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Supporting the Growth of Private Enterprise: The Role of Sub-national Governments in Papua New Guinea[1]

Abstract

Papua New Guinea is pursuing sustained, broad-based economic development through land reforms within the framework of its National Land Development Program. Well-defined and secure property rights are essential for national development through land-based enterprise growth. This article argues however, that the implementation of land reforms alone under the Program cannot achieve the aspired development. Other regulatory reforms are necessary, particularly for facilitating private enterprise growth. Using secondary Doing Business data of the World Bank for Papua New Guinea, this study examines the country's regulatory practices for *Starting a Business* and *Registering Property* and the role of sub-national authorities in growing the economy through private enterprise.

The study finds that despite high-level government commitments to improve the overall business climate, the country still suffers from a high-cost business environment, as is evident from long-standing obstacles to registering a business and to accessing land. Local-level governments play a vital role in the establishment and operation of land-based enterprises but are hampered by inconsistent, opaque and archaic regulations. Lessons on the regulatory experiences of local governments and investors in Fiji are drawn to help strengthen the capacity of local-level governments in Papua New Guinea. The policy implications emanating from the study call for stakeholder collaboration on the review of business regulations affecting the formal and informal sectors in both the urban and rural areas; the streamlining of local- and national-level business regulations; support for local-level governments to provide one-stop business information services; and the engagement of stakeholders including local-level governments for representative public-private policy dialogue, the outcomes of which would be useful for land policy formulation under the National Land Development Program. The study also provides a breakthrough for the coverage of Pacific small island states in research on the World Bank Doing Business project.

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Introduction

The aspiration for sustained economic growth through private sector development in Papua New Guinea (PNG) as well as the key impediments to this aspiration feature prominently in national planning documents but have not been specifically examined in the academic literature. The early contribution of Cole (1993), who suggested Pacific-wide reviews to identify policies for stimulating regional private sector development, appears to remain unheeded as the impediments he enunciated, including insecure access to land and an unstable law and order situation, among other things, are still entrenched almost throughout the region some 20 years later. PNG's Medium Term Development Strategy 2005-2010 had aimed "to trigger the private sector" but its Vision 2050 admits the crippling prevalence of an "unfriendly investment climate" owing to the poor quality of the country's hard and soft infrastructure (PNG Government 2005; PNG Government 2010a). A section of PNG's soft infrastructure—its business regulatory environment—has often been pinpointed as a major business impediment. In the 2007 Private Sector Survey of the Institute of National Affairs that Scovell (2010) refers to, "stability of regulations" was found to be the fifth most serious impediment and while the Institute's 2012 survey findings are forthcoming, the country's "prohibitively expensive" business environment compels the private sector to remain "small and concentrated in just a few industries" (ADB 2012: p.17).

The claim by Brunetti, Kisunko and Weder (1998), that a business climate plagued with "unclear property rights, constant policy surprises and reversals, uncertain contract enforcement and high corruption most likely translates into lower investment and growth", is corroborated by the strong correlation between regulatory quality and economic growth that Djankov, McLiesh and Ramalho (2006) and Jalilian, Kirkpatrick and Parker (2007) established. However, this is debatable for PNG, as its recent high real GDP growth rates of well over 7% are driven largely by the resource-extraction boom,[2] while the private sector, through the Australia-PNG Business Forum, affirms the importance of a "stable business environment" (APNGBF 2012). The concerns of the private sector correspond with the appraisal by the Heritage Foundation of PNG as the world's 128th most free economy (out of 179) in 2012.[3] The Foundation's proclamation that PNG's regulatory framework for business and land transfers "remains poor" validates the view of Fairhead, Kauzi and Yala (2010) that the "entire system of land administration is inefficient and dysfunctional". The Vision 2050 emphasis on land reforms for promoting non-minerals investment substantiates the contention of Duncan (2008; p.921) that such development "will require overcoming the constraints on access to land". Given the vitality of land for future prosperity, the Government launched the National Land Development Program (NLDP) in 2007. The main argument of this paper is that the implementation of the NLDP will need to be complemented with investor-friendly business regulations if the Program is to, as the Conference organisers have coined it, "make our land work" through private enterprise growth.

The plunge in PNG's World Bank *Ease of Doing Business* ranking from 53 (out of 175 countries) in 2005/06 to 101 (out of 183) in 2011/12 reveals explicitly the shackling effect of its regulations. The trend affirms the charge by the Heritage Foundation that "numerous and time-consuming bureaucratic hurdles" stifle much needed investment. Although seen as "only an approximation", the Development Strategic Plan 2010-2030 recognises the Doing Business rankings as "currently the best available gauge of PNG's ability to attract investment" (PNG Government 2010b). Burgeoning empirical studies into the decade-long Doing Business surveys are concluding the positive impact of policy reforms on the economy in large countries (Bruhn 2011; Schueth 2011). However, no attempt has been made to examine the Doing Business performance of the Pacific Island Countries (PICs).[4] It is plausible that this deficiency may be a reason for the unhurried and uneven pace of internally-driven reforms in the region. The scarcity of literature on country-specific PIC private sector issues leaves researchers with minimal option but to rely on the publications of institutions such as the Asian Development Bank (ADB), AusAID, Pacific Islands Forum Secretariat (PIFS), United Nations, World Bank and PIC governments.

[2] PNG's GDP growth rates were 7.4% in 2010, 8.9% in 2011 and is projected to be 7.5% in 2012 (ADB 2012).

[3] The Foundation's PNG report is on http://www.heritage.org/index/country/papuanewguinea.

[4] The 10 PICs represented in the Doing Business surveys comprise the Federated States of Micronesia (FSM), Fiji, Kiribati, Palau, PNG, the Republic of Marshall Islands (RMI), Samoa, the Solomon Islands, Tonga and Vanuatu.

The analysis of PNG's regulatory environment is based on a review of its scores in the Doing Business database, www.doingbusiness.org. The study focuses on just the *Starting a Business* and *Registering Property* indicators as they are among the regulatory areas targeted by the Development Strategic Plan 2010-2030 and Vision 2050. Both these indicators are also increasingly examined in the literature (see for example Klapper, Laevan and Rajan 2006; Freund and Bolaky 2008; Djankov 2009). The performance of PNG in 2012 in terms of *Starting a Business* (ranked 84) and *Registering Property* (87) is satisfactory, with both placed in the top half of global rankings. However, relative to the PICs, the country takes the longest in issuing a business licence—20 days—and also in granting approvals for a company to start operations—51 days. PNG takes 72 days to formally register property transfers—the fourth fastest PIC—but a word of caution is necessary here, since a key World Bank assumption for this indicator is for the transacted land to be alienated. This suggests considerable policy implications under the NLDP if it is to "make our land work". PNG's planning documents confirm the government's conviction that domestic structural reform will help lower the cost of doing business, even as land reforms will unlock land for development. While land reforms are to be pursued within the NLDP framework, the complicated regulations for doing business, especially with sub-national authorities—Local-Level Governments (LLGs)—need to be streamlined.

In this paper, special attention is paid to the control of business licences, while appropriate lessons are drawn from the author's field survey in Fiji last year, which it is hoped will strengthen the capacity of LLGs to meet the regulatory needs of investors in PNG. The adoption of standardisation of business licence application forms as currently assessed by the Fijian Government for use by its local governments is thus proposed for consideration by the LLGs. The findings of this study should further the objectives of the NLDP through the facilitation of private enterprise growth.

The rest of the paper begins with a review of relevant studies on business-related regulations in Section 2 and the research methodology in Section 3. Section 4 describes the Doing Business performance of the PICs, while PNG's performance is reviewed in Section 5. Lessons from the role of Fijian local governments in facilitating the needs of the private sector are covered in Section 6. The paper ends with a discussion on policy implications and conclusions in Section 7.

Review of Studies on Business Regulations

Original research into the impediments to starting a business is credited to Bain (1956) who pioneered the study of entry barriers to markets (Ho and Wong 2007). Bain's initial list of three barriers—economies of scale, product differentiation and cost advantages of incumbents—expanded to 19 as reviewed by Karakaya and Stahl (1989).[5] One of those additional barriers is "government policy" that a government can use to limit or even foreclose entry by way of licensing requirements (Porter 2006). A major impediment that remained largely undetected until the groundbreaking research of De Soto (1989) relates to the regulations that a citizen-owned business has to comply with. The bureaucratic requirements for opening a small garment factory in Lima, Peru took a staggering 289 days to complete and cost US$1,231 before the factory was ready to operate legally. The research not only showed "how severely restricted access to industry is" but also "confirmed that it was absurd to claim that the law creates no problems" (De Soto 1989: p.134). Those findings inspired Djankov et al. (2002) to develop a methodology for assessing the procedures, cost and time for registering a business that in turn influenced the World Bank into launching the Doing Business surveys in 2003 on the presumption that fewer, simpler and more cost-efficient regulations lower business costs and spur economic growth.

[5] The 19 barriers are cost advantages of incumbents, product differentiation of incumbents, capital requirements, customer switching costs, access to distribution channels, government policy, advertising, number of competitors, research and development, price, technology and technological change, market concentration, seller concentration, divisionalization, brand name or trade mark, sunk costs, selling expenses, incumbents expected reaction to market entry and, possession of strategic raw materials.

Policy uncertainty is one of the most serious impediments to doing business in developing countries (Kenyon and Naoi 2010). However, the desired application of best practices is limited due to the paucity of empirical literature on the impact of reforms based on the Doing Business framework. For the few that have been done, Yakovlev and Zhuravskaya (2007) conclude that simplified entry regulations boosted the formation of more new firms in Russia, while low business start-up and property registration costs are among factors associated with higher per capita income in Brazil (Cavalcanti, Magalhães and Tavares 2008). Regulatory reforms inspired increases in the number of registered businesses in Mexico (Bruhn 2011) and the tripling of foreign direct investment into Georgia (Schueth 2011). More secure property rights lead to higher growth through improved asset allocation (Claessens and Laeven 2003), while land reforms correlate with improved labour conditions in Peru (Field 2007). In the absence of Doing Business-related research on property rights in the Pacific, the finding by Chand and Yala (2009: p.452) that “farms expand only when tenure security is present” is pertinent.

Critics such as Arruñada (2007) as well as Altenburg and Von Drachenfels (2008) argue that Doing Business ignores the benefits of regulations and the difficulties associated with national institutional reforms. Aidis and Adachi (2007: p.409) criticise the Doing Business data for painting “a misleading picture” of Russia, since “formidable barriers” in the form of informal impediments associated with poor regulatory enforcement, regionalism and pervasive corruption hinder business entry. Krause et al. (2010) discredit the emphasis placed on regulatory uncertainty and demonstrate the significance of non-regulatory impediments to policy considerations. Their study in Mozambique establishes factors likely to have an impact on business development, which fortuitously are of relevance to the context of PNG. They include the quality of institutions (rule of law and security of property rights), infrastructure, education, HIV/AIDS, access to business networks, exports, finance, crime and political stability issues. The social impact of Doing Business reforms is scrutinised in Tanzania—Africa’s star reformer—where sweeping reforms requiring businesses to formalise had an adverse impact on non-target groups such as street-based micro-traders, thousands of whom were forced to leave their bases following a nationally-coordinated eviction programme in major municipalities (Lyons and Msoka 2010). The lack of an explicit focus on gender considerations is also criticised by Hampel-Milagrosa (2010).

A motivation for the present study is the dearth of research on Doing Business data for the PICs, particularly PNG as the region’s largest island economy, although references to the PICs’ Doing Business rankings and their policy practices—or the lack of them—are contained in government publications and discussed at forums. For instance, Reddy (2011; p.45) deplores the absence of a strong property rights framework and its detrimental impact on investment in the PICs. His articulation of an emerging “culture of claiming compensation” in Melanesia corroborates the concern of Fairhead, Kauzi and Yala (2010; p.2) that state land which was alienated prior to PNG’s independence is “increasingly being reclaimed by a new generation of customary landowners”. Scovell (2010) adds that slow land reform is complicated by the “concerning trends of unrealistic expectations and stability of landowners” which will obviously undermine the use and bankability of customary land.

Dollar, Hallward-Driemeier and Mengistae (2005: p.2) argue that the macroeconomics literature suffers from the problematic assumption that the investment climate is the same right across a country, “when in fact there may be interesting variation based on local governance”. Interventions aimed at strengthening the national investment environment should therefore ensure that the environment at the sub-national level is not neglected. The prominence and benefits of effective policymaking at that level are acknowledged by such researchers as Rogerson and Rogerson (2010). Pacific stakeholders also agree that “local economic strategies developed by local governments…..provide an effective mechanism for…..enabling conducive business environments through effective planning, regulation and service delivery” (CLGF 2010). Hassall and Tipu (2008: p.26) express concern about the absence of studies on local governments in the PICs and urge “the need to remedy this situation in light of the immense challenges” the region faces. This paper therefore focuses on the business licensing services of local governments, the streamlining of which advances private sector development through the reduction of “compliance costs and the scope for rent-seeking activities by officials” (Devas and Kelly 2001: p.386). In the context of PNG, Urban and Rural LLGs can play an influential role in the implementation of the NLDP through the facilitation of business licensing approvals for land-based private enterprises.

Methodology of Study

In this paper, the quality of PNG's business regulations is examined via a desk study of survey-based secondary data on Doing Business indicators, which are collected by the World Bank principally through Port Moresby-based respondents.[6] The datasets for each year beginning in 2003/04 are downloadable from www.doingbusiness.org. Further sources of secondary data include the PNG Government as well as Suva-based regional entities consisting of the Commonwealth Local Government Forum (CLGF) Pacific, PIFS and the Pacific Islands Private Sector Organisation. Contacts were also made with key PNG agencies including the Investment Promotion Authority (IPA), Institute of National Affairs, National Capital District Commission (NCDC), National Research Institute and the Manufacturers Council of PNG, as well as the Lae and Port Moresby Chambers of Commerce and Industry, to secure information on the current business licensing procedures of LLGs.

Business licensing in Fiji was reviewed with the assistance of local government and garment industry representatives who volunteered to participate in the author's field survey during September-November 2011. The visit coincided with two quarterly Local Government Forums where consultations - facilitated by the Department of Local Government - were held with the country's 13 Local Governments.[7] To gain further insights into licensing issues, interviews were also held with officials responsible for municipal business licensing in Suva, Lami, Lautoka, Nadi, Nasinu, Rakiraki, Sigatoka and Tavua at their respective chambers. The unstructured interviews focussed on their in-house procedures for assessing new business licence and renewal applications. By means of a self-administered questionnaire, these points were raised as well with respondents from 40 garment factories based in Suva (8 factories), Lautoka (7), Nadi (14), Nasinu (4), Rakiraki (2), Savusavu (1), Sigatoka (3) and Tavua (1) to gauge their experiences with licensing regulations. Garment manufacturers were specifically chosen in view of the industry's relative homogeneity, as its members use broadly similar technologies while their raw materials and ready-made products are tradeable in international markets (Dollar, Hallward-Driemeier and Mengistae 2005). The industry is also a significant contributor to the economy in terms of investment, exports and employment. Access to the factories was facilitated principally through their peak industry body, the Fiji Textiles Clothing & Footwear Council.

Performance of PICs in Doing Business

The Doing Business project assesses 10 sets of regulations that enhance or constrain domestically-owned business activity by analysing data gathered mainly from local lawyers and accountants in a country's largest city.[8] The analysis generates annual Doing Business rankings for 183 countries including the PICs, which are reported together with best- and worst-case regulatory practices, as well as suggestions for national policy reforms. Doing Business is claimed to have inspired the adoption of 1,750 policy reforms in 125 countries (World Bank 2011).

The performance of the PICs when first recorded together in Doing Business 2006 was impressive. Seven were placed in the top third, with Fiji heading the list at 29 out of 175 countries. However, six years later in Doing Business 2012, just two PICs barely make it into the top third. Tonga, the most business-friendly PIC at 58 (out of 183), is followed closely by Samoa at 60. Fiji has stumbled to 77, behind the Solomon Islands (74) and Vanuatu (76) but ahead of PNG (101).

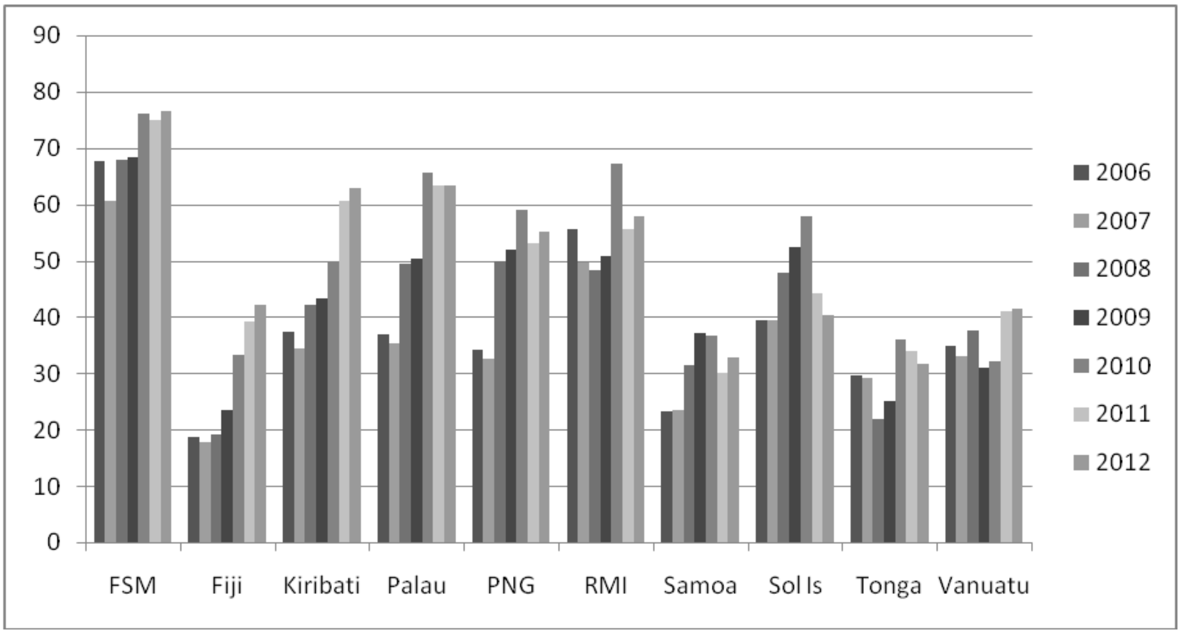
[6] In addition to Ernst & Young staff, 25 other individuals are listed by the World Bank (2011) as contributors to Doing Business 2012. They include Lawyers (7), PNG IPA officials (5), Accountants (3), Customs officials (2), Lands officials (2), PNG Power (2), Architects (1), Engineers (1), Judiciary (1) and Credit & Data Bureau (1).

[7] The Local Governments comprise the Suva City Council, Lautoka City Council and the Town Councils of Ba, Lami, Nadi, Nasinu, Nausori, Rakiraki, Sigatoka and Tavua on Viti Levu; of Labasa and Savusavu on Vanua Levu; and, of Levuka on Ovalau. The Councils are headed by Special Administrators.

[8] Ten business-related regulations included in the Doing Business rankings are: Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts and Resolving Insolvency (formerly Closing a Business).

To allow a cross-time analysis of the PICs' Doing Business rankings, controls are introduced for the growth in the number of countries to produce percentage rankings (Figure 1). The best ranking is 18th for Fiji in 2007 and the worst is FSM's—77th in the world and the least business-friendly PIC in 2012. The overall trend of rising Doing Business rankings implies a generally waning business regulatory environment throughout the Pacific region.

Figure 1: Ease of Doing Business Rankings for PICs, 2006-12



Note: Percentage rankings, from 0 (best) to 100 (worst)
Source: Computed using data from the World Bank (2005-11)

An encouraging trend, nevertheless, is the recent spate of reforms in the region. Of the 33 reforms executed since 2006, 10 took place during 2010/11 in the Solomon Islands, Tonga and Vanuatu. The World Bank (2011, p.4) offers accolades to these PICs for being among the most improved globally for having implemented at least three reforms, but adds that the reforms in all three countries were "often supported by donor programs". One other striking feature is the introduction of seven retrogressive reforms that made doing business more onerous, even in the PICs where donor support was available. Three such reforms occurred in Fiji, which seems to explain the steady plunge in the country's rankings. Like Fiji, the Doing Business rankings for Kiribati - which has never introduced a Doing Business reform - have also declined over the years. Table 1 in the Annex provides key Doing Business data and lists the PICs according to their 2012 Doing Business rankings to facilitate inter-PIC comparisons.

Starting a business in the PICs during 2012 (the time of writing) involves as few as four procedures in Samoa and Tonga and as many as nine in Fiji. The process takes the shortest time - nine days - in Samoa and the longest - 51 days - in PNG. It costs the least - 9.7% of per capita income - again in Samoa and a monstrous 142.8% in FSM (Table 2). Business licensing authorities in the PICs are not limited to local governments, as national, state and provincial authorities may also be involved. A business licence is issued in just one day in the Solomon Islands and Vanuatu and takes the longest with the NCDC in PNG - 20 days. The magnificent performance of the Solomon Islands is attributed to their new ADB/AusAID-funded online company registration system. Vanuatu also reduced the time taken for company registration from 25 days to 14 days as well as for licensing approval from 13 days to just a day.

The efficiency of property transfer registrations varies markedly, as it takes just 14 days to complete in Palau, while in Kiribati it takes almost one-and-a-half years (Table 3). The number of procedures for the process ranges from three in Fiji to ten in the Solomon Islands and where there is "no practice" of property registration, as in FSM and RMI, the countries either have no appropriate laws or the laws exist but are never used in practice (World Bank 2011). A critical assumption of the World Bank for the *Registering Property* indicator is for the transacted property to be "fully owned by the seller" or alienated. The assumption is unrealistic for the Pacific, since the bulk of land in the PICs is customary-owned. Fiji has the largest proportion of freehold land - just 8% of the total - while state- and customary-owned land account for well over 90% of total land area elsewhere (Table 4).

Doing Business, Procedures, Reforms and Impediments in PNG

The process of starting a locally-owned business in PNG, based on the regulatory requirements in the capital, Port Moresby, involves six procedures that take 51 days to complete.[9] They entail compliance with the requirements of the Registrar of Companies and Internal Revenue Commission as well as registration with the Employment Registrar, with NCDC, with an authorised Superannuation Fund and with a private insurer (Table 5). The most time-consuming procedure, taking 20 days or some 40% of the total time, relates to the application for a business or trading licence from the NCDC. Although the details of securing a licence in the capital were not available for the present study, NCDC is reportedly engaged in a partnership with the International Finance Corporation of the World Bank Group to review and improve their "complex administrative procedures set out as pre-approval licences before a single trading licence is issued" (Kana 2012).

Outside Port Moresby, the administration of business licensing involves the country's 315 LLGs, 40 of which are classified as Urban LLGs.[10] The rest are Rural LLGs (CLGF 2011). Details on LLG business licensing procedures for Lae, the second largest city and so called 'economic hub' of the country, were accessed through the Lae Chamber of Commerce and Industry. The Lae Urban LLG has 107 different licence classifications which are divided into 49 categories and subjected to 26 different fee levels ranging from K106 to K5,000.[11] No information could be obtained directly from the Lae Urban LLG or the Morobe Provincial Government on their licensing process, but the system was described by the Chamber President as "convoluted and potentially difficult to monitor" (McLay 2012). His views are consistent with the Government's admission in the 2010 Budget that business "impediments are many and generally include a range of inappropriate and overly burdensome regulations to cumbersome administrative procedures and processes" (PNG Government 2009: p.73).

PNG performs well relative to the PICs with the time it takes to register the transfer of alienated land. Such registrations involve four procedures and take 72 days to complete (Table 6). Notably, about half of this time, 35 days, is attributed to securing Ministerial approval while the rest of the works entails internal procedures within the Lands Department. As noted earlier, vigilance when evaluating these characteristics is imperative since they apply to freehold land which accounts for a mere 0.5% of total land area, while state-owned land and customary land take up 2.5% and 97%, respectively (AusAID 2008). A more demanding question obviously relates to accessing customary land, as indicated in the NLDP and observed by Scovell (2010) as one of the challenges to doing business and developing infrastructure in PNG.

The World Bank (2011) reports the implementation of only two reforms so far in PNG. This is difficult to believe if their claim that the "cost of reform to ease business entry is minor" and often "done by the stroke of a minister's pen" (World Bank 2006, p.9) is anything to go by. Importantly, Arruñada (2007) warns against underestimating the cost and difficulties with national reforms. Nevertheless, the first reform relates to *Enforcing Contracts* through the establishment in 2007 of a "specialised commercial court" within the National Court, which became fully operational in 2009/10. It is intriguing, though, that despite the introduction of this special court which the World Bank (2009, p.56) commends as among the "most popular reform feature in 2008/09," PNG's *Enforcing Contracts* ranking continues to hover above 160 out

[9] The World Bank assumes the business to be a domestically-owned limited liability company that is engaged in general commercial or industrial activities.
[10] They belong to the PNG Association of Urban LLGs, while the Rural LLGs do not yet have a peak body.
[11] Papua New Guinea LLG General Licensing Fee Regulation (Amended) 1998 (Consolidated), Law Number 4 (Amendment No.1) of 2005

of 183 countries. In other words, it still ranks in the lowest 10%. The time taken to settle a contractual dispute and its cost have remained unchanged between 2004 and 2012—591 days and 110.3% of the claim amount, respectively.[12] This is a major concern that needs to be addressed since contract enforcement is fundamental for utilising any form of land for productive purposes.

The second reform improved PNG's *Getting Credit* ranking from 135 in 2009/10 to 89 in 2010/11. This followed the establishment of Credit and Data Bureau Ltd by leading financial institutions in 2008 but remained unreported until Doing Business 2011. The company's services enable its members to obtain information on the credit history of their customers, thus improving the customers' access to credit. The company's success is evident from its increased coverage from 21,600 individuals and 8,900 firms as recorded in Doing Business 2011 to 117,598 individuals and 15,793 firms noted in www.cdb.com.pg as of 31 July 2012.

Non-regulatory impediments are widely reported, as undertaken by the Institute of National Affairs and cited by Scovell (2010) for their 2007 Private Sector Survey that identified the top 10 impediments as (beginning with the most serious) law and order, corruption, telecom infrastructure, transport infrastructure, stability of regulations, company tax rate, banking services, electricity infrastructure, work permits, visas and availability of skilled labour.[13] A similar survey conducted by the World Bank (2009) in the Pacific[14] uncovers an assortment of other impediments including insecure access to land, political instability and the unfair practices of the informal sector. The revelation of unfair competition from the informal sector as an impediment prevalent in the PICs could retard progress on the pro-poor objectives of the Pacific Plan and Millennium Development Goals as referred to by PIFS (2007). Its identification by respondents from Tonga—the star PIC Doing Business reformer—as their foremost obstacle, may prompt policy makers in the PICs to contemplate reforms to bolster the registration of informal operators. However, a cautious approach would be necessary here in light of the significance of the informal sector to PIC economies. In PNG for instance, "some 90% of the 2.3 million workers are employed in rural areas" (UNESCAP 2008) while its National Informal Economy Policy 2011-2015 states that 92% of the population are without access to formal financial institutions (PNG Government 2011).

Lessons from Doing Business with Local Governments in Fiji

The most striking finding from the survey in Fiji was the absurd plethora of requirements that companies had to satisfy for business licensing alone, in addition to the standard start-up regulatory procedures with national authorities. The penultimate of the World Bank-listed nine procedures for starting a business in Suva during 2010/11 (Table 7) pertains to applying for a business licence from the Suva City Council (SCC). However, the SCC itself had eight requirements for applicants to comply with during 2011, although most of the requirements are fulfilled with other national authorities and may also not be relevant to every company (Table 8). The Council also advertised in late 2011 their extended list of (14) business licensing requirements, effective from 01 January 2012 (Table 9). The complexity of their licensing schedule was evident from its 390 different licence categories and bands of fees ranging between FJ$4.61 and FJ$4,603.50. The extent of paperwork, costs and time involved in securing approvals from the various authorities was affirmed by the local governments' business licensing officials, who also attested that the task of monitoring the growing list of bureaucratic requirements was compounded by their limited resources.

[12] The only positive change is the reduction in the number of procedures from 43 to 42 during 2009/10.
[13] INA's enterprise survey, conducted every five years, is underway and its findings are expected in late-2012.
[14] The five participating PICs were FSM, Fiji, Samoa, Tonga and Vanuatu. Communications via email with the Enterprise Surveys, www.enterprisesurveys.org, on 31 July 2012 revealed a survey is planned for PNG in 2013.

The issues raised by the licensing officials relate to their concerns firstly, on their own internal processes; secondly, with external authorities whose approvals were prerequisites for a business licence; and thirdly, with licence applicants (Table 10). Poor in-house coordination and lack of linkages with other local governments and external authorities were particularly disturbing as these processes meant delayed decision making and extra costs to all concerned. Interventions by external authorities when exercising their legal powers to shut down a business for breaching regulations or, when introducing new legislation, without consulting the local governments were similarly troubling. Likewise, the applicants' ignorance of regulatory requirements, their referral to higher authorities for redressing unfavourable decisions, abuse of licences and failure to settle outstanding rates emerged to be key concerns as well. The absence of functioning private sector representative bodies also hindered efforts to consult with the local business community on issues of mutual interest.

The punitive transaction costs that the private sector has continually borne, as a result of onerous business regulations particularly at the local level, were confirmed by most of the industry respondents (Table 11). Extraordinarily, delays pertaining to local government requirements resulted in the continued operation of two major garment factories without their renewed 2011 annual business licences for at least the first 10 months of the year. Inefficiencies and frustrating referrals from one staff member to another within an office or from one authority to another were dreadful. This was especially true when a company diversified its operations or extended its presence to other municipalities, since doing so necessitated the completion of various forms and submission of information—most of which were deemed to be irrelevant and already in the possession of local governments—for the sole purpose of acquiring a business licence. Such barriers marred the national government's push for re-investments by existing companies. The respondents also alleged that the authorities were biased in targeting garment factories for compliance checks relative to other industries. The occasional hints of extra payments or special favours from official inspectors were reportedly dismissed to avoid corrupt practices. The respondents raised their concern as well about policy changes without prior consultation, inaccessible policies and officials, poor road conditions despite the payment of national road levies, and the lack of opportunities for meaningful local-level policy dialogue.

A remedial strategy to address the above challenges would be the development of a standardised business licence application form that could be utilised by all local governments. Its immediate benefits include, firstly, the reduction of transaction costs borne by the private sector and, secondly, the availability of standard data to support policymaking. A suggested template for the standardised form is being considered by the government. Moreover, the proposed standardised form could facilitate the integration of regulatory services, which may be extended to include a standardised application form covering all necessary regulatory approvals.[15] After all, most of the questions contained in the forms for each authority seek the same information. The simplification, streamlining and standardisation of licensing regulations are necessary for speeding up application processes. The website posting of the forms to enable their downloading and online submissions has also been suggested to the government. As in Mauritius, an online company registry could allow the Registrar of Companies to receive applications and automatically inform relevant authorities by electronic means about the newly registered company and the expected start-up date of its approved business (World Bank 2011).

Given their presence throughout the country, local governments are ideally placed to become the local "one-stop shop" for basic investment information and application forms from all regulatory authorities. This guarantees the availability of business support services to the general public, a privilege that is often confined to national investment promotion agencies in the capitals. The empowerment of local government officials to inspect business premises and receive fee payments on behalf of the other authorities could also be considered to reduce costs, as applicants would no longer have to visit each relevant authority separately for approvals. Such services could be complemented by regular dialogue involving local governments,

[15] The approvals would be for company, tax, fire, health, environment, superannuation and training registrations and local government licensing.

regulatory authorities and the private sector for collaborative policy making and implementation.

Access to land was ruled out by respondents as an impediment to their businesses since property rights were deemed to be secure. They either owned or leased their properties which were located on all forms of land—freehold, state land and customary *i-taukei* land. Concerns about property rights usually associated with *i-taukei* land were a non-issue for the garment industry as factories were located in small urban or peri-urban blocks that had well-defined and secure property rights. An encouraging aspect of inter-agency collaboration entailed the participation of officials responsible for administering all three forms of land in the quarterly Local Government Forums for discussions on pertinent policy issues.

Policy Implications and Conclusion

The review of PNG's Doing Business performance and relevant documents has confirmed that the country has a high-cost business environment. It has also shown clearly the distaste stakeholders have for time-consuming and costly bureaucratic processes at both the national and sub-national levels. The exclamatory argument by Kaufman (1977: p.1) that "red tape is everywhere and everywhere it is abhorred" thus holds true for PNG and its disentanglement will, as acknowledged by the PNG Government (2009, p.73), "require consistent Government support". Should the country's business regulatory environment continue to deteriorate as indicated by its Doing Business rankings, while long-standing impediments, including impediments to land administration, remain neglected, then the Government's 2030 target "for PNG to be among the top 25 per cent of countries in each of the ten criteria" for Doing Business will be exceptionally difficult to achieve. Similarly, the Vision 2050 strategy that "opportunities must be created for citizens to start-up businesses and expand existing businesses" will remain elusive. The fate of the NLDP objective of "making our land work" through enterprise growth will regrettably be likewise elusive.

Four policy recommendations therefore emerge from the above discourse:

a) The LLGs, regulatory authorities including administrators of all forms of land, private sector, researchers and community representatives, inclusive of women and youth, are to collaborate on the review of business regulations which affect the formal and informal sectors in both the urban and rural areas, so processes can be streamlined.

b) The business licence application forms of LLGs are to be standardised and, where possible, those of other regulatory authorities be standardised as well. The forms are to be made publicly available and posted on websites such as for PNG IPA, the Small Business Development Corporation, peak private sector bodies and relevant institutions;

c) The LLGs are to be empowered and supported as the "one-stop shop" for business information services, and where appropriate, empowered and delegated to administer relevant policies;

d) Mechanisms for effective and representative public-private policy dialogue at the LLG level are to be strengthened to facilitate discussions and consensus for policy development, implementation and evaluation, as well as for exchanging ideas on the mobilisation of resources necessary to support the agreed reforms.

The high cost of doing business should not only be an "area requiring (national) Government attention" as articulated by the Forum Secretary General (PIFS 2010), but that it should also be brought to the attention of local government policy makers. Resources need to be invested for improving the overall business environment at the LLG level to aid companies and individuals with their aspirations to invest, especially in land-based industries, generate employment and, provide goods and services for sustained livelihoods. Although empowered LLGs will not contribute towards progressing PNG's Doing Business indicators and rankings - since Doing Business data relates to just Port Moresby - they will enhance the overall quality of the country's sub-national business environment by offering more than just good regulations. Through improved regulations and capacities, the LLGs would also advance the lowering of the cost of doing business in both urban and rural areas.

As the *Starting a Business* and *Registering Property* indicators for PNG have never been restructured at all, subjecting them to any positive reform will be favourable to investors in land-based industries that would be targeted under the NLDP. Such investors will not be able to run their business if they have the approvals for just one of these indicators; both will be essential. Hence, the approvals associated with starting a business together with those for registering a property need to be streamlined. Regulatory reforms to ease the formation and operation of a business will be vital for land development so the aim of the NLDP to "make our land work" through private enterprise growth can be realised.

The major shortcoming of this study has been the regulatory data from the World Bank which it analysed. This data was collected from a very limited base, covering Port Moresby alone. This shortcoming opens an avenue for further research that could explore country-wide regulations for land-based enterprise growth within the country's 21 Provinces - beginning preferably with Morobe Province where the key business city of Lae is located - and right down to the level of LLGs. Possible research questions could relate to the present status and differences in Provincial and LLG regulations for land-based investments. Insights into these questions will be helpful for formulating reforms under the NLDP, supportive of private enterprise growth. The PNG Government is already moving in that direction, as is apparent from its commitment in the Development Strategic Plan 2010-2030 to pursue, among other things, a sound legal system, well-defined and protected property rights, a transparent and mature property market and low transaction costs for establishing and running businesses. Significantly, findings from the suggested study will help address the dearth of research on the Doing Business performances of small island states in the Pacific region.

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Annex

Table 1: PIC Doing Business Rankings and Reforms, 2006-12

	2006 [175]	2007 [175]	2008 [178]	2009 [183]	2010 [183]	2011 [183]	2012 [183]	No. of Reforms
Tonga	46	51	39 (+1)	46 (+2)	66 (+1)	62 (+1)	58 (+3 & -1)	+8 & -1
Samoa	36	41	56	68 (+1)	67 (+2)	55 (+1)	60	+4
Sol Is	61	69	85	96	106 (-1)	81 (+1)	74 (+4)	+5 & -1
Vanuatu	54	58	67 (+1)	57 (+1)	59 (+1)	75	76 (+3 & -1)	+6 & -1
Fiji	29 (+1)	31	34 (+1)	43 (-2)	61 (+1)	72 (+1)	77 (-1)	+4 & -3
PNG	53	57	89	95	108 (+1)	97 (+1)	101	+2
RMI	86	87	86	93	123	102 (+1)	106	+1
Kiribati	58	60	75	79	91	111	115	0
Palau	57	62 (-1)	88	92 (+1)	120	116	116	+1 & -1
FSM	105	106 (+2)	121 (+1)	125	139	137	140	+3
REFORMS	+1	+2 & -1	+4	+5 & -2	+6 & -1	+6	+10 & -3	+34 & -7

Notes: 1. The number of countries participating in the surveys is bracketed below the year in each column.
The rankings for 2006 and 2008-11 reflect rankings adjusted in the following year's Doing Business reports.
The 2007 rankings were not revised in 2008, while those for 2012 are current.
The numbers in parentheses indicate the number of Doing Business reforms undertaken, where positives signify reforms making it easier to do business and negatives making it more difficult.

Source: World Bank (2005-11)

Table 2: Performance of PICs in Starting a Business, 2012

	Starting a Business Ranking 2011/2012	No. of Proce-dures	Time to Start a Business (days)	Cost (% income per capita)	Business Licensing Authority	Business Licence Approv-al (days)	Business Licence Fees
Samoa	21/22	4	9	9.7	Ministry of Revenue	4	WST500
Tonga	30/33	4	16	10.3	Ministry of Labour, Commerce & Industry	7	TOP120
RMI	41/52	5	17	17.7	Majuro Local Government	7	USD150-5,000
PNG	83/84	6	51	15.6	National Capital District Commission	20	K50
FSM	93/102	7	16	142.8	Municipality	2	USD100-300
Sol Is	110/110	7	43	34.1	Honiara City Council	1	SBD1,000
Vanuatu	112/114	8	35	47.1	Dept. of Customs & Inland Revenue	1	VT20,000-1million
Fiji	105/119	9	45	25.1	Suva City Council	7-14	FJD100-500
Palau	112/124	8	28	5.8	Revenue Dept. & Koror State Govt.	3-5	USD50
Kiribati	135/141	7	31	22.2	Betio Town Council	7-14	AUD100-600

Note: An additional 'starting a business' cost is the paid-in minimum capital requirement that Kiribati and Palau levy at 21.2% and 15.5% of income per capita, respectively. The other PICs have no such requirement.

Source: World Bank (2011)

Table 3: Performance of PICs in Registering Property, 2012

	Registering Property Ranking 2011 / 2012	Procedures (number)	Time (days)	Cost (% of property value)
Palau	20 / 20	5	14	0.4
Samoa	33 / 26	5	15	1.6
Fiji	49 / 52	3	68	2.0
Kiribati	69 / 69	5	513	0.0
PNG	86 / 87	4	72	5.1
Vanuatu	122 / 111	4	118	7.0
Tonga	124 / 141	4	108	15.2
Sol Is	173 / 168	10	87	4.9
FSM	183 / 183	No practice	No practice	No practice
RMI	183 / 183	No practice	No practice	No practice

Source: World Bank (2011)

Table 4: Land Distribution by System of Tenure in PICs

	Public/Crown	Freehold	Customary
Fiji	4%	8%	88%
Solomon Islands	8%	5%	87%
Samoa	15%	4%	81%
Kiribati	50%	<5%	>45%
Palau	Most	Some	Some
FSM	35%	<1%	65%
PNG	2.5%	0.5%	97%
RMI	<1%	0%	99%
Tonga	100%	0%	0%
Vanuatu	2%	0%	98%

Source: AusAID (2008), *Making Land Work*, Vol. 1, Table 2.1, p.4

Table 5: Procedures, Time and Cost for Starting a Business in PNG, 2012

Procedure	Time (days)	Cost (PGK)
1. Obtain a company seal	4	60
2. Obtain name and register company with the Registrar of Companies	18	260
3. Register with the Internal Revenue Commission for tax purposes and with the Employment Registrar	9	Free
4. Apply for a trading licence from the National Capital District Commission	20	50
5. Open an account with an Authorised Superannuation Fund*	9	Free
6. Register workers with the private insurers for work injury*	20	200
Total	51	15.6^

Notes: *Occurs simultaneously with another procedure; ^% of income per capita
Source: World Bank (2011)

Table 6: Procedures, Time and Cost for Registering Property in PNG, 2012

Procedure	Time (days)	Cost
1. Conduct pre-completion, title searches and municipal charges searches at the Office of the Registrar of Titles, Lands Department	1	PGK50
2. The documents must be stamped at the Internal Revenue Commission	14	5% of property value
3. Documents are lodged for the approval of the Minister for Lands at the Department of Lands	35	PGK50
4. The transfer and the title documents are lodged for registration with the Department of Lands (The Registrar of Titles)	22	PGK100
Total	**72**	**5.1% of property value**

Source: World Bank (2011)

Table 7: Procedures, Time and Cost for Starting a Business in Suva, 2011-12

Procedure	Authority	2010/11		2011/12	
		Time (days)	Cost (FJ$)	Time (days)	Cost (FJ$)
1. Check uniqueness of company name and, reserve name	Registrar of Companies	8	7	8	5.65
2. Obtain declaration of due compliance sworn by lawyer	Lawyer	3	1,200	3	1,200
3. Register the company	Registrar of Companies	20	173	21	173.13
4. Register for income tax and VAT*	Fiji Revenue & Customs Authority	11	FOC	7-14	FOC
5. Inspection of premises*	Fiji Revenue & Customs Authority	1	FOC	1	FOC
6. Register for statutory training levy*	Training & Productivity Authority of Fiji	3	FOC	3	FOC
7. Apply for business licence*	**Suva City Council**	**11**	**300**	**7-14**	**300**
8. Register for employee superannuation*	Fiji National Provident Fund	11	FOC	7-14	FOC
9. Submit TIN number to Registrar of Companies* ^	Fiji Revenue & Customs Authority	-	-	1	FOC
Total		**46**	**23.8% ^^**	**45**	**25.1% ^^**

Notes: TIN – Tax Identification Number; VAT – Value Added Tax; FOC – free of charge

*Occurs simultaneously with another procedure; ^New procedure introduced in 2010; ^^% of income per capita

Source: World Bank (2010 & 2011)

Table 8: SCC Business Licensing Requirements, 2011

- A thoroughly filled application form
- A copy of business registration
- Consent letter from the Landlord (if renting)
- Fiji Trade & Investment Board (FTIB) certificate, if foreign investor
- Directors Names and contact including a copy of their Photo IDs
- A copy of Health Licence if operating a Restaurant, Takeaway, Refreshment Bar, Butcher, Nightclub or any food-handling business
- $5.50 processing fees
- Tax Identification Number (TIN) registration letter

Source: Business Licensing Section, SCC, 2011

Table 9: SCC Business Licensing Requirements, effective from 01 January 2012

- Completed SCC application form
- Company registration certificate from the Registrar of Companies
- Foreign investment certificate, if foreign-owned, from Investment Fiji
- Tax registration letter from the Fiji Revenue & Customs Authority
- Health licence, if applicable, from the Ministry of Health
- Names, contacts and photos of Directors
- Landlord's consent letter, if renting
- Tobacco licence, if applicable, from the Ministry of Health
- Liquor licence, if required, from the Liquor Licensing Board
- Fire compliance certificate from the National Fire Authority (NFA)
- Occupational health and safety (OHS) certificate from the Department of Labour
- Scrap metal dealer licence, if applicable, from the Ministry of Commerce
- Waste disposal certificate, if applicable, from the Department of Environment
- Processing fees ($5.50) payable to SCC

(Two copies of each certificate are to be submitted with the application)

Source: Business Licensing Section, Suva City Council, 2011

Table 10: Concerns Raised by Business Licensing Officials

Internal (Local Governments)	Local Governments' Concerns with External Regulators	Local Governments' concerns with Licence Applicants
• Limited resources • Minimal internal information sharing • Time-consuming interdepartmental approvals • Delays by and distant location of other authorities • External interference from high level authorities; • Duplication of work with other authorities • Weak links with other local governments • Weak links with Investment Fiji • Defiant informal sector operators	• Limited resources • Lack of linkages, information sharing and collaboration • Non-availability of forms • Introduction of new regulations without prior consultation • Legal powers to close a business for breach of regulations without consulting local governments	• Investors and lawyers lacking awareness of local government requirements, especially zoning • Applicants often lack patience • Lodgement of complaints to high-level authorities for redressing issues • Submission of incomplete forms • Use of licences for purposes other than approved activities • Outstanding fees and rates • Defunct local private sector bodies for policy dialogue

Source: Interviews with Business Licensing Officials for Local Governments in Suva, Lami, Lautoka, Nadi, Nasinu, Rakiraki, Sigatoka and Tavua, held during fieldwork in 2011

Table 11: Concerns Raised by Garment Factories on Business Regulations

- Business licences are impossible to get without the often-delayed approvals from other authorities.
- Delays with inspections by Local Governments, OHS, NFA and Environment officials.
- Two factories operated without their renewed annual (2011) business licences as of October 2011 due to a delayed Local Government inspection & an outstanding issue with a landlord.
- Unfair application of OHS regulations as garment factories were often targeted for compliance checks compared to other industries.
- Frustrating referrals and lots of leg work to do when visiting the offices of relevant authorities.
- Lack of publicly available written policies that often changed without prior consultation.
- Private sector is often seen as an enemy, not a friend.
- Poor road conditions although all companies paid the mandatory Road Levy.
- Lack of local-level public-private policy dialogue.

Source: Interviews with garment factory representatives during fieldwork in 2011

About the Author

Henry Sanday, currently a doctoral student, is researching regulations that affect private enterprises in Fiji and its island neighbours. Prior to taking up his studies, Henry worked on private sector development issues in the Pacific region, first with the Fiji Trade and Investment Board, then with the Pacific Islands Forum Secretariat and the Pacific Islands Private Sector Organisation.

The views expressed in this paper are entirely the author's own and do not in any way or form reflect the views of the National Research Institute.