

Overview and commentary on the PNG Government's SME Policy

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What's inside?

Key strategies 2

Specific initiatives 2

What is an SME 4

The Reserved Activity
List 4

Conclusion 6

In March 2016 the O'Neill Government launched their SME Policy 2016, comprising the SME Policy 2016 document itself, plus a Master Plan 2016-2030 and Master Plan Summary 2016-2030. The last two documents just summarise the key actions and initiatives proposed to implement the Policy and their timescale.

The objective of the SME Policy 2016 is to support and grow the SME sector in order to create new employment opportunities, achieve sustainable economic growth outside the resources sector, and achieve a fair and equitable distribution of wealth through majority citizen ownership of business activity.

The Policy has set itself some ambitious goals by 2030:

- Grow SMEs from 49,500 to 500,000
- Grow formal employment from 290,000 to 2 million
- Reduce unemployment from 84% to 49%
- Increase citizen control over the formal economy from 10% to 70%
- Increase SME contribution to GDP from 10% to 50%
- Increase per capita income from US\$2,000 to US\$9,600

The Government plans to achieve these objectives by implanting strategies across the key areas of entrepreneurial development, legislative framework, catalyst projects, infrastructure development, integrated coordination structure and additional funding and support.



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Key strategies

The Plan specifies 15 key strategies under these general themes:

1. Develop appropriate policy and legislative framework to support the SME sector
2. Facilitate entrepreneurial mindset change, training and development
3. Develop a holistic financial inclusive and access framework that will facilitate the growth of SMEs
4. Facilitate and co-ordinate the implementation of the Reserve Businesses for PNG
5. Facilitate local content in Government procurement for SMEs
6. Facilitate and develop catalyst projects in each province to stimulate economic development
7. Improve access to business and commercial land
8. Improve market information and access to market
9. Identification and development of SME entrepreneurs
10. Provide appropriate incentives for the development of SMEs
11. Align SME development in all industrial sectors
12. Facilitate key infrastructure development
13. Facilitate inclusive gender participation in SME development
14. Develop an appropriate and enabling support structure
15. The Government to facilitate adequate government funding and resourcing support to grow the SME sector

Specific initiatives

Some of the specific initiatives worthy of highlighting as creating opportunities and risks for businesses currently operating in PNG are set out below:

- Development of appropriate business management training throughout the SME lifecycle and identification of appropriate training institutions, private sector, NGOs and development partners that can deliver training programs and put into a database of training partners and facilitators for SME and entrepreneurial development.
- The Policy provides for the Government to intervene either directly or indirectly in the banking and financial services sector to ensure appropriate credit finance is ready available and easily accessible by SMEs throughout their life cycle.
- The government is to continue to cap National Development Bank (NDB) interest rates at 6.5%, with NDB recapitalised with an additional K1 billion by 2017 and the People's Micro Bank (PMB) funded with K20 million annually. NDB and PMB to become a fully commercial bank and rebranded as SME Bank by Q1/2017.
- An independent review of all bank fees is to be performed.
- Creation of a Credit Guarantee Corporation (similar to the Malaysian model) during 2017 with BPNG and private funding.
- A Foreign Investment Review Board will be established.
- An implementation plan for the Reserved Activity List to be introduced within 3 years (see below).
- National Content Legislation to be developed and passed during 2017.

Specific initiatives (continued)

- Commencing 2016, the Central Supply & Tenders Board to ensure that tenders of K10 million and below are only awarded to national businesses and that foreign construction companies awarded larger contracts subcontract up to 50% of the work to SMEs.
- New National Franchise legislation introduced to develop a local franchise industry, with all franchises other than the Master Franchise reserved for citizens.
- Department of Lands to make available land for SME development, new special economic zones, business corridor development and incubation centres, with an annual budgetary allocation to acquire customary land.
- Development and implementation of tax rules and incentives specific to SMEs, with specific proposals for a 5 year start up tax holiday for micro and small businesses, reduced tax rate for SMEs and tax credits for large companies who provide patronship, mentoring or business development services to grow SMEs.
- Review of tariff and import duty provisions to support local SMEs.
- Re-establishment of a price stabilisation fund covering all cash crops.
- Imposition of export taxes on all commodities and timber products exported in a raw or semi-processed form to encourage increased local processing, together with a ban on all export of round logs by 2020.
- Development of a dairy and animal feed industry to support agricultural production and reduce import demand.
- Establishment of an integrated commercial fishing company under a Public Private Partnership (PPP) structure to engage and build SME capacity in the fisheries sector.
- Creation of special economic zones in all provinces to support catalyst projects, starting with the Sepik Special Economic Zone in the Sepik Plains.
- Development and implementation of incubation centres following the Malaysian model
- The government to facilitate the development of infrastructure and business opportunities by banning the current practice of fly in and fly out arrangement through initial MOA agreements with any mining developers.
- The government to review and finalise a transition plan on how to manage the wholesale and retail sector in the development of the Reserved Businesses for Papua New Guineans only. Retail businesses and agencies with sales turnover less than K10 million to be reserved for citizens only. The government see this as critical, with more than 90% of retailing and wholesaling in PNG being foreign owned.
- Consideration of development of wholesale or clustered bulk buying facilities for SMEs to create economies of scale
- Businesses in the Professional, Scientific and Technical sector to be identified as partners who could provide subsidized professional, scientific and technical support services to SMEs at a subsidised rate or tax incentives could be used to encourage their participation. The Government is to provide additional support services to citizen SMEs in this sector and give them priority in business opportunities.
- Government to encourage more foreign airlines to enter PNG to reduce costs and promote increased tourism.
- A review of immigration policy on business and employment visas to facilitate foreign business participants and foreign citizens engaged and employed in PNG-owned SMEs.

What is an SME?

The Policy provides a quantitative definition of an SME to aid policy development and implementation, with a minor distinction made between the Manufacturing, Construction & Engineering Group and the Agriculture, Tourism, Forestry, Fisheries Service and other sector groups in relation to employee numbers when moving from small to medium.

	Micro	Small	Medium
Annual sales turnover	<K200,000	>K200,000, but <K5m	>5m, but <K10m
Employees – MCE	<5	>5, but <20	>20 but <100
Employees – ATFFO	<5	>5, but <40	>40, but <100
Total assets	<K200,000	>K200,000, but <K5m	>5m, but <K10m

Although it is not specifically stated, as can be noted from the reserved business list section below, the long term plan is to ensure that all SME businesses with a turnover less than K10 million are restricted to citizen ownership.

Large business (those with turnover /assets >K10m and more than 100 employees) will be impacted by the restrictions on government business contracts, increased competition from the growing SME sector and the new Reserved Activity List.

The Reserved Activity List

The previous reserved activity list was repealed in 2005 and only a limited list of Cottage Business Activities have subsequently been reserved for citizens only. The new proposal under the SME Policy 2016 is to reintroduce a significantly expanded list of reserved activities (the RAL) that will apply to both foreign owned SMEs and large businesses.

The Policy includes a table which sets out the general parameters for determining whether a business should be reserved 100% for citizens, require a partnership with minimum 51% PNG ownership or be open.

Parameters	100% PNG	Partnership with minimum 51% PNG interest	Open
Initial investment	<K10 million	>K10 million but <K20 million	>K20 million
Technical requirements of the Business	Low	Medium	High
Turnover	<K10 million	>K10 million but <K15 million	>K15 million
Number of employees	<50	>50 but <200	>200
Trade or skill competency within PNG	High	Medium	Low

The Reserved Activity List (continued)

The investment and turnover limit of K10 million for 100% PNG ownership is consistent with the upper level under the SME definition. However the employee numbers of <50 is lower than the SME definition of <100.

It is not entirely clear how the above general parameters interact with the specific business activities included in the proposed RAL. Our understanding is that the specific activity list will take precedence and the general parameters above are only to be used in considering future changes to the list. Accordingly, a foreign controlled large business engaged in an activity that has turnover greater than K15 million and more than 200 employees would still be prohibited from conducting business in one of the reserved activities, either as its primary or as a stand-alone ancillary activity.

The Government's detailed proposals in relation to the implementation of the RAL and the transition of existing foreign-controlled businesses are still to be released. However, existing large foreign-controlled businesses who are currently engaged in any of the activities on the proposed RAL should start considering the potential impact on their businesses now.

The activities listed below have been extracted from the full RAL for 100% PNG ownership and are considered those in which large foreign-controlled businesses may currently be engaged in some form:

- Growing of tree crops (coffee, cocoa, copra, vanilla, tea, oil palm etc)
- Processing and development of tree crop for export
- Export of cash crop
- Farming of animals
- Poultry farming
- Growing of crops combined with farming of animals (mixed farming)
- Building and maintenance of buildings and dwellings
- Electrical contracting
- Most trades including plumbing, brick laying, tiling, carpentry, air conditioning and refrigeration, joinery, metal fabrication
- Sawmilling, timber yard and timber retailing
- Fast food/kai bars
- Catering
- IT Service businesses
- Computer technology repair and maintenance
- IT network cabling
- Retailing of IT consumables
- Trade stores and mini super marts
- Provision of security guards, dogs and premises security
- Armoured fleet services and management
- Customs clearance and forwarding services except when integrated with international freight forwarding activities
- Transport of freight by land
- Coastal and inland water transportation (of passengers or goods in boats)
- Various airport services
- Tyre repair services
- Renting without operator of all kinds of land transport
- Labour recruitment and provision of personnel except for recruitment and provision of foreign personnel
- Service on a fee or contract basis related to work permit or visa application in PNG
- Agents and franchises
- Media and communication companies
- Telecommunication, installation and maintenance

The RAL only includes a limited number of activities identified as requiring a minimum 51/49 control by citizens. These are:

- Downstream processing of cash crops
- Architectural firms
- Pre-fabricated buildings
- Furniture making
- Fashion accessories
- Timber logging to downstream processing
- Restaurants
- Tourism services
- Law firms
- Security and security infrastructure and utilities (e.g. electronic security systems and monitoring, fire alarm systems, GPS tracking etc)
- Primary school and secondary institutions

The RAL can be changed or amended by the NEC from time to time as appropriate.

Although recent Government announcements have referred to the “buying back” of businesses from foreigners, there are no comments or policy initiatives included in the SME Policy documents in relation to this proposal.

Conclusion

The SME Policy 2016 is a bold initiative to kick-start economic development and employment opportunity outside of the resources sector. It presents both a number of challenges and opportunities for business in PNG.

For PNG entrepreneurs, the Government is committed to assist them starting up new businesses, grow existing business and develop into sectors currently dominated by foreign-controlled entities.

For existing foreign-controlled businesses, there are opportunities to assist in the development and mentoring of national SME’s and citizen entrepreneurs, to develop services for the national SME sector and to assist large businesses transition and adjust to the new policy framework.

However, many existing foreign-controlled businesses will be affected by the proposed reserved activities list even if they are not an SME. Further clarity is required from the Government as to how the RAL will be implemented, including the timeframe and proposals for transition of existing foreign-controlled businesses, and the extent to which ancillary activities of large enterprises will be impacted.

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