



THE INDEPENDENT STATE OF PAPUA NEW GUINEA

**2010 SUPPLEMENTARY BUDGET &
2011 NATIONAL BUDGET SPEECH**

“Building the Foundation for Economic Growth and Prosperity”

DELIVERED BY

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MINISTER FOR TREASURY & FINANCE AND PUBLIC SERVICE**

**On the Occasion of the Presentation of the 2010 Supplementary Budget & 2011
National Budget to Parliament**

Tuesday, 16th November 2010



Hon. Peter O'Neill, CMG, MP
Minister for Treasury and Finance and Public Service

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1. INTRODUCTION

Mr. Speaker, I move that the Bill be read a second time.

It is a great honour for me to present to Parliament, not one but two Budgets, the 2010 Supplementary Budget and the 2011 National Budget. Mr Speaker, taking the 2010 Supplementary Budget and the 2011 National Budget together, I am today announcing on behalf of the Government a combined record resource envelope and spending allocations of K9,981.4 million. This announcement of nearly K10. billion of expenditure is the biggest spending announcement ever witnessed in PNG and provides us with a great opportunity to build up our nation, particularly in our rural areas.

The 2010 Supplementary Budget continues the Government's commitment to developing our country's infrastructure, and assists the Government to fulfil its financial commitments, including those associated with the PNG Liquefied Natural Gas (LNG) project. At the same time, the Government has ensured that the 2010 Budget is expected to remain a balanced budget, consistent with Government's medium-term policy framework.

Similarly, the National 2011 Budget continues the Government's commitment to transforming the entire economy, by focusing on **“building the foundation for economic growth and prosperity”**. With this Budget theme, the Government has used the Budget to:

- Increase Development Budget funding to historically high levels to fund high priority rural intervention programs in infrastructure, agriculture, health, law and order and education sectors. This funding directly supports the sectoral plans

which underpin the MTDP and our Development spending in a manner which seeks to maximise the benefit to our citizens.

- Increase the Recurrent Budget to support Medium Term Development Plan enablers and all sectoral plans including, the National Education Plan (2005 – 2015), the National Health Plan (2011 – 2020) and the National Transport Strategy (2011 - 2030). The Recurrent Budget also accommodates transfers from the Development Budget and meets government obligations. In announcing this funding, the Government has made it a priority to better align our recurrent spending with the sectoral plans.
- Announce a series of taxation policy measures to further improve efficiency and effectiveness of our taxation system;
- Continue to undertake ongoing and new reforms which address the underlying issues that affect service delivery and impede private sector investment and growth; and
- Provide a framework to manage future revenues arising from the PNG LNG Project.

Mr. Speaker, both are responsible Budgets and are being delivered in the midst of a recovering global economy and a strong domestic economy.

2. STATE OF THE ECONOMY

Mr. Speaker, PNG's economy has significantly improved over recent years. It is expected to grow very strongly at 7.1 per cent this year, driven by the commencement of the construction phase of the PNG LNG project and supported by improvements in the global environment. The PNG LNG project is already having a positive impact on the economy, particularly in the transport and construction industry, as businesses in these sectors support the project directly. Indirectly, businesses in other sectors are benefiting through the provision of goods and services to the contractors and through an increase in consumer spending due to rising incomes and employment. The more supportive global environment has also seen a rebound of growth in export-related sectors, particularly in agriculture, mining and manufacturing – through higher world prices and stronger global demand.

The outlook for 2011 is very positive, with the PNG economy forecast to grow by 8 per cent, which represents 10 years of uninterrupted economic growth. This is a significant achievement given the challenges that the economy has faced, particularly the global financial crisis in 2008. The forecast increase in growth is largely driven by the expected ramp up in PNG LNG construction activity and stronger mining and agricultural production in 2011.

While we have had sustained economic growth over the last decade, interest rates have been kept relatively low, and international reserves have continued to rise and are expected to be at a record high level of around \$US2.88 billion at the end of 2010.

Mr. Speaker, while the domestic economic outlook is positive, it is not without risks. These risks include: an uncertain international economic environment; volatile and possibly falling commodity prices from very high levels; negative domestic factors like landowner issues, bad weather, mine disruptions; and a heightened inflationary environment.

Inflation

Mr. Speaker, inflation in 2011 is estimated to average around 8.2 per cent. This is an upwards revision from the 2010 forecast outcome and reflects:

- A ramp up in spending from the LNG related activities;
- Capacity constraints, especially in relation to the shortage of skilled labour and the availability of land – which has seen high wage and rental costs respectively; and
- Increased expenditure from the combined 2010 Supplementary and 2011 Budgets.

The Government recognises these inflationary pressures, and their impact on ordinary Papua New Guineans, including on private sector growth and development. Mr. Speaker, the Government will be monitoring inflationary developments very carefully and remains committed to sound fiscal and monetary policy management.

Public Debt

Mr. Speaker, when this Government took office in 2002, the Government's debt to GDP ratio was almost 70 per cent of GDP. It was at an extremely unsustainable level and not dissimilar to the sorts of debt ratios currently seen in Europe. In 2011, PNG's debt to GDP ratio is expected to continue to fall and to be around 24.0 per cent of GDP. While we have recently increased some contingent liabilities associated with the Government's investment in the PNG LNG project, as well as our longstanding unfunded superannuation liability, the substantial fall in central Government debt represents a remarkable achievement for this Government.

Mr. Speaker, what this means is that the Government has effectively increased its financial scope and flexibility and is better able to respond as necessary to any unforeseen circumstances. For example, as macroeconomic and other circumstances permit, we are better able to finance critical additional investment projects that will ease pressure on limited capacity, thereby addressing pressing development needs.

As a result, the Government has decided to make a small but prudent amendment to the *Papua New Guinea Fiscal Responsibility Act 2006* to allow more flexibility to borrow when required, provided that the debt to GDP ratio remains below 30 per cent. This will ensure that the hard work done to get our debt back to sustainable levels is not squandered and we do not put ourselves in a position of having to endure the very difficult adjustments currently being made in Europe as a result of being burdened with too much debt.

Mr Speaker, the Government has responsibly structured the 2010 Supplementary Budget and the National 2011 Budget in order to promote macroeconomic stability and prudent fiscal management.

3. SUPPLEMENTARY BUDGET 2010

Mr. Speaker, the opportunity to provide for additional spending in 2010 has arisen largely due to higher commodity prices and taxation revenue than expected when the 2010 Budget was put together. I now wish to hand down the 2010 Supplementary Budget of K653.3 million. The 2010 Supplementary Budget funds the following programs:

- PNG LNG Umbrella Benefits Sharing Agreement commitments K170.0 million
- Highlands Highway K100.0 million
- Port Moresby Roads K70.0 million
- Lae Roads K50.0 million
- Rural District Roads K50.0 million
- Provincial Service Improvement Program K40.0 million
- District Offices Rehabilitation K30.0 million
- National Parliament K20.0 million
- National Development Bank Equity Retail Banking K20.0 million
- Business Growth Centres K20.0 million
- Other high priority initiatives K83.3 million

Mr Speaker, large parts of the 2010 Supplementary Budget are directly or indirectly related to facilitating advancement of the PNG LNG project. This includes financing Umbrella Benefit Sharing Arrangements and past Memorandum of Agreements. There is also substantial additional funding for roads, especially the Highlands Highway, in Lae, Port Moresby and in the districts that will help to improve the transportation infrastructure that is required to support the Project. More funding provided to the provinces will assist them to provide better services to rural residents. Funding for business growth centres will help business to flourish, especially small and medium sized businesses in response to the opportunities that have arisen.

Other high priority spending initiatives include; Internal Revenue Commission for income tax refunds (K15.0 million), Electoral Commission (K10.0 million), Prime Minister's Commitment to Coastal Areas (K10.0 million), Small Business Development Cooperation (K10.0 million), Defence Ex-Servicemen Entitlements (K9.0 million), Prime Minister's Department (K5.0 million), Mobile Police Barracks (K5.0 million), REDD Program (K3.3 million), Incentive Fund Support (K3.0 million), Audit & Legal Team Support - Finance Department (K2.0 million), Bainik University Campus (Via University of Environment and Natural Resources) (K2.0 million), CIS - Prison Industries Program (K2.0 million), Mining Legal Costs (K2.0 million), Mining Office Rehabilitation (K2.0 million), Cooperative Societies Programme (K2.0 million), and Variarata National Park Rehabilitation (K1.0 million).

Mr. Speaker, once again I reiterate, the 2010 Supplementary Budget is a responsible budget that is fully financed from the Government's own resources. It reflects the Government's commitment to developing our country's infrastructure, and assists the Government to fulfil its financial commitments, including those associated with the PNG LNG project. At the same time, the Government has ensured the 2010 Budget remains a balanced budget, consistent with Government's medium-term policy framework.

3. 2011 BUDGET STRATEGY

Mr. Speaker, I now wish to hand down the 2011 National Budget of K9,328.1 million. This Budget is the largest budget ever recorded since Independence. It is framed against the Government's medium-term policy framework. This includes the *Medium Term Fiscal Strategy* and *Medium Term Debt Strategy* supported by the 2011 Budget Strategy Paper and *Fiscal Responsibility Act 2006*. The importance of the Government's adherence to this framework was one factor that helped shield PNG from the worst effects of the recent global recession. The Government's framework also includes the new *Medium Term Development Plan*, which underpins the implementation of the *PNG Development Strategic Plan 2010-2030* and the *PNG Vision 2050*.

Mr. Speaker, the 2011 Budget is also framed to be a balanced and prudent budget, with record proposed expenditure and net lending equal to forecast revenue and grants of K9,328.1 million. Whilst being the largest budget, the 2011 Budget is also a responsible Budget and takes into consideration the important development needs of PNG, the high level of activity in the domestic economy, capacity constraints in the private sector, and the risks evident with commodity prices being well above long-run historical averages.

Mr. Speaker, notwithstanding these risks, it is a great honour to deliver the 2011 National Budget. In view of the numerous competing demands and the Government's development policies and strategies, the 2011 Budget achieves an appropriate trade-off between the high number of expenditure pressures and the economic circumstances.

4. TOTAL REVENUE AND GRANTS

Mr. Speaker, Total Revenue and Grants will be K9,328.1 million, which is K1,083.6 million or 13.1 per cent higher than the revised estimate for 2010. The majority of the increase is attributable to higher tax revenue, which reflects higher economic growth including the ramp up in PNG LNG project construction activity. Project Grants are also expected to be higher, largely due to the depreciation of the Kina against the Australian Dollar and increased donor funding from AUSAID.

Total Tax Revenue is projected to be K7,331.0 million in 2011. The increase of K850 million from 2010 reflects increase in taxes on income and profits, supported by higher domestic taxes on goods and services and taxes on international trade. This increase is consistent with strong economic growth. The majority of the tax categories are expected to be higher than the 2010 levels.

In 2011, total non-tax revenue is expected to be K1.5 million higher than in 2010, driven by an increase in Ok Tedi dividend partially offset by lower non-mineral dividends.

Project Grants for 2011 are expected to be K1,526.1 million, K232.2 million higher than the estimated level for 2010. This largely reflects the depreciation of the Kina against the Australian dollar.

5. TAXATION MEASURES

Mr. Speaker, the 2011 Budget includes some significant taxation policy measures, namely:

- Commencing a further gradual tariff reduction program;
- Updating housing tax concession thresholds and values; and increasing the stamp duty exemption for first home buyers to better reflect current market conditions;
- Seeking to minimise the abuse of certain alcohol products;
- Recognising environmental protection and clean-up costs as a specific tax deduction;
- Enhancing compliance on directors of private companies for non-remittance of salary and wages tax; and

- Increasing the maximum allowable balance for Retirement Savings Accounts.

These new tax policy measures are designed specifically to: improve law and order and social outcomes by reducing alcohol-related problems; assist first-time homeowners to buy their first home; encourage and support environment protection measures by business; and to improve tax compliance.

I would now like to take us briefly through each of these measures:

Tariff Reform Program (TRP) for 2011

Mr. Speaker, the 2011 Budget introduces a modest Tariff Reform Program (TRP) that will be implemented gradually over seven years starting in 2012 on items with very high tariff rates. The TRP is consistent with the 2007 Tariff Review, which found that tariff reform from 1999-2006 had delivered significant benefits to PNG, and recommended further tariff reductions.

The key objective of the TRP is to encourage the development of more efficient and internationally competitive industries that maximise PNG's comparative advantages. The TRP will reduce input costs for many businesses, reduce the costs of development activities in PNG, and reduce the price of consumer goods, assisting to reduce inflationary pressures.

Updating Housing Tax Concession Thresholds and Rates

Mr. Speaker, the Government has updated a number of housing tax thresholds and rates to better reflect current housing market conditions. The thresholds and values were last updated in 2003 or earlier and include:

- Assisting first home buyers by increasing the stamp duty exemption threshold for first time buyers from K210,000 to K500,000 and introducing a flat 5 per cent stamp duty rate above K500,000 and updating the cost of prescribed housing for employees to purchase a home for the first time.
- Increasing the thresholds for low cost, medium cost and high cost housing and the valuation of housing benefits to better reflect current market conditions.

- The combination of higher thresholds and benefits will alter the level of taxation paid by employees on their employer provided housing. In general, many employees in low cost housing will pay lower tax while other low and middle income employees will pay only slightly higher tax.

Minimizing the abuse of certain alcohol products

Mr. Speaker, the Government will limit the alcohol content of alcoholic beverages that receive concessional excise treatment.

The lower excise rate for alcoholic beverages made from PNG fruit is highly concessional and is resulting in the sale of inexpensive, highly alcoholic beverages. This poses a significant health risk to consumers, is contributing to anti-social behaviour and social disorder, and is eroding Government revenue through reduced collections of excise on other alcoholic beverages.

The existing concession will be modified to cap the alcohol content of beverages that receive concessional excise treatment at 10.0 per cent by volume. In addition, the Government will clarify that the concession only applies to fruit grown and fermented in PNG, and not to beverages made from imported alcohol consistent with the original policy intent.

Recognizing Environmental Protection/Clean Up Cost as a Specific Deduction

Mr. Speaker, the Government recognizes the importance of allowing environmental protection and clean up costs as a specific tax deduction for businesses.

This measure encourages improved environmental outcomes by removing a potential tax penalty on companies that clean-up environmental damage and/or who maintain high environmental standards.

Penalty on Directors of Private Companies for Unpaid Salary and Wages Tax

Mr. Speaker, the Government will impose a penalty on directors of private companies who fail to act on notices from the Internal Revenue Commission of the company's non-remittance of Salary or Wages tax.

This measure seeks to address a large pool of unpaid Salary or Wages tax owed by companies. The outstanding salary or wages tax amount owed as at 30 June 2010 is over K200.0 million, and represents a potentially significant threat to revenue. This also achieves tax neutrality by ensuring that businesses do not gain an unfair advantage by not complying with their salary and wage tax obligations.

Enhancing and Clarifying Retirement Savings Accounts

Mr. Speaker, the Government has enhanced Retirement Savings Accounts (RSAs) by increasing the maximum allowable threshold for RSA balances from K100,000 to K250,000.

In addition, the Government has clarified that withdrawals from RSAs in excess of the prescribed limits will be taxed at a flat rate of 30.0 per cent. However, excess withdrawals will not be subject to further penalty through the loss of the tax exemption on investment earnings.

6. TOTAL EXPENDITURE AND NET LENDING

Mr. Speaker, I would now like to discuss the Government's 2011 Recurrent and Development Expenditure priorities which further the Government's efforts to **build the foundation for economic growth and prosperity**.

Mr. Speaker, of the total Government's internal resource envelope of K7,802.0 million (excluding grants from development partners), the Somare-Polye Government is allocating K4,175.6 million to Medium Term Development Plan (MTDP) enablers. This equates to 53.5 per cent of the Government's entire direct funding for the 2011 Budget. Mr. Speaker, this is a significant allocation and strongly demonstrates Government commitment to ensuring that the priorities identified in the MTDP are given adequate resources in order to begin the process of **building the foundation for economic growth and prosperity**.

Out of the K4,175.6 million allocated to MTDP enablers, the Education Sector is allocated K1,452.7 million in 2011, which equates to about 19 per cent of the total internal resource envelope. Of this amount, K1,077.1 million will be funded through the Recurrent Budget to pay for salaries and wages and goods and services while

K375.6 million will be funded through the Development Budget for critical projects, such as the rehabilitation of educational infrastructure.

Mr. Speaker, it is interesting to note that the Government's expenditure on education is very close to the target set in the 2050 Vision of 20 per cent of internal revenue being allocated to Education. An allocation of 19 per cent of internal revenue on Education in the first Budget of implementing the MTDP is a remarkable achievement. The onus will now be on the implementing agencies of Government to ensure that services are delivered to our people.

The Health Sector gets the second biggest allocation of K841.0 million or 11 per cent of the total internal resource envelope. Of this amount, K654.7 million will be funded through the Recurrent Budget and K186.3 million through the Development Budget.

Transport and Law & Order Sectors are allocated K757.7 million and K749.5 million respectively, or around 10 per cent each of the internal resource envelope.

Of the K757.7 million funding for the Transport Sector, K500.8 million is funded through the Development Budget and K256.9 million through the Recurrent Budget. For the Law and Order Sector, K62.0 million is funded through the Development Budget and K687.5 million is funded through the Recurrent Budget.

The balance of K374.7 million is allocated to the enablers for unlocking of Land and Utilities.

This means the Government is allocating substantial funds towards universal access to quality primary and secondary education (15 per cent), improving health outcomes (11 per cent), improving law, order and justice (10 per cent), establishing quality national transport corridors that connect the rural population to markets and services (10 per cent), higher and technical education to readdress the severe skills shortage within PNG's labour force (4 per cent), the provision of key utilities of electricity, clear water and sanitation and communication (3 per cent) and unlocking land for development (2 per cent).

2011 RECURRENT BUDGET

Mr. Speaker, the Government's Recurrent Budget is K5,287.1 million in 2011, which is K1,126.3 million or 27.1 per cent higher than the 2010 revised estimate. This includes funding to support MTDP enablers, accommodate transfers from the Development Budget and meet government obligations. These programs include:

- Universal Access to quality primary and secondary education K906.5 million
- Higher and Technical Education K170.6 million
- Establishing quality national transport corridors K256.9 million
- Improving health outcomes K654.7 million
- Improving law, order and justice K687.5 million
- PNG LNG Project support funding K34.4 million
- New agencies/entities K12.9 million
- Government Obligations (Legal and Employee Awards) K633.0 million

Universal Access to quality primary and secondary education

The Government will provide funding of K1,077.1 million for Education, comprised of K906.5 million for primary and secondary education, a significant increase of K139.9 million from the 2010 Budget, and K170.6 million in total for Higher and Technical Education: Key drivers for this increase include;

- Department of Education - Additional K28.0 million for Education Subsidies (raising the total amount from K144.0 million in 2010 to K172.0 million in 2011), K30.0 million for curriculum supplies and K20.0 million for equipment, K7.3 million for expansion of examinations and importantly, K2.25 million for 72 additional teachers in National Capital District to ease chronic teacher student ratio issues.
- Provinces will also receive an additional K42.8 million to fund an additional 4,000 teachers in 2011, which will bring the total number of teachers in the Provinces up to 41, 400 at a total cost of K526.1 million in 2011. Basic education function

grants to the provinces have been increased by K7.7 million to K46.6 million in 2011 to ensure that provinces address minimum priority areas in education.

- In relation to Higher Education, universities will receive an additional K11.0 million for staff awards and additional staff and the Tertiary Education Study Assistance Scheme will be increased by K2.6 million to K35.9 million in 2011, providing additional support to tertiary students.

In summary, Mr. Speaker, the total recurrent funding to the Educational Sector in 2011 amounts to a record K1.1 billion or around 14 per cent of total domestically generated resources.

Establishing quality national transport corridors that connect rural population to markets and services

Mr. Speaker, the Government will provide total recurrent funding of K256.9 million in 2011 to the Transport Sector, an increase of K121.2 million from the 2010 Budget. Major recipients of this increase are in the following areas:

- National Roads and Bridges maintenance will have total allocations of K60.0 million and K40.0 million, respectively. Both items are very critical to the sustainability of our national roads and bridges that, in times of a heavy wet season will help bring essential services to 87.0 per cent of our people living in the rural communities. Mr. Speaker, I want to make it very clear that the Somare-Polye Government have made a deliberate policy decision to make maintenance of roads and bridges as a recurrent function. For this reason, these items will be funded under the Recurrent Budget in 2011 and the Department of Works will be responsible for the implementation of this program.
- Transport infrastructure Grants for Provinces will also increase by K15.8 million to K61.7 million in 2011. This will allow provinces to address basic maintenance programs such as on roads, jetties, airstrips, etc.

Improving health outcomes

Mr. Speaker, the Government will provide funding of K654.7 million in 2011 to improve health outcomes, an increase of K90.5 million from the 2010 Budget, mainly through the following areas:

- The Department of Health will be provided an additional K35.0 million for medical drugs and supplies to provide a total of K130.9 million in 2011. This, Mr. Speaker, is for the purchase of drugs to help ease the chronic issue of drug shortages in public hospitals throughout the country. It is important to note that this increase in allocation includes K15.0 million for Anti Retro-viral Therapy to treat HIV patients. A further K28.0 million is provided for additional medical equipment to replace outdated medical equipment and K4.1 million for the flow-on costs of doctors' pay increases.
- For Hospital Management Services, the Government will provide support for 17 provincial hospitals and 3 provincial health authorities via an extra 1,333 funded positions costing K20 million, as well as ten new ambulances and three utilities at a cost of K1.5 million.
- To ensure provinces provide minimum priority services on health, the National Government will increase health functional grants by K12.7 million to K51.9 million in 2011.

Mr. Speaker, the increase in funding to the important areas stated above demonstrates that the Government is very responsive to the needs of its constituencies and their well being.

Improving law, order and justice

The Government will provide funding of K687.5 million in 2011 for law order and justice, an increase of K157.8 million from 2010, mainly through the following areas:

- Police - K3.8 million for recruitment of 630 personnel and K1.5 million for vehicles to address lawlessness in major centres and cities. Police are also receiving K44.5 million extra in its Recurrent budget, bringing the total to K256.7 million in 2011, including K30.0 million for PNG LNG project support;

- Correctional Services – up K21.1 million from K67.9 million in 2010 to K89.0 million in the 2011 Budget to cater for the new salary structure, new uniforms and 95 new recruits.
- Defence will receive an increase of K29.2 million from K115.5 million in 2010 to K144.8 million in the 2011 Budget. Key drivers for this increase are; K7.0 million for staff awards and recruitment of 50 new officers, K7.0 million for liabilities, K2.5 million for training, K4.0 million for maintenance of ships and aircraft and K1.0 million for Beijing attaché.
- The Judiciary is receiving an additional K19.4 million from 2010, bringing the total in 2011 to K69.6 million. Mr. Speaker, a major component of this increase will be spent on court circuits, which is one of the Government's priorities in this sector. Other increases in this sector include land tribunals K6.0 million, particularly in resource project areas in PNG and K1.0 million for village courts uniforms.

PNG LNG project support funding

In addition to the K30 million Police support under the MTDP key enablers, K20.0 million has been provided through the Department of Treasury to assist agencies involved in the PNG LNG project, K10.0 million for the Department of Public Enterprises and additional funding for Customs of K4.4 million to improve capacity to support Government involvement in the PNG LNG project.

Funding for new government agencies

The Government will provide funding to the following agencies and entities which have been created following NEC decisions and/or legislation and require recurrent budget funding in 2011.

- Office of Climate Change & Development – K7.4 million.
- Accident Investigation Commission – K3.1 million.
- Coastal Fisheries Development Authority – K2.4 million.

Government Obligations (Legal and Employee Awards)

The Government has provisioned K633.0 million in *Division 207 - Finance and Treasury Miscellaneous* for unavoidable obligations and commitments of the State. Major provisions include K220.0 million for superannuation exit payments as required under the Government's superannuation legislation, K127.0 million for superannuation arrears, K30.0 million for public service retrenchments, K10.0 million for hardship allowance arrears for Bougainville Public Servants and K60.0 million for outstanding court order settlements. Other provisions have been made for employee awards, with negotiations and agreements yet to be reached in some instances.

2011 DEVELOPMENT BUDGET

Mr. Speaker, the 2011 Development Budget is K4,041.0 million of which the GoPNG component is K2,515 million. This comprises K2,066.6 million in domestic funds, K388.4 million in concessional loans and K60.0 million in Infrastructure Tax Credits.

The 2011 Development Budget reflects the priorities set out in the new Medium Term Development Plan. Priority has been given to funding the MTDP enablers, including the following major programs:

- | | |
|--|----------------|
| • Land | K102.5 million |
| • Law and Justice | K62.0 million |
| • Transport | K500.8 million |
| • Higher and Technical Education | K154.7 million |
| • Primary and Secondary Education | K220.9 million |
| • Utilities | K191.6 million |
| • Primary and Preventative Health | K186.3 million |
| • PNG LNG Project UBSA Commitments | K220.0 million |
| • National Agriculture Development Program | K109.0 million |
| • Other major Commitments and Initiatives | K318.8 million |

Land

The Government will provide K102.5 million for initiatives targeting land development in 2011, including K50.0 million for the economic corridors development program,

K10.0 million for the National Land Development Program, K2.0 million for the Border Development Mapping Project, K20.0 million for the Baiyer-Madang missing link and K20.0 million for the Bogia-Angoram missing link.

Law and Justice

In terms of Law and Justice, the Government will allocate K20.0 million for the Police Logistic Support Program, K10.0 million on Boram jail relocation/extension, K8.0 million on Rural lock-up program and K24.0 million on other related programs.

Transport

Mr. Speaker, the Government will provide funding in the following areas to improve national transport:

- K178.0 million for rural and feeder roads under the District Services Improvement Program
- K10.0 million for the Trans Sepik Highway
- K10.0 million for the Trans East-West New Britain Highway
- K10.0 million for the Buluminski Highway
- K10.0 million for the Central-Malalaua Highway
- K20.0 million for the Kokopau to Arawa Road
- K10.0 million for Highlands Region Road improvement
- K30.0 million for mobile harbour cranes
- K20.0 million for Coastal Vessels
- K8.0 million for Community Water Transport
- K8.0 million for Civil Aviation Development and Improvement Program
- K45.0 million for other priority initiatives

Higher and Technical Education

The Government will provide K154.7 million in 2011 to improve higher and technical education outcomes, including K20.0 million for trade skill scholarships, K16.0 million for Unitech infrastructure development, K10.0 million for Unitech petroleum and petrochemical engineering school, K10.0 million for the UPNG law school building and K10.0 million for TVET sector projects.

Primary and Secondary Education

The Government will provide K220.9 million to improve Primary and Secondary Education outcomes, including K70.0 million for the Rehabilitation of Education Sector Infrastructure (these are for the payment of arrears), K40.0 million for the rehabilitation of 4 National High Schools (Sogeri, Kerevat, Passam and Aiyura - K10.0 million each), K20.0 million for the Oro recovery and restoration program and K11.0 million for establishing a library in every school.

Utilities

The Government will provide K191.6 million in 2011 to improve priority utilities across the country, including K45.0 million to improve water and sanitation, K43.0 million for energy development programs and K43.5 million for information and communication technology programs.

Primary and Preventative Health

The Government will provide K186.3 million funding in 2011 to improve primary and preventative health outcomes in the following areas:

- K20.0 million for specialist hospitals' feasibility studies
- K84.8 million for the rehabilitation of 13 hospitals across the country
- K13.0 million for Community Health Posts
- K14.4 million for Provincial Transit Medical Stores
- K10.0 million for the replacement of priority medical equipment
- K7.0 million for static plant equipment replacement
- K25.0 million for Cuban Doctors – MDG 4&5 special intervention
- K2.0 million for medical research
- K10.1 million for other priority initiatives

PNG LNG Project Commitments

Mr Speaker, the Government will allocate K220.0 million to meet commitments associated with the PNG LNG Project comprised of K120.0 million for Infrastructure Development Grants and K100 million for High Impact Projects. These allocations

demonstrate this Government's commitments to ensure that we live up to our promises.

National Agriculture Development Program

The Government has allocated K109.0 million to continue the National Agriculture Development Program in 2011, which plays an important role in developing our agriculture sector. Of the K109.0 million, K20.0 million will be disseminated by the Agriculture Development Bank whilst K89.0 million is allocated to DSIP for agriculture.

Mr. Speaker, this is a direct intervention by this Government to ensure that funds for rural agriculture reaches its intended destination. This has proved very successful under DSIP arrangements.

Other Major Commitments and Initiatives

The Government will also provide K318.8 million in 2011 to fund a number of other Government fixed commitments and other development initiatives. Major items include K109.0 million for loan counterpart funding, K66.8 million for Special Support Grants, K66.0 million for the 2011 National Census and K54.5 million for District Services Grants.

Mr. Speaker, I draw your particular attention to a provision of K104.0 million for counterpart funding in the 2011 Development Budget. In 2011, the Government has increased its concessional loan drawdown to K388.4 million. This is the largest level since independence, which includes multi tranche loan facilities from the Asian Development Bank for the Highlands Highway road rehabilitation program, Airports maintenance program and a newly signed loan for electricity to fund three hydro projects in Oro, West New Britain and the Autonomous Bougainville Region.

Mr. Speaker, this Government remains committed to honouring its commitments in other resource provinces through an appropriation of K66.8 million for Special Support Grant (SSG).

7. ONGOING ECONOMIC REFORMS

Mr. Speaker, in recent times, this nation has benefitted from a number of the Government's critical reforms. The reforms have contributed to successive economic growth and improved living standards.

The Government will continue to undertake ongoing and new reforms which address the underlying issues that affect service delivery and impede private sector investment and growth.

In the public sector, the Government will demonstrate its commitment to reforms by exploring opportunities to improve service delivery and continuing with the existing public sector reform initiatives to improve the efficiency, effectiveness and affordability of the public sector through reforms on the size of public service, the payroll system, best practices that promote good governance and transparency in financial management at all levels of Government.

In this regard, the Government is announcing a series of targeted measures that will impose more discipline and control over the Government's payroll, aimed at reducing expenditure on personnel emoluments in 2011. These measures involve improved central monitoring, auditing, implementation of immediate controls and greater prioritization. The Government has directed the Departments of Treasury, Finance and Personnel Management to report back on implementation by no later than 30 June 2011.

Mr. Speaker, the Government also supports the development of a competitive and dynamic private sector and will continue to remove impediments to doing business and investment in PNG.

8. MANAGING OUR FUTURE REVENUES

Mr. Speaker, the development of the PNG LNG Project, and the prospect of others, is transforming our economy and gives us the chance to substantially improve the standard of living of all Papua New Guineans. However, it is likely that the emergence of LNG as a major revenue source will give rise to macroeconomic

pressures which are more likely to be prevalent when a country relies heavily on commodity based revenues.

In light of this, the Department of Treasury initiated consideration of these issues by providing a comprehensive discussion in the 2010 Budget. As a consequence of this discussion and separate advice, the Government established a joint Treasury-Bank of Papua New Guinea Working Group to consider alternative arrangements to help manage the significant revenues arising from this project to be used for PNG's development needs whilst promoting macroeconomic stability.

The Government has recently considered and agreed to a joint Cabinet Submission reflecting both the Working Group's work and the separate work undertaken by the Department of Public Enterprises. As a result, the Government has decided to establish a Sovereign Wealth Fund consisting of a consolidated pool of offshore funds with three coordinated and integrated funds with all expenditures being through the budget process:

1. A Stabilization Fund (Stabilization SWF) established from LNG tax revenue and other mineral and petroleum revenue;
2. A Future (Savings) Fund established from tax revenue and other mineral and petroleum revenue; and
3. An Infrastructure Fund (Infrastructure SWF) established from LNG dividends.

These three coordinated and integrated funds will have three separate purposes:

- The purpose of the Stabilization Fund is to help reduce the impact of volatile and unpredictable mineral and resource revenues on the domestic economy to promote macroeconomic stability. The primary objective is to insulate the budget and the economy against movements in commodity prices and by ensuring that Government spending is in-line with the absorptive capacity of the economy.
- The purpose of the Infrastructure Funds is to provide capital towards the delivery of strategic nation-building infrastructure projects to promote the development goals of Papua New Guinea and ensure the aspirations of its people are met.

- The purpose of the Savings Fund is to promote savings to finance future spending and in order to smooth Government spending over the long term.

Mr. Speaker, to implement this decision the Government has established a Secretaries Committee on Sovereign Wealth Funds to oversee the establishment of the offshore Sovereign Wealth Fund for PNG. This Committee is to be chaired by the Secretary of Treasury and its membership includes the Governor of the Bank of Papua New Guinea, the Secretary of PM & NEC, Secretary of National Planning and Monitoring, Secretary of Public Enterprises, and Secretary of Justice and Attorney General. The Committee will take all necessary steps to establish this important undertaking.

9. CONCLUSION

Mr. Speaker, in conclusion, the 2010 Supplementary Budget and the 2011 Budget are being delivered amid complex economic circumstances. Domestically, our economy faces challenges and globally, uncertainties remain. But we cannot understate the opportunity the PNG LNG project offers to transform our economy and substantially improve our socio-economic development.

The 2010 Supplementary Budget and the 2011 Budget are both fiscally responsible and are balanced budgets.

While the 2011 National Budget is the largest budget since Independence, it is focused on the policy priorities of the nation as reflected in the MTDP, the PNG DSP and the Vision 2050. Spending is being shifted to high policy-driven development priority areas to underpin the implementation of these important plans.

Furthermore, the 2011 Budget establishes a framework for stronger economic growth by building on past reforms and announcing the establishment of the Papua New Guinea Sovereign Wealth Fund to support the management of windfall revenues to underpin social and economic development in PNG.

The 2010 Supplementary Budget and the 2011 Budget both continue the Government's efforts to **build the foundation for economic growth and prosperity**. These Budgets will deliver a better future for Papua New Guineans.

Mr Speaker, I commend both the 2010 Supplementary Budget and 2011 National Budget to the Honourable Members and the people of Papua New Guinea.