THE INDEPENDENT STATE OF PAPUA NEW GUINEA

2013
BUDGET SPEECH

GROWING OUR FUTURE:
Empowering our people for Inclusive and Sustainable Growth

DELIVERED BY

HON. DON POMB POLYE, CMG, BE(Civil), MBA, MIEPNG, [Reg.], MP

MINISTER FOR TREASURY

On the Occasion of the Presentation of the 2013 National Budget to Parliament

Tuesday, 20th November 2012

HON. DON POMB POLYE, CMG, BE(Civil), MBA, MIEPNG, [Reg.], **MP**
MINISTER FOR TREASURY

1. INTRODUCTION

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

It is a great honour for me to present to this honourable House the O'Neill-Dion Government's first 2013 National Budget.

Mr. Speaker this is a budget carefully crafted for our nation's future.

> -A budget based upon a proper analysis of our needs and our capacity to prudently fund those needs.
>
> -A budget that asks all citizens and particularly public servants to stand up and be part of a visionary plan to empower our nation by decentralising our government - giving more power to our Provinces, Districts, and Local Level Governments.

It is a budget that will require discipline and a firm anti-corruption stand.

But most importantly, Mr. Speaker this is a budget of hope and opportunity.

The 2013 Budget is an historic budget, a budget for growing our future - a budget of empowering our people through inclusive and sustainable growth.

Most importantly, it is a budget that delivers our promises to the people of Papua New Guinea. This is a government that stands by its word .We, as a government have carefully assessed the nation's needs – particularly in the essential areas of education, health, infrastructure and law and order and we have determined that immediate and significant action is required.

Mr. Speaker, without an effective and working education system we limit our children's future.

They, our children, are our hope – our nation's hope.

This budget puts their future first.

Without an efficient, working health system we are all at risk.

Quite frankly in the area of health we must do better. In this budget we have invested heavily in health because every Kina spent on building a better health system will save our nation money in the future but, more importantly, will allow our people to live full happy and healthy lives.

A healthy PNG will improve the lives of our people – young and old and offer real hope for the future.

And Mr. Speaker, without a safe and secure nation we fail all our people.

Men and Women, the young and the old have an inalienable right – to be safe.

It is as simple and as true as that.

You have a right to be safe.

This budget represents a huge step forward for policing in Papua New Guinea – building a nation that will be safe for PNG families.

Finally, Mr. Speaker, all members in this place are aware of the enormous challenges that the nation faces in rebuilding our infrastructure – roads, bridges, power, water and communications.

With infrastructure comes markets.

With infrastructure we can grow our economy.

And, Mr. Speaker, this Government has determined to take this challenge head –on.

For too long we have seen our infrastructure crumble around us. Well Mr Speaker, no more.

The O'Neill Dion government has decided that enough is enough.

We will rebuild and maintain our infrastructure.

Mr. Speaker, all of these things will empower the people of Papua New Guinea through good, careful and competent economic management. Empowerment is a fundamental cornerstone of my party and, I am proud to say, of the O'Neill - Dion Government

Mr Speaker, this is a large budget. It is over K13 billion- an overall increase of over 23 per cent.

This is equivalent to investing nearly K1,800 for every person in Papua New Guinea.

As a Government, we know that it is a lot of money. It is much more than many people actually earn, especially people in rural areas.

In my 2012 Budget presentation to the Parliament, I stressed that we in this honourable house must lead by example as we are the custodians of our people.

Today, as a new Government absolutely committed to doing what is right for our nation and our people, we must set and maintain the highest of standards to justify the confidence that the people placed in us at our recent election.

And as custodians, I noted that "we have much to do, but working together, hand in hand with the people of Papua New Guinea, we will build a better and stronger future for our nation – for our people."

And today, I want to outline how we are indeed working hand in hand with our people and helping empower them, but first let me outline the state of our economy.

2. STATE OF THE ECONOMY

Mr. Speaker, the 2013 Budget is set against assumptions of a modest acceleration of activity in the global economy in 2013 in comparison to 2012.

This is as a result of a potential reduction in uncertainty relating to the fiscal crisis in the Euro area and the United States, as well as continuing monetary policy accommodation and gradually easier financial conditions.

Mr. Speaker, real economic growth has been strong in 2011 and 2012, growing by 11.1per cent and 9.2per cent respectively. In 2013, nominal economic growth is projected to be 8.9 per cent, an increase from its 2012 nominal levels of 6.7 per cent.

Real growth is expected to slow down to 4.0per cent before rebounding to 5.5per cent in 2014. The slowdown in the pace of real growth is largely due to the PNG LNG project having already reached its peak levels of investment.

Although it will continue its high levels of investment in 2013, these will no longer be increasing and therefore driving growth rates to the high levels of the previous two years.

Growth is expected to be substantially boosted in 2015 with the full commencement of the PNG LNG production. Economic growth is expected to revert back to trend growth in 2016 and 2017.

Inflation

Mr. Speaker, the inflation outcome was 8.5per cent in 2011. Since then inflation projections have been revised down to 4.1per cent in 2012 .

The low 2012 inflation projection is reflective of the low March and June Quarter inflation outcomes, the appreciation of the Kina against other currencies, the Tariff Reduction program and the impact of the Tuition Fee Free Education program.

Most of these downward drivers on inflation will not be present in 2013, so inflation is expected to move back towards 2011 levels.

Inflation is projected to be 8 per cent in 2013 before falling to 6 per cent in 2014 and be maintained at 5 per cent over the medium term.

On the downside, the risks include:-

- potential disruption to the global economic recovery impacting on PNG's trade and Government revenue,
- potential disruption to the progress of the PNG LNG project,
- potential disruption to existing agricultural, mining and petroleum production,
- inflation increasing further, particularly in light of capacity constraints; and
- loss of fiscal discipline given high expenditure pressures after the elections.

There are also potential upsides, including the continuing potential for further development of the mineral sector. For example new projects are under consideration such as Wafi Golpu, Yandera Gold, Elke Antelope and Stanley Gas amongst others.

The very recent information on the strength of the PNG LNG project was received too late to build into key parameters in this Budget, but we would expect it to have positive impacts on real growth rates and revenues in 2013.

Any updated estimates of key budget parameters will be provided as part of the 2013 Mid-Year Economic and Fiscal Outlook.

3. BUDGET STRATEGY

Mr. Speaker, the 2013 Budget Strategy is framed to deliver the Government's Alotau Accord priorities within the context of a prudent and responsible fiscal framework that; supports current economic growth, promotes macroeconomic stability; and addresses significant development needs of our country.

Mr. Speaker, the 2013 Budget Strategy is consistent with the existing overarching frameworks of Vision 2050, the Medium Term Development Plan (MTDP), the Development Strategic Plan (DSP) as well as the new Medium Term Fiscal Strategy (MTFS) (2013 – 2017) and strikes a balance between responsible and sustainable fiscal policy while ensuring service delivery.

Mr. Speaker, the 2013 Budget also marks the first year for the new MTFS (2013-2017) which has been developed to provide the Government with a sound fiscal framework at a time when the Government's revenue, as a share of the economy, is set to decline as a result of:-

- softer global commodity prices;
- reaching and then passing the peak of the construction phase of the PNG LNG project;
- maturing oil fields;
- ongoing issues around taxation non-compliance and
- poor expenditure effectiveness.

As we can only directly influence the levels of our own expenditure, the Medium Term Fiscal Strategy focuses on Government of Papua New Guinea spending but does not include Donor Grants.

In essence, the Medium Term Fiscal Strategy is designed to provide a large step up in development expenditure, and then to maintain this higher level at sustainable rates.

There will also be a switch in expenditure towards more of what is required to deliver services so that expenditure on the key enablers of infrastructure, education, health, law and order will jump from an estimated 54 per cent currently to at least two-thirds of all expenditure by 2017.

More specifically, we will take the large step up of a 28.9 per cent increase in Government of Papua New Guinea expenditure in 2013, and then we will maintain that level of expenditure in real terms, so a 5 per cent increase in nominal terms thereafter.

We have carefully examined the fiscal implications of this approach, and are confident that it is sustainable.

There will be a substantial increase in the deficit in 2013 driven by the slow rate of revenue growth combined with the high rate of expenditure growth.

There will be another large deficit in 2014, **but** by the end of the strategy in 2017, supported by stronger revenue growth as the PNG LNG project revenues come on stream, it is expected that we will have returned to a small surplus.

The deficit will peak at 7.2 per cent of GDP in 2013 and then decline to 5.9 per cent in 2014 before falling sharply to just 1.6 per cent by 2015 and back to a surplus by 2017.

Of course, Mr. Speaker, these deficits will increase our need for borrowing and our debt levels but these debt levels remain at levels considered sustainable by the International Monetary Fund and the World Bank.

At the peak, the debt to GDP ratio will reach an estimated 34.6 per cent of GDP.

However, by 2017, we expect the debt to GDP ratio to fall back to close to 25.5 per cent, slightly below current levels.

This is why we consider this Medium Term Fiscal Strategy is sustainable.

The 2013 and 2014 years comprise a significant financing task in the Budget. 2013 gross issuance is 46 per cent more than 2012. New issuance methods and products are required to manage the financing task. The strategy for this new borrowing is to:

- Diversify the funding base to manage risks;
- Use concessional loan funding where available; and
- Harness the power of domestic savings (incl. Superannuation) to build PNG's financing market and to minimise exchange rate risk.

Mr. Speaker, we are working already with a range of organisations to raise the necessary financing, and I am confident that we can do so.

4. Expenditure and Revenue Reforms

For our Medium Term Fiscal Strategy to be credible, we need to put in place expenditure and revenue reforms that will allow us to constrain expenditure growth from 2014 onwards while improving the delivery of services. Later in my speech, I will outline two of these reforms – getting more development funding out to the sub-national levels of Government as well as improving the way we design, cost and then implement key nation building infrastructure activities. But many more expenditure reforms will be implemented.

In addition to a unified National Budget from 2014, we will continue to implement multi-year budgeting across all areas.

Rather than agencies seeking funds for just one year, they will seek and be provided with a budget over a period of five years.

This will improve planning, priority setting and seeking value for money which often can only be done if we are thinking about more than just the next year.

As part of transferring increased responsibilities away from Waigani, we need to find efficiencies within Waigani.

Mr. Speaker, for many years, we have known what needs to be done to reduce the growth in duplication of departments and statutory authorities. So from 2013, we will begin implementing the key recommendations of the right-sizing review.

We are committed to reducing the number of agencies from 117 currently to under 100 by the end of 2014.

Once again, to demonstrate the credibility of a willingness to take the needed tough expenditure decisions to return the Budget to surplus, we will

- move the Department of Personnel Management's functions to the Public Service Commission,
- combine the Tourism Promotion Authority with the Office of Tourism and Culture in a single Department of Tourism,
- combine the Office of Rural Development with the Department of Rural Development and Planning, and
- move the Office of UNESCO into the Department of Education. There will be an immediate freeze on recruitment to these agencies.

The costs of restructuring are to be met within Personnel Emolument allocations, and these changes will produce savings in for future budgets.

We are concerned about the tendency for Departments to want to transform themselves into Statutory Authorities often to improve pay and conditions and move away from some of the controls of the Public Financial Management Act.

Mr. Speaker, this will stop now.

The Rightsizing Review established under the Department of Prime Minister and NEC will examine options to roll some Statutory Authorities back into Departments.

There has been a tendency for Departments and Statutory Authorities to collect increasing funds and then using these for their own purposes outside of the annual Budget process.

A review will be established, led by the Department of Treasury and reporting in time for the 2014 Budget, with a view to returning these revenues to Consolidated Revenue.

We have also introduced the principle of commercially related returns on funds on lent for commercially viable activities undertaken by State Owned Enterprises – such as the upgrades of the Jackson Airport and the installation of the fibre optic system.

This approach will start producing additional revenues from 2013.

There are many more initiatives we have taken as part of a package to provide the tools for constraining expenditure growth in future years while still improving development outcomes. These include:-

- strengthened reporting arrangements,
- more intensive auditing, resourcing for the continuation of Operation Sweep,
- centralised purchasing of Departmental vehicles, and
- a major review and updating of the Public Finance Management Act to bring it into line with the needs of a more modern and larger PNG, including updated procurement guidelines.

We also know that action must be taken to support our revenues.

For the second year, Mr. Speaker, we are allocating large increases to the Internal Revenue Commission and PNG Customs to ensure they have the resources to build their agencies towards full staffing.

With this improved resourcing, we expect much stronger levels of compliance with the law. Some of this will be improved education on the responsibilities we have towards paying tax.

But these will increasingly be backed by more comprehensive audit programs to ensure there is a level playing field with all businesses paying what they should be.

Mr. Speaker, we will also conduct a taxation review in 2013 with a focus on the minerals sector to ensure that the people of PNG are receiving their fair share of their mineral wealth.

Sovereign Wealth Funds

At a more strategic level, work on the Sovereign Wealth Fund has been continuing following its passage into Organic Law. We now expect the Fund to be operational by the end of 2013.

This is a fundamental reform aimed at reducing the risks to PNG of large falls and then drops in mineral revenue through a Stabilisation Fund.

At this stage, forecasts indicate that no deposits will need to be made into the Stabilisation Fund until 2023.

However, the forecasts also indicate that with just slightly higher volumes of gas or prices of commodities that the first deposits could be made as early as 2015, with withdrawals then possibly supporting the budget in 2017.

The Sovereign Wealth Funds also include a Development Fund. Funds will flow through the budget into the Development Fund from 2015. This will be an important source of financing for the nation building infrastructure mentioned earlier.

With the challenges we have as a nation, and a desire to ensure we reach our full potential, I want to reach out to the broader community to seek advice and ideas on the best ways to advance our economy and our country.

Not all the best ideas are contained just within the Government.

So as part of the structural reforms that the Department of Treasury will be undergoing with its expanded responsibilities for a nationally integrated Budget, I am seeking to bring some of the best minds together from within our community as well as internationally into a new Strategy Division within the Department of Treasury.

I will provide more details on this important initiative to strengthen our economic governance in coming weeks.

5. REVENUE

Mr. Speaker, I will now outline the revenue projections for the 2013 Budget.

Mr. Speaker, the total Revenue and Grants in 2013 is anticipated at K10.5 billion. This represents a growth rate of only just above 3 per cent compared to the 2012 revised estimates of K10.2 billion.

The higher 2013 revenue estimate is due to higher taxes on income and profits, taxes on domestic goods and services and higher taxes on international trade.

The Project Support Grants for 2013 are expected to be K1.2 billion, lower than the estimated level for 2012. This reflects movements in the exchange rates.

Over the medium-term, the expectation is that revenues in 2014 will also only grow slowly to K11.3 billion.

From 2015, revenues increase due to the commencement of the PNG LNG project. This extra revenue will be very important for our future.

However, Mr Speaker, we must be realistic in how much we will receive from the project. In 2015, we expect K1,663 million in PNG LNG revenues. This is only slightly more that the minerals revenues we expect to receive in 2014 of K1,622 million.

The extra revenue will largely simply replace declining revenues from our oil fields and the changed revenues from the Ok Tedi mine.

There is a chance that the revenues may be higher following the announcements of just a week ago of improved levels of production from PNG LNG, and there is a possibility of a third train which would lift revenues further.

Such developments would be good news for supporting our new Sovereign Wealth Fund but we cannot bank on such positive developments as yet.

6. TAXATION MEASURES

Mr. Speaker, last year I announced some major taxation measures including lifting the tax free threshold from K7,000 to K10,000.

This is greatly benefiting many of our lower paid people. 2013 will be the first full year of this tax cut.

In 2012, we also accelerated our tariff reduction program to make the economy more efficient and help contain inflationary pressures.

For the 2013 Budget, the need to increase development expenditures to grow our future and need for responsible fiscal policy means that there are more minor tax changes this year as part of the Government's ongoing effort to improve and refine the tax system.

These more minor measures include: -

- a 10 per cent increase in tobacco excise in recognition of the adverse health impacts of smoking,
- small increases in the tariffs on poultry and plywood in a balanced recognition of the impact of the appreciation on our manufacturing sector, as well as,
- increased tariffs on used vehicles to help deal with increasing traffic congestion.

There will be legislative changes to improve taxpayer certainty through recognition of Nil Assessments, to re-enforce the principle of a single national goods and services tax, close a loophole by extending thin capitalisation rules beyond the mining sector, and other minor tax changes set out in the budget documents.

The net impact of these measures is expected to increase revenues by K51 million in 2013.

7. National Government's responsibility for empowering people

The Government has an enormous responsibility to the people of Papua New Guinea to ensure that such a large amount of money is spent well.

We know that the track record of Governments in the past is that the budget has not been well spent.

We know that there is little to show for the vast funds spent over the last twenty years.

We know of the wastage.

We know of the duplication.

We know of the corruption that has stopped these moneys actually getting to our people and improving their lives.

Mr. Speaker, it is time for this to stop because corruption is a cancer that eats into our nation's heart and soul.

Let me outline the fundamentals of this K13 billion budget.

Firstly let me say this.

We will meet our commitments that we made as a new Government when we formed our coalition in Alotau in the days after the election.

We will meet our commitments in a medium-term budget framework which will see spending on the key areas of infrastructure, education, health and law and order more than double over the next five years – from around K5 billion in 2012 to over K10 billion by 2017.

And this includes extending our commitment of tuition-fee free education to Years 11 and 12, and free basic health care.

Let me now outline some of the historic reforms we are introducing to help ensure that the money will get to the people in ways that will better empower them.

8. Nation-building projects for Growing Our Future – Our Infrastructure

A major and historic dynamic of this budget is the Government's determination to deliver key nation-building projects.

This is a real key to growing our future.

Everyone in the country is aware of the problems in our key national infrastructure. And the most obvious is the poor state of the key backbone to our future prosperity, the Highlands Highway.

In this budget, we allocate K470 million for the completion of the first stage of the Lae-Nadzab section over the next three years.

But we must start now to plan ahead to continue the construction of this highway all the way through to Koroba and Wabag. So we have also allocated another K1,560 million over the next five years for the design, costing and then building of more sections of this key road.

This is a truly national project.

As we rebuild the Highlands Highway, we must also maintain it, and a further K930 million has been set aside for highlands highway maintenance.

Too many times in the past we have spent hundreds of millions on infrastructure and then failed to provide proper maintenance. No more!

We are also committed to working with the private sector, and will continue with the Highlands Highway Tax Credit Scheme introduced last year with funding of a further K350 million over 5 years.

But as important as the Highlands Highway is there is much more to be done.

We will take this approach of planning ahead, of allocating funding for proper design and costing, of working with the private sector, and then provision of money in future years, to the rest of our national infrastructure.

As an example, and as part of our implementation of the Alotau Accord: -

- we will provide K500 million over the next three years to help deal with the congestion that is creating traffic gridlock in Port Moresby.

- we will provide K184 million over two years for helping restore Lae City Roads, and

- we have provided over K100 million for design work to be done on over 10 key road areas in 2013, and then allocated a further K400 million over the following four years for actual construction work on these roads, as well as the design and costing for future roadworks.

And this approach to nation building projects is not limited to roads.

For example, we are allocating K300 million for a comprehensive restoration of the Port Moresby General Hospital.

The approach is to focus on a major redevelopment of a major hospital, to get it right, and then move onto redevelopment of another hospital. A further K1.370 billion has been set aside for additional priority infrastructure in future years.

These investments in growing our future are not just limited to the contributions that are made by the Government of Papua New Guinea.

We are also working with our development partners to improve our infrastructure to grow our future.

For example, in 2013, there is:-

- a further K189 million under the AusAID Transport Infrastructure Program,
- K156 million with the Asian Development Bank on roads in the highlands, K30 million with the World Bank on road maintenance and rehabilitation, and
- K19 million on a bridge replacement program with the Asian Development Bank.

And once again, the focus is not just on roads, as:-

- we are working with the Asian Development Bank on the Lae Port Development Projects worth K114 million in 2013, as well as the Civil Aviation Development Investment program of a further K169 million.
- we are working with China to build infrastructure in areas such as the Integrated Government Information System worth K39 million in 2013 , the Pacific Marine Park worth K60 million as well as other areas such as university dormitories, community college and an International Conference Centre and
- we are working with Japan on the Port Moresby Sewerage Project worth K52 million in 2013 and the Rehabilitation of PTB Workshops worth K24.5 million in 2013.Many of our concessional loans are focused on infrastructure.

As part of growing our future and funding our increased resource needs, we are planning to increase concessional loans considerably over the next five years from K644 million in 2013 to over K1 billion by 2017.

For this to happen, we have also allocated significant counterpart funding of a further K1.5 billion over the next five years.

Altogether, the combination of funding for key national infrastructure of K6.6 billion, concessional loans of K4 billion and counterpart funding of K1.5 billion adds to a major infrastructure package totalling K12.1 billion over 5 years.

This is a historic commitment to growing our future.

This is an exercise in rebuilding our nation.

9. Provinces, Districts and Local Level Government's responsibilities for empowering people

As part of empowering our people for inclusive and sustainable growth, we are initiating a historic shift in power from Waigani to the Provinces, Districts and Local Level Governments.

We do this because we believe this is consistent with our Constitution and the Organic Law on Provincial Governments and Local Level Governments whose purpose includes "promoting responsible citizenship through self-management, control and accountability for one's actions".

Since Independence in 1975, we have established systems of support for provincial budgets and their funding of teachers and provincial public servants, as well as the functional grant system refined under the National Economic Fiscal Commission.

We also have a series of fixed commitments such as various support grant arrangements and commitments under the UBSA. The flow of direct funding under these arrangements totalled an estimated K1.9 billion in 2012.

In 2013, we will increase this amount by 87 per cent to nearly K3.6 billion. This is nearly doubling the funding to the sub-national levels of Government.

Once again, this is an historic shift.

Such a change is well justified.

The O'Neill Dion Government believes that key services can be better delivered by the parts of government that are closest to its people.

The needs of people in Manus and Enga and Bougainville and Port Moresby have many similarities.

We all need good food, security, clean water, a good house, a chance to become entrepreneurs, to be able to sell our produce to markets, and good education and health.

But the means of delivering these services can be vastly different between the remoteness of an area such as Telefomin and Finschafen, the coastal isolation of Daru, the importance of feeder roads to a great Highlands Highway in Mt Hagen, and the importance of ports in key areas such as Lae to ensure we have a marine highway to the rest of the world so we can grow and prosper.

In many critical areas, we believe that a government that is closer to the people can be more effective and accountable in delivering key services.

And it is for this reason that we are transferring K1,492 million in direct financing to the Provinces, Districts and LLGs.

From 2013, onwards each district will receive funding of K10 million each year (totalling K890 million per year),

Provinces will receive K5 million per district (totalling K445 million per year) in addition to the existing functional grants and

Local Level Governments will receive K0.5 million each (totalling K157 million per year).

Prudent guidelines have been formulated for this transfer because a significant challenge will be to ensure that these funds are properly managed.

These guidelines will ensure that these funds are allocated in the following ways:

- 30 per cent to infrastructure such as key local and rural roads or jetties and rural housing,
- 20 per cent to education such as maintenance of classrooms, desks for students and teachers' houses,
- 20 per cent to health such as helping build health aid posts and assist with the maintenance and refurbishment of hospitals,

- 10 per cent to law and order such as the provision of housing for local officers and improving local correctional centres and rural lockups,

- 10 per cent to the economic sector such as supporting agriculture and fisheries, especially those undertaken by small and medium-sized enterprises and women and youth, and

- 10 per cent to assist with administrative issues such as helping support proper tendering processes and funding accountabilities. In some of the work, especially in the economic sector, we will be expecting the National Development Bank to work closely with Provinces and Districts to help them with the review and then support of key activities.

These changes effectively shift much of what was once in the Development Budget directly to the Provinces and Districts and LLGs.

They will be responsible much more directly for their development.

For example, in total, this transfer of funds expects that a total of K448 million in infrastructure will be provided, K298 million for each of education and health, and K149 million in each of law and order, the economic sector and for improved administration.

Our people no longer need to look to the distance of Waigani to fund their priority development activities. They can now look to their local Provincial and District Offices for this support and accountability for delivering improved services shifts dramatically closer to the people.

This is about empowerment.

Some may say that this historic shift is too rapid.

As a Government, we have carefully considered the risks of such a change. We are building systems to strengthen accountability for this funding, including allocating K10 million in 2013 for a strengthened system of auditing of provincial and district funding.

Comprehensive Financial Instructions will be issued shortly to ensure public accountability for this transfer of funds.

Even with these arrangements, there may be some difficulties.

But we considered that if we did not take a bold step in transferring these functions, we would still be here in a decade debating whether provinces and districts and LLGs had the capacity to manage such funds.

We will keep working with the provinces and districts and LLGs to get the system right – and the key criteria we will use is whether the delivery of basic services to our people has improved.

A significant and positive implication of this devolution of K1.492 billion in development expenditure to the sub-national levels of government is that it is now time that we fully integrate the Recurrent and Development Budgets.

For the first time in 2014, we will have a single, National Budget.

As a nation, we have grown to be too large and sophisticated to keep this artificial distinction between the two types of budget in place – advanced countries do not have such a distinction.

10. SUPPORTING THE KEY ENABLERS TO EMPOWER OUR PEOPLE

Mr. Speaker, having highlighted the important changes we were making to support infrastructure as part of our investments for growing our future and the historic shift to the sub-national levels of Government. But we are also making equally historic changes in both the level and structure of our expenditures.

Mr. Speaker, this Budget delivers on increasing funding to key enablers such as education, health, infrastructure, and law and order.

In this Budget, we take a historic "step-up" with an overall 50 per cent funding increase in these key areas.

By 2017, we want such critical funding to have more than doubled - from around K5.0 billion in 2012 to over K10.0 billion by 2017.

In 2013, we will increase support for infrastructure by 69 per cent to K2.6 billion, mainly through support for roads.

Health will see a 64 per cent increase to K1.3 billion, including free primary health care.

Education will have a 40 per cent increase, including extending the tuition fee free education policy to years 11 and 12 and supporting the recruitment of a further 3,132 teachers.

Funding for the police forces will also be substantially strengthened with on-going funding to support an extra 400 recruits every year.

We will also support key sectors such as agriculture, tourism and small and medium sized enterprises by good policies to ensure they can efficiently prosper, as well as programs to assist with their development.

Support of small and medium sized enterprises fulfils a fundamental commitment of this government.

Mr. Speaker, this Budget also delivers on increasing the share of funding going to the key enablers. This share dramatically also "steps up", from an estimated 54 per cent of Government of PNG expenditure in 2012 to 64 per cent in 2013.

This is a conclusive reversal of the previous pattern of decline in the share of the Budget going to these key areas of infrastructure, education, health and law and order.

These are changes of which this Government is immensely proud.

Mr. Speaker, I will now go into some more detail on key funding areas.

“Education – Our Future”

Mr. Speaker, education is our future, our nation’s future and most importantly our children’s future.

This Government is proud to announce that funding in Education for 2013 includes Tuition Fee Free Education subsidy of K652.0 million.

This includes a further K50.0 million provided to extend coverage to years 11 & 12.

The Tuition Fee Free Education subsidy of K652.0 million also includes:-

- K30.0 million to cater for Schools/Curriculum Materials,
- K22.2 million for Secondary Schools Science Equipment,
- K18.7 million for Primary Schools Operations in NCD,
- K10.5 million for National High Schools Operations and K11.0 million for Examinations.

Additionally a further 3,132 teachers will be recruited to work in the Provinces, bringing total primary and secondary teacher numbers to 51,400.

The National Government will continue to fund the cost of these staff at a total cost of K19.4 million.

In 2013, the Basic Education Function Grant to Provinces of K76.6 million provides a K17.1m increase over the 2012 revised funding level of K59.5m.

Mr. Speaker, in 2013 the Government will provide an additional K2.4 million to universities bringing total allocated for funding for universities to K120.7 million.

A further K6.5 million will be provided for the National Scholarship Scheme which will provide over 10,000 tertiary students with a small allowance of K30 per fortnight for 40 weeks a year. An extra K33.2 million will be provided for the existing Tertiary Education Scholarship and Assistance Scheme (TESAS).

Improving Health Outcomes

Mr. Speaker, the O'Neill-Dion Government is proud to announce that there will be an overall increase of K73.1 million or 11.3 per cent for the Health sector in the 2013 Budget.

The increase is primarily for personnel emoluments of K395.2 million (55 percent) to cater for salary increases with K324.0 million (45 per cent) being for goods and services spending and grants to the Provinces.

Goods and services funding will include funding of K158.0 million for drugs and medical supplies which consists of Anti Retroviral Treatment drugs (K15.0 million) and other drugs and medical supplies (K143.0 million). There is also an additional funding of K20.0 million for free primary health care in 2013.

Mr. Speaker, for hospitals there is funding for church health services of K94.1 million and purchase of medical equipment of K19.1 million.

There is also an additional K50.1 million for health awards parked under Division 207 (Treasury and Finance Miscellaneous) for health extension officers. There is also funding of K25.0 million in Division 207 for staffing grants to be transferred from Provincial Administrations to Provincial Health Authorities in Milne Bay, Eastern Highlands and Western Highlands.

All this in addition to the major work at Port Moresby General Hospital.

Law and Order

Mr. Speaker, the Budget provides K721.9 million to fund the ordinary operations of agencies in the law and order sector.

This will include K53.4 million for in 2013 for modernisation of RPNGC. An intensive recruitment drive of 2000 new recruits over a five year period (400 recruits a year) will begin in 2013 where the first batch of 400 new police officers (both men and women) will be recruited at a cost of K5.2 million.

On provincial policing K3.5 million will be used to fund the provincial police training centre in Lae to complement the Police College in Bomana’s redevelopment into a national centre of excellence at a cost of K8.5 million.

2013 Local Level Government Elections

Mr. Speaker, the Recurrent Budget proposes funding of K50.0 million for the LLG Elections. This level of direct funding for the Electoral Commission will cater for logistics, security and all other operational expenses of the exercise.

Agriculture and Small Business

Mr. Speaker, agriculture and small business are vital for our economic growth as they allow more of our people to benefit in the wealth of our nation. Within this Budget, we have many activities to support this important sector.

For example, I have mentioned the K149 million we are providing to the sub-national level to support the economic sector, including agriculture and small business.

In addition, we are providing K320.3 million to assist the agriculture sector. This includes a further K80 million to the National Development Bank which will be provided with strict guidelines to ensure that it is effectively spent in supporting these important areas, including at least 30 per cent of this amount reserved for women.

A further K18 million will be provided along with the IFC for the SME Access Risk Financing Facility and K10 million with the ADB and AusAID for a Microfinance Expansion Project.

We will continue funding the Small Business Development Centre with K5 million for nation-wide SME programs, provide air freight subsidies of K7 million for cocoa and copra, K15 million with the World Bank for the Productive Partnership for Agriculture Development, and K6 million from the Australian Centre for International Agricultural Research to continue agriculture research directly relevant for PNG and support for the Mt Hagen Rice Project.

We will also review the National Agriculture Development Plan to make sure that our support for the agriculture sector is as effective as possible.

It is also relevant to reinforce the positive impact of the infrastructure expenditure outline today in helping to build and drive our agriculture sector.

Pacific Games

Mr. Speaker, the Government is strongly committed to support the 2015 Pacific Games. We are contributing a further K180 million in this Budget and have allocated a further K373 million over the next two years.

The Government is committed to making these the best games ever.

This funding will support the construction of new infrastructure, including accommodation for athletes at the University of PNG which will be available to future students, new sports facilities, and the maintenance and upgrading of existing sports facilities.

11. ONGOING REFORMS

Mr. Speaker, this Government remains committed to reform, hence is determined to improve the way services are delivered to our people.

And service delivery is not limited to Government agencies.

Both our State Owned Enterprises, as well as the private and community and Church sectors, all have a vital role to play which can be supported by Government if the right policies are in place.

Mr. Speaker, promoting private sector growth remains a key priority of the O'Neill-Dion Government. The development of a competitive private sector is important as it creates jobs, generates income and stimulates economic growth. The private sector can deliver services without imposing costs on the taxpayer.

Mr. Speaker, the O'Neill-Dion Government will continue to facilitate increased productivity by implementing its on-going reforms in finance, electricity, land and housing sectors, as well as encouraging and promoting small to medium enterprises.

Mr. Speaker, in encouraging and enhancing competition, the O'Neill-Dion Government is committed to reviewing the ICCC Act, 2002 to improve the regulation of markets and ensure it has more power to address consumer and product safety issues.

My colleague minister, the Honorable Ben Micah, has pointed out in several occasions that the public enterprises are inefficient in service delivery. Despite the large amount of public resources being given to our public enterprises they have **not** efficiently delivered accessible rural air services, reliable power, efficient ports or competitive telecommunications.

Mr. Speaker, during 2012, the Government requested the Asian Development Bank to conduct a study of the performance of public enterprises.

The findings of the study reveal that PNG's public enterprises have operated at a substantial cost in terms of ongoing fiscal transfers and other subsidies, to the detriment of the poorer segments of the population due to the generally poor quality of the services provided and limited range of delivery.

That is simply not good enough.

To ensure that public enterprises operate in accordance with commercial principles, the Government will finalise details of the five key reform priorities for public enterprises in 2013.

These are:-

- the Dividend policy,
- Public Private Partnership policy,
- On-lending policy,
- Guarantee policy and particularly
- the Community Services Obligation policy.

Mr. Speaker, the aim of the Community Services Obligation policy is to ensure that money from Papua New Guinean taxpayers is allocated transparently and in a way that can use competitive tension to get the best value for money for taxpayers' funds.

12. CONCLUSION

Mr. Speaker, in conclusion, the 2013 Budget is for all our PNG people. It is one of which we can collectively be proud.

The Budget is historic not just because of its large size, it is historic because of the fundamental reforms that it includes.

These reforms include the fundamental devolution of responsibilities for much development expenditure to the Provincial, District and LLG levels.

It includes a new approach towards growing our future with a K12 billion nation building infrastructure program based on design, costing and predictable funding in future years.

It includes a move to a unified Budget with more secure multi-year funding.

It includes a new Medium Term Fiscal Strategy for 2013 to 2017 which allows us to take as "step-up" in our support for development, but within a responsible and sustainable framework.

It includes a series of expenditure and revenue reforms that will ensure we deliver on our fiscal framework.

Most fundamentally, however, is the philosophy underlying the budget. It is a philosophy based on empowering all of our people so that they can share in inclusive and sustainable development of this wonderful country of ours.

The challenge is now on effective implementation of this Budget. In this regard, I urge all Government departments and agencies to ensure effective and efficient implementation of the 2013 Budget.

Mr. Speaker, this budget's works are projected forward over a number of years.

That is sensible planning but it also requires political stability over those years.

Any return to the uncertainty and upheaval of the constantly changing governments of the past can only damage our nation. We can remember the days of the late 1990s where political instability helped drive us to where we needed to go begging to the international community for economic assistance.

We know how difficult those days were, and we never want to go back there again. The improved political stability since those days has been a key factor in our strong growth the last decade.

At this critical time we must stand together – in the interests of our nation.

We must put personal ambition to one side because we need time to reform our economy.

We need to build an economy where policy can be implemented without delay.

And, Mr. Speaker, we need that stability to deliver the future that our people so richly deserve.

I am proud to have brought this budget to Parliament.

I am proud to be part of a Government that is determined to put our nation back on track.

And, Mr. Speaker, I am proud to bring a budget to this house that offers real hope and opportunity to our people.

This budget will bring real change, positive change to our people.

Mr. Speaker, I commend the 2013 National Budget to the Honourable Members and the people of Papua New Guinea.