

Help small business help themselves



The small and medium enterprise sector in PNG is tiny, relative to its APEC peers. And while recent policies aimed at growing it should be commended, there's a risk of becoming too reliant on regulation. Rather than changing the market to suit SMEs, we should be supporting SMEs to 'step up' to meet the market.

A thriving small business sector is a hallmark of a robust and healthy economy. In most APEC economies, SMEs contribute 20% to 50% of GDP and provide about half the jobs. They also add depth and resilience to these economies and can be vital sources of innovation and growth.

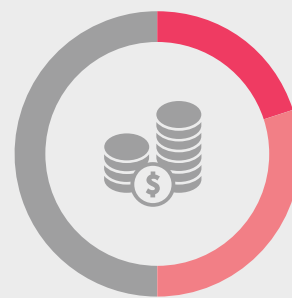
But in PNG, the sector's contribution is small by comparison – just 6% of GDP. And our SMEs, most of which are in wholesale, retail, agriculture, tourism and fisheries, currently export only 0.7% of their output.

There are lots of good reasons why a country like PNG would want to see its small business sector flourish. First, entrepreneurship can help create stable sources of income in the country's rural areas. Second, SMEs provide jobs and could help diversify PNG's resource-dependent economy. Third, there is a demonstrated link between the relative size of the SME sector and overall level of development.

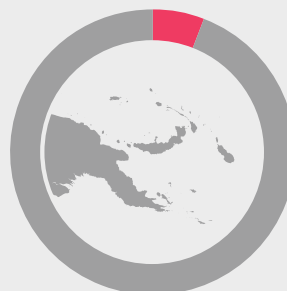
So when the PNG Government launched its SME Policy and Master Plan two years ago, it was seen as a bold and ambitious initiative to kick-start growth in the sector. The plan aims by 2030 to grow the number of SMEs from 49,500 to 500,000, grow SME jobs from 291,000 to 2 million, and increase GDP contribution from 6% to 50%.

But while the plan has provided a long overdue focus and impetus for SME-focused initiatives and growth, it also introduced various policies aimed at protecting SMEs from competition and increasing regulation of specific markets.

SME contribution to GDP



Most APEC economies 20-50%



PNG 6%

SME Policy and Master Plan

By 2030:



500,000

SMEs



2 million

Jobs



50%

Contribution to GDP




Reimagining the role of the SME Corporation

The impact of these policies has been to try and force the market to accommodate SMEs. While such an approach may help some businesses get up and running initially, it's unlikely to encourage the development of an agile, diverse and commercially sustainable SME sector over the long-term. Instead, we see a pressing need for initiatives aimed at helping SMEs to be more competitive in existing markets.

The obvious vehicle to help improve the competitiveness of small businesses in PNG is the SME Corporation. But under its current mandate, the organisation is being pulled in opposing directions.

First, it has extremely broad objectives, such as to improve access to credit finance, technology, business and commercial land, business and physical infrastructure, markets and market information, and entrepreneurship training and capacity building. On top of this, it must shape and administer a business-enabling regulatory framework. This mixing of capacity building programs with regulatory responsibilities creates the potential for some confusion around what SME Corporation is really about.

In order to better realise its broader goal, the Corporation should move away from trying to be both 'police' and 'enabler', and focus more on the latter. For example, it could provide tangible benefits to SMEs by offering financial support in the form of grants or loans, or enabling access to finance, tied to rigorous assessment criteria. According to a 2014 survey, cited in a study conducted for the National Research Institute,^[1] access to finance, loans or capital was ranked as the second major obstacle to growth for PNG's small businesses. Among the survey respondents, only 19% had loans, and the average loan size was PGK21,900.

- 1 Provide tangible benefits to SMEs, such as access to finance 
- 2 Create a partner ecosystem 
- 3 Focus on digital technology 

[1] A scoping study to provide an assessment of SME policy priority areas for Papua New Guinea, 2016, The National Research Institute.

The study also found that one of the factors why the SME sector in PNG is small is due to the lack of or weak linkages with big businesses in PNG. The Corporation could address this gap by helping create a 'partner ecosystem'. Such an initiative – which is similar to the mentor matching program of the Singapore Government's agency for championing small business, Enterprise Singapore – would promote the use of SME suppliers in the supply chains of big companies, as well as creating links to the international start-up scene so that local SMEs can share in global best practices, innovations and ideas.

The other important focus area for the SME Corporation should be digital technology. The digital world can act as a tremendous enabler for small and micro business; not only as a way of accessing information, training and support services but also for reaching new markets and creating new ways of doing business. In PNG, digital technologies can help local businesses, from farmers and fishermen to bilum weavers and artisans, leapfrog middle layers and connect directly with their end customers. For example, the mobile application that won the 2018 APEC App challenge and was developed by a Papua New Guinean father-daughter team, connects bilum weavers to a bigger customer base.

The kick start we need

It's important also to recognise and build on the other good work being done in PNG already. There is the Entrepreneur Academy, a capacity-building program supported by the Australian Government, the Kumul Gamechangers initiative to empower and enable a new generation of entrepreneurial change makers, and the recent signing of an MOU by the SME Corporation with the Provincial Government of West New Britain for an SME incubator. But with the power of a re-imagined and re-focused SME Corporation behind them, with the ability to coordinate, support and put more rigour around all the initiatives designed to support SMEs, the sector will really get the kick start it needs.

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