

## Development Assistance and Funds

Overseas development funding is a significant contributor to the PNG economy, (8% of GDP in 2010).<sup>21</sup>

### AusAID (Australian Aid)

AusAID is the major donor in PNG and the wider Pacific Region and provides more than 70% of PNG's total development assistance. Australian aid to PNG in the year 2011-12 will be approximately US\$495 million.<sup>22</sup> 85% of aid is delivered through the "Partnership for Development" with the PNG government and is divided into four areas: Education, Health & HIV/Aids, Law & Justice and Transport Infrastructure.

The Australian overseas aid program is committed to expand from its current level of 0.32% to 0.5% of Australia's GNI Gross National Income by 2015.<sup>23</sup> AusAID runs programs directly and through other development agencies such as the ADB, UN, World Bank and NGO's. Government capacity issues have tended to mean that development organisations prefer delivery of services through partnerships with non state actors. There is considerable opportunity for private companies to partner with major development funding partners in PNG. Some good examples of this are:

### UK Development Assistance to PNG: £34 million approx.<sup>24</sup>

- VSO: £489,645
- Darwin Initiative: £145,205
- EU: £23 million
- United Nations: £324,324
- World Bank: £10 million



ISTock Photos

### The Asian Development Bank (ADB)

The ADB finances projects that support sustained economic and inclusive growth. The ADB has significantly expanded its presence in the Pacific and is the second largest development organisation in PNG. The ADB currently has projects worth US\$800 million an increase from US\$300 million four years ago. The next 10 years should see activities continue at similar levels.<sup>25</sup> About 95% of ADB financing is to rehabilitate infrastructure.

*Activities in PNG include;*

- Reconstruction and maintenance of roads and bridges including the Highlands Highway
- \$US480 million - to rehabilitate all of PNG's 22 national airports in the next 10 years
- \$US25 million loan to expand cross border trade with Indonesia
- Support for PPP policy, including legal and institutions to encourage private sector investment in infrastructure and health
- US\$40 million loan and equity for BeMobile (telecommunications) in 2011
- The Microfinance and Employment Project; financial literacy and village banking

### World Bank

The World Bank invest in infrastructure, energy through their investment arm, the International Finance Corporation (IFC).

*Projects include;*

- Loans to mobile telecommunications provider, Digicel : \$120 million. 2008-2009
- Equity Investment in CSP - 10% equity, 2010
- Equity investment in manufacturing company, KK Kingston - 10 million Kina, 2010
- Loan & Equity in PNG Microfinance. - 5 million Kina.<sup>26</sup>
- Loans to SME risk sharing facility, (with BSP, 50% of total loans) - 150 million Kina

### Nasfund and Nambawan Super

These are PNG's two major super funds, with assets of about 2.22 billion Kina (Nasfund) and 3.09 billion Kina (Nambawan Super).<sup>27</sup> Both Nasfund and Nambawan super are potential partners for investment; both are involved in projects with the Lamana Group (see Tourism case study). In 2010 NASFUND purchased a majority share in Mainland Holdings which produce flour, poultry and other food products.<sup>28</sup>



## Challenges

### Corruption

Corruption is a problem in PNG which the government and police struggle to address. This poses a serious challenge to businesses as they conduct their affairs in PNG. Welcome investigations started by the O'Neill government to combat and stamp out corruption have started and is a current government priority. Through the Business Against Corruption Alliance (BACA), businesses are leading the charge. Long standing UK companies in PNG have an established reputation for integrity which is noticed and respected by the business community. The introduction of the UK Bribery Act, which opens up UK business overseas to the possibility of prosecution in the UK means that British companies are gaining an even better reputation.

It is essential to be alert to the possibility of corruption in PNG and the potential for delays in an effort to extort money. Factoring this into operational planning and seeking advice from established UK companies are effective ways to mitigate the pitfalls of doing business in PNG.

### Infrastructure

Infrastructure in PNG is extremely under developed, while local weather conditions and topography are major contributing factors; overall infrastructure has not progressed much since independence. Large population growth is also putting additional pressure on urban areas. Often investors require the capacity to build their own, which puts limitations on small business. There is a considerable need for large scale infrastructure projects which presents companies involved in the industry with a unique opportunity. In the meantime, major projects such as PNG LNG and development projects are building infrastructure which will also bring benefits to the wider economy.

### Security

Law and order is a significant issue in PNG, therefore effective management of the security risk is essential for anyone seeking to do business. A lack of reliable statistics on crime makes it difficult to assess the extent of the issue; however the majority of crime is random and opportunistic. Taking precautionary measures is often effective, but the sporadic nature of crime in PNG means the risk remains high.

In the more remote parts of the country the threat of disruption to major projects is ever present. Taking the time to really understand the local operating culture and environment can pay dividends. With good advice and the right security provider it is possible to ensure that business interests are protected. For many businesses in PNG, security is just an operational fact of life. Almost all companies utilise private security firms for their business premises and accommodation, in most cases security is provided with leased real estate. Those that have been here for some time advocate fostering stronger links with local communities to mitigate the security risk.

As well as being an important operational consideration, security is a booming industry in PNG, providing employment for more than 40,000 people. There are upwards of a hundred security companies operating in Port Moresby alone. The largest provider is G4S, but The Corps, Paladin and Control Risks also have a presence.

>> This country is rich in resources but short on infrastructure development <<

Vishnu Mohan, CEO,  
ANZ PNG

Withdrawn 16 May 2019

## Opportunities for UK Business

Foreign investment in PNG is running at record levels and with the build out of the PNG LNG project this is expected to continue. The outlook for investment is remarkably favourable. Whilst a deteriorating world economy adds a measure of caution this is a global situation and the question should be is PNG likely to outperform global economic averages. Whilst PNG's future earnings rely on commodities prices, demand is expected to remain solid. PNG also is undergoing substantial and basic change within the country with the expansion of the formal economy and rising middle class. As such businesses which are engaged in service provision to a developing economy could expect that PNG is a worthwhile place to look. Apart from those opportunities detailed in the Sector chapters of this report there are also opportunities in the management of large funds and in retail investment products and the like. Manufacturing is also expected to have increasing demand and the rise in the consumer economy means more demand for consumer products. High technology companies working with infrastructure also have opportunities. Education is expected to be a major government focus and an area where the UK excels.

- On the ease of doing business rankings by the International Finance Corporation (IFC), PNG is 104 out of 183 economies, a step up 4 positions from 2012.<sup>29</sup>



Photo courtesy Kila Kome, British High Commission, Port Moresby

## Case study



### DIGICEL - The Revolution in Communications

\* Digicel are an European owned international telecommunications company and have a presence in the Pacific, in Samoa, Tonga, PNG, Vanuatu and Fiji.

Communications in PNG have taken a massive leap forward following the arrival of private mobile operator Digicel in 2007. Prior to its launch, PNG Government owned Telikom was taking advantage of its monopoly. Its service was considered to be among the highest cost and lowest quality in the world. Fixed line phone services were extremely sparse with just slightly more than 1% penetration. PNG's geography had made it unfeasible to supply service outside urban areas. Since the launch of Digicel, mobile coverage in PNG has increased from 3% to 31%.<sup>31</sup> This represents the first time such a large percentage of the population have had access to telecommunications. For a country where communications have previously been restricted to a minority, improvements in communications are expected to have far reaching benefits.