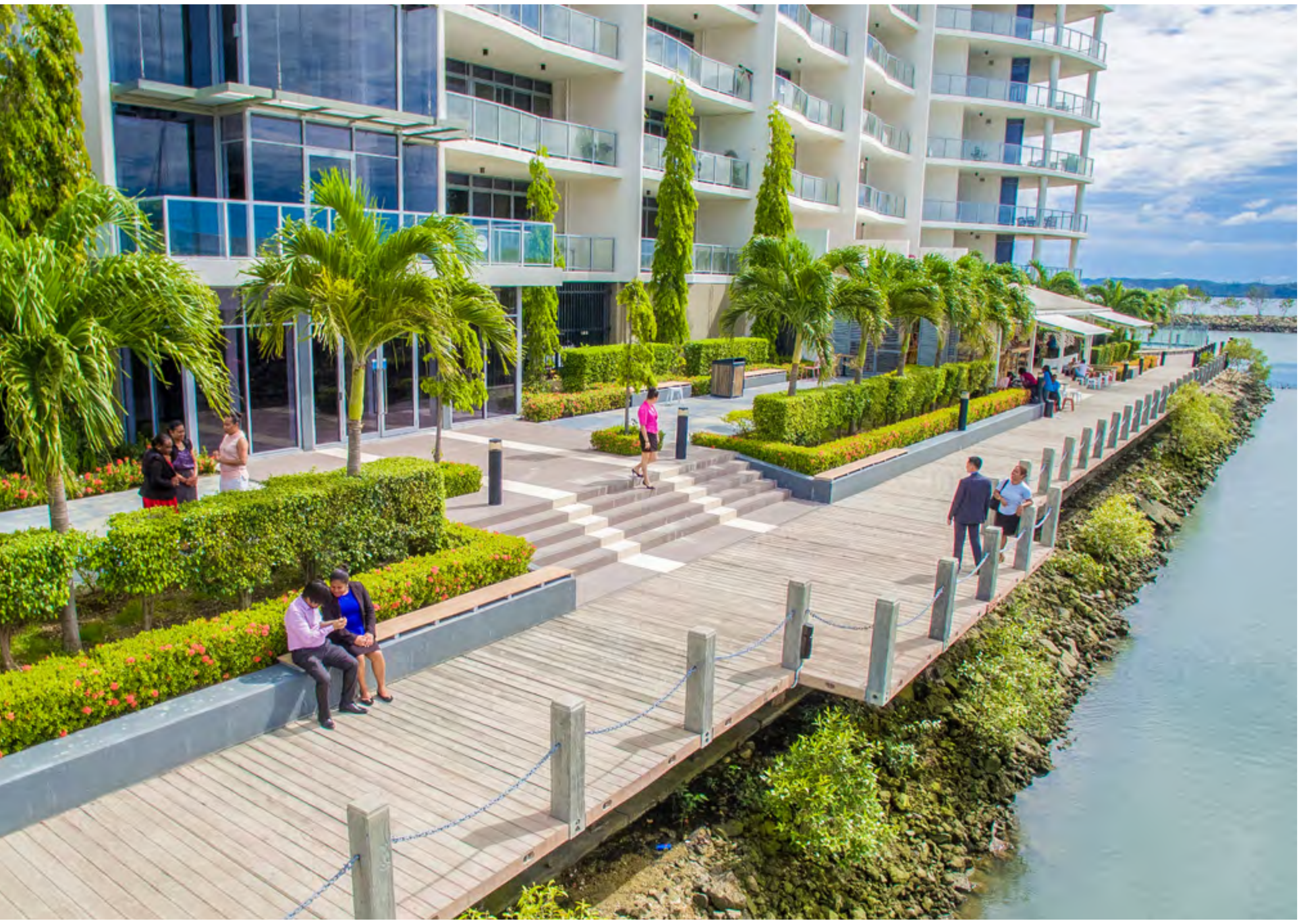
October 2018

Navigating your way around

Doing business in Papua New Guinea



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Foreword

Hosting APEC 2018 enables Papua New Guinea (PNG) to take the world stage and let the region, and the world, know that the country is open for business. Establishing the APEC theme of "Harnessing inclusive opportunities, embracing the digital future" further demonstrates that PNG welcomes the challenges of development while looking to the promise of the future to light up the path to development.

This guide provides an important foundation for showcasing the business environment of the country and meets the need for a greater level of knowledge about PNG to be available to potential investors. As the APEC CEO Summit Knowledge Partner, we are proud to be able to play our part in creating this bridge.

The guide takes potential investors through some important considerations for investing in PNG. Upon a close reading, investors will find a generally flexible and open regulatory regime with a role for a wide range of investors, whether domestic, from the APEC economies, or from the wider world. As a developing economy, the business regime maintains its flexibility to welcome a variety of investment structures that can be tailored to the wide range of investment opportunities available.

PNG's medium to long-term growth prospects are bright. We have a young and fast growing population, around 60% are of working age. We have abundant natural resources and there is strong desire to grow and develop an inclusive pluralistic society.

Perhaps because of the abundance of natural resources, the PNG Government continues to be an enthusiastic champion of economic diversification, which creates opportunities for businesses in a variety of industries.

We understand that PNG, for many, is an unknown territory and can sometimes deserve its tourist tagline of "Land of the Unexpected". However, being well informed is the key to unlocking the potential that lies within. This guide is an informative tool for foreign investors looking to do business in PNG. As each case is different, PwC is always available to share our knowledge and expertise with those that need specific advice.

Jonathan Seeto
Territory Senior Partner

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Introduction: The growth drivers of Papua New Guinea

The economic history of PNG is one of natural resources. The country is sometimes wistfully referred to as a mountain of gold floating on a lake of oil. This description is both an impressive one, while also underplaying other valuable renewable resources such as in agriculture, forestry and fisheries that also provide a wealth of opportunity for establishing, boosting and maintaining economic growth in the largest of the South Pacific island countries.

PNG's economy has a number of the essential hallmarks of a commodity-based economy, including having ridden out a number of boom and bust cycles over the past decades. However, Government plans continue to focus on implementing strategies to smooth out these cycles and broaden the base of the economy and it is feasible to expect that a long period of strong economic growth is about to begin.

The basis for optimism starts with a number of significant resource related projects that are approaching development. For example, the Government has established a negotiating team to conclude the project agreements for Papua LNG, a PNG LNG expansion and the Pacsa A projects. Individually, each of these is a significant project. Taken together, with the expectation that the three projects will proceed through development and into production over the next three to five years, the increased activity in the gas industry alone will drive GDP growth. PNG already has a demonstrated record of accomplishment in being able to deliver on world-class LNG projects with the success of PNG LNG over the past half decade.

However, in addition to these gas projects, the mining sector is also set to undertake the Wafi Golpu and Frieda River projects across a similar timeframe. With the estimated capital expenditure for each of these projects in the billions, the expectation is of strong growth rates in PNG well into the next decade. These mega projects in the mining and gas sectors underpin the estimated annual GDP growth of 4.4% through to 2050.

Beyond these sectors, there are also good news stories when it comes to key agricultural commodities. PNG is a supplier on world markets of palm oil, coffee, and cocoa among others, and these products all have positive long-term growth prospects with increasing demand from global consumers and food producers. Other world class renewable resources are in the seas around PNG with about 10% of the world's annual tuna catch coming from PNG's waters. In short, PNG's resource base is undeniable and is already providing a tremendous engine for growth.

Mega projects in the mining and gas sectors underpin the estimated annual GDP growth of 4.4% through to 2050.

With long-term GDP seemingly secure, there are also significant opportunities for PNG to broaden and deepen its economy. With only around 23% of the population having access to electricity and the country becoming increasingly urbanised, there are opportunities for the development of infrastructure to support the broader development of the economy.

PNG also hosts a relatively young population, with more than one third currently aged under 15, meaning PNG can position itself to reap this demographic dividend in the coming decades. The Government of PNG recognises both the opportunities and the challenges of the trends impacting the world today with the pressures of urbanisation, digital disruption and the shift in global economic order from west to east. Capturing the opportunities that arise in this environment will be the key to success for investors in PNG and for the people of PNG.

1 An overview of Papua New Guinea

Overview

PNG is the largest country by land area in the South Pacific. With rich cultural diversity, it has more than 800 languages and over 1,000 ethnic groups. It has a population of over eight million, majority of which live in rural areas and rely on subsistence agriculture.

The country is divided into four regions – Momase, Highlands, Southern and New Guinea Islands. Its capital and largest city is Port Moresby, which is also the centre of government and commerce. The second largest city is Lae, an industrial hub where a significant number of manufacturing companies and the country's largest cargo port are located.

Government

PNG is a constitutional monarchy with the British monarch as its head of state, represented by a local Governor-General.

Government is by parliamentary democracy and a Prime Minister heads the National Government. PNG has three levels of government – national, provincial and local. The National Parliament is a unicameral legislature consisting of 111 members elected every five years.

The justice system is comprised of the Supreme Court, the National Court and local and village courts.

Economic environment

Most of PNG's economic activities are concentrated in the agricultural, forestry and fishing sector, which involves majority of the country's labour force through the informal sector; and the resource sector, which significantly contributes to the country's exports and gross domestic product.

However, PNG recognises the need to diversify its economy to promote sustainable growth. Sectors expected to play a role in economic diversification include retail, administrative and support services, and construction.

Trade

PNG's key trade partners are Australia and Asian countries such as Japan, China, Singapore and South Korea.

Its key exports are natural resources and agricultural products. Following the successful completion of the USD19bn. PNG LNG project, PNG became a major exporter of LNG in 2014, fueling economic growth.

PNG is signatory to several regional trade agreements and an economic partnership agreement with the European Union. These trade agreements include:

- South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which provides preferential and duty-free access to Australian and New Zealand markets for goods exported from smaller South Pacific countries
- Melanesian Spearhead Group Free Trade Agreement (MSGTA), which provides duty-free access to all goods originating from PNG, Solomon Islands, Vanuatu and Fiji.

Most economic activities are concentrated in the agricultural, forestry, fishing and resource sectors.

Foreign direct investment

In the last decade, PNG has seen almost a ten-fold growth in foreign companies investing in the country. From 393 companies in 2004, this has increased to 3,794 in 2015. Majority of these foreign companies are from Australia, China and Malaysia.

As of 2013, the top sectors for foreign investment in PNG are construction, financial services, manufacturing, mining and transportation.

International aid

International aid plays a crucial role in PNG. Each year, the country receives more than USD500m in grants from foreign governments and international organisations for projects in various areas, ranging from health and education to infrastructure and disaster risk management. Key donors include Australia, China, European Union, Japan, New Zealand, Asian Development Bank and the World Bank.

Workforce and living standards

Nearly 60% of PNG's population, or 4.9 million people, are of working age. However, just around 15% of the labour force are employed in the formal sector.

Skills shortage is a key challenge for employers in PNG, hence, it is common for businesses to hire professional and technical staff from overseas. To address this, companies have training programs for local employees and expatriate staff are expected to transfer their knowledge to Papua New Guinean staff.

Cost of living in PNG is relatively high compared to other developing nations. However, most expatriates working in PNG enjoy a high standard of living, with housing and vehicle provided as part of the remuneration package.

Customary land ownership

Around 97% of PNG's land mass is under customary ownership, which means that land use is governed by traditional owners and their clan.

A foreign investor with operations in PNG is prohibited from purchasing or leasing customary land from its traditional owners. If access to customary land is necessary, the Government can acquire the land from its traditional owners and lease it to the foreign investor.

Transportation and communication

Over the years, PNG has seen improvements on transport and communications infrastructure.

PNG's mountainous terrain and island provinces, as well as its developing road network, make almost all travel from Port Moresby by air or sea.

Communications infrastructure is adequate and most businesses and government agencies in Port Moresby and Lae have internet access. However, connectivity can be erratic at times.

Business etiquette and culture

Business attire is generally less formal in PNG. For men, long-sleeved shirts and slacks are acceptable, while lightweight shirts and dresses are recommended for women.

Face to face meetings are important in building trust and relationship in PNG. In these meetings, a handshake is a customary greeting between men, and between men and women. The primary business language is English.

Deeply embedded in the PNG culture is the *wantok* system, which literally means 'one talk' and refers to relatives, close friends or people originating from the same place. The *wantok* system is reflective of Papua New Guineans' reciprocity and loyalty, which means that they often prioritise and assist family and friends.

General information

Papua New Guinea

Capital city	Port Moresby		
Population	Over 8.2m (2017)		
Working age population	Over 4.9m (2017)		
Key economic sectors	Agriculture, forestry and fisheries Mining and resource		
Key exports	Gold Oil Copper	Natural gas Coffee Cocoa	Vegetable oils Fish Wood
Key export markets	Australia Japan	China Singapore	Taiwan
Key imports	Fuel Vehicles Heavy machinery	Iron and steel Tires Meat	Rice
Key import markets	Australia United States	Singapore China	Japan
Official languages	English Hiri Motu	Pidgin	
Currency	Papua New Guinean Kina (K)		
Country code	+675		
Business hours	8am to 4.30pm, Monday to Friday		
Stock exchange	Port Moresby Stock Exchange (POMSoX)		
Tax authority	Internal Revenue Commission (IRC)		
Central bank	Bank of PNG (BPNG)		

Key considerations for businesses

Opportunities

1. In the next three to five years, there are a number of significant resource projects that are expected to reach development and production phases and consequently, **drive GDP growth**.
2. PNG has a **young and growing population**, representing a potential pool of employees for businesses.
3. The PNG Government is pushing for economic diversification, which opens up opportunities for non-resource sectors such as **agriculture and fisheries**.
4. About 15% of the population participate in the formal economy, providing significant **market growth** opportunity.
5. PNG businesses are keen to fully harness **digital technology** for efficiencies, offering market opportunity in the digital space.

Challenges

1. Foreign currency exchange is strongly regulated.
2. Infrastructure, especially in the utilities, transportation and communications sectors, is still developing.
3. There is a shortage of professionals and technical experts locally.
4. Law and order concerns are prevalent.

2 Doing business in Papua New Guinea

Forms of business

There are a number of forms of business available for undertaking commercial activities in PNG. The choice of entity will generally be determined by the circumstances of the investor and the nature of the activity, however, the rules in relation to the design of incorporated entities operating in PNG are quite flexible. While there are a small number of activities that are restricted to locally owned business, the main sectors of the economy are open to foreign and local investors operating through locally incorporated companies or foreign enterprises registered to operate in PNG.

Locally incorporated entity

The Companies Act is the legislation that provides for the incorporation of limited liability legal entities in PNG to be established through the contribution of capital by owners (shareholders). The minimum conditions for the existence of a company are a name, one or more shares, one or more shareholders and one or more directors. Companies are then able to construct more complex internal arrangements in line with the provisions of the Companies Act. The Act also outlines the roles and responsibilities of directors, shareholders and other company officers. There are additional rules applicable to publicly listed companies, particularly around disclosures and reporting.

A local entity generally does not require a constitution, nor a management board. There is a requirement for at least one of the directors to be resident in PNG. The body responsible for the administration of incorporated entities is the Registrar of Companies which is a responsibility that falls within the scope of the Investment Promotion Authority (IPA). Incorporation is a straightforward process that can be completed online through the Registrar of Companies at the IPA.

Foreign enterprise

Foreign enterprises are permitted to operate within PNG once they are registered and certified by the IPA. Foreign enterprises that have been registered and certified operate

in PNG as a branch. The registration and certification is a two-step process that is undertaken through the IPA.

The branch of a foreign enterprise operating in PNG will generally operate in a similar manner to a locally incorporated company, although there are some difference in treatment for taxation purposes and foreign enterprises are restricted from operating in some limited fields (also referred to as restricted activities).

Other forms of business

Other common forms of business are partnerships and joint ventures. Partnerships can be formed between individuals, locally incorporated entities or foreign enterprises. A partnership is an unincorporated vehicle that conducts business on behalf of the partners.

A joint venture is similar in that it is an unincorporated vehicle created by more than one entity to undertake a project jointly. Resource projects in the mining and oil and gas sectors are generally undertaken through a form of joint venture with entities holding a proportion of the project licence and undertaking the project jointly with a single entity designated as the project operator.

The main sectors of the economy are open to foreign and local investors operating through locally incorporated companies or foreign enterprises registered to operate in PNG.

Amalgamations and liquidation

An entity that is undertaking activity in PNG may cease to exist through a variety of mechanisms regulated by the Companies Act.

Amalgamations allow a local entity to be effectively merged into another local entity. This can take place through a long form or short form depending on the circumstances of the amalgamating parties. However, the effect is that the assets, liabilities and underlying obligations of the amalgamating entities continue and are taken over by the surviving entity.

Liquidation is available as a members' voluntary process which is applicable for solvent entities and an involuntary process instigated by creditors.

On the completion of either an amalgamation or a liquidation, the changes to the entity will then be reflected by the Registrar of Companies.

Foreign enterprises wishing to cease trading in PNG can do so by notifying the Registrar of Companies and undertaking a deregistration process. They are also then decertified by the IPA and then removed from the records. This process is available for solvent enterprises. Similar liquidation processes exist as for local entities.

Investment Promotion Authority

The Investment Promotion Authority (IPA) is an organisation that undertakes a number of different roles related to doing business in PNG. In addition to housing the Registrar of Companies office and the role of certifying foreign enterprises, the IPA is also the home of the Securities Commission of PNG and the Intellectual Property Office of PNG. The IPA also has the roles of export promotion and serving as a gateway for inbound foreign investors. The IPA maintains company registers online and is moving all its services online.

Step 1: Incorporation

Steps	Guidelines	Expected time frame
• Reserve the proposed company name. The Registrar reserves the right to reject the name if it is identical or similar to the name of another company or a reserved name, is undesirable, misleading, deceptive or deemed to be offensive in any way. • An application must be made to the Registrar of Companies on the prescribed forms, containing details of directors, shareholders, office address, among others.	• Every company must have a registered office in PNG that is identifiable and easily accessible to the public. The registered office address must be notified to the Registrar. • Every company must have an address for service in PNG. This can be the same address as a company's registered office or it can be another address, but it should not be a postal address. The address for service should have a readily identifiable street address and be at a place that is readily accessible during normal business hours.	• Up to four working days from date of lodgement of documents

Step 2: Foreign certification

Steps

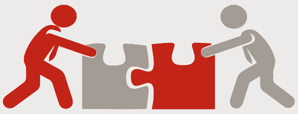
- IPA certification to carry on business in PNG is required if the company will have foreign shareholdings of 50% or more.
- An application must be made to the IPA containing:
  - Shareholder information
  - Main business sector and principal activities of the company
  - Proposed date of commencement
  - Proposed operating location(s)
  - Number of citizen and non-citizen employees
  - Proposed investment by citizen and non-citizen investors (generally a minimum of K100,000 will be required)
  - Budget cash flow projection for the first year.

Reporting requirements post certification

- A one-off response to the terms and conditions of certification is required to be submitted to the IPA within six months of the date of issue of the IPA certificate.
- A report summarising the details listed below is required to be submitted to the IPA six months after certification and annually thereafter:
  - Location(s) of company
  - Activities of the company
  - Directors of the company
  - Shareholders of the company
  - Capital expenditure incurred
  - Number of citizen employees and number of non-citizen employees.

Expected time frame

- Within 35 working days of the making of a complete and correct application.



Step 1: Incorporation

Steps	Guidelines	Expected time frame
• Reserve the proposed company name with the Registrar of Companies. The Registrar will not approve a name which would contravene any law, is identical or similar to the name of another company or a reserved name on the register, is undesirable, misleading, deceptive or deemed to be offensive in any way, or that the Minister has directed the Registrar not to accept. • Register the overseas company with the Registrar of Companies – this may take several days to process.	• The directors of the PNG registered entity will be the same as the directors of the company in the home jurisdiction. • Every overseas company must have a resident agent in PNG – this can be a person resident in PNG or a PNG resident company. • Every company must have an address for service in PNG. This can be the same address as the company's resident agent or the location where the company is carrying out business in PNG. The address for service should have a readily identifiable street address and be at a place that is readily accessible during normal business hours. • A company carrying on business in PNG under any name other than its own must register that business name with the IPA.	• Up to four working days from date of lodgement of documents

Step 2: Foreign certification

Steps	Reporting requirements post certification	Expected time frame
• An application must be made to the IPA in the prescribed format. • The application must state: – Shareholder information – Main business sector and principal activities of the company – Proposed date of commencement – Proposed operating location(s) – Number of citizen and non-citizen employees – Proposed investment by citizen and non-citizen investors (generally a minimum of K100,000 will be required) – Budget cash flow projection for the first year.	• A one-off response to the terms and conditions of certification is required to be submitted to the IPA within six months of the date of issue of the IPA certificate. • A report summarising the details listed below is required to be submitted to the IPA six months after certification and annually (or as determined by the IPA) thereafter: – Location(s) of company – Activities of the company – Directors of the company – Shareholders of the company – Capital expenditure incurred – Number of citizen employees and number of non-citizen employees.	• Within 35 working days of the making of a complete and correct application.

3

Taxation

Corporate income tax

All taxpayers must lodge their tax returns based on a 31 December year end unless they have approval from the Internal Revenue Commission (IRC) to adopt a substituted balance date.

Company tax rates do not distinguish between public and private companies. The rates are:

- Resident companies generally **30%**
- Non-resident companies generally **48%**

Resident companies are also liable to pay dividend withholding tax (DWT) at the rate of 15%, whereas distributions of profit from non-resident company branches are subject to no further taxes.

Calculation of taxable income

Whilst there are special rules for certain companies including life assurance companies, non-resident insurers, mining, petroleum and gas projects and shipowners, taxable income generally corresponds to accounting income. However, there are important exceptions, the major areas being:

- depreciation (IRC specified rates)
- initial year accelerated depreciation
- accelerated depreciation for manufacturers
- interest expense is deductible subject to thin capitalisation rules
- management fees (restricted within certain limits)
- double deductions are allowed for certain types of expenditure.

Losses

Taxpayers may offset trading losses (other than primary production losses and resource project losses) against all income received in the same accounting period, or carry forward trading losses for offset against future trading profits for a period of 20 years. Taxpayers may not carry back losses against prior years' profits. The carry-forward of losses is subject to a 50% or more continuity of shareholding and a continuity of business test where there is a breach of the ownership test.

Overseas losses

Losses incurred in deriving income from a source outside PNG are not deductible from PNG source income. In practice overseas losses may be carried forward for up to 20 years to be offset only against overseas income.

Absence of grouping provisions

Companies are assessed to income tax on an individual basis. There is no provision to group income or offset losses of associated companies.

> *Resource projects are assessed on a project basis such that losses from one project cannot be claimed against other income derived in respect of another project.*

Dividend rebate

Resident companies receive a full rebate of income tax on dividend income included in taxable income so that, in effect, no income tax is paid on dividends received.

Provisional tax

Corporate income tax is collected under a provisional tax system. Under this system, tax is paid in respect of a company's current year profits (i.e. payments made in 2018 are in respect of the year ending 31 December 2018). Provisional tax is imposed by assessment issued by the IRC based on the last return assessed. Provisional tax is payable in three equal instalments by 30 April, 31 July and 31 October.

Applications may be made to reduce provisional tax assessed if the tax due for the year in question is expected to be lower than the provisional tax assessed. Applications to vary the provisional tax liability must be lodged with the IRC on or before 31 October in the relevant year.

Interest and thin capitalisation rules

Interest on debt in excess of a prescribed debt to equity ratio is non-deductible to the extent the interest is paid to a non-resident (including unrelated parties). For resource companies, the debt to equity ratio is 3:1, while all other tax payers (except financial institutions) are subject to a 2:1 ratio.

Taxation of mining, petroleum and gas operations

A single tax regime covers all three industries. Resource projects are assessed on a project basis such that losses from one project cannot be claimed against other income derived in respect of another project.

The corporate tax rate applicable to resident and non-resident mining, petroleum and gas companies is 30%. Dividend withholding tax at the rate of 15% is payable on dividends paid by resident companies carrying on mining, petroleum or gas operations. No dividend withholding tax is payable by non-resident companies.

Interest and other income earned prior to the commencement of commercial operations is not taxed but instead reduces allowable capital expenditure relating to that project. For exploration companies, interest and other income is offset against carry forward exploration expenditure.

Advance payment tax

Mining, petroleum and gas companies are required to estimate their tax liability by 31 March of each year and submit this to the IRC. Tax on this estimate is then payable in three instalments on 30 April, 31 July and 31 October (with re-estimates being made at the time of the second and third instalments where appropriate).

Additional profits tax

Additional profits tax (APT) applies to all resource projects. Broadly, APT is imposed on the basis of cumulative cash flow. APT is applied at 30% to a resource project in the year in which the accumulated value of "net cash receipts" becomes positive. In calculating net cash receipts, the excess of cash payments over cash receipts is uplifted at a rate of 15% per annum.

Deductions for mining, petroleum and gas operations

Special provisions apply to determine deductibility of project expenditure incurred throughout the project life cycle. Exploration expenditure can be carried forward for up to 20 years before the issue of a project licence. On the issue of a project, the carried forward exploration costs are termed allowable exploration expenditure (AEE) and further capital expenditure is accumulated and carried forward as allowable capital expenditure (ACE).

Generally, ACE is deductible over ten years. However, the amount of the deduction for ACE is limited to the amount of income remaining after deducting all other deductions. In other words, the ACE deduction cannot be used to create a tax loss.

The amount of the deduction for AEE is limited to the amount of income remaining after deducting all other deductions, other than the deduction for ACE. In other words, the AEE deduction cannot be used to create a tax loss. Other deductions are also available in limited circumstances for off licence exploration expenditure.

The rules for the deduction of other non-capital costs are similar to those applicable to non-resource projects.

There are tax incentives available for companies operating within a number of sectors.

Tax incentives

There are taxation incentives available for companies operating within a number of sectors. These incentives are generally associated with accelerated or additional deductions, although reduced tax rates are also available in limited circumstances.

The availability of taxation incentives has been subject to review and some criticism. It is unlikely that significant new incentives will be offered in the foreseeable future. A selection of the incentives currently in place are described below.

Accelerated depreciation for manufacturers

Industrial plant not previously used in PNG is eligible for accelerated depreciation of up to 100% of cost. The claim for accelerated depreciation cannot take the company into a tax loss (but can be carried forward and claimed in a subsequent year). Also, an accelerated depreciation deduction of 20% of the cost of most other new items of plant and equipment (with a life exceeding five years) used by a manufacturer is available.

Double deduction for export market development costs

Expenditure on export market development for goods manufactured in PNG qualifies for a double deduction. Qualifying expenditure includes overseas publicity and advertising, market research, tender preparation, samples, trade fair expenses, overseas sales office expenses and certain travel costs. The tax saving resulting from the allowance of the deduction may not exceed 75% of the expenditure actually incurred.

Wages subsidy for manufacturers

Companies manufacturing new products may receive a taxable wages subsidy payment for up to five years. The subsidy is based on a percentage of the relevant minimum wage for each full time citizen employee (ranging from 10-40%).

To qualify, the company must obtain a New Product Manufacturing Certificate from the IRC. The subsidy is not available for products which receive tariff protection, or quota protection without import parity pricing.

Accelerated depreciation for agriculture and fishing and tourism

Expenditure on new plant or articles used directly for the purposes of agricultural production, used solely for commercial fishing activities of residents, and boats and ships (and ancillary equipment) used solely as dive boats or used by a person carrying on a business as an accredited scuba diving or snorkelling tour operator qualifies for the 100% accelerated depreciation deduction.

An accelerated depreciation deduction of 20% of the cost of most other new items of plant and equipment (with a life exceeding five years) used for the purposes of agricultural production is also available. This allows an accelerated deduction for items of plant or articles which are not used directly in agricultural production.

An initial year depreciation deduction of 55% can be claimed in respect of plant acquired by hotels, other short-stay accommodation facilities and restaurants.

Primary production

Outright deductions allowed for certain capital expenditure include clearing or preparing or conserving land for agriculture, the eradication of pests, certain labourers' accommodation and for the conservation and conveyance of water.

Losses incurred in carrying on a primary production business can be carried forward indefinitely.

Double deduction for export market development costs

The double deduction for expenditure incurred on export market development is also available in respect of outgoings incurred primarily for the purpose of seeking opportunities, or creating and increasing demand for the development of tourism within PNG.

Prescribed infrastructure development credits

A tax credit is available to taxpayers engaged in mining, petroleum or gas operations, primary production and tourism. The credit operates by deeming relevant eligible expenditure to be tax paid by the particular taxpayer up to prescribed limits.

A prescribed infrastructure development for resource projects and primary producers includes schools, aid posts, hospitals, roads and other capital asset as well as maintenance of these assets (where these are owned by the State). Any projects must be approved, beforehand, by the Department responsible for national planning matters and all subsequent expenditure must be certified by both the Department and the IRC as having been incurred.

For the tourism industry, the infrastructure tax credit scheme only extends to those who qualify as large scale tourism investors.

Rural development incentive

Qualifying new businesses started in specified rural development areas are exempt from income tax on their net income from carrying on a rural development industry for ten years after the year of commencement of business. Losses arising from these exempt activities are deductible against taxable income from other activities. Businesses involved in the exploitation of non-renewable resources (mainly mining, petroleum and gas companies) are specifically excluded from the exemption.

Business income withholding tax

Local contractors in certain industries are covered by the business income withholding tax regime.

The industries affected include:

- building and construction
- joinery and cabinet making
- motor vehicle repairs
- road transport
- and security.

Businesses affected are required to have a Certificate of Compliance and to produce it when entering into contracts with their customers. Payers are required to file an annual income reporting statement where they make an eligible payment of K5,000 or more in relation to one contract in the year of income in relation to one payee.

The payer is required to deduct business income withholding tax at the rate of 10% if the payee does not produce a Certificate of Compliance.

Management fee withholding tax

A 17% withholding tax applies to management fees and technical fees paid to non-residents. The withholding tax only applies to the amount allowable as a tax deduction. Management fees paid to some jurisdictions may be exempt from management fee withholding tax under the terms of a double tax treaty.

The tax must be remitted to the IRC within 21 days after the month in which the management fees are paid or credited.

Foreign contractors withholding tax

All non-resident contractors undertaking installation and construction projects or providing professional and consultancy services in PNG, and equipment lease and charter payments to non-residents are subject to foreign contractor withholding tax of 15% of gross income.

The PNG contracting entity must provide the IRC with a copy of a relevant contract within 14 days of its signing. Where tax is withheld from the foreign contractor the deductions are to be remitted to the IRC within 21 days after the end of the month in which the payment was made.

Where the foreign contractor is a resident of a jurisdiction which has a double tax treaty with PNG, the income derived by the foreign contractor may be exempt from PNG tax where no permanent establishment applies.

Other payments to non-residents

Tax type	Rate	Guidelines
Dividend withholding tax	***15%***	• The withholding tax is a final tax for non-residents. • The rate of dividend withholding tax may be reduced under the terms of a double tax treaty.
Interest withholding tax	***15%***	• The withholding tax is a final tax for non-residents. • The rate of interest withholding tax may be reduced under the terms of a double tax treaty.
Royalty withholding tax	• Not an 'associated person' – lesser of: – 48% of the net royalty, i.e. gross royalty, less applicable expenses, or – 10% of the gross royalty. • Associated person – 30% of gross payments (subject to any double taxation agreement), with no option to adopt the net income basis.	• The tax must be withheld by the payer on behalf of the payee and remitted to the IRC. • The rate of royalty withholding tax may be reduced under the terms of a double tax treaty. • The definition of "associated person" encompasses relatives, partners, companies under effective common control, and related trust interests.

Tax clearance and foreign exchange procedures

Any person (including a company) wishing to remit a sum or sums exceeding K500,000 per annum from PNG to any country must generally obtain a tax clearance certificate before the authorised dealers (i.e. the relevant trading banks) will process the remittance. Exceptions to this rule are transfers of funds which are trade related and involve the physical movement of goods.

In dealings with a number of specified countries (see below) any remittance of funds from PNG must be cleared, even where sums do not exceed K500,000 per annum.

The scheduled countries are: Bahamas, Bermuda, British Channel Islands, British Virgin Islands, Gibraltar, Grenada, Hong Kong, The Isle of Man, Liberia, Liechtenstein, Luxembourg, Nauru, Netherlands Antilles, Norfolk Island, Panama, Solomon Islands, Switzerland, Tonga and Vanuatu.

Generally, tax clearance certificates can be readily obtained, provided the IRC does not believe a tax liability will be avoided or evaded if a clearance is given and provided all filing and other compliance obligations are up to date.

Under the current exchange control regime, authority to grant exchange control approval for remittance of funds outside PNG has been delegated to the trading banks. In this regard the trading banks can approve the remittance for payments such as the transfer of surplus funds, dividends, management fees, royalty payments, sundry payments such as school fees, travel allowances and consultants' fees. In addition, the approval of the Bank of PNG, the central bank, is not required for most foreign investment proposals.

Transfer pricing

Where transactions involving non-residents are held not to be at arm's length, the IRC may impose an arm's length consideration for income tax purposes and determine the source of any income arising from such transactions.

Corporate taxpayers (including companies, superannuation funds, associates and unit trusts) that have transactions or dealings with international related parties that exceed K100,000 in an income year, or have aggregated loan balances with international related parties in excess of K2m at any time during an income year, are required to prepare and lodge an international dealings schedule (IDS) with their income tax return for that year of income.

The IDS requires disclosures to be made of the nature of the transactions with international related parties, the underlying transfer pricing methodologies followed to determine transfer prices and the nature of documentation supporting those pricing methodologies.

Goods and services tax

Goods and services tax (GST) is imposed at the rate of 10% and applies to the majority of goods and services supplied in PNG as well as to most imported goods and services.

Any person who carries on an activity, continuously or regularly, involving the supply of goods or services to another person for a consideration, is required to register if those supplies (not being exempt supplies) exceed or are expected to exceed K250,000 in any 12-month period.

Specified groups of companies may elect to be registered as one entity. Equally a company may separately register its various branches or divisions.

Output GST (GST on sales)

There are three categories of sales:

Category	Applies to	Input tax
Standard sales	• Majority of goods and services sold by a registered entity	• Fully creditable against output GST (subject to a few exceptions)
Zero-rated sales	• Exported goods and services • The supply of prescription drugs, medical prostheses and prescription lenses • The supply of goods and services, other than cars, to a mining, petroleum or gas company • The supply of unprocessed crude oil from sources in PNG	• Fully deductible against output GST (subject to a few exceptions)
Exempt sales	• The supply of financial services • The supply of educational services • The supply of medical services • The supply of housing or a motor vehicle to an employee as part of an employment contract	• Not entitled to any deduction for input taxes • Where an entity makes both exempt and taxable sales, the deduction for input taxes has to be apportioned

Input GST (GST on purchases)

GST is imposed on virtually all goods and services, with the exception of those treated as zero-rated or exempt sales. There are three broad categories:

Category	Guidelines
Imported goods	• GST is imposed on the CIF value of the goods including, where applicable, any customs duty and excise. • The GST is collected by PNG Customs.
Imported services	• Where services are performed outside PNG for the use or benefit within PNG of a person resident in PNG, the recipient of the services is required to impose and remit the GST to the IRC on a reverse charge basis. • The GST paid in this way is also eligible as an input credit, so the majority of businesses are unaffected by this requirement; only businesses making exempt sales are ineligible to claim an input credit.
Locally purchased goods and services	• GST is charged by the supplier, where the supplier is registered for GST purposes.

Goods and services tax – Director liability

The GST Act contains provisions which hold company directors personally liable for failing to ensure their company complies with its GST obligations. Directors are potentially liable for a penalty equal to the amount of GST that the company ought to have remitted to the IRC.

Other taxes and duties

Customs duties

Customs duties are imposed on the CIF value of imports at varying rates. With the introduction of GST, the majority of manufacturing inputs attract no duty. Duty is now primarily imposed on items which are produced locally in PNG and on motor vehicles.

Duty can be waived where goods are to be imported and re-exported within 12 months (or some other period as approved by the Collector of Customs) subject to the approval of the Collector of Customs. A bond or bank guarantee must be provided.

Excise duties

Excise, at varying rates, is imposed on certain locally manufactured and imported goods (primarily alcohol, tobacco and fuel products) as well as on goods deemed to be "luxury" items.

Stamp duty

The National Government imposes duties on documents evidencing certain transactions, including the transfer of real property located in PNG, the transfer of shares in certain landholding corporations and the leasing of office space or heavy equipment by a non-resident. Documents executed outside of PNG may still be subject to stamp duty if the document relates to property or things to be done in PNG.

The following are the maximum rates of duty on various transactions:

	Value (K)	Percentage of value
Conveyances of real property (including shares in certain landholding corporations)	> K140,000	5%
Transfers or assignments of leases of land other than mining and petroleum leases	> K140,000	5%
Transfers of mining and petroleum leases		2%
Lease documents		
Lease for a definite term of less than five years		0.40%
Lease for a definite term of five years or more		1%
(duty based on total rental for period leases)		
Share and stock transfers		1%
Transfers or assignments of mineral and petroleum exploration licences and on transfer of mining or petroleum information		2% or K20,000

Subject to certain conditions, the transfer of land or other dutiable property as the result of a company amalgamation is exempt from full rates of duty. The amount of stamp duty is restricted to K600 per transaction up to a maximum of K12,500 per amalgamation.

An exemption from full rates of stamp duty is available where the dutiable property is transferred between a PNG group of companies (i.e. a PNG company and its wholly owned subsidiary). This relief is only available upon application to the IRC prior to the transaction being made.

Timber export duty

An export tax on logs (excluding plantation logs and sawn timber) is applied at a varying rate according to the FOB price of the logs.

Capital gains tax

There is no general capital gains tax in PNG. However, profits arising on the sale of property acquired for the purpose of resale at a profit, or from the carrying out of a profit-making scheme, are fully taxable as ordinary income.

Personal income tax

The financial period, or year of income, consists of the 12-month period ending 31 December. Income earned by individuals is taxed at marginal rates. The rates which apply to resident individuals differ from those which apply to non-resident individuals.

Tax rates for resident individuals

Taxable income (K)	Tax thereon (K)	Rates of tax on excess %
10,000	Nil	22
18,000	1,760	30
33,000	6,260	35
70,000	19,210	40
250,000	91,210	42

Tax rates for non-resident individuals

Taxable income (K)	Tax thereon (K)	Rates of tax on excess %
Nil	Nil	22
18,000	3,960	30
33,000	8,460	35
70,000	21,410	40
250,000	93,410	42

Each individual is assessed separately. There is no joint assessment for husbands and wives.

Taxpayers who have only employment income and are fully taxed at source by virtue of salary or wages tax need not complete an annual income tax return. Taxpayers with other income such as interest, dividends, rental income, trust distribution or partnership income must disclose this in an annual income tax return.

Salary or wages tax

Salary or wages are widely defined to include, in addition to normal employment related receipts and benefits, any remuneration paid as consultancy fees or fees for professional services, where the remuneration is paid wholly or substantially for personal services performed in PNG.

The employer is responsible for the collection of salary or wages tax and payment thereof to the IRC. The employer will be held liable where under-deduction of salary or wages tax occurs. Where a corporate employer fails to remit salary or wages tax in relation to its employees, the directors of such company may be personally liable (jointly and severally) to the extent of the tax owed.

Taxpayers who have only employment income and are fully taxed at source by virtue of salary or wages tax need not complete an annual income tax return.

Fringe benefits

Benefits provided to employees are taxed through including a taxable value of the benefit within salary and wages, and applying salary and wages tax to the full employment package. In some circumstances, the taxable value assigned to benefits will be a prescribed value.

Social security payments

An employer of 15 or more persons must register with an authorised superannuation fund, unless operating in an exempt industry (currently certain agricultural sectors). Membership is compulsory for PNG citizens who are continuously employed for three months, and is voluntary for non-citizens.

Compulsory contributions are remitted by the employer at the following rates, as a percentage of gross basic salary (excluding overtime, bonus and commission):

- 6.0% – employee contributions
- 8.4% – employer contributions.

Double Tax Treaties

Recipient	Interest (1)	Dividends (2)	Royalties (3)	Technical fees
	%	%	%	%
Non-treaty				
Resident	15	15	0	0
Non-resident corporations and individuals	15	15	10/30	17
Treaty				
Australia	10	15	10	0
Canada	10	15	10	0
New Zealand	10	15	10	0
China	10	15	10	0
Fiji	10	15	15	15
Indonesia	10	15	10	10
Korea Republic	10	15	10	0
Malaysia	15	15	10	10
Singapore	10	15	10	0
United Kingdom	10	15	10	10

4 Legal

Legal system of PNG

PNG has a dual legal system based on its Commonwealth nation status as well as local customary laws. The legal system comprises the PNG Constitution, statutes enacted by Parliament and judge-made law. Whilst legislation continues to be the primary source of law, there is a growing body of judge-made law consisting of both foreign decisions (most notably from the UK, Australia and New Zealand) and PNG court decisions. These court decisions are administered through the Supreme Court, the National Court, the district courts for summary and non-indictable offences, and the village magistrates' courts for minor offences and local customary matters.
The Ombudsman Commission investigates claims of abuse of official authority, and special tribunals adjudicate land title matters and matters involving minors.

Legal requirements of doing business in PNG

Foreign investors wishing to carry on business in PNG should take note of the various registration and compliance requirements as set out below.

Investment Promotion Authority (IPA)

All foreign enterprises must apply for registration with the IPA within one month of carrying on business or establishing a local branch office in PNG. "Carrying on business" will not include isolated transactions, but will include initial transactions which trigger an ongoing series of transactions. Generally, a "foreign enterprise" includes companies where over 50% of its shareholders are foreigners, but will also include companies where more than 50% of its shareholders are PNG citizens but the company is otherwise controlled by foreigners. Foreign enterprises will need to reapply for certification within 14 days of a change of ownership, shareholding or control. Section 2 "Doing business in Papua New Guinea" of this booklet sets out a detailed step plan of how to register a foreign enterprise.

Foreign enterprises are able to conduct business in a wide range of industries except for a limited number of restricted industries, namely:

- small-scale agricultural, forestry and fisheries
- traditional arts and crafts
- alluvial mining
- certain small retail and wholesale undertakings.

In terms of entering into commercial contracts for the purposes of carrying on business in PNG, it is important for a foreign enterprise to first be certified otherwise the contract may be declared unlawful and voided.

Companies Act 1997

All companies in PNG, including foreign enterprises, operate under the requirements of the Companies Act 1997. Foreign enterprises need to appoint at least one local director and lodge bi-annual reports with the Foreign Certification Division, in addition to filing annual returns required of all companies in PNG. Upon ceasing operations in PNG, foreign enterprises will need to notify the Registrar of Companies and undertake a de-registration process with the IPA.

Competition Law

The Independent Consumer and Competition Commission (ICCC) in PNG operates under the ICCC Act 2002 and is focussed on promoting economic efficiencies, prohibiting non-competitive business practices and protecting consumers. The ICCC's mandate includes oversight of mergers and acquisition activities of foreign enterprises. The ICCC may grant a clearance where it finds the activity does not substantially lessen competition, and may also grant approval where it finds there is a positive benefit to the public despite substantial lessening of competition.

In limited circumstances, the Securities Commission which forms part of the IPA may restrict takeovers which it finds not to be in PNG's national interest. The Securities Commission may consider factors such as the dilution of PNG shareholder interests, reduced local ownership of company assets, potential local job losses, reduction in PNG market liquidity, and delisting from national or international exchanges.

Provision of legal services

There are a wide range of law firms in PNG offering legal services to foreign investors. These include local law firms and international firms operating in PNG. To practice law in PNG, a practitioner must have a PNG practising certificate and be admitted to practice by the National Court (section 60 of the Lawyers Act 1986).

5 Accounting and auditing

Accounting framework

The Companies Act 1997 requires that all statutory financial reports by PNG incorporated companies and registered overseas companies comply with generally accepted accounting principles (GAAP) in PNG, which is defined to require compliance with financial reporting standards approved for use in PNG by the Accounting Standards Board of PNG (ASB PNG).

The ASB PNG made the decision when it was initially established that PNG would adopt International Accounting Standards (now International Financial Reporting Standards or IFRS) in their entirety without revision as the approved financial reporting standards for PNG. While the ASB PNG has a process for formal approval of newly issued IFRS, all new standards, revisions and interpretations effectively form part of PNG GAAP from their effective date as issued by the IASB and interpretations committee. Accordingly, IFRS as issued by the IASB form the accounting framework for all PNG entities and all reporting entities are required to comply with all applicable IFRS.

In May 2017, the ASB PNG also approved IFRS for SMEs as an approved financial reporting standard for use in PNG with an effective implementation date for accounting periods beginning on or after 1 January 2018. Adoption of the IFRS for SMEs, rather than compliance with full IFRS, is optional and available for all companies other than those which have public accountability.

Accounting records

The Companies Act requires companies to maintain accounting records that correctly reflect and explain the transactions of the company. These accounting records will, at any time, help determine the financial position of the company with reasonable accuracy, and enable financial statements to be readily prepared, and, if applicable, audited.

All companies are required to prepare annual financial statements, within five months of their balance date, for presentation to their shareholders.

Accounting records are required to be maintained for the current accounting period and for the last ten completed accounting periods. The accounting records do not need to be maintained within PNG. However, if the company decides to keep the accounting records outside of PNG, it needs to ensure that accounts and returns that disclose the financial position of the company at intervals not exceeding six months and enable the required financial statements to be prepared, are sent to, and kept within PNG.

Accounting records are generally maintained in PNG Kina. However, in order to comply with IFRS, entities are required to use the currency of the primary economy in which they operate as their functional currency. This means that reporting companies are able to lodge their statutory financial statements in their functional currency, which is not necessarily PNG Kina, with the PNG Registrar of Companies. For instance some entities, predominantly in the resources sector, use another currency, mainly US Dollars, to record transactions and maintain their accounting records. Approval is required from the Registrar of Companies to lodge non-Kina financial statements.

Financial reporting

All companies are required to prepare annual financial statements, within five months of their balance date, for presentation to their shareholders. A company can adopt any balance date, although majority adopt 31 December as this accords with the standard balance date for income tax reporting purposes.

If an entity uses a date other than 31 December, for example where an overseas parent has a different balance date, it can apply to the IRC for a substitute accounting period for income tax reporting purposes. However, this approval is not automatic. The accounting period is 12 months, apart from in the first year of incorporation where it can be up to 15 months, or up to 18 months where a company changes its balance date. However, where there is no balance date in a calendar year the period is limited to 15 months and the approval of the Registrar is required.

Where a company is a holding company with subsidiaries, that company is required to prepare consolidated group financial statements in addition to entity financial statements. There is an exemption from preparing group financial statements where the holding company is itself a wholly owned subsidiary of a PNG incorporated company.

Financial reporting

	Reporting company	Exempt company
Total assets	• >K5m	• <K5m
Number of employees	• >100	• < 100
Number of shareholders	• > 25	• < 25
Financial statements	• Must lodge financial statements and group financial statements with the Registrar of Companies on public record • Financial statements must be audited and lodged with the annual return	• Does not file financial statements on public record • Financial statements are not required to be audited, but must be PNG GAAP compliant
Director liability	• Directors can be held guilty of an offence if the financial statements do not comply with an applicable financial reporting standard	• Directors can be held guilty of an offence if the financial statements do not comply with PNG GAAP
Annual return	• Must lodge an annual return with the Registrar of Companies	• Must lodge an annual return with the Registrar of Companies

Certain companies, such as subsidiaries of an overseas company or an issuer or a subsidiary of a reporting company, are automatically deemed a reporting company regardless of the size and shareholder criteria.

An entity which exceeds one or two of the limits (but not all three) to qualify as an exempt company can still be treated as exempt if it obtains a resolution of all its shareholders.

In addition to the public filing and auditing exemptions, the ASB PNG has also provided exempt companies with some limited differential reporting exemptions in complying with full IFRS, although these may become less relevant if companies choose to adopt the IFRS for SMEs standard.

Recent changes to the Companies Act, together with the introduction of an online filing system, have aligned the relevant annual return filing month with the company's month of incorporation. However, it is possible to apply to change the filing month to coincide with the financial statement reporting deadline which requires making up the annual return to a date no later than six months after the balance date. Accordingly, for a company with a December balance date, they would typically apply for a June annual return filing month.

Audit requirements

As outlined above, all reporting companies (i.e. those that are not exempt companies) are required to appoint an auditor and lodge annual audited financial statements for the company, and if applicable, audited consolidated financial statements for the group, on public record with the Registrar of Companies.

There are currently no mandated auditing standards that apply in PNG, although the local accounting body, CPA PNG, has for many years recommended that its members comply with International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board.

It is standard for all audit reports issued in PNG to state that the audits have been conducted in accordance with ISAs. However, there is currently no regulatory or professional body which has the power or ability to issue or approve auditing standards for use in PNG, or monitor and enforce compliance with those auditing standards. While the large international auditing firms are subject to network internal quality control review programs, there is currently no domestic quality review process for auditing firms in PNG.

The institutional framework that underpins the accounting and auditing practices in PNG was most recently independently reviewed by the World Bank in its Report on the Observance of Standards and Codes (ROSC), Accounting and Auditing issued in February 2015.

This report in its executive summary highlighted the dualistic framework for accounting and auditing in PNG, with one system for larger multinational and listed companies driven by overseas reporting requirements that were unaffected by the PNG regulatory framework, and a regulatory system for local companies that was largely unenforced. They recommended instilling a "compliance culture" by having fewer and clearer rules but increased enforcement.

The ROSC report also highlighted the lack of a comprehensive statutory framework for accounting and auditing and the lack of capacity to enforce compliance at the Accountants Registration Board, ASB PNG and Securities Commission.

Their recommendations included the adoption of simplified standards (including IFRS for SMEs which has now been adopted), reconstitution of the ASB PNG with the addition of a technical secretariat (the ASB PNG is now reconstituted and active but lacks technical resources), better clarity of reporting requirements for public interest entities and SMEs, the establishment of a quality assurance scheme over the public accounting profession, building up the capacity of CPA PNG and the creation of a single regulator for accounting and auditing in respect of public interest entities.

The local professional body, CPA PNG, is also prioritising the implementation of an audit quality assurance program as a required component of its proposed accreditation as a full member body of the International Federation of Accountants (IFAC). As part of this process, there are advanced proposals for amendments to the Accountants Act to introduce provisions for the establishment of a quality review inspection program of public accounting firms to enforce compliance with auditing standards across the profession.

There are no requirements for mandatory rotation of audit firms for private or public companies in PNG. For banks and other financial institutions, together with superannuation funds, all of which are regulated by the Bank of PNG, prudential standards on auditing require that the relevant audit engagement partner, and other significant individuals on the audit team, serves no more than five consecutive years on a regulated audit client or no more than any five years out of seven.

Overseas companies

The accounting and auditing obligations for overseas companies registered to carry on business in PNG are generally similar to PNG incorporated companies. Overseas companies are required to lodge an annual return which includes audited financial statements for both the overseas company itself and separately for the branch operations in PNG. The financial statements are required to be prepared in compliance with IFRS, although use of another comprehensive framework may be acceptable on application to the ASB PNG.

There is provision for the Registrar of Companies to exempt an overseas company from lodging two separate sets of audited financial statements where they can demonstrate that the overseas operations comprise less than 20% of the total assets or total revenue of the company. An overseas company can also be exempted from the requirement to provide audited financial statements where the value of total assets of the PNG branch operations are not more than K5m, there are no more than 100 employees in PNG and the overseas company has no more than 25 shareholders (or meets two out of the three criteria).

It is standard for all audit reports issued to state that the audits have been conducted in accordance with ISAs.

6

Human resources and employment law

Overview

In PNG employment relationships are regulated by overlapping statutory regimes, whose application is determined by a number of factors, including whether an employee is a citizen or non-citizen of PNG and the location in which they work.

Generally, PNG's statutory framework allows for significant flexibility in employment arrangements as long as the prescribed minimum terms and conditions of employment are satisfied.

Regulatory framework for employment

The Employment Act 1978 (Chapter 373) is the primary legislation for regulation of work in PNG. This legislation provides a framework for lawful employment contracts, including termination of employment, repatriation, hours of work and overtime, leave entitlements, payment and protection of wages, and includes specific provisions regarding the employment of women and young people.

The Employment of Non-Citizens Act 2007 also prescribes the process of applications for, approval and cancellation of work permits for non-citizens working in PNG. The Act prohibits the engagement of non-citizens without a work permit (subject to certain prescribed exemptions) and identifies time restrictions on permits and occupations which are reserved for PNG citizens (the list of reserved occupations is set out in the Employment of Non-Citizens Regulation 2008).

In addition to the above, the Industrial Relations Act 1962 (Chapter 174) provides a framework for industrial relations in PNG. As part of this framework, certain "common rules" have been developed for the different classes of workers in different regions of PNG. Where common rules exist, they provide additional entitlements and become an implied term of an employment contract. Where there are no specific regional rules in place, the Port Moresby common rules apply.

Minimum wage

Minimum wages are established through notices from the Department of Labour. These are periodically published in the Government gazette.

Superannuation

The Superannuation (General Provisions) Act 2000 together with the Superannuation Regulation 2004 sets out the obligations for prescribed employers and employees to make mandatory superannuation contributions to promote compulsory saving for retirement. Employers with 15 or more employees are required to make contributions at a rate of 8.4% of employee's gross salary. Employees of such employers are also required to make contributions (at a rate of 6% post-tax) and both types of contributions are remitted by the employer. Compliance exceptions exist for those engaged in primary production industries and superannuation obligations are only mandatory for PNG citizens. Employers with less than 15 employees or non-citizens are not obliged to comply but may choose to do so voluntarily.

Immigration

Foreigners entering PNG will require a valid visa, with certain exceptions under treaties. Visas are issued by the Department of Immigration or from PNG embassies or consulates in foreign countries.

Foreigners planning on working in PNG must hold a work permit. A business visa can be issued to a foreign citizen travelling to PNG to conduct business meetings. Persons wishing to perform short work assignments and relief duties for period of up to 12 months require approval from the PNG Department of Labour and Industrial Relations.

7

Banking and capital markets

The banking system

PNG's banking system consists of a central bank – The Bank of Papua New Guinea, a number of commercial banks, a range of finance companies, a development bank, as well as savings and loan societies. The Bank of PNG is the regulator of the industry and is empowered to issue currency, manage foreign exchange holdings of the Government and to conduct effective monetary policy. In recent years, the Bank of PNG has been a supporter and facilitator of greater financial inclusion in the country through the development of enhanced payment systems and is showing continued interest in examining the use of blockchain technology in the financial system.

Commercial banks and other retail financial institutions operate throughout the country and provide a modern and convenient banking environment for companies and individuals operating in PNG. Branch networks are supplemented through a range of sub branches and agencies throughout the country and the use of smart merchant terminals.

Exchange control is administered by the Bank of PNG through the Foreign Exchange Regulations. To assist in the administration and exchange control, the central bank has approved the commercial banks and certain non-bank financial institutions operating in PNG as authorised dealers in foreign exchange. There are significant reporting requirements imposed on banks and customers dealing in foreign exchange. With a recent imbalance in the foreign exchange market, regulation in this space continues to evolve.

Capital markets

The Port Moresby Stock Exchange (POMSoX) is the country's sole exchange and has been in operation since 1999. Listing rules are closely aligned with the Australian Stock Exchange (ASX).

The integrity of PNG's capital markets is set to be strengthened under a recent package of sweeping law reforms to the country's securities legislation. The reforms are aimed to increase compliance and confidence in PNG's capital markets. The legislation will include the creation of a Securities Commission as a newly independent entity with broad powers to regulate and investigate exchange and listed entities' activities and impose levies on market participants.

The result of the reform will be that capital market licensees will now be bound by a number of additional compliance requirements, including a ban on short selling. Further, a prospectus will be required for the issue of securities, an offer to subscribe, and applications for quotations on the stock market.

The reform also introduces regulation around the introduction and operation of a unit trust or managed investment scheme that has more than 20 members. The scheme or unit trust must be approved and registered by the Securities Commission.

Other sectors

The Bank of PNG also regulates superannuation funds and life insurance companies. With the introduction of compulsory superannuation contributions from employers and citizen employees, authorised superannuation funds have grown to become significant players in PNG's financial sector. The funds, investment managers and administrators are all supervised through the Bank of PNG. While still relatively underdeveloped, the retirement savings, life insurance and wealth management sector is growing rapidly as the economy develops.

> *The capital market integrity is set to be strengthened under a recent package of sweeping law reforms to the securities legislation.*

8 Engaging with PwC in Papua New Guinea

Overview

Our purpose is to build trust in society and solve important problems.

Unbeatable experience working with foreign investors and international donor agencies

Extensive client base that includes public and private organisations from a variety of sectors, including government and the public sector

Largest professional services firm with deep expertise in Assurance, Tax, Advisory and Entrepreneurial and Private Business

With over 150 partners and staff, we are committed to diversity and accelerated development of our people

Member of the PwC network of firms, operating in 158 countries with more than 250,000 people

Deep knowledge of PNG, being the first professional services firm with almost 60 years of operations in country

Serving clients across PNG, with offices located in major cities – Port Moresby and Lae

Our services

Our extensive local expertise and the breadth of the PwC regional and global network resources, coupled with our strong client relationships, enable us to deliver the highest quality services.

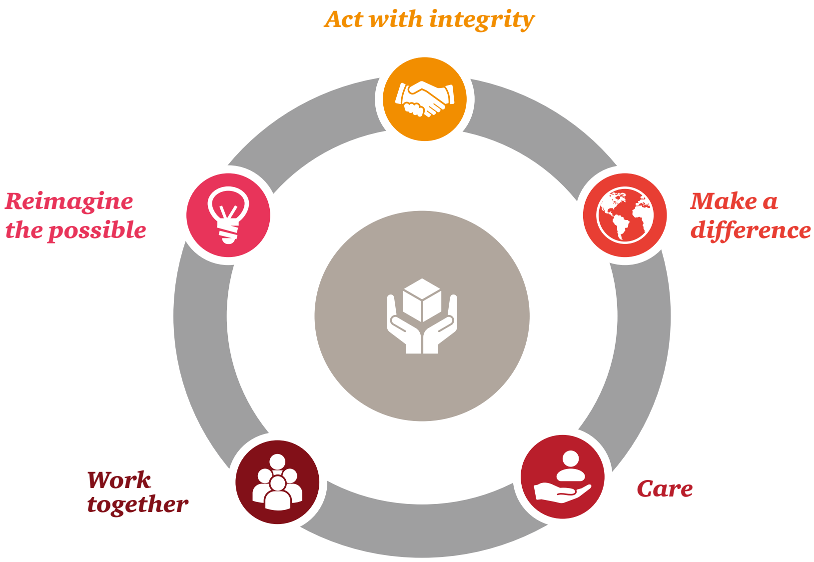
Lines of service

Corporate responsibility

Corporate responsibility is an integral part of our firm and our initiatives in this space focus on health, education, women and children. Our flagship corporate responsibility event is the PwC Corporate Challenge, where we engage the business community and raise funds to help local charities in our focus areas.

Our values

The following values help us deliver the highest quality service, and ultimately, achieve our purpose of building trust in society and solving important problems.



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