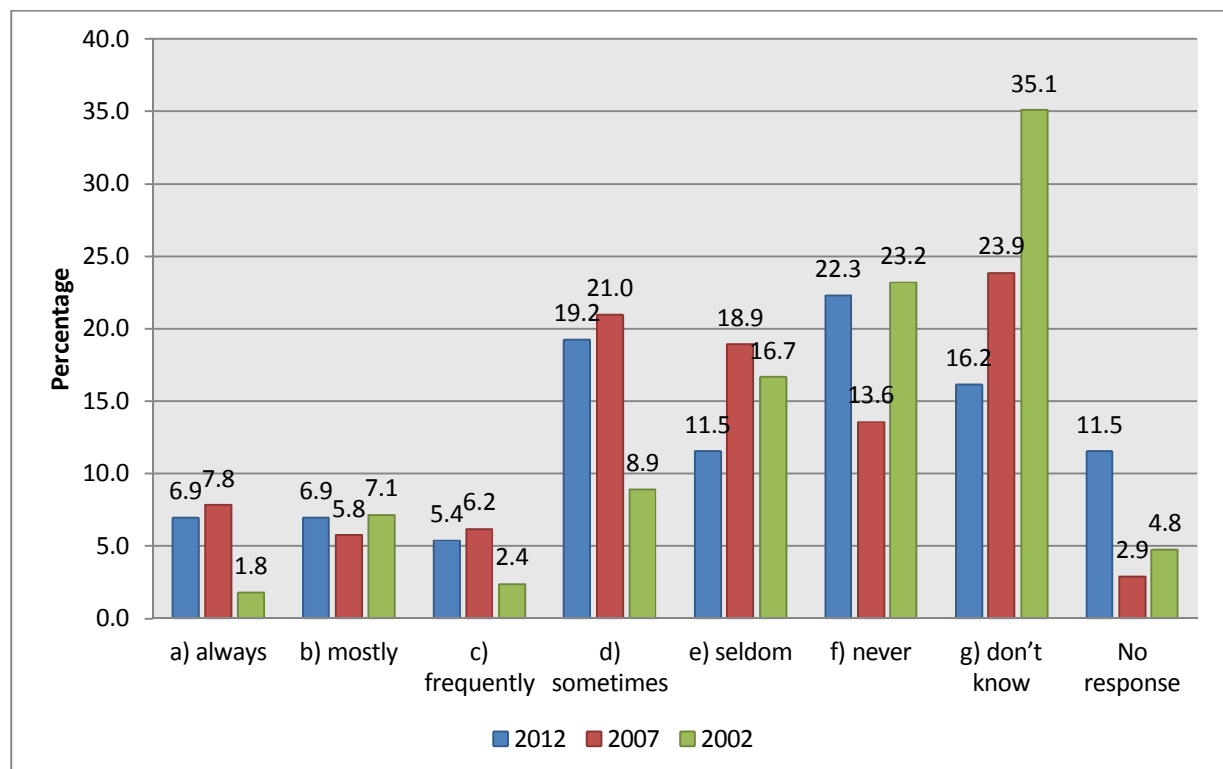
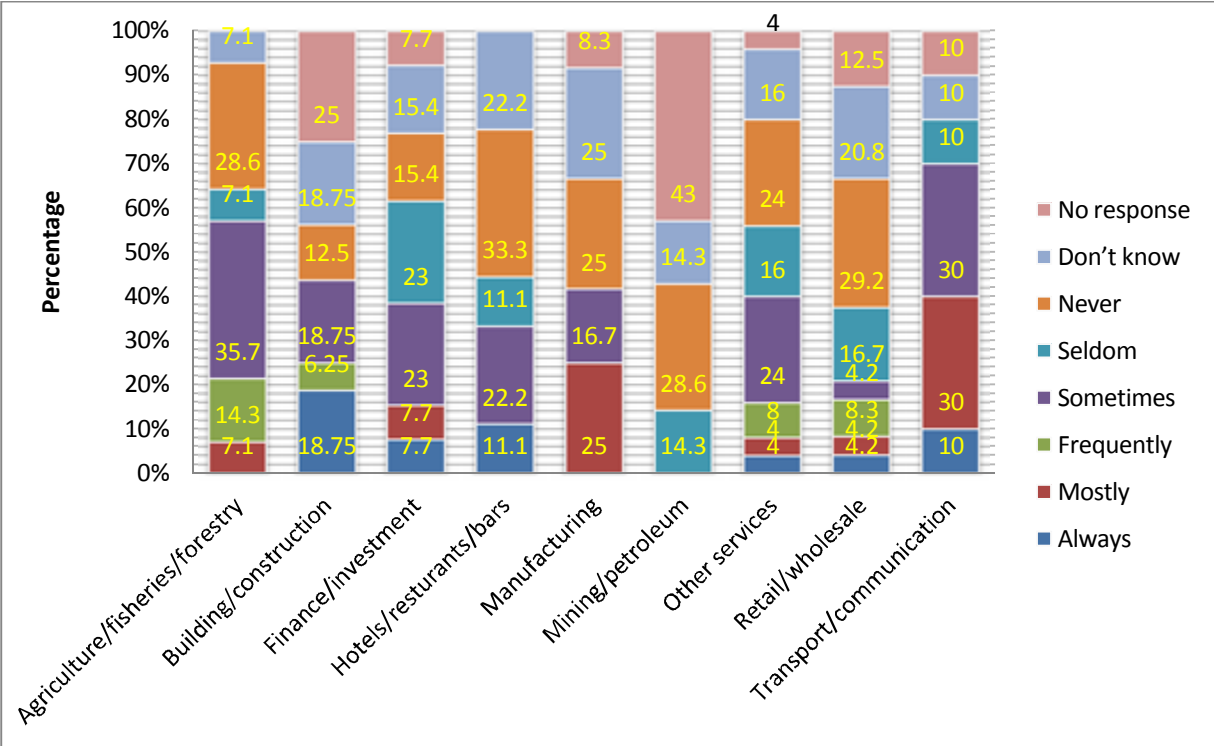


Figure 67b: Extent to which Recourse can be sought when dealing with Corrupt Government Officials by Sector



Inadequate police presence and numbers on the ground at the community level is a major weakness

## Part 5: Effectiveness of Government Services Provision



In Part 5 of the survey, questions were asked to ascertain the private sector's view on the efficiency, effectiveness and quality of services provided (largely) by government.

### Private Sector Perception on the Efficiency, Effectiveness and Quality of Government Services Provision

The question seeks to assess the quality, efficiency and effectiveness of selected services provided largely (but not always exclusively) by government. On a 6-point scale, with 1 being very good and 6 being very poor, the respondents ranked 'road and bridge infrastructure' the poorest public good, followed by 'law enforcement services' and 'electricity services', followed closely by telecommunications and port services, (Figure 68a). The overall ranking placed 'financial and banking services' as the best in providing quality, efficient and effective services (albeit that this is largely a private sector delivered service, merely regulated by the State). The perceptions in 2012 are similar to those recorded in 2007, except that telecommunications are deemed to have improved somewhat, presumably as a result of the commencement of competition, initially in mobile telephony, and financial services are considered to have improved, perhaps in turn resulting partly from improved telecommunications and the roll out of some new services and greater competition in segments of the industry.

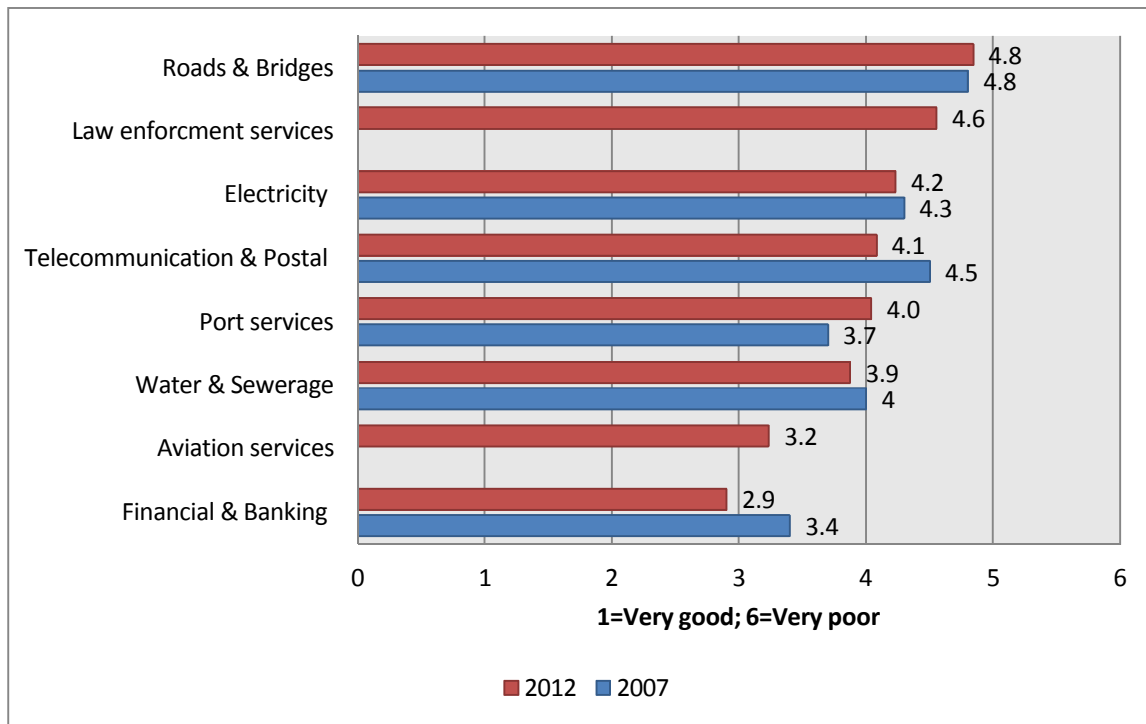
The perception of most government services by the SME respondents was consistently slightly better than that of the large businesses, albeit still categorised as poor to very poor, except with banking and aviation services, where the SMEs' view was marginally more negative than for the large businesses.

Figure 68b shows the comparative perception of the SMEs' and large business on the efficiency, effectiveness and quality of selected government services. The views of these two segments of the private sector were largely consistent, with relatively minor variations. 'Roads and bridge infrastructure' received the worst ranking from both large businesses and equal worst ranking with 'Law enforcement services' for SMEs. Law enforcement was ranked second worst by large



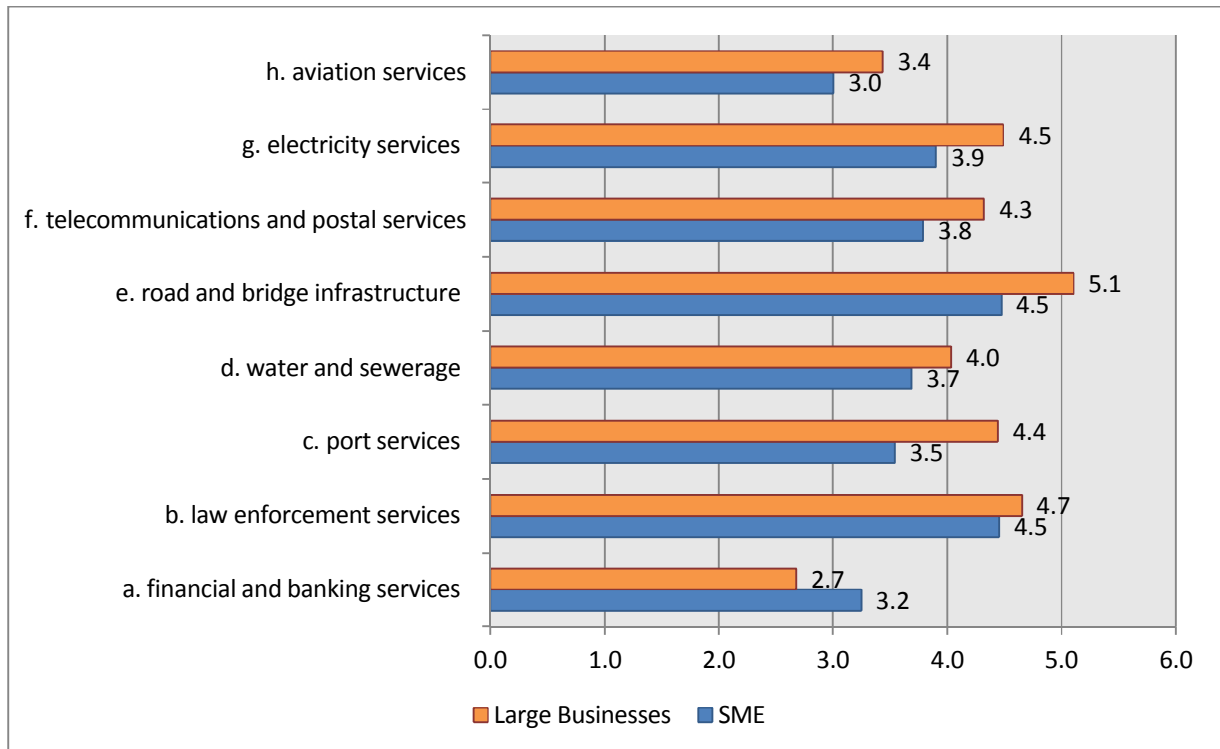
businesses, with 'electricity services' marked as third worst by both large businesses and SMEs. Port services were a greater concern to the large businesses than to the SMEs, whilst by contrast financial services were of slightly greater concern to the SMEs.

Figure 68a: Overall Perception of the Efficiency, Effectiveness and Quality of selected Government Services



Potholes and trenches in PNG's rural and urban roads; here the centre of Mt Hagen city

Figure 68b: Overall Perception of the Efficiency, Effectiveness and Quality of Selected Government Services; the SME versus Large Businesses Perception



Highlands Highway, near Mingende in Chimbu Province (2012)

### Overall Rating of Government Services

Businesses were asked this question to provide an overall rating of the efficiency, effectiveness and quality of services provided by government as a whole. A major portion of respondents, (40%), rated overall government service provision as 'fairly poor'. 30% of the respondents rated these services as either 'poor' or 'very poor'(Figure 69a). 26.2% rated the performance of government service provision as either 'high' or 'fairly high', whilst 3.8% of respondents did not answer this question. The responses indicated a slight improvement in perception of government service delivery by participating businesses, with 82.7% having given a generally poor rating in 2007, down to 70% in 2012; (a marked improvement from 2002 with 91.1%).

Most respondents in all sectors rated the efficiency, effectiveness and quality of government services as 'fairly poor' (see Figure 69b). Virtually none ranked the government service performance to be 'high' or better, but the respondents in Transport/Communications, followed by retail/wholesale and agriculture/forestry/fisheries gave the most positive feedback, (with 40%, 29.2% and 28.6% respectively indicating 'fairly high'), whilst the hospitality and the building and construction sectors rated government services least favourably (with only 11.1% and 11.8% respectively deeming them 'fairly high'),

Figure 69a: General Rating of the Efficiency, Effectiveness and Quality of Government Services Provision

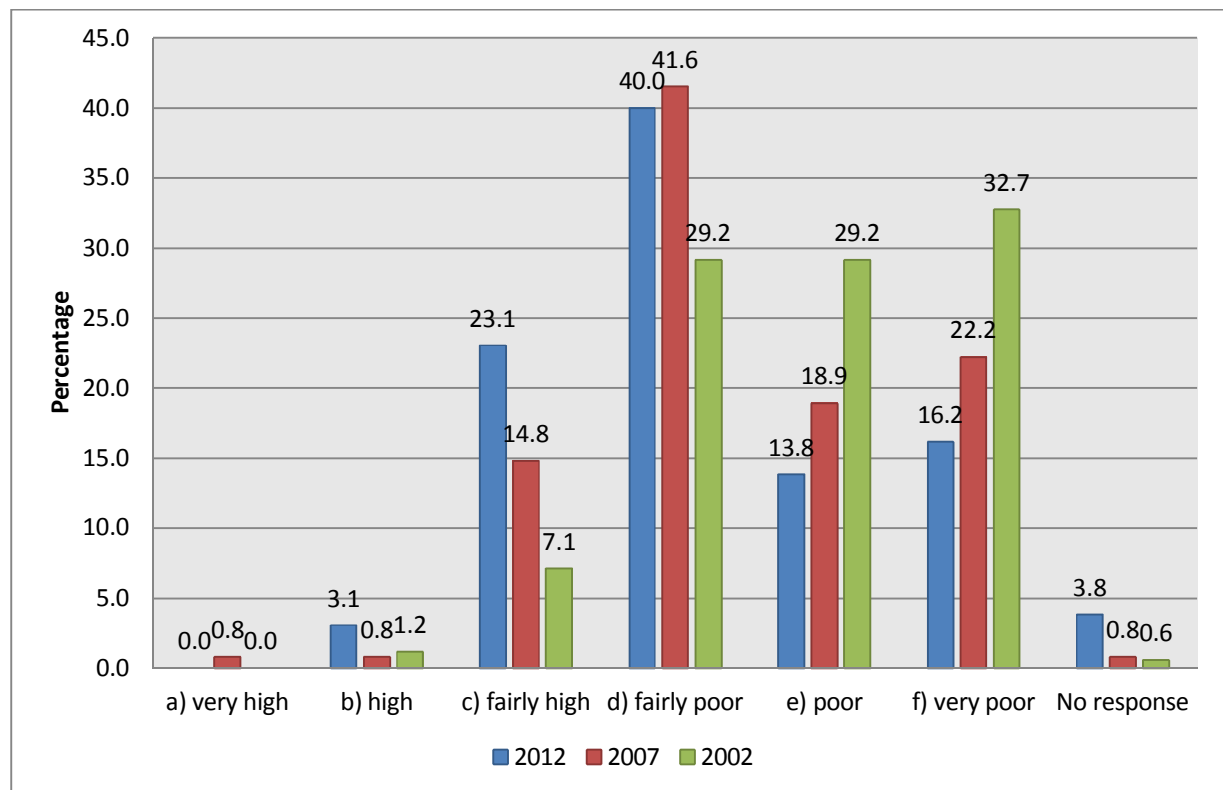
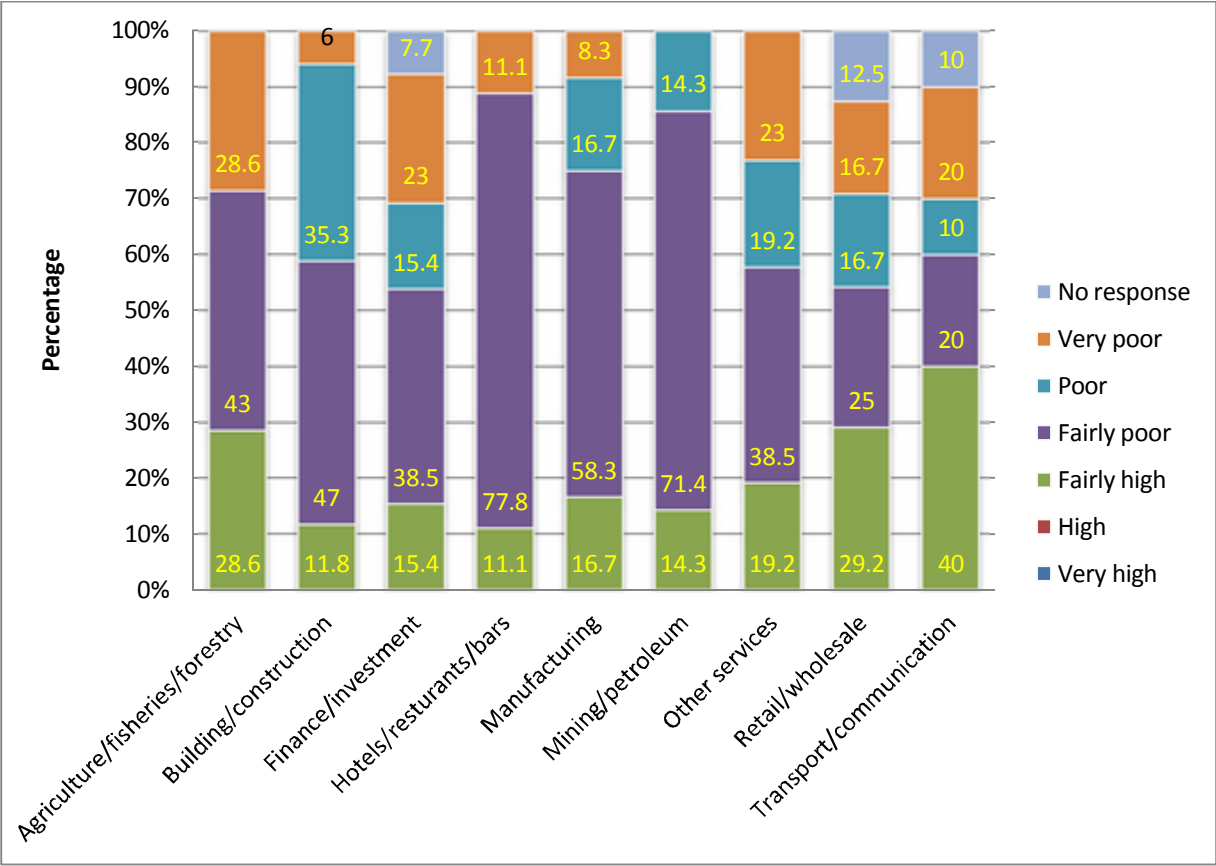


Figure 69b: General Rating of the Efficiency, Effectiveness and Quality of Government Service Provision by Sector



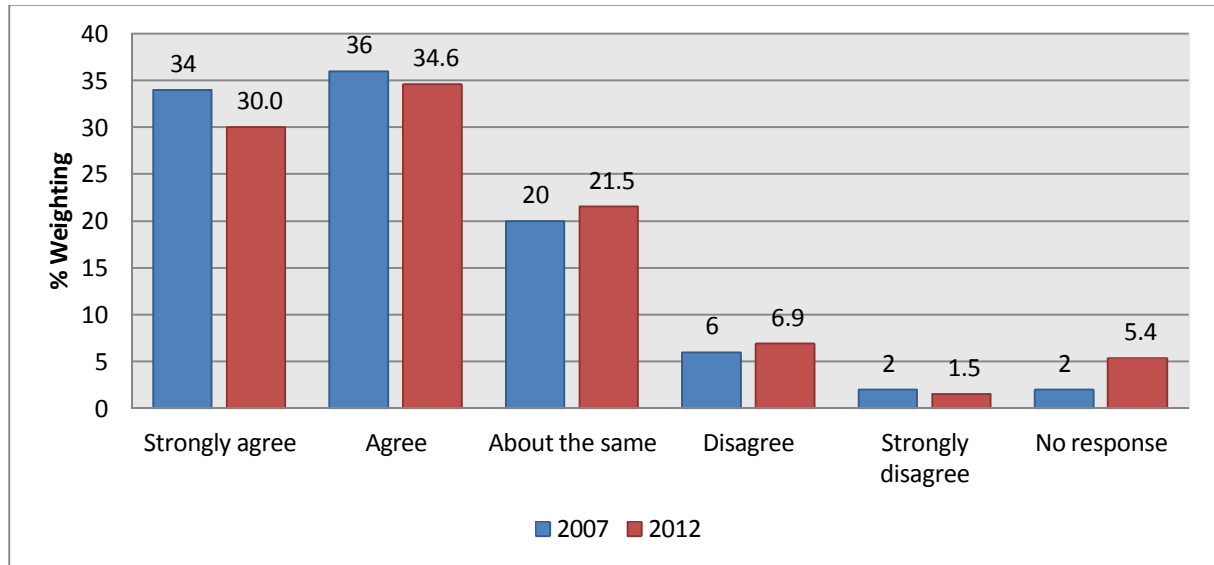
**Improvement in the Quality of Government Services through Major Reforms**

Businesses were asked whether the quality of government services would improve as a result of major policy reforms. The results depicted in Figure 70a show 65% seemingly considering major reform to be a prerequisite for service improvement, with 35% of respondents indicating ‘agree’ and 30% ‘strongly agree’ that, with major policy reforms, the quality of government services will improve. Around 21.5% of the respondents indicated that, whether major reforms are made or not, they expect the quality of government services to remain ‘about the same’ as now. 8.5% of the respondents said they ‘disagree’ or ‘strongly disagree’ with the view that any major reforms will lead to improvements in the quality of government services. The views in 2012 are similar to those obtained during 2007; (note: no comparison can be made with 2002, as this question was not included in the survey during that year).

The respondents in most sectors (60-80%), but particularly agriculture/forestry/fisheries, ‘agree’ or ‘strongly agree’ that major reforms are required to improve the quality of government services (Figure 70b). Less than half agree in manufacturing and mining/petroleum. Relatively few disagree, as such, but a good portion in most sectors, notably manufacturing,

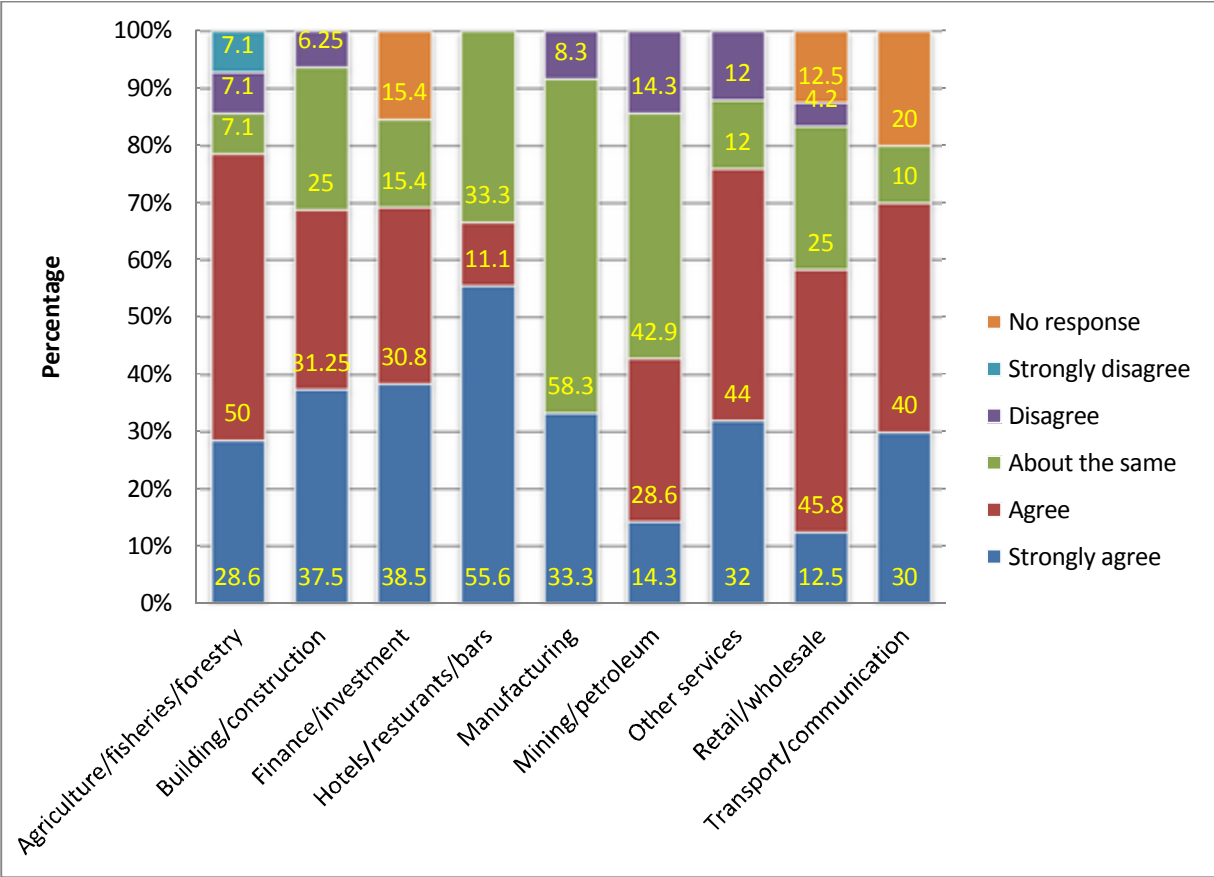
mining/petroleum and the hospitality industries consider that the quality of government services will still remain the same regardless of policy changes.

Figure 70a: Business View of the Need for Major Reforms for Improvements of the Quality of Government Services



CIMC rural airstrip and air-services workshop, 2013 – Mt Hagen

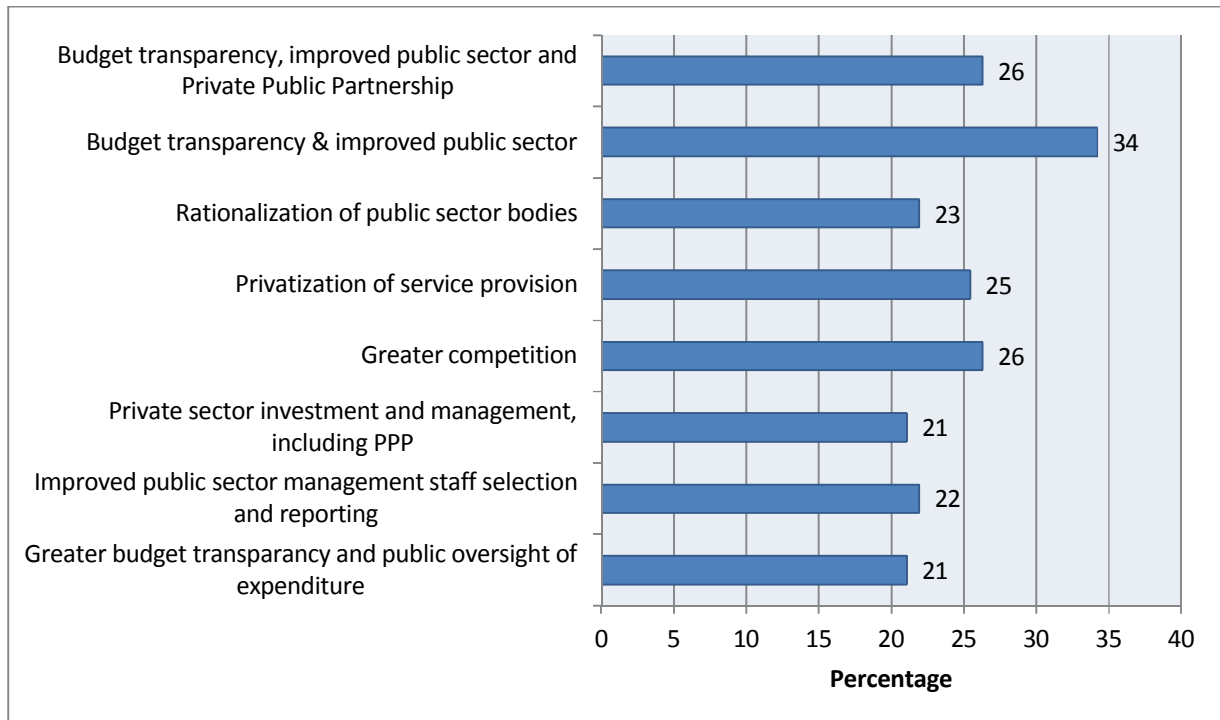
Figure 70b: Business View of the Need for Major Reforms for Improvement of the Quality of Government Services by Sector



Areas in which the Private Sector thinks that Major reforms are needed to Improve the Quality of Services in Papua New Guinea

This question asks respondents to indicate their first preference for policy reform (or reforms) to enable improved quality of services in PNG, selecting one or more from a list of options, (including adding other unlisted options). Some respondents selected individual policy areas, whilst others selected multiple priorities where they want to see major reforms. 34% of respondents indicated that they would seek ‘greater budget transparency and improved public sector management’, 26% favoured ‘greater competition’, 26% prioritised ‘budget transparency, improved public sector management and the application of public-private partnerships’, another 25% gave first preference to ‘privatisation of service provision’, 22% preferred ‘improved public sector management, staff selection and reporting’ (Figure 71).

Figure 71: Private Sector View on First Preferences (or Combination of Preferences) for Policy Reforms to Improve the Quality of Services in PNG



*Part of Oro Province's long-unrestored main road and bridge infrastructure*

## Part 6: Rating Hindrances to Business and Investment



*Lack of, or often impassable, transport infrastructure – here in West Sepik – or Sandaun- Province*

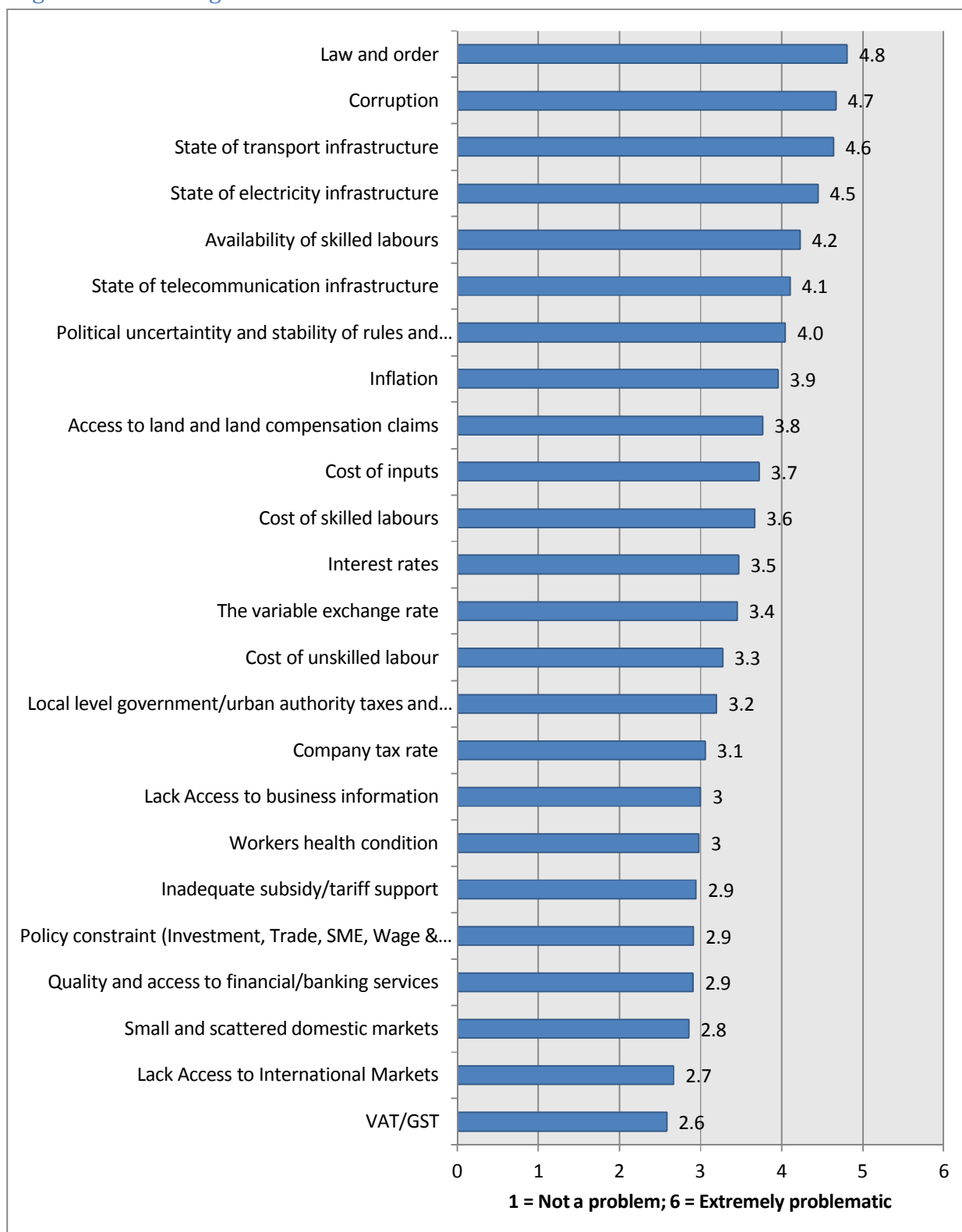
The last part of the survey was intended to ascertain the factors or issues, which the private sector view as hindrances to doing business or impacting on investment decisions in PNG.

### **Ranking of Hindrances to Business and Investment**

This question asks respondents to rate 24 commonly cited issues on a 6 point scale according to their impact (as a hindrance, or otherwise) on the respondents' business and investment decisions. With 1 being 'not a problem' and 6 being 'extremely problematic', it found that 'law and order' problems are considered the most problematic issue and a major hindrance to businesses and investment (Figure 72a). Following closely behind, businesses indicated that the next two major rated hindrances are 'corruption' and the 'state of transport infrastructure'. The (poor) state of electricity infrastructure came next, followed closely by availability of skilled labour, and, in turn, by the 'state of telecommunications infrastructure' and 'political uncertainty and the stability of rules and regulations'.



Figure 72a: Ranking of Hindrances to Business and Investment



In Figure 72b, the hindrances to business and investment are ranked by severity for 2012, 2007 and 2002. In 2012, although many hindrances are still considered severe, there does appear to have been a slight improvement in the assessments given by businesses to some issues between 2007 and 2012, although, noting the caveat, as stated earlier, over reading too much into minor variations between surveys. The survey provides a useful indication of views and concerns of the business sector operating (legitimately) in PNG, ranging from large corporations to formal sector small-medium enterprises. (Some segments of the business sector, including businesses operating outside, or on the fringe of the law, did not, or were reluctant to participate in the survey, so their views were not necessarily or only coincidentally reflected).

Some apparent notable changes in rating of hindrances between 2007 and 2012, include: - a slight improvement in the perception of telecommunications infrastructure and services, (presumably with the advent of mobile phone and subsequently other ICT competition since mid-2007, albeit that data and internet services remain costly and somewhat unreliable particularly in some centres and parts of the country), and less concern over political uncertainty and rules stability than in 2007 or 2002 (despite 2012's political disruptions); LLG and urban authority tax and rules seem to be of slightly less concern in 2012 than 2007, (despite the threat of some subnational sales taxes being introduced, notably in some provinces); variable exchange and interest rates may be of slightly less concern in 2012 (and much less than in 2002), along with concerns over lack of tariff support and subsidies (notably during 2012 when most commodity prices were still strong, and before exchange rates slipped back in 2013); conversely, there may be slightly increased concern over the cost of skilled labour (during 2012, when the PNG LNG construction was at its zenith, absorbing skills from a wide range of other businesses and the public sector), also marginally greater concern over inflation in 2012, albeit well below 2002.

Figure 72c shows comparisons of the rating of hindrances faced in 2012 by overseas-owned business, in contrast to nationally (PNG) owned businesses, ranked by nationally-owned businesses. PNG-owned businesses ranked 'corruption' as their main hindrance to investment and business (with 4.85), followed by 'Law and order' (4.77), 'state of transport infrastructure' (4.71), 'state of electricity infrastructure' (4.6), then 'political instability and changing rules' (4.15), 'inflation' (4.05), 'availability of skilled labour' (3.96), 'cost of inputs' and 'access to land'. Overseas-owned businesses showed a slight variation in their rankings and ratings, indicating 'Law and order' as their main hindrance to investment and business (with 4.95), followed by 'availability of skilled labours' (4.79) and 'state of transport infrastructure' (4.68), whilst 'corruption' ranked fourth critical hindrance (4.48).

Figure 72d depicts the rankings of hindrance to business and investment for the SMEs and large businesses. The large Businesses ranked 'Law and Order' as their main hindrance (with 5), followed by 'state of transport infrastructure' (4.8), 'availability of skilled labour' (4.6),

'corruption' and 'state of electricity infrastructure' (with 4.5 each), 'state of telecommunication infrastructure' (4.3) and 'access to land and land compensation claims' with 4.2. SMEs, by contrast, indicated 'corruption' (4.8) and 'law and order' (4.6) as their main hindrances, followed closely by 'state of transport infrastructure' and 'state of electricity infrastructure' (at 4.4 apiece), 'inflation' (4.1), and 'political instability and changes of rules' (with 4).

Although there are minor variations of emphasis, it should be noted that, in general, the main business and investment impediments, as identified by SMEs and Large Businesses, and also by PNG-owned and Foreign-owned enterprises, are shared, with only relatively small contrasts (in some cases perhaps a reflection of sample size). The larger variations of priority occur particularly, for example in some of the lower ranked impediments, where SMEs give greater priority, notably, to the need for greater access to information and overseas markets, where larger companies, by their maturity or nature, are more likely to have established these linkages and information already.



*New seafront prime accommodation in NCD - however, businesses have difficulty recruiting or retaining skilled PNG or overseas staff with limited land and affordable accommodation*

Figure 72b: Ranking of Hindrances to Business and Investment

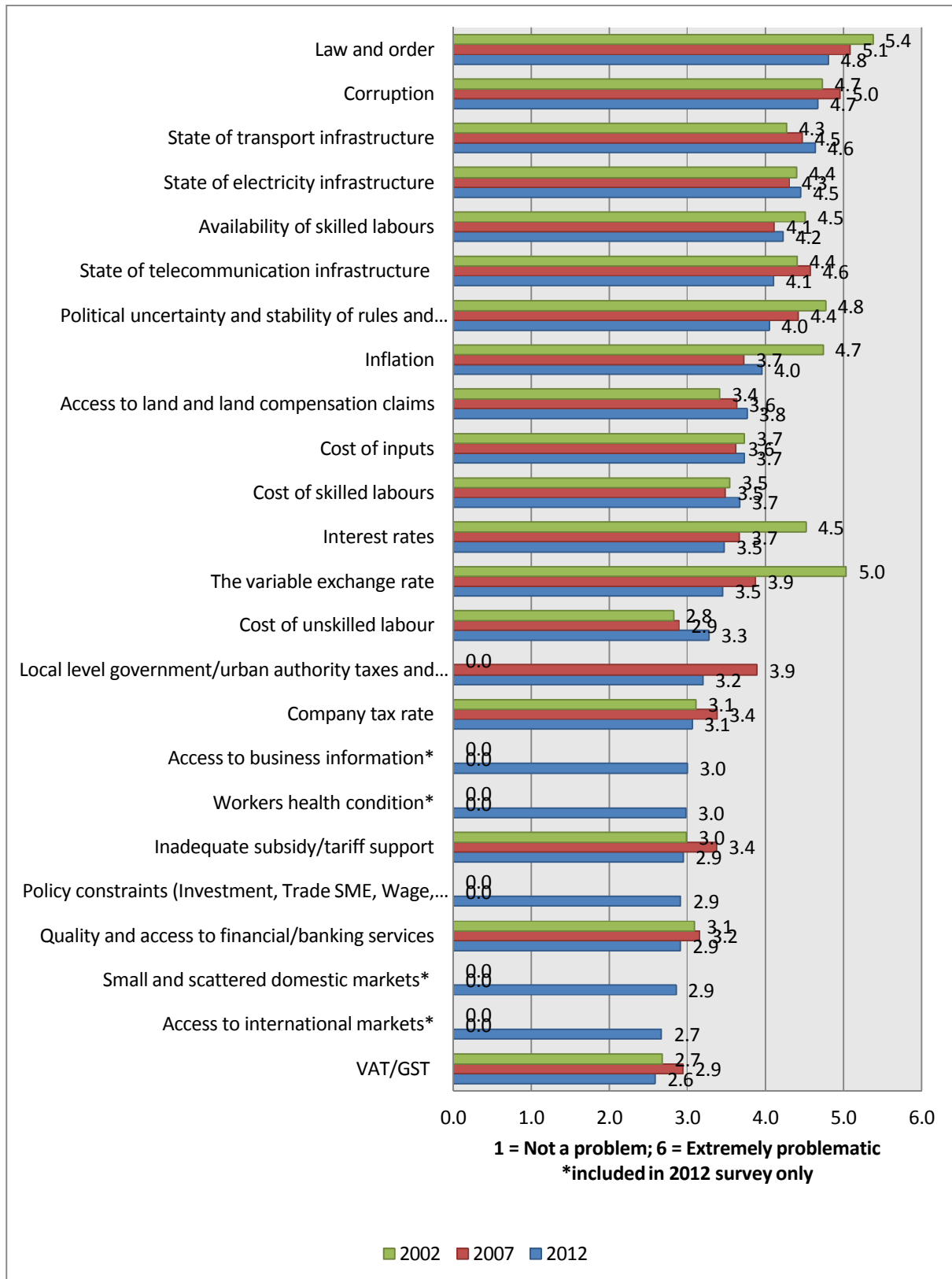


Figure 72c: Ranking Hindrance to Business and Investment; All Nationally (PNG) Owned and Overseas – Owned Businesses (1= not a problem; 6 = extremely problematic)

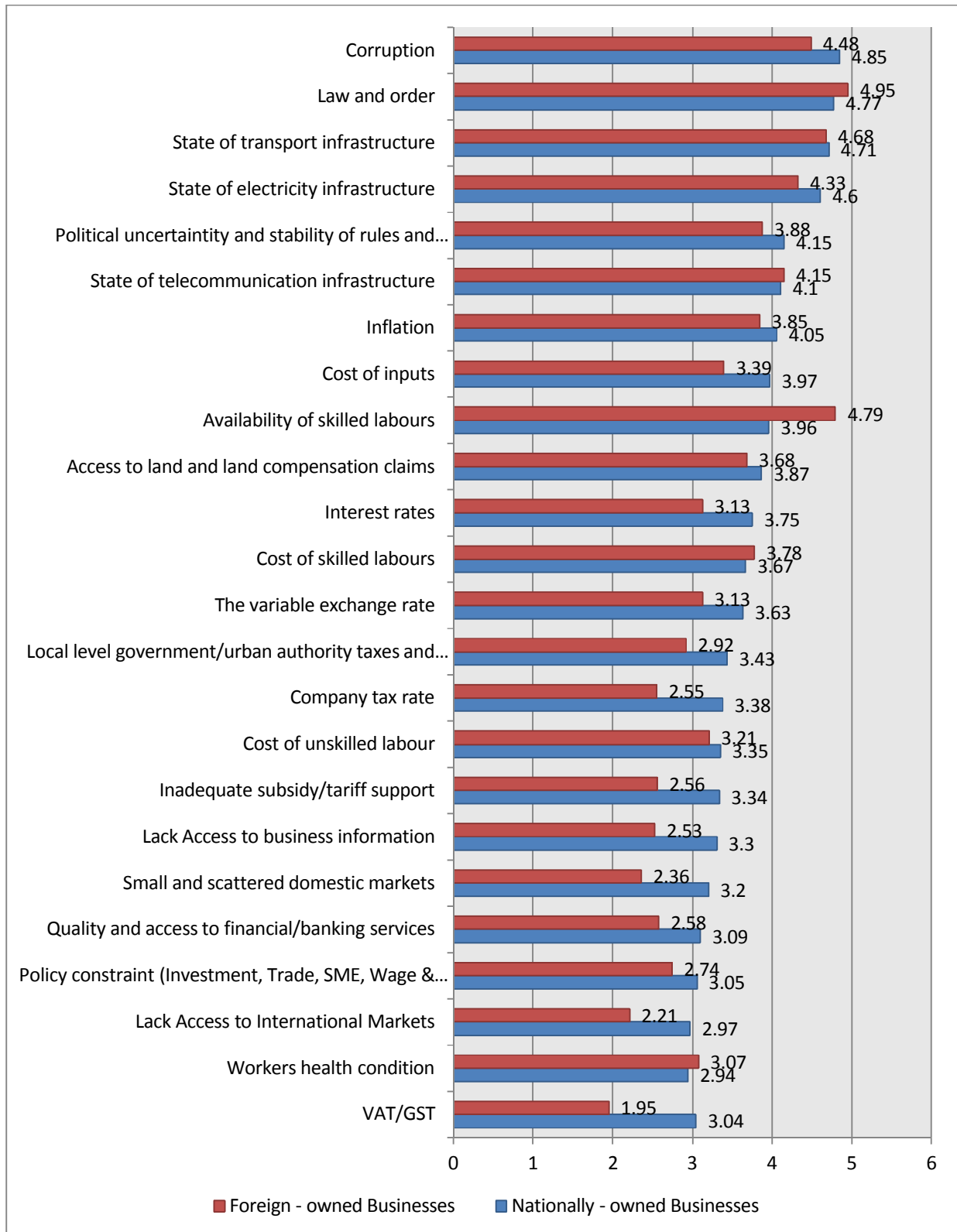
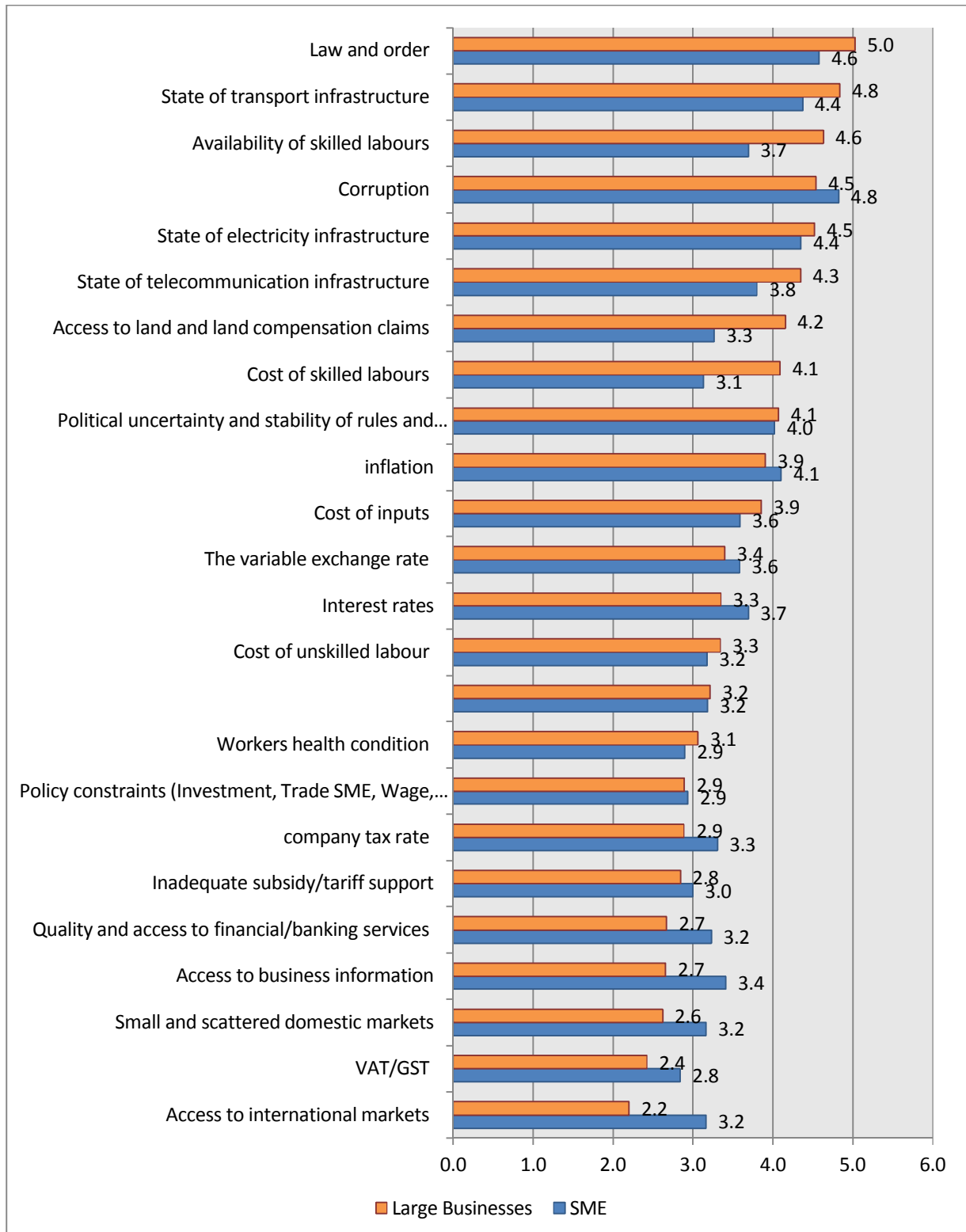


Figure 72d: Ranking Hindrance to Business and Investment; the SME versus Large Businesses Perspective (1= not a problem; 6 = extremely problematic)



### Top 3 Priority Areas for Government Reform to Encourage Business and Investment

After rating the 24 commonly cited hindrances to business, respondents were asked to nominate the priority issues that they want government to address to improve the business and investment climate. 29.2% of the respondents specified 'law and order' as their top priority for government to tackle; 16.2% nominated 'corruption' as their top priority, whilst 9.2% of the respondents highlighted the 'state of transport infrastructure', followed equally (at 5.4% apiece) by the 'state of electricity infrastructure' and 'trade, investment and employment policy constraints' as their priority concerns for government to address (Figure 73a).

In terms of first priorities, there are apparent variations, between 2007 and 2012, not so much in the ranking of the priorities overall, but in terms of the portion of respondents prioritising different hindrances. Law and order, whilst still given by far the highest priority, sees almost 10% less respondents placing it as their top priority. There's an apparently significant reduction in the portion of respondents placing deficient 'telecommunication infrastructure' as their first priority, but a seemingly significant increase in the portion placing inadequate 'electricity infrastructure' as their top priority. (Figure 73b)

Figure 74 depicts the issues businesses nominated as their second priority area for government to address, with 18.5% selecting the 'state of transport infrastructure', followed, at 17.7%, by 'law and order', then 13.8% selecting 'corruption', and 'state of telecommunication infrastructure' and 'access to land' at 6.1% each. 14.6% nominated the 'state of transport infrastructure' as their third priority, as depicted in Figure 75, followed by 13.1% 'availability of skilled labour', with 8.5% nominating 'law and order', and 7.7% apiece for tackling 'corruption', and 'electricity infrastructure' followed by trade, investment and employment policy constraints at 6.1%.



*a deficient education system provides limited opportunities for young people, especially in rural areas of PNG, but also for business seeking to recruit skilled staff. Here a school in Wapanamanda District of Enga Province, where more focus has been given to supporting education than in many provinces*

Figure 73a: Business View as the Most Important Issue for the Government to Address in order to Encourage Business and Investment

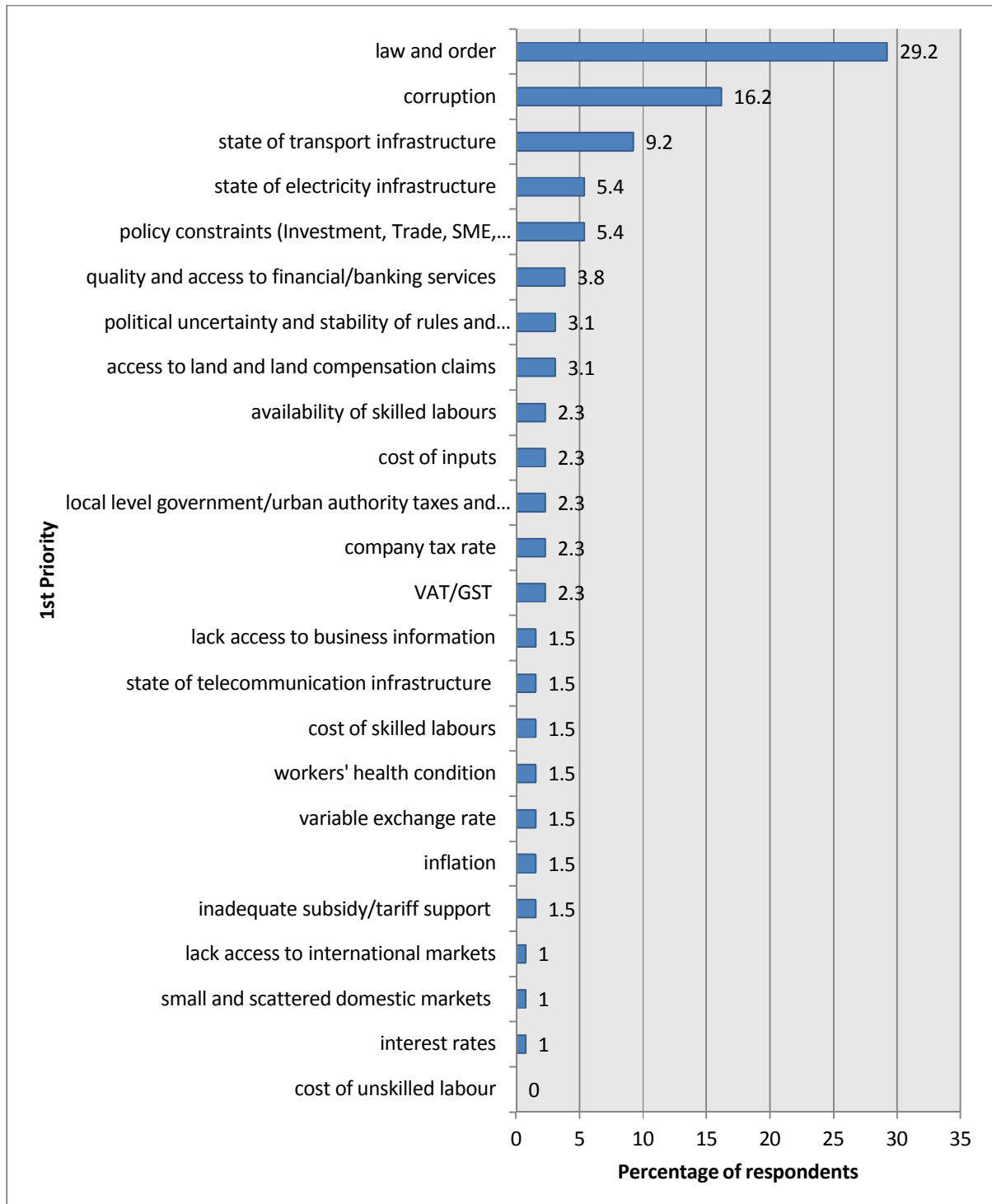




Figure 73b: Business View as the Most Important Issue for the Government to Address in order to Encourage Business and Investment

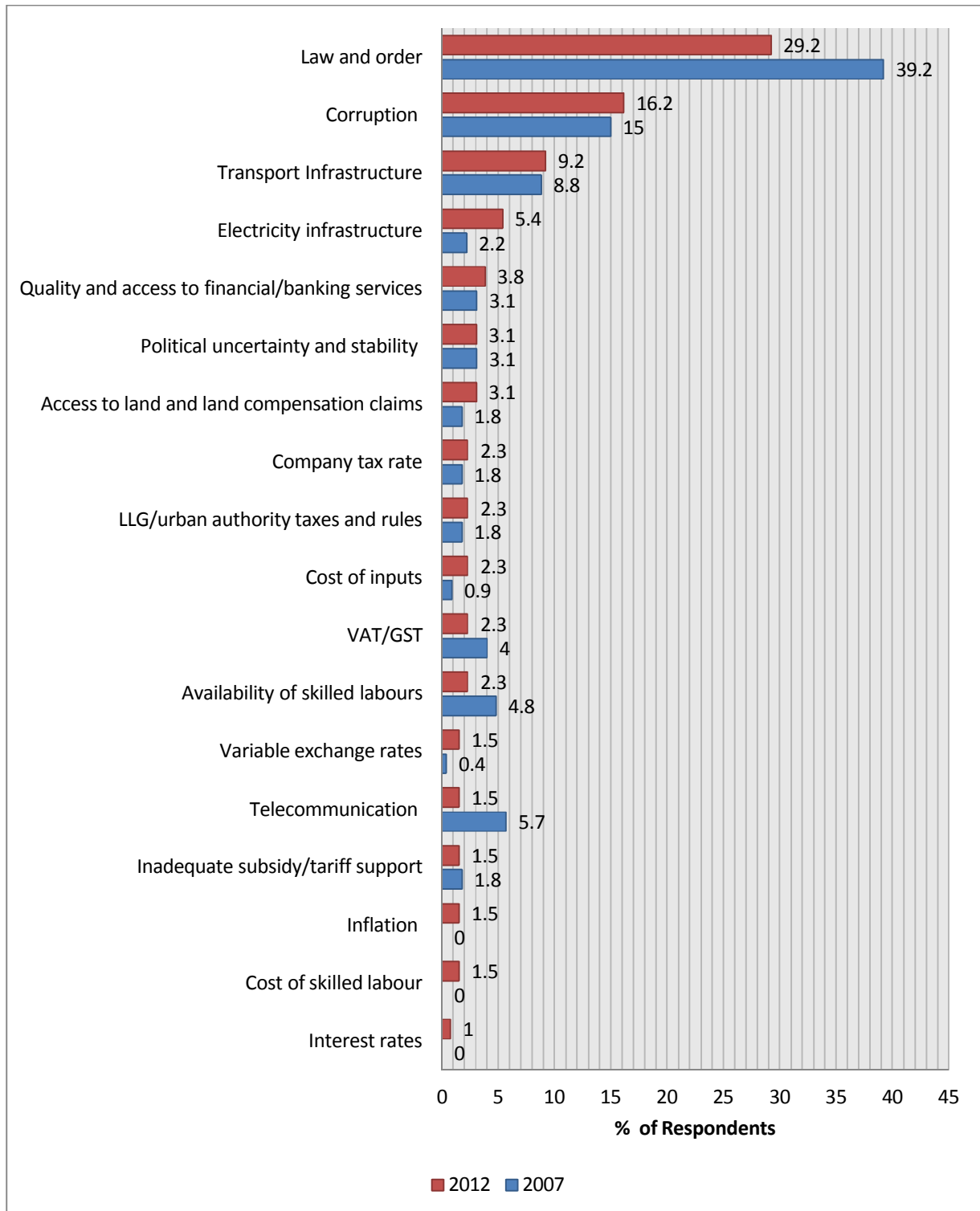


Figure 74: Business View as the Second Important Issue for the Government to Address in order to Encourage Business and Investment

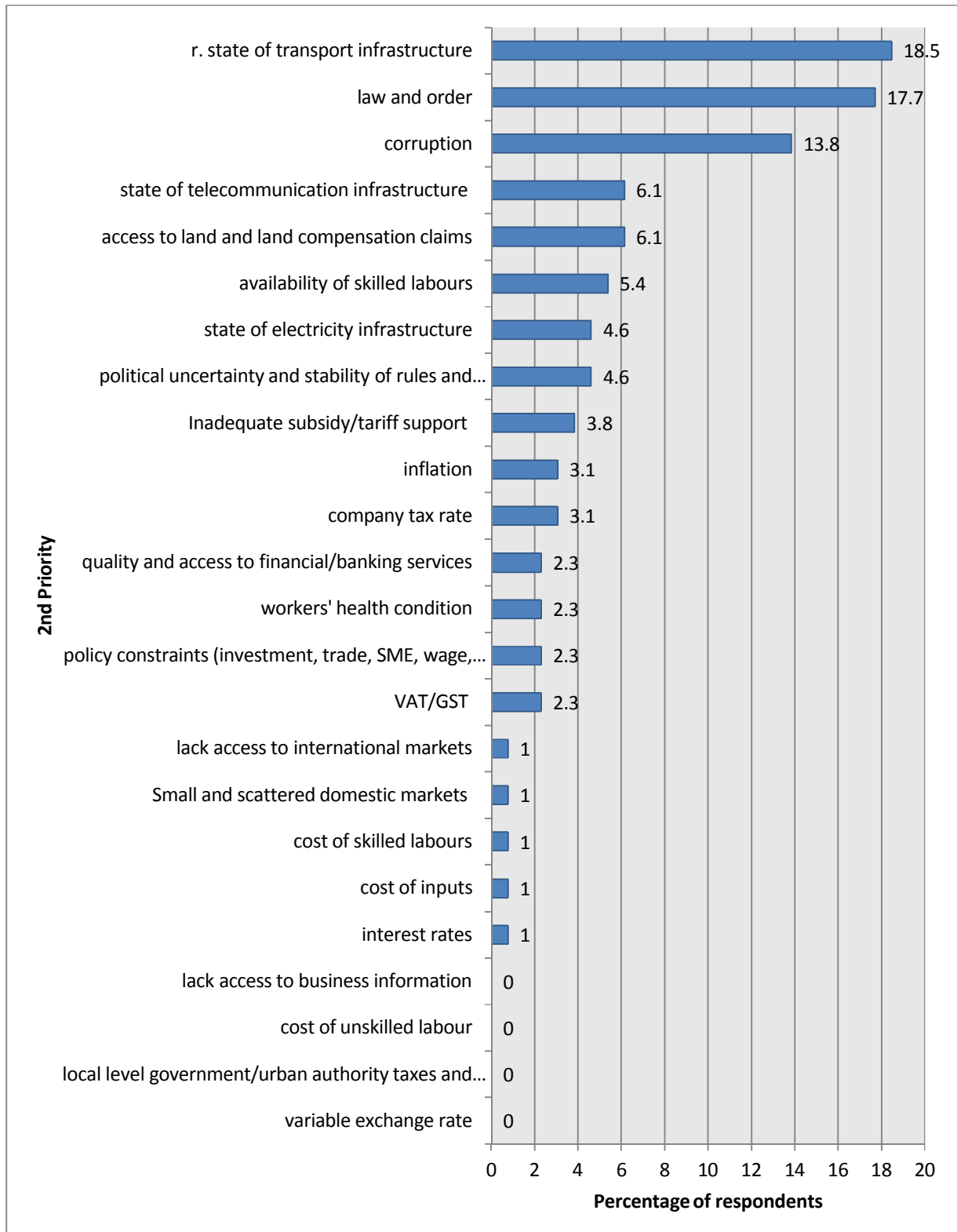
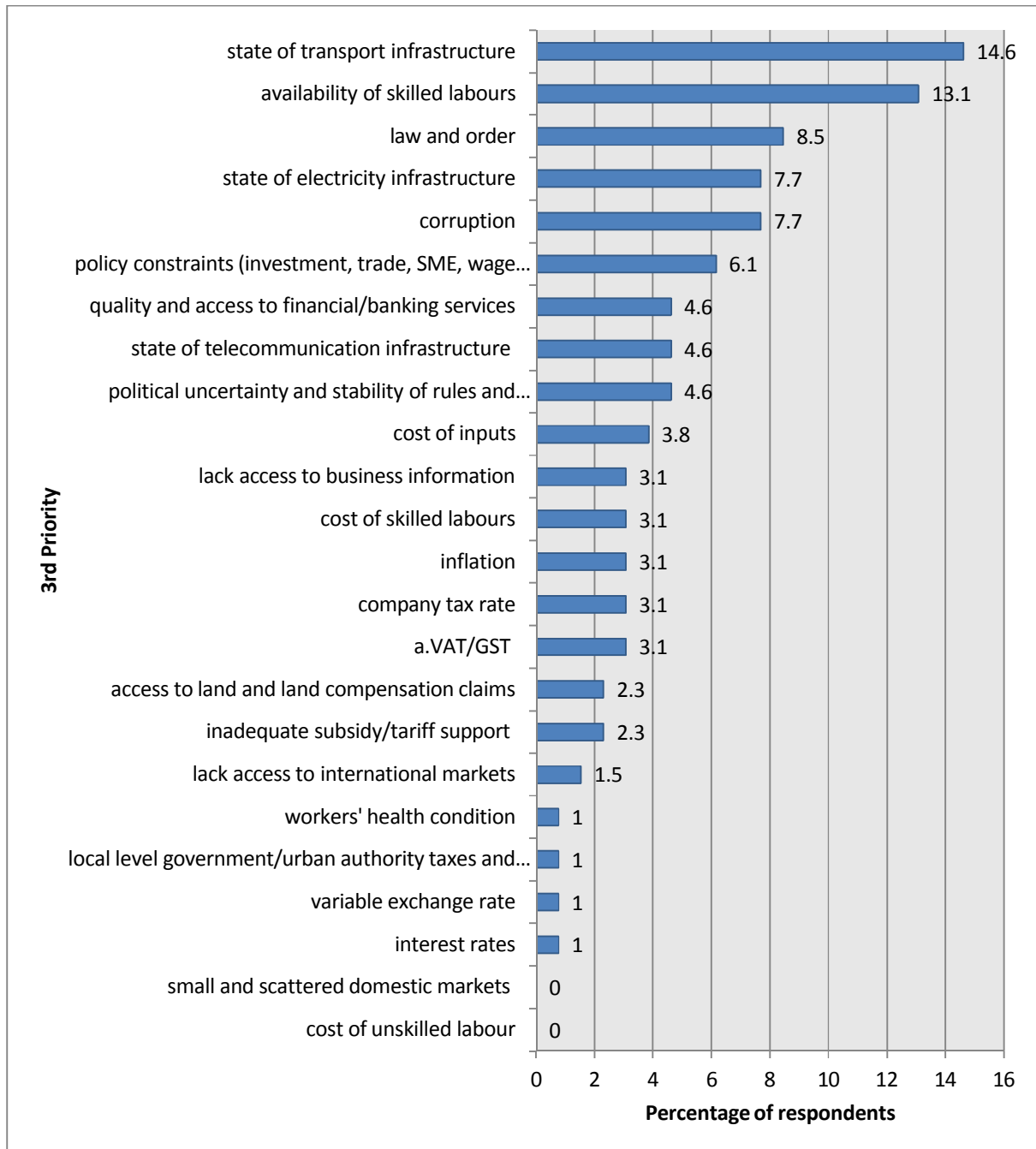


Figure 75: Business View as the Third Important Issue for the Government to Address in order to Encourage Business and Investment

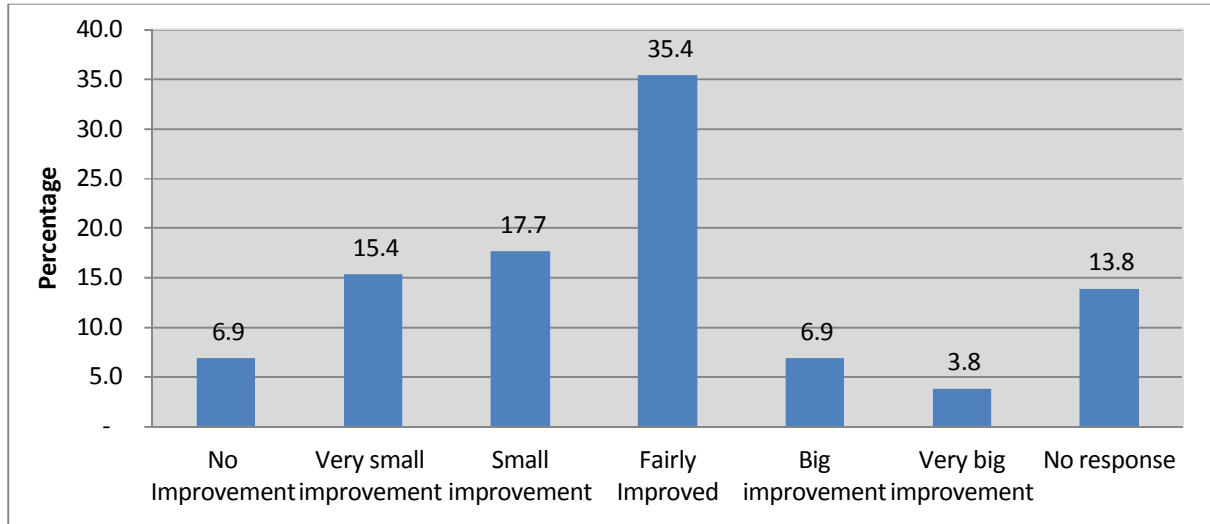


### Improvements in the Business Environment since 2007

This question asks businesses to assess whether there has been an improvement in the overall business environment since 2007 using a 6 point scale. 35.4% of respondents indicated that they consider that the overall business environment has 'fairly improved' since 2007 (until 2012). 11% considered there has been either a 'big improvement' or 'very big improvement'

since 2007. 7% of the respondents indicated that there was 'no improvements', and about 33.1% assessed either a small or very small improvement in the overall business environment since 2007 (Figure 76).

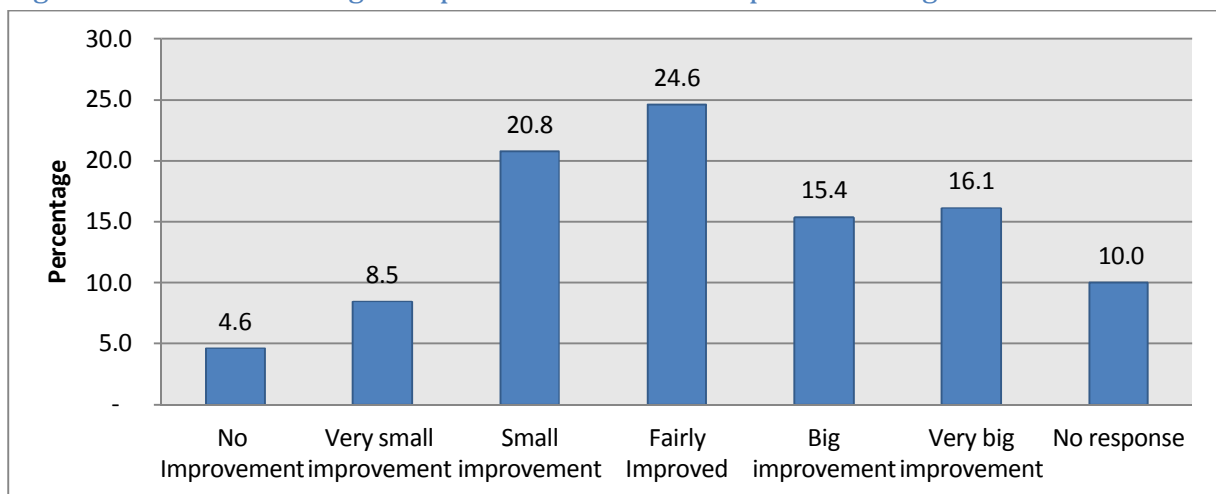
Figure 76: Overall Ranking of Improvements in the Business Environment Since 2007



#### Ranking Improvement in the prospects of doing business since 2007

This question asks respondents to assess whether there has been any improvement in the prospects of doing business since 2007 (to 2012). 31.5% suggested that there was either a 'big improvement' or 'very big improvement' in business prospects since 2007. A further 24.6% of the respondents indicated the prospects of doing business have 'fairly improved'. 29.3% indicated that there was either a 'very small improvement' or just a 'small improvement' in the prospects of doing business since 2007. Only 4.6% indicated that there to have been 'no improvement' since 2007 (Figure 77).

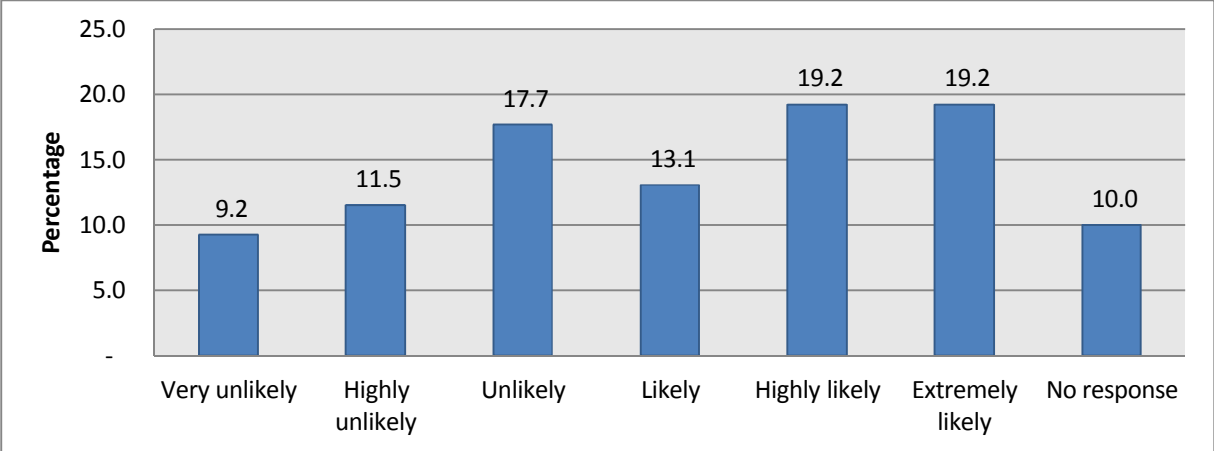
Figure 77: Overall Ranking of Improvements in the Prospects of Doing Business since 2007



**Prospects of Pursuing any Major new Investments within the next 2 years**

This question asks businesses to indicate whether they are considering any new major investments within the next 2 years. 51% of respondents indicated that they are 'likely' to 'extremely likely' to consider major new investments within the next 2 years. 38.2% of respondents indicated that they are 'unlikely' to 'very unlikely' to consider new major investments within the next 2 years (Figure 78); (it should be noted that the survey was undertaken at a time when commodity prices were high, the growth rate and kina were both strong and the construction phase of the PNG LNG project was in full swing. If the survey was carried out in 2013, the scenario for some businesses may have been somewhat modified).

**Figure 78: Likelihood of pursuing new major Investments within the next 2 years**



*oil palm plantings and sugar cane in the Ramu Valley, Madang Province - 2012*

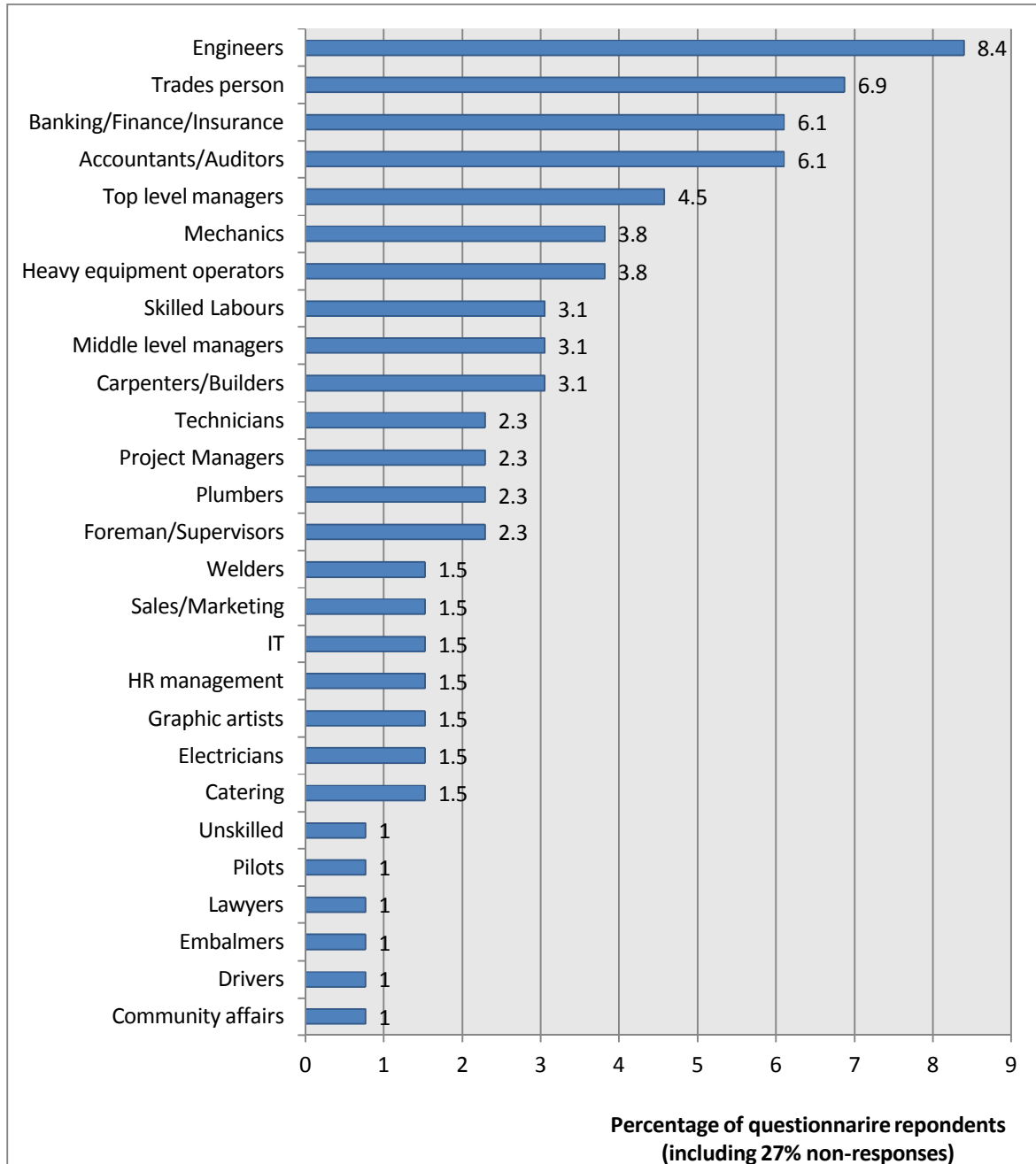
### Availability of Labour and Skills in the PNG Labour Market

Businesses were asked to identify the 3 main types of employee (specific skills, unskilled labour and/or professionals) that they may recruit or retain in the PNG labour market. According to the survey, the highest number of respondents, 8.4%, indicated that it is difficult for them to recruit or retain 'engineers' in the PNG labour market. 6.8% indicated that 'trades persons' and 'accountants/auditors' were hard to find and 5.1% suggested that staff in the areas of 'banking, finance and insurance' and 'top level managers' were hard to recruit or retain (Figure 79). (It should, of course, be recognised that this table partly reflects the nature of business of the respondents and not simply the relative scarcity of respective skills).



*Investment in quality education and the health of the country's youth and future workforce is fundamental to Papua New Guinea's sustainable economic and social development*

Figure 79: Main Skills/professionals hard to Recruit or Retain in the PNG Labour Market

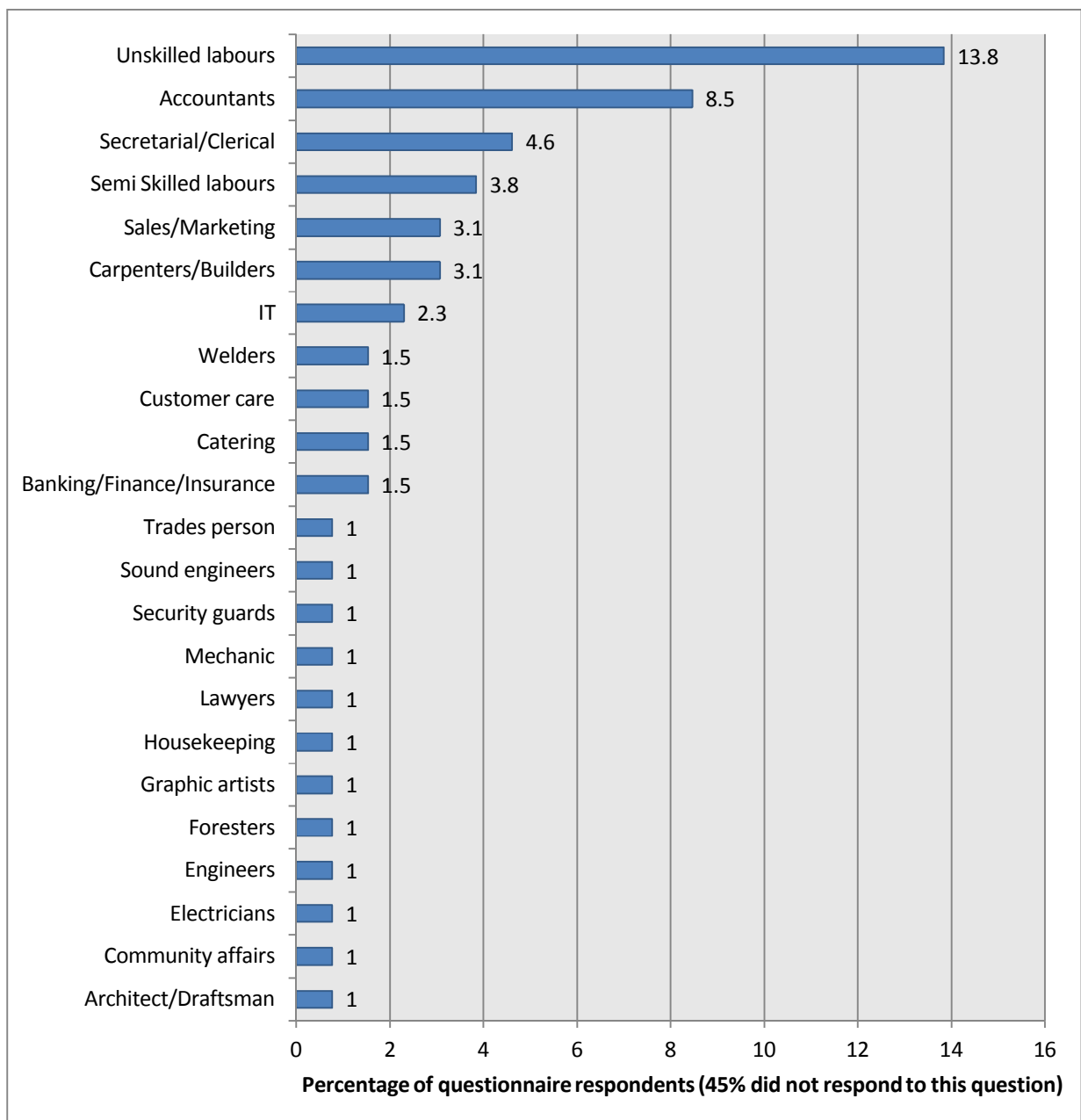


### Pool of Skills and Professions Available in the PNG Labour Market

Businesses were asked to indicate the skills or types of labour that are readily available and easy to find and recruit in the PNG labour market. 13.8% of the respondents indicated that 'unskilled labour' is readily available and easy to recruit in the PNG labour market. 8.5% indicated that 'accountants' are easy to find and recruit (although the calibre and skills levels are very mixed, with diverse courses of varied duration and standard provided by a range of

training institutions) and 4.6% stated that 'secretarial/clerical' staff are easy to secure in the PNG labour market (Figure 80). 45% did not provide a response to this question, presumably finding few skills easy to find or recruit.

Figure 80: Main skills (skilled labour and professionals) which are relatively easy to find and recruit in the PNG labour market



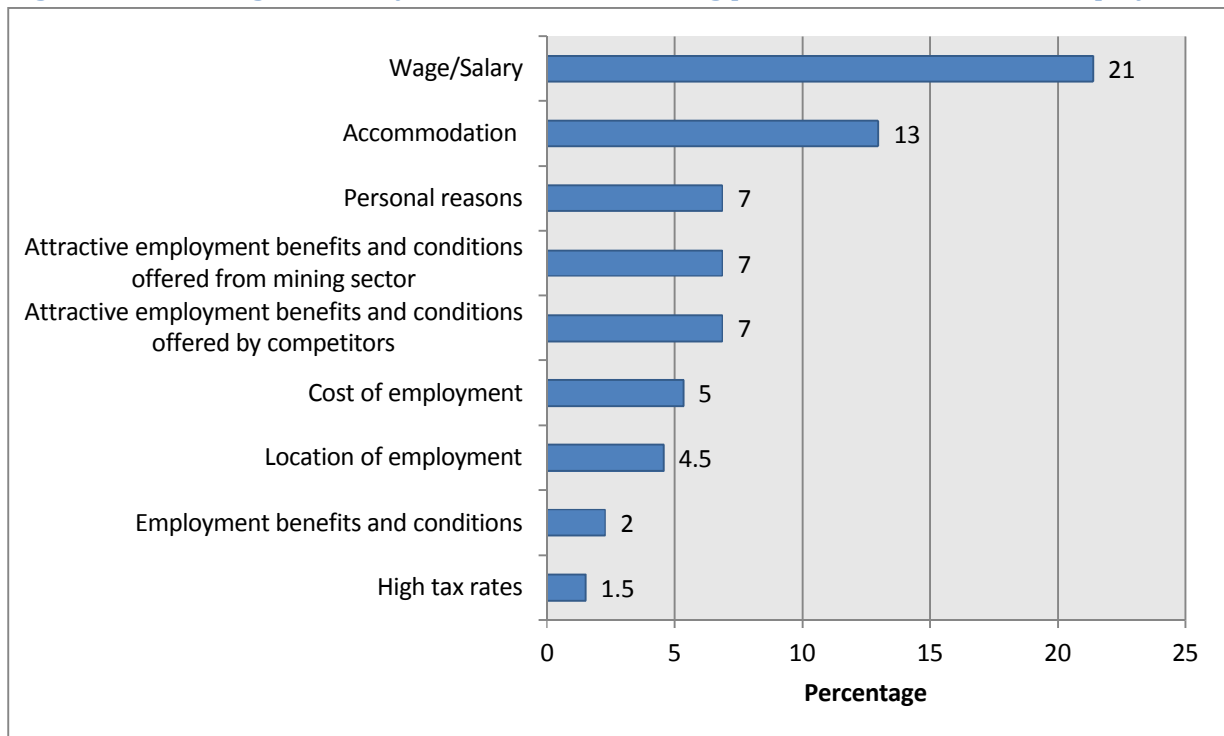
### Challenges faced by Private Firms to retain Skilled and Professional Employees

This question requested businesses to indicate the main challenges they face in retaining their skilled and professional employees. According to the survey, 21% of the respondents showed



that ‘wages and salary’ was their main challenge. 13% indicated that the provision of ‘accommodation’ was their main problem to retaining such employees. ‘Personal reasons’ and ‘attractive employment benefits and conditions offered by their rivals/competitors’, ‘attractive employment conditions and benefits offered by the extractive industry’ to lure skilled and professional employees was their major challenge in retaining their employees at 7% each (Figure 81).

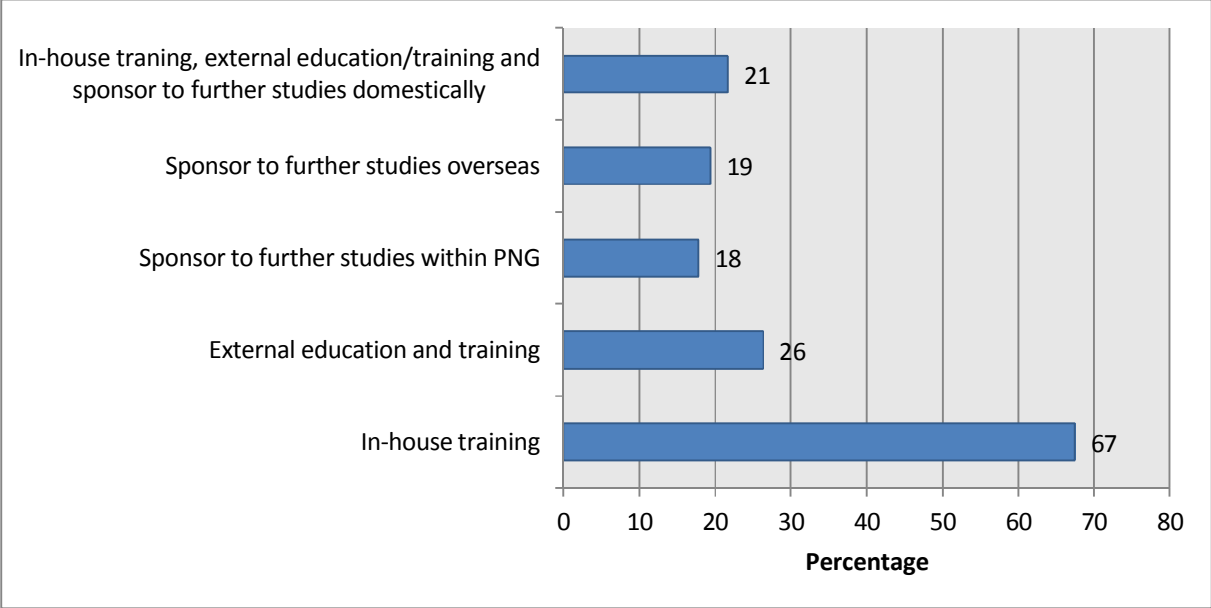
Figure 81: Challenges faced by businesses in retaining professional and skilled employees



#### Methods Private Firms Employ to Improve Employees’ Skills and Professionalism

Businesses were asked to indicate their main methods of improving skills and professionalism amongst their employees (from a list of options provided). More than half, 67%, of the respondents emphasised the ‘in – house training’ they provide to improve their employees’ skills. 26% prioritised their provision of ‘external training and education’ for their employees. About 18% stated that they ‘sponsor their employees to studies within PNG’, whilst 19% indicated they ‘sponsor their employees to studies overseas’. About 21% of the respondents indicate that they either provide ‘in – house training’, ‘sponsor employees to further studies domestically’ or provide ‘external education/trainings’ to improve their employees’ skills and professionalism (Figure 82).

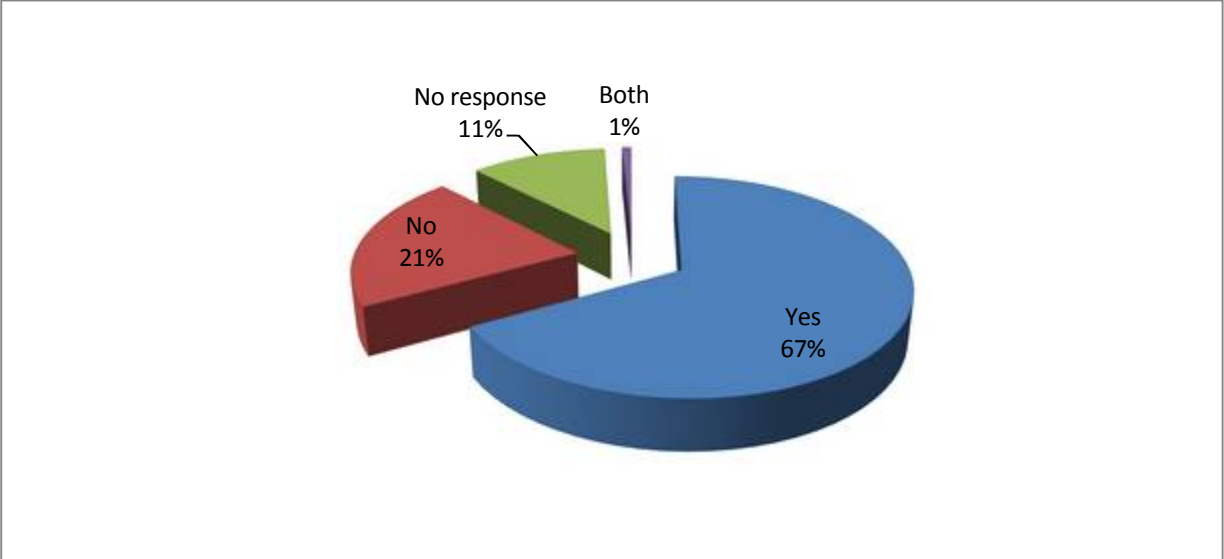
Figure 82: Methods used by Private Firms to improve employees' skills and professionalism



Impact of employees' health conditions on business productivity

This question asked businesses to indicate the impact upon their business's productivity from workers/employees' absence from work for health reasons. About 67% of the respondents suggested that workers' absence and poor performance over health issues affects the business productivity, whilst 21% responded that workers' absence and poor performance for health reasons does not impact on the business productivity. 11% did not answer the question, (Figure 83).

Figure 83: Workers health conditions impacting business productivity





*new port, ship-repair and hydrocarbon-based developments around the National Capital*



*most rural businesses are labour intensive, with few supporting public goods and services – here women carrying tobacco, traded from the highlands to distant parts of PNG, including island mining projects*

## Conclusions and Recommendations

Business, conducted largely by private enterprise, whether large corporations or small producers and traders, provides the backbone for economic activity, growth and employment generation. Business and investment require various conditions to proceed, be viable and achieve these outputs. PNG's geographical conditions, including its natural resource base, influence its economic opportunities and costs, but business opportunities and economic prospects are also substantially affected by the institutional conditions determined by society and government, in its broadest sense (including the Legislature in determining the laws, Judiciary in applying them, and the Executive in planning and managing the processes).

Whilst the 2012 INA survey found a slight improvement in the environment for business and investment, as against 2007 and 2002, this no doubt partly reflects the heightened economic activity at the time, associated with strong commodity prices and the peak of the PNG LNG construction phase. In most regards conditions under which business operated, the concerns raised and the priorities for action by government remained very much the same in 2012 as when the earlier surveys were conducted.

It may be suggested that some in public office, and within the wider community, are fixated on the PNG LNG project, and some other hyper-projects, as some sort of panacea for PNG and its economy. These major projects, notably in hydrocarbons, certainly provide the potential for valuable medium term revenue and export earnings, and for public investment in infrastructure, human resource development and improved services and standards. However, they also pose the major risk that government and the country take their eye completely off the ball, with expenditure, costs and corruption allowed to run rampant, whilst the pressing need for structural reform, standards, carefully targeted expenditure (including on priorities such as maintenance, rather than white elephant prestige projects) and accountability are sidelined. Aspects of this scenario have already become apparent in recent years in PNG, as they were hitherto in, particularly with the mismanagement during the expected resource boom years of the 1990s. These outcomes have also been prevalent in various other countries experiencing similar resource booms, notably in western Africa, with severe consequences for the countries' development prospects.

Aspects of this 'resource curse', including potential 'Dutch Disease' linked to potential currency appreciation, cannot be entirely eliminated, but they can be managed, as has occurred in prudently run economies. This requires strong awareness by public policy makers and economic managers, dialogue with key stakeholders (including all aspects of the business sector and workforce), determination to steer a firm and prudent economic path and resist the temptation to spend loosely on low priorities, or fuel waste, corruption and unsustainable budgets with over-priced contracts. Investment conditions need to be fine tuned, to ensure international competitiveness for business, but also fair benefits to the state and public, but rules and tax rates should not be constantly adjusted, or tampered with, and certainly no distortion of markets to provide exclusive supply and trading concessions to favoured cronies, or other less crude distortions to the level playing field for investors. Non-transparent and sole discretion in issuing or revoking licences, leases, permits, public contracts undermines markets, investor confidence, economic performance and public benefits.

The message provided by the PNG and foreign-owned businesses, large and small, from this survey, (as it was in the 2007 and 2002 surveys), is quite clear. It is not rocket science, but it should be heeded, if the country wants to see the diversified economy, with a wide range of viable, innovative, dynamic and sustainable industries, that it needs (rather than just a narrow range of enterprises in one way or another associated with rent seeking from a few extractive industries, or from government, employing a relatively few employees). The survey highlights that PNG is not generally an easy place for doing business, at least for those companies intending to comply with the rule of law, pay their taxes, mandatory minimum wages, and meet social and environmental standards (as opposed to those businesses, which use the back-door to sidestep regulations or gain contracts, licenses and resources).

The 2012 survey has once again highlighted that addressing law and order problems and corruption together with the country's deficient and ill-maintained public infrastructure are the main priorities to enable, or encourage, business and investment in PNG. They are essentially preconditions for much business and investment to occur, as well as opening up the opportunities for and utility of other public investment in education and training and other services, needed by both business and the wider community. The poor transport infrastructure, inadequate and unreliable power, and still costly telecommunications, plus high rates of crime and violence, push up costs and risks, including costs of preventative measures, such as security services and insurance, as well as simply preventing much agricultural produce from reaching markets overseas or within PNG in a quality state or even at all. Costly four-lane peri-urban highways are not the solution in the main, (even adding to the burden of costs); what are required are simply reliable highways and access roads, and associated basic facilities, and widely-based and accountable (non-politicised or factionalised) police and other law enforcers, focused upon the real law and order/crime problems, and working with the community, rather than diverted to peripheral issues or exclusive services.

Interestingly, the main concerns and priorities highlighted in the survey to be addressed were shared by large and smaller businesses, PNG and overseas-owned, albeit with slightly different emphases. Government should heed this, namely, that businesses, large and small, were not asking for special concessions, an array of protective tariffs or a string of new regulations; rather they sought a fair and level playing field, with existing laws being applied fairly, consistently and indiscriminately, without special deals on land or public tenders, but essentially with government performing its functions much more effectively in delivering reliable and affordable public goods and services, and thereby reducing the overall costs, uncertainty or risk of investing and doing business in PNG. This includes the need to reinforce, or in some cases perhaps supplant public expenditure with private capital in the provision of some key utilities, such as power, as has applied since 2007 with ICT (where the State is constrained by inadequate capital, managerial and business acumen, and where competition is usually the strongest driving force for the provision of quality and affordable commercial services).

One of the key public services, which has been long been inadequate (despite significant levels of expenditure) has been education and training, including the long neglected technical and vocational education and training (TVET). All business emphasised the need for more skills of acceptable standards to be available, but this was particularly sought by larger and overseas-owned business, perhaps used to the readier availability of relevant skills in many overseas countries. Large and small firms alike

expressed concern over access to land, compensation demands and the cost of labour, but these were emphasized particularly by the larger firms, whereas the smaller and nationally-owned businesses expressed greater concern for access to business information, international markets and over tax and GST, although these issues were ranked far behind the principle concerns.

The views of business should clearly not be the only ones determining public policy. Businesses each have their own interests, which do not necessarily coincide with the collective interest of the business sector, or the economy as a whole or the wider public good. However, the collective sentiment of the business sector, and sub-sectors, with respect to concerns and priorities for public policy, does need to be listened to carefully and addressed by government, if the business sector is to play its critical role of driving a vibrant and increasingly diversified and sustainable economy, which can in turn generate the jobs and income earning opportunities for the men and women and youth of this country, and provide the privately supplied goods and services at affordable prices, as required by government, business and the wider community.



*Aspiring coffee producers and entrepreneurs*

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## Appendix 1: Questionnaire for the Private Sector Survey 2012

This survey is being undertaken to better understand the problems business like yours have in Papua New Guinea. The INA conducted three similar surveys in 1999, 2002 and 2007. Similar to these previous surveys, the intention for the 2012 Survey is to understand what is stopping private sector development in PNG and therefore suggest ways to make it grow.

These suggestions will include comprehensive advice to government on the right directions to improve the performance of business and investment in PNG, recommend programs to remove these problems, strengthen support for businesses to grow and encourage sustainable business. This survey will not only consider mining and other major extractive industries, but also in agriculture, manufacturing and services, including small, medium and large businesses.

In order to be sure there is no duplication we request the name of your company. Please be assured that the information you provide will be treated in the strictest confidence. We greatly appreciate your assistance in this survey by filling in the questionnaire.

Business Name:

Contact Name:

Phone:

Fax:

Email:

Website (If Applicable):

### Part 1 - INFORMATION ABOUT YOUR BUSINESS

**This is the first part of the questionnaire which is aimed at acquiring information about the business.**

1. Please state the ownership of your business?  
PNG owned  Overseas owned   
Part overseas owned  .....If part overseas owned, what percent is it?.....% \_\_\_\_
2. Where is your business located?  
NCD  Lae  Other Town/Province   
Please name town and Province.....
3. Is your business located in a rural or urban setting?  
Rural Location  Urban Location
4. Is your business registered?  
Yes  No  In the Process of registering
5. How long has your business been in operation?  
less than 5 years  more than 5 years
6. What is your annual turnover?  
less than K500,000  K500,000 – K5 Million



K5 Million – K50 million  More than K50 million

7. What industry do you regard your business to be part of?

Agriculture/fisheries/forestry	<input type="checkbox"/>	mining and petroleum	<input type="checkbox"/>
Finance and investment	<input type="checkbox"/>	manufacturing	<input type="checkbox"/>
Retail/wholesale	<input type="checkbox"/>	transport/communications	<input type="checkbox"/>
Building/construction	<input type="checkbox"/>	hotel/restaurants/bars	<input type="checkbox"/>
Other services	<input type="checkbox"/>		

Please specify.....

8. Does your business export?

Yes  ...what is the share of exports out of all turnovers .... %  
No

## PART 2 - GOVERNMENT POLICIES AND REGULATIONS

The following questions are asked to find out about business's approach towards government policies and regulations.

1. Are you aware of government policies that assist your business?

Yes  No

2. Have you used these policies to assist your business?

Yes  No

3. If your answer is yes in questions 1 and 2, please tell us what the policy is?

4. Are you aware of government laws, regulations and rules that assist your business?

Yes  No

5. Have you used these government laws, regulations and rules to assist your business?

Yes  No

6. If your answer is yes in questions 4 and 5, please tell us what it is?

7. Are you concerned over the stability of government rules, regulations and policies that affect your business?

a) very highly concerned;

b) highly concerned

c) fairly concerned

d) fairly unconcerned

e) highly unconcerned

f) completely unconcerned

8. Do you fear retrospective changes of rules or regulations?

a) very highly concerned

b) highly concerned

c) fairly concerned

d) fairly unconcerned

e) highly unconcerned

- f) completely unconcerned
9. Do you feel that your business is affected during periods of political uncertainty?
- a) very highly affected
- b) highly affected
- c) fairly affected
- d) fairly unaffected
- e) highly unaffected
- f) completely unaffected
10. To what extent do you believe that businesses should be consulted during the process of developing regulations of policies?
- a) always
- b) mostly
- c) frequently
- d) sometimes
- e) seldom
- f) never
11. When the government announces policies, do you think they will be fully implemented?
- a) Always confident
- b) Mostly confident
- c) Frequently confident
- d) Sometimes confident
- e) Seldom confident
- f) Never confident
12. "Changes of government are usually accompanied by large changes in rules and regulations that have an impact on my business". To what extent do you agree with this statement?
- a) Fully agree
- b) Agree in most cases
- c) Tend to agree
- d) Tend to disagree
- e) Disagree in most cases
- f) Strongly disagree
13. Do you feel that your business is affected during periods of political uncertainty?
- a) very highly affected

- b) highly affected
- c) fairly affected
- d) fairly unaffected
- e) highly unaffected
- f) completely unaffected

14. How concerned are you for the stability of the political environment in PNG?

- a) Very highly concerned
- b) Highly concerned
- c) Fairly concerned
- d) Fairly unconcerned
- e) Highly unconcerned
- f) Completely unconcerned
- g)

15. Has your business ever decided not to proceed with a major investment because of problems relating to compliance with government regulations?

- Yes  No

16. If your answer in Q15 was "yes", please specify the reason which best describes the nature of these problems; (Please mark with X)

- a) Excessive compliance fees
- b) Long processing time
- c) Too complex and haphazard
- d) Other (specify) \_\_\_\_\_

### PART 3 – BUSINESS SECURITY

The following questions are asked to find out what businesses feel and think about doing business in PNG considering the security aspects of its operations.

1. Has the law and order situation affected your decisions for further investment in your business or to expand your business operations? (Please mark with X)

- a) very highly affected?
- b) highly affected?
- c) fairly affected?
- d) highly unaffected?
- e) completely unaffected?

2. Do you have confidence in the judicial system and the decisions they make?

- a) very highly confident

- b) highly confident
- c) fairly confident
- d) fairly not confident
- e) highly not confident
- f) completely not confident

3. How much of a problem are the following crimes to your business? (Please mark with X where suitable)

	Not a problem	A small problem	A big problem
a) Break-ins	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Vandalism	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Vehicle theft	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Property theft without force	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Arson (Burning of premises)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) Assault of employees on the business premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g) Kidnapping of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h) Employees suffering violence/ being attacked on the way to and from the business premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i) Misappropriation of funds or petty theft by Employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j) Extortion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k) Threats from any government official	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l) Other (please specify).....			

4. Have you taken any of the following measures to protect your business from crime? (Please mark all that apply)

- a) Closing early? Yes  No   
How much earlier than you would like? (\_\_\_ Hours/ \_\_\_ minutes)
- b) Installing locks, gates, security systems (alarms, CCTV) or other hardware  
Yes  No
- c) Employing security staff? Yes  No   
How many? \_\_\_\_\_
- d) Keeping a weapon on the premises? Yes  No   
Type of weapon \_\_\_\_\_
- e) Arranged for security measures to protect the transport of yourself or your employees (drivers, private cars, busses, etc)?  
Yes  No
- f) Other (please describe).....
- g) None

5. What prompted you to take the measures described in the previous question?

- a) Your business was the target of crime
- b) You were the target of crime
- c) You knew someone/a business who was targeted by crime
- d) Fear generated by media reports of the risks
- e) Other \_\_\_\_\_

6. How much amount do you spend on the following to prevent crime to your business? Please specify the amount you pay weekly, monthly and/or yearly as you prefer.

- |                                  | Amount  | Period  |
|----------------------------------|---------|---------|
| a) Locks/gates                   | (_____) | (_____) |
| b) Security cameras              | (_____) | (_____) |
| c) Alarms                        | (_____) | (_____) |
| d) Other (Please describe) _____ |         |         |

7. Do you employ private security personnel? Yes  No

8. What percentage of your employees are security personnel? \_\_\_\_\_ %
9. As a percentage of your cost, how much do you spend on security?
- a) Security guards ..... %
- b) Payment of items or stock stolen ..... %
10. If you do employ security staff, what is their main task? (please choose only one answer)
- a) Secure transport of employees
- b) Protecting the business premises  
(Monitoring gates, doors, security cameras)
- c) Preventing petty theft by employees
- d) Other (please describe) \_\_\_\_\_
11. Over the past year, how many times has your business been targeted by any of the following? (Please mark the number of times for each type of crime)

	1 – 5	5 – 10	More than 10 (roughly specify)
a) Break – ins			
b) Vandalism			
c) Vehicle theft			
d) Property theft without force			
e) Petty theft by staff			
f) Extortion ( obtain money or other benefit through threat)			
g) Arson			
h) Assault of employees on the business premises			
i) Kidnapping			
j) Other (please specify) .....			
k)			

12. How much do you estimate your business loses to each of the following crimes (please indicate whether the loss is monthly, weekly, yearly etc)

	Amount	Weekly	Monthly	Yearly
a) Have to close the business temporarily				
b) Stolen merchandise or other property (estimated cost of replacement)				
c) Petty theft by employees				
d) Extortion				
e) Broken security infrastructure such as windows, gates (estimated cost)				
f) Staff time off work due to injury, etc (number of days, number of staff)				

- g) Others (describe) \_\_\_\_\_

13. Are there times of the year when crime to your business is more of a threat?  
Yes  No   
When? (Month or Months /or season e.g. coffee harvest) \_\_\_\_\_

14. Are there times of the day when crime is more of a threat? Yes  No   
What times? (\_\_\_\_\_)

15. To whom did you report these crimes? (for each of the crimes above)

	Yes	No	
a) Insurance company			Name: _____
b) Police			
c) Family			
d) Traditional dispute resolution body (NEED SPECIFIC NAMES)			

e) Other (Explain) \_\_\_\_\_

16. Did you feel the matter was handled to your satisfaction? Yes  No

17. Often there are costs associated with reporting a crime. For the most recent incident, please give information on the following costs:

	Yes	No	Amount
a) Filing a police report			
b) Reporting to insurance/paying an excess (deductible?) as part of an insurance claim			
c) Transport costs to report or resolve the issue			
d) Other (please describe) _____			

18. Do you have confidence in the police, customs, immigration and other law enforcing bodies?

- a) very highly confident
- b) highly confident
- c) fairly confident
- d) fairly not confident
- e) highly not confident
- f) completely not confident

19. Have difficulties in gaining access to land hindered your business from growing or investing in PNG?

- a) very big hindrance
- b) big hindrance
- c) fairly big hindrance
- d) minor hindrance
- e) not a hindrance at all
- f) not applicable

20. Do you have confidence in the Registrar of Companies and Business Names and Securities Commissioner on regulating and protecting the interest of your shareholders and enforcing corporate governance principles?

- a) very highly confident
- b) highly confident
- c) fairly confident
- d) fairly not confident
- e) highly not confident
- f) completely not confident

21. Do you have confidence in the banks, insurance and other financial institutions (including financial authorities) protecting your monetary assets in PNG?

- a) very highly confident
- b) highly confident
- c) fairly confident
- d) fairly not confident
- e) highly not confident
- f) completely not confident

22. Do you have confidence in statutory and professional organizations responsible for regulating key service sectors that are vital for your business e.g. Institute of PNG Engineers, PNG Law Society, CPA etc..

- a) very highly confident
- b) highly confident
- c) fairly confident
- d) fairly not confident
- e) highly not confident
- f) completely not confident

#### PART 4 – GOVERNMENT BUSINESS RELATIONSHIP

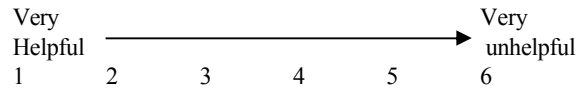
The following questions are aimed to find out the relationship between the private sector and the government

1. Are you aware of public/private sector consultations on developing government policy and law reform on developing the private sector?  
 Yes  No
2. If your answer is yes, does your business or the business organization you are member of frequently update you on the outcomes of these consultations?  
 a) Always;   
 b) Mostly;   
 c) Frequently;   
 d) Sometimes;   
 e) Seldom;   
 f) Never.
3. What particular area of government policy or law reform activities would you like to actively partake in?  
 .....
4. Please judge on a 6-point scale the following government controls as a problem for your business. Indicate 0 if not applicable to your business. (Please circle your selected number for each control)

	not a problem	—————→						extremely problematic
	0	1	2	3	4	5	6	
a) visas	0	1	2	3	4	5	6	
b) work permits	0	1	2	3	4	5	6	
c) restrictions on occupation for foreigners	0	1	2	3	4	5	6	
d) labour regulations	0	1	2	3	4	5	6	
e) superannuation regulations	0	1	2	3	4	5	6	
f) building codes	0	1	2	3	4	5	6	
g) health regulations	0	1	2	3	4	5	6	
h) physical planning/ zoning regulations	0	1	2	3	4	5	6	
i) environmental	0	1	2	3	4	5	6	

regulations	0	1	2	3	4	5	6
<b>j)</b> safety regulations	0	1	2	3	4	5	6
<b>k)</b> regulations on borrowing	0	1	2	3	4	5	6
<b>l)</b> regulations on foreign trade (exports, imports)	0	1	2	3	4	5	6
<b>m)</b> foreign currency regulations	0	1	2	3	4	5	6
<b>n)</b> price controls	0	1	2	3	4	5	6
<b>o)</b> government leases	0	1	2	3	4	5	6

5. Please rate your overall perception of the relationship between government/bureaucracy and private firms on the following scale:



6. To what extent have instances of corruption in dealing with government been to the detriment of your business?

- a) very highly affected
- b) highly affected
- c) fairly affected
- d) fairly unaffected
- e) highly unaffected
- f) completely unaffected

7. "It is common for firms in my line of business to have to pay some 'irregular additional payments' to government officials in order to get things done." This is true;

- a) always
- b) mostly
- c) frequently
- d) sometimes
- e) seldom
- f) never

8. "When a firm pays an 'irregular additional payment' the service is usually delivered effectively as agreed and without requests for further additional payments." This is true;

- a) always
- b) mostly
- c) frequently
- d) sometimes
- e) seldom
- f) never

9. Has government corruption in any of the following fields or institutions detrimentally affected your investment or business plans in a significant way?

- a) Lands
- b) Labour
- c) State-owned enterprises or statutory authorities
- d) Finance/Tax/Customs



e) Tenders

f) Other (Please specify if you wish) .....

10. In the event that a government official you are dealing with acts in a corrupt or improper way, do you find you are able to seek recourse from another official or from their superior?

a) always

b) mostly

c) frequently

d) sometimes

e) seldom

f) never

g) don't know

### PART 5 - EFFECTIVENESS OF GOVERNMENT SERVICE PROVISION

The following questions are asked to find out the effectiveness of government services provided to the business community.

1. Please rate your overall perception of the efficiency, effectiveness, and quality of the following services:

	Very good					very poor
a. financial and banking services	1	2	3	4	5	6
b. law enforcement services	1	2	3	4	5	6
c. port services	1	2	3	4	5	6
d. water and sewerage	1	2	3	4	5	6
e. road and bridge infrastructure	1	2	3	4	5	6
f. telecommunications and postal services <sup>1</sup>	2	3	4	5	6	
g. electricity services	1	2	3	4	5	6
h. aviation services	1	2	3	4	5	6

2. How would you rate the efficiency, effectiveness and quality of government provided services in general?

a) very high

b) high

c) fairly high

d) fairly poor

e) poor

f) very poor

3. Do you think major reforms will lead to an improvement in the quality of services offered in PNG?

a) strongly agree

b) agree

c) about the same

d) disagree

e) strongly disagree

4. If you agree or strongly agree to 3, what major reforms would you seek?

a) greater budget transparency and public oversight of expenditure

b) improved public sector management staff selection and reporting

c) private sector service provision and management, including Public Private Partnerships (PPPs)

d) greater competition

e) privatization of service provision

f) rationalization of public sector bodies (merging, etc)

g) other

Please specify.....

### PART 6 – RATING HINDERANCES TO BUSINESS AND INVESTMENT

**This part of the questionnaire aims to find out which factors affect businesses operations and other investment decisions the most**

1. Please indicate to what extent the following pose a hindrance to your business in PNG both in terms of its operation and of future investment decisions. Please be careful to focus your answers solely on how your business is affected: (cross or circle the appropriate number)

	Not a  extremely					
	Problem					problematic
a. VAT/GST	1	2	3	4	5	6
b. company tax rate	1	2	3	4	5	6
c. Inadequate subsidy/tariff support	2	3	4	5	6	
d. interest rates	1	2	3	4	5	6
e. inflation	1	2	3	4	5	6
f. the variable exchange rate	1	2	3	4	5	6
g. local level government/urban authority taxes and rules	1	2	3	4	5	6
h. Policy constraints (Investment, Trade SME, Wage, & Employment)	1	2	3	4	5	6
i. Workers health condition	1	2	3	4	5	6
j. access to land and land compensation claims	1	2	3	4	5	6
k. law and order	1	2	3	4	5	6
l. corruption	1	2	3	4	5	6

m. political uncertainty and stability						
of rules and regulations	1	2	3	4	5	6
n. cost of inputs	1	2	3	4	5	6
o. cost of unskilled labour	1	2	3	4	5	6
p. cost of skilled labour	1	2	3	4	5	6
q. availability of skilled labour	1	2	3	4	5	6
r. state of transport infrastructure	1	2	3	4	5	6
s. state of electricity infrastructure	1	2	3	4	5	6
t. state of telecommunication						
infrastructure	1	2	3	4	5	6
u. quality and access to financial/						
banking services	1	2	3	4	5	6
v. Small and scattered domestic						
markets	1	2	3	4	5	6
w. access to international markets	1	2	3	4	5	6
x. access to business information	1	2	3	4	5	6

2. Out of the list from the previous question, please indicate what you would like to see as the top three priority issues for government to tackle in order to encourage business and investment.

1st priority .....2nd priority .....3rd priority .....

3. On a scale of 1 – 6, with 1 being the lowest and 6 the highest, has the overall environment for doing business improved since 2007?

1      2      3      4      5      6

4. On a scale of 1 – 6 with 1 being the lowest and 6 the highest, have business prospects improved since 2007?

1      2      3      4      5      6

5. With 1 being very unlikely and 6 being extremely likely, are you considering a major investment in your business within the next 2 years?

1      2      3      4      5      6

6. If securing or retaining professional, skilled or unskilled labour is a constraint, please advice

the 3 main skills which are unavailable or hard to recruit or retain:

(1) ..... (2) ..... (3) .....

7. What are the 3 main skills (of professional and skilled workers) which your firm easily recruits and/or are available to recruit in the PNG labour market?

(1) ..... (2)..... (3).....

8. What are the 3 main challenges your firm faces in retaining professional and skilled labour from moving to other jobs?

(1) ..... (2)..... (3).....

9. Many businesses find it difficult to retain professional and skilled labour. How does your firm develop workers' professionalism and skills?

- 1) In-house training
- 2) External education and training
- 3) Sponsor to further studies within PNG
- 4) Sponsor to further studies overseas
- 5) Other (specify) .....

10. Employee absence from work and poor performance impacts on the business's productivity and progress. Do you think that absence from work and poor performance caused by illness is a hindrance to your business?

Yes  No

## INA Members/Contributors 2012/2013

Agmark Pacific /New Guinea Islands  
Produce  
Air Niugini  
Airways Hotel & Apartments P/L  
Akogere Estate  
Akzo Nobel (Dulux Group PTY LTD)  
Allens Arthur Robinson  
Arman Larmer Surveys  
Australia & New Zealand Banking Group  
Bank of Papua New Guinea  
Bank of South Pacific  
Barrick (PNG) Ltd  
Ashurst Lawyers  
Bougainville Copper Limited  
Brian Bell & Co Pty Ltd  
Business Council of PNG  
Carpenter Estates  
Chartis/AIG PNG (American Home  
Assurance Company)  
Chemcare Pharmacy  
Chinese Embassy  
Coffee Exporters Council  
Coffee Industry Corporation Ltd  
Cola-Cola Amati PNG Ltd  
CRA Minerals (PNG) Ltd  
Credit Corporation  
Curtain Bros PNG Pty Ltd  
Daltron Electronics  
Data Nets Ltd  
Deloitte Touche Tohmatsu  
Digicel PNG Limited  
EMTV/Media Niugini Pty Ltd  
ENB Provincial Government  
Express Freight Management  
FINCORP  
Gadens Lawyers  
Galley Reach Holdings P/L  
Global Internet  
Haginia Builders  
Hargy Oil Palms Ltd  
Hastings Deering (PNG) Pty Ltd  
Highlands Pacific Group  
Institute of Business Studies  
InterOil Ltd  
Investment Promotion Authority  
Kenmore Pty Ltd  
Kina Finance  
Kina Securities Pty Ltd  
KK Kingston Ltd  
KPMG Peat Marwick  
Lamana Hotel  
MAF PNG Limited  
Mainland Holdings Pty Ltd  
Manufacturers Council of PNG  
Marsh Ltd  
Monian Group  
Morobe Mining JV  
Nambawan Super (POSF)  
Nangamanga Ltd  
NasFUND PNG Ltd  
National Capital District Commission  
New Britain Palm Oil Ltd  
Newcrest Mining Ltd  
Oil Search Limited  
Ok Tedi Mining Ltd  
Orica PNG Ltd  
Pacific Capital Limited  
Pacific MMI Insurance  
Paradise Foods Ltd  
PNG Institute of Accountants CPA  
PNG Institute of Banking & Business Mgmt  
PNG Palm Oil Council

PNG Sustainable Development Program Ltd  
PNG Waterboard  
Price Waterhouse Coopers  
QBE Insurance (PNG) Limited  
R D Tuna Cannery Limited  
Ramu Agri-industries (NBPOL) Ltd  
Rio Tinto Mineral Ltd  
Rural Industries Council  
Seeto Kui (Holdings) Pty Limited

SP Brewery Holdings Limited  
Steamships Trading Company  
Steel Industries Limited  
Telikom PNG Limited  
Tower Insurance  
Trukai Industries Limited  
W.R. Carpenter (PNG) Ltd  
Westpac Bank-PNG-Limited  
Xstrata Copper Ltd