

SME POLICY 2016



PAPUA NEW GUINEA SMALL AND MEDIUM ENTERPRISE POLICY 2016



**KOKOPO SUMMIT 2011
AND
MADANG SUMMIT 2013**



CONTENTS

FOREWORD BY PRIME MINISTER HON. PETER O'NEILL CMG, MP	ii
STATEMENT BY MINISTER FOR TRADE, COMMERCE AND INDUSTRY HON. RICHARD MARU BTECH, OBE, MP	v
ABBREVIATIONS / ACRONYMS	vi
EXECUTIVE SUMMARY	vii
PART 1: BACKGROUND	01
PART 2: THE NATIONAL SME POLICY OBJECTIVES	07
PART 3: THE NATIONAL SME POLICY FRAMEWORK	10
3.1 Definition of SME	11
3.2 The Coverage of the SME Policy	12
PART 4: POLICIES ON SME LIFE CYCLE AND CONSTRAINTS FACED BY SMEs IN PNG	14
4.1. SME Life cycle	15
4.2. Constraint faced by SMEs in PNG	16
PART 5: POLICIES BY INDUSTRY SECTOR AND CLASSIFICATIONS	25
PART 6: POLICIES ON SME DEVELOPMENT IN EACH PROVINCE OF PNG	41
PART 7: POLICIES ON STIMULUS PACKAGE FOR SME DEVELOPMENT	44
PART 8: POLICIES ON SPECIAL SME DEVELOPMENT PROGRAMS AND BUSINESS DEVELOPMENT SERVICES AND PUBLIC - PARTNERSHIP (PPP) AND KEY STAKEHOLDER DEVELOPMENT	54
PART 9: POLICIES ON OWNERSHIP, MANAGEMENT AND GOVERNANCE	61
PART 10: POLICIES ON IMPLEMENTATION MANAGEMENT, MONITORING, EVALUATION AND CONTROL AND KEY INTERVENTIONS AND COMMITMENT BY THE GOVERNMENT	66
LIST OF FIGURES	69
BIBLIOGRAPHY	70
APPENDICES	71
Appendix 1. Number of Enterprises in the Economic Sector of PNG	71
Appendix 2. Guiding principles for the policy development	71
Appendix 3. Consultative Workshop Key Findings - Provinces	72
Appendix 4. Consultative Workshop Key Findings - National	72
Appendix 5. SME Definition Scoring Matrix	73
Appendix 6. The Eight Point Plan for PNG	74
Appendix 7. Catalytic Projects for each Province	75
Appendix 8. Provincial SME Targets for 2030	76



FOREWORD BY PRIME MINISTER

PETER O'NEILL
CMG, MP

As we move forward after our 40th Independence Anniversary celebrations, this is now an opportune time to reflect on our performance over the last 40 years.

Today it is estimated that outsiders own 90 percent of our formal economy, while the bulk of our people are not engaged in income generating activities. Our formal SME sector is crowded out by many foreign businesses after the removal of the reserved businesses. Over 2 million of our productive work force live in our village communities and in urban settlements. Formal sector unemployment is made worse every year because some 80 percent of our Grade 12 students - that is, 18,500 out of an estimated 25,500 students who complete Grade 12 - go back to the village each year with no prospects of future employment or business opportunities for self-employment. This has resulted in over 40 percent of our people living below the poverty line, who earn less than K2 per day. Furthermore, the high level of petty and serious crime will continue unabated unless drastic action is taken to create mass employment and wealth creation opportunities for our people.


One of the best measure of our performance is income per capita, which today shows that it is only US\$2,000, this puts us in the lower quartile middle income country. This level of performance compared to countries, who during the same time period grew into mid-level or in the higher quartile middle income nations or have become high income nations without the rich endowments God has blessed us with, leaves much to be desired. New Zealand has an economy that is 10 times bigger without any mining and petroleum resources. Israel with only 60 years of Independence has a GDP that is 20 times greater. A virtual desert that has been transformed into an agriculture food bowl, and a hi-tech industry giant without natural resources like we have.

Our dream for national prosperity and economic Independence has not been achieved despite our vast natural endowments. The result of our failure to harness our potential into becoming a high income country by now begs any rational Government and its people to take stock of our past journey, establish clearly where we have failed, where we are today and most importantly articulate and devise a new plan that must be implemented with total commitment to deliver a better and prosperous future for our future generations in line with our PNG Vision 2050.

It is also worth noting that while we have made great socio economic progress over the past 40 years we have failed to achieve national greatness like countries such as Malaysia have, in the same time frame and from essentially the same economic and development background. We do not have to reinvent the wheels. We can learn from their success and we must.

There is no guarantee that Papua New Guinea will be financially and economically independent despite our huge natural resource endowments. This is against the backdrop of many other countries with similar endowments - especially on the African continent-not being able to achieve such economic independence over the past 50 years. Future prospects are alarming in light of our very high population growth in Papua New Guinea. Indeed, we are still struggling to meet the needs of the present population and it will be even more difficult to sustain a bigger population when it doubles by 2030 unless our economy grows significantly to keep pace with populatio growth and the demands of a more affluent and educated population.





No responsible leaders and Government should blame others before them but take on the challenge to develop a new road-map that must be followed vigorously with complete determination.

We have a lot going for us in trying to meet our economic challenges, including our vast resources in terms of national wealth as well as better and educated leaders and public servants. Furthermore, we have many regional and global lessons and best practices to learn from. The strong economic growth we have enjoyed in the past ten year-coupled with new income streams starting in 2015 from Papua New Guinea's vast Liquefied Natural Gas (LNG) Project - will provide both the impetus and resources for us to invest in a better future for all Papua New Guineans, if we make the correct decisions now and invest in creating a better future for our future generations.

Our biggest national crisis is the lack of income-generating opportunities for our people (most of whom live in rural areas) and the very high and unsustainable formal sector unemployment rate, which stands at over 66 percent every year.

There is no better time to take action than now to reverse the current business imbalance towards deliberately investing in growing the PNG SME sector. Our economic conditions and opportunities are better now than at any other time since Independence. With a much stronger economy built on the back of solid economic growth over the past ten years, we are now in the driver's seat.

As proven the world over, one of the best ways to create mass employment and wealth for the bulk of our citizens and share our national wealth fairly and more equitably across our country is to invest and grow a broad-based sustainable economy underpinned by a strong, large and dynamic SME sector. In countries like Australia, New Zealand, Malaysia and Indonesia, the SME sector provides between 40-70 percent of formal sector jobs. In PNG the sector only provide 10 percent of our formal sector jobs (as estimated 200,000 jobs).

The SME sector has the potential to generate over 50 percent of formal sector employment in PNG and contribute up to 50 percent of our GDP. The country depends on the non-renewable sector for 70 percent of our GDP which is not sustainable in the long term.

Following the useful input and feedback that we received from both the Indigenous Business Summit at Kokopo and at the Madang SME Summit as well as from provincial, regional and national consultations we have held, a new SME Policy and SME Master Plan 2016-2030 have been developed. If adequately resourced and successfully implemented, this new SME Policy and Master Plan will result in achieving many broad-based milestone for our country, especially in growing our economy and creating mass employment for our citizens.

We wasted no time since taking office. We have announced the 12 Point SME Stimulus Package and passed amendments to both the Companies Act and the Business Name Act to facilitate the new online registration and lodgments of returns for companies including SME's. We have passed the new SME Corporation Act and have set up the new SME Corporation of Papua New Guinea, which is the lead organization for SME's in Papua New Guinea. The legislation also provides for the establishment of the SME Council which is chaired by the Prime Minister and have over sight and responsibility of the implementation of the new SME Policy 2016 and the SME Master Plan 2016-2030.

We have funded NDB again in the 2015 Budget and are providing funding for the Risk Share Facility and the expansion of the micro bank network. Further, we have invested in district roads, wharves, jetties and other necessary infrastructural capacities to make our local environments more conducive to business and for our people, especially those in our rural areas.

We are committed to growing the SME sector to create mass employment, develop a larger tax base, and spread our national wealth more fairly around our country. Growing the SME sector is a key pillar in our efforts to build a sustainable economy. It will unleash the entrepreneurial spirit of our people and contribute to national advancement and better living standards for the bulk of our citizens.

I assure all stakeholders and constituents, especially our people in the informal and formal SME sector and potential businessmen and women including our youth that my Government is committed and will provide funding and other support necessary to give our country, and our people, a fighting chance against economic imbalance and poverty. Under my leadership of the SME Council, we are committed to provide policy oversight and strong financial support to grow the SME sector, to secure a prosperous future for our people and our beloved country.

Peter O'Neill

HON. PETER O'NEILL, CMG MP

Prime Minister and
Chairman of the SME Council of Papua New Guinea





STATEMENT BY
MINISTER FOR TRADE, COMMERCE AND INDUSTRY

HON. RICHARD MARU

BTECH, MBA, OBE, MP

The formulation of our new SME Policy took a lot of time and contribution in cash and kind from the Government, the private sector, donors, our SME Sector, Provincial Governments and our people who are very passionate about the development of our SME Sector. The foundations were laid at the Indigenous Business Summit at Kokopo jointly hosted by the National Government, the National Development Bank and the East New Britain Provincial Government in 2010. We thank the leaders and people of East New Britain for the generous and overwhelming support for the staging of the successful landmark Summit.

The Second nationwide Consultation was held in Madang at the SME Summit in 2013 hosted by the National Government, the Madang Provincial Government, the Madang Indigenous Business Council and the National Development Bank together with the generous sponsorship from sponsors and the support and efforts of the people of Madang.

We want to thank the Gold, Silver and Bronze Sponsors of both Summits and the East New Britain and Madang Governments and their people for their efforts and support in hosting the Summits which led to us securing much input from our political leaders, international speakers, our private sector, donors and our businessmen and women, towards developing this policy.

We also want to thank the Media for their coverage of the events and their continuous support for the SME Sector development in our country.

I also take this opportunity to thank the former Somare Government and the O'Neill Government for their financial contribution, passion and investment in developing the SME Policy and the Board and Management and staff from the National Development Bank, who were the champions of the drive to "reclaim our birth right" by growing the PNG's SME Sector.

I thank my Ministerial and Parliamentary colleagues for their input and invaluable support.

We thank the Secretary for the Department of Trade, Commerce & Industry, Mr. John Andrias for the leadership he provided together with his Deputy, the Acting Managing Director of SBDC, Mr. Henry Marasembi and their Technical Team and our external consultant Esther Igo from Esee Consult and the National Steering Committee for a job well done.

Finally we thank our Prime Minister Hon. Peter O'Neill for his passion and strong leadership, time and his efforts and his input and support towards helping us develop the SME Policy 2016.

May God Bless those involved in the formulation of this land mark SME Policy, which guided the formulation of our inclusive and robust SME Policy, which we will implement from 2016 onwards.

I commend the SME Policy 2016 to our Government, to our Provinces and Districts and to all our stakeholders and to our people.

Richard Maru

HON. RICHARD MARU, BTECH, MBA, OBE, MP
Minister for Trade, Commerce & Industry

ABBREVIATIONS | ACRONYMS

1	APEC	Asia Pacific Economic Countries
2	AROB	Autonomous Region of Bougainville
3	BPNG	Bank of PNG.
4	BDOs	Business Development Officers.
5	BDS	Business Development Services
6	CGC	Credit Guarantee Corporation.
7	CIMC	Consultative Implementing and Monitoring Council
8	CSO	Corporate Social Obligations.
9	CSTB	Central Supply & Tender Board
10	CSR	Corporate Social Responsibility.
11	CPC	Constitutional Planning Committee.
12	DAL	Department of Agriculture and Livestock.
13	DTCI	Department of Trade Commerce and Industry
14	GDP	Gross Domestic Products.
15	HR	Human Resource
16	IBC	Indegenous Business Council
17	ICDC	Industrial Centers Development Corporation
18	ICT	Information and Communication Technology
19	ILG	Incorporated Landowner Group
20	IPA	Ivestment Promotion Authority
21	IPBC	Independent Public Business Corporation
22	KAB	Know about Business
23	KPI	Key Performance Indicators.
24	ICT	Liquidified Natural Gas
25	M&E	Monitoring and Evaluation
26	MOAs	Memorandum of Agreements
27	MTDP	Millenium Term Development Plan
28	NARI	National Agricultural Research Institute
29	NAQIA	National Agriculture and Quarantine Inspection Agency
30	NCD	National Captal District
31	NEC	National Executive Council
32	NDB	National Development Bank
33	NISIT	National Institute of Standards and Industrial Technology
34	NFA	National Fisheries Authority.
35	CRI	National Research Institute
36	NTC	National Training Council
37	PNG	Papua New Guinea
38	PPP	Public Private Partnership
39	RAL	Reserved Acitivity List.
40	SBDC	Small Business Development Corporation.
41	SEZ	Special Economic Zone
42	SIYB	Start and Improve Your Business
43	SME	Small to Medium Enterprises
44	SOE	State Owned Enterprises.
45	TPA	Tourism and Promotion Authority
46	WIB	Women in Business
47	WTO	World Trade Organisation



EXECUTIVE SUMMARY

Prior to independence in 1975, our founding fathers spent considerable time working on and adopting the Eight Point Plan followed by the National Goals and Directive Principles. The Eight Point Plan and National Goals and Directive Principles are visions to build a peaceful, harmonious and prosperous communities.

After 40 years of independence, we have not gained control of our economy. We have not been able to fully drive the development agenda to achieve true self reliance as a nation. The vast majority of our people are greatly marginalised and are not engaged meaningfully in economic activities.

An estimated 40%¹ of our population live below the poverty line. An estimated 84% of our people are engaged in the subsistence and the non-formal economy. An estimated 90%² of the wealth of our nation is controlled by 2%³ of large enterprises which are foreign owned. High inflation and falling exchange rates makes it very difficult for our citizens to fully liberate themselves and live dignified lives.

The on going lack of economic opportunities and support mechanisms has resulted in our people being dis-illusioned about their place in our modern society. The vast majority of our people feel left out. There is growing resentment. This is reflected in the gradual decline or break down in law and order and other cross cutting issues. With our population growing steadily every year, and a growing percentage of literate (educated) people who expect more than merely being engaged in the subsistence or the informal economy, this poses great threat to stability and growth of this nation. The future looks bleak if the government does not consider serious policy interventions and strategies to address and change this trend.

Our country requires significant economic reforms and strategies to transform the economy to empower our people reduce poverty, fairly distribute the wealth of this nation, which will in turn achieve the desired goals of Vision 2050. SMEs must assume a greater role in the economy. SMEs must not only act as an enabler but also a key driver of broad based inclusive economic growth programs which will drive the achievement of national prosperity as a high-income country by 2050.

Meeting the Vision 2050 of a high-income nation is a challenging task. We must think outside the "box" and not allow the status quo to continue. A fresh approach is required to accelerate the growth of SMEs. The aim is to increase the contribution of SMEs to the economy, which will put the power back in the hands of our people. This necessitates a quantum leap in growth and transformation from agricultural development to higher value-added activities that are knowledge intensive. The SME Policy will therefore play a significant role in navigating the new development path for SMEs across all sectors. The new strategy will build on existing initiatives for SMEs by strengthening the current framework and aligning them to the macro policy reforms.

In comparison to other countries such as Malaysia and Botswana, the growth of the SME sector in PNG over the years has been negligible. PNG, Malaysia and Botswana were at the same development stage in 1975. However, Malaysia and Botswana are now major transition economies due to their government focus and development of the SME sector.

The growth and development of the SME sector in our country has been slow due to several factors such as access to business finance, transport and other enabling infrastructure, law and order, and high cost of utilities amongst others. The lack of enabling legislation and policies also contributed to the slow growth of the sector.

¹ UN Human Development Report

² PNG Vision 2050

³ IPA Database & SBDC Baseline Survey 2012

This SME sector review identifies the key constraints that hinders the growth of the sector and recommends policy interventions that will address these constraints. The overall primary objective of the Policy is to set the foundations for the SME sector to become the catalyst for economic growth over the next 30 years.

It is estimated that there are currently 49,500⁴ SMEs in PNG and this Policy will focus on coordinating its efforts with other agencies to achieve a vibrant SME sector that will grow to 500,000 SMEs by 2030 and create two million jobs. The SME sector will also facilitate a contribution of 50% to GDP as projected. These will be achieved through creating an enabling environment, building the entrepreneurial mindset of our people, providing easy access to business finance, enabling infrastructure and training and support services.

To effectively implement this Policy, all agencies must take ownership of the Policy so that all impediments hindering the growth of the sector are addressed. SME cuts across all sectors and therefore an integrated coordinated approach with all agencies, private sector and non-state stakeholders working together is key to achieving the policy objectives.

This will also require organizational restructure within the Ministry of Trade, Commerce and Industry to effectively monitor and evaluate the implementation of the Policy. SBDC has now been succeeded by the SME Corporation and it will be responsible for the implementation of this SME Policy 2016.

With the current political support for the SME sector, we are confident of achieving 500,000 SMEs and 2 million jobs by 2030. This will contribute to PNG becoming a Smart, Fair, Wise, Healthy and Happy Nation by 2050.





PART 01

BACKGROUND

1.0 Rationale for SME as the Significant Driver for Economic Development in PNG.

1.1 Current Economic Status of PNG

PNG has a dual economy comprising a formal, corporate-based sector and a large non-formal sector where subsistence farming accounts for the bulk of the economic activities. The formal sector provides a narrow employment base, consisting of workers engaged in mineral production, a relatively small manufacturing sector, public sector employees and service industries including finance, construction, transportation and utilities. The majority of the population is engaged in the non-formal sector. Formal employment has grown in the last 5 years due to PNG LNG Project construction phase and favorable commodity prices; however, employment has dropped considerably since the end of the construction phase of the PNG LNG Project.

PNG's economy grew by 14.4% based on a compounded annual growth rate over twelve years from 2002 to 2013 (World Economic Outlook, April 2013). Despite the 2007/2008 global financial crises and 2008 to 2012 global economic recession, PNG's economy experienced above average Gross Domestic Product (GDP) growth. The financial sector performance was very stable during the period of global financial crisis and subsequent economic recession, from 2008 – 2012.

The growth was largely due to high price of our mineral exports on the world market and increase in construction activity connected with the PNG LNG Project. Inflationary pressures continue, although monetary tightening in 2011 had slowed inflation to an average annual inflation rate of 5.4 % from 2002 to 2013. Risks to the economy include the possibility of resource curse' impacts from the LNG and mineral sector growth. Because PNG government revenues is derived from raw or semi processed exports, our economy remains vulnerable to volatility in global prices for gold, copper, oil and agriculture commodities. Despite the per capita GDP growth, PNG's performance in other socio-economic sectors are not good. These socio-economic indicators includes per capita Real GDP ranking, formal sector employment, literacy, government expenditure on health, corruption, infrastructure developments, and law & order (crime) as illustrated in figure 1.0 below.

Figure 1.0 PNG Performance Highlights

PNG Performance Highlights	Measure	Ranking	Total
Population (million)	7.1	105	238
GDP Per capita (Purchasing Power Parity) - US\$	2,600	178	226
Unemployment	84.1%		
Informal sector employment	86.1%		3.8
Literacy	57.3%	183	205
Human Development Index Ranking	0.466	156	194
Government expenditure on health (% of GDP)	3.1%	175	188

(Source: CIA World Fact Book, January 1 2012; Index Mundi, <http://www.indexmundi.com/g/r.aspx?v=39> / Unemployment. 2011 Labor Market Assessment study, George Bopi, Office of Higher Education, Science & Technology)) UN Human Development Report.)

PNG's socio economic performance indicators is alarming. It warrants immediate major shifts in Government investment priorities. It is envisaged that the SME sector development will be the catalyst for facilitating the improvements in the performance indicators. The growth of SME will mean that more PNG citizens will be engaged in economic development opportunities which will financially empower them and would contribute to improving their social status which will improve the socio-economic indicators.

1.2 The Need for SME Sector Development in PNG.

As more people get educated through the free education policy and have easy and increased exposure to urban lifestyles through TV, radio and the internet, they will expect more from their country. This poses serious challenge to the Government. The constant marginalisation and lack of engagement by our people in either employment or any meaningful economic activities has seen a break down of law and order, violence, institutionalised corruption, and an overall disoriented, disengaged and discouraged populace. The current increase in population growth and a growing percentage of literate people who expect more than being subsistence based, now poses great threat to stability and growth of our nation. The future looks bleak. Therefore, the government is now challenged to consider serious policy interventions and strategies to address and change this trend.

The founding fathers' vision and the Eight Point Plan all emphasises the importance of economic independence but PNG is far from being economically independent. Since independence, successive national governments have adopted policies and programs to facilitate our people's involvement and participation in the economic life of our country. Some of the policies and programs are:

- Village Economic Development Fund
- Government Guarantee Schemes
- Stret Pasin Stoa program
- Plantation Buy Back Program
- Establishment of the Papua New Guinea Banking Corporation
- Establishment of the Agriculture Bank.
- Introduction of the stabilization Fund
- Various concessional lending facilities like the less developed area grant scheme.
- Establishment of Small Business Development Corporation (SBDC)
- Change of role and Name of Agriculture Bank to the National Development Bank
- Creation of Industrial Centers Development Corporation (ICDC)
- Introduction of the 1998 SME policy document
- Sectoral SME support programs - Agriculture, Fisheries, Forestry, Tourism, and Mining, etc

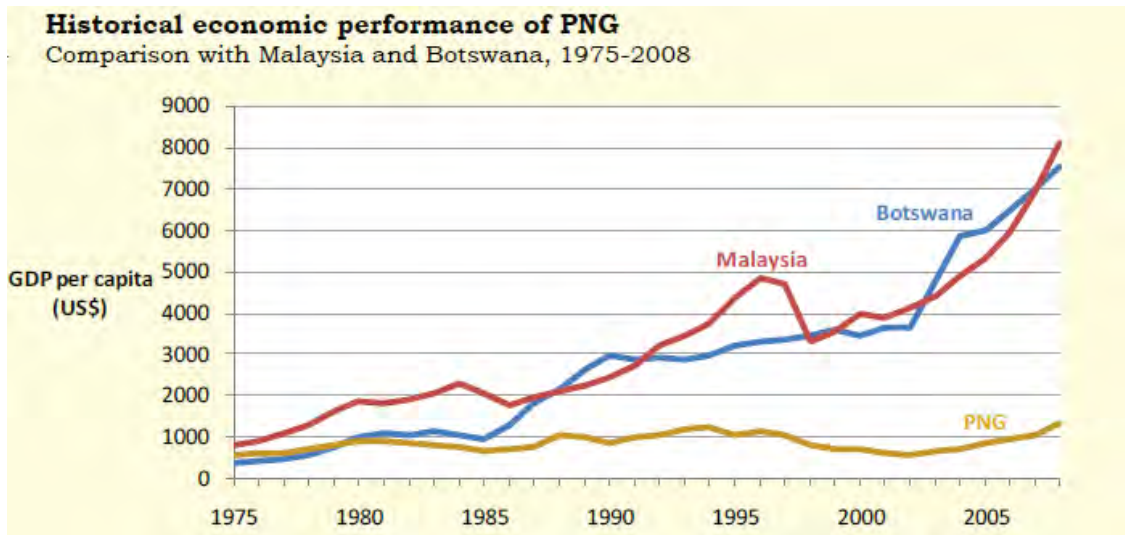
These initiatives however, have not been successful in transforming PNG. These policies and the many intervention programs have fallen short of achieving the desired results because they have been sporadic, not aligned and not integrated into the existing systems. Many programs had no infrastructure, inadequate management, no accountability and lacked coordination with key business enabling agents. That is why this government is developing and recommending appropriate policy interventions and practical strategies to realize those visions.

Micro, Small and Medium Enterprises are drivers of economic growth, job creation, innovation and getting social integration and in most economies. They constitute the vast majority of business establishments. In many developing countries, they are seen as a major 'self-help' instrument for poverty reduction. In transition economies, they provide the best illustration of the changes in ownership structures, business culture and entrepreneurial behavior changes.

1.3 International outlook on SME.

SME growth and development in PNG has been slow and does not compare to the progress made by many countries within the region and elsewhere. Botswana and Malaysia, for instance, are resource rich countries like PNG. In fact, they were at a similar stage of development to PNG in 1975. But today, Botswana and Malaysia have now become prosperous middle-income countries, lifting their GDP per person more than ten-fold, while PNG remains a lower quartile middle income country.

Figure 1.1 Economic Growth Comparisons



Sources: Economic Outlook, World Bank 2007

In Malaysia, SMEs account for 99.2%⁵ of total establishments. They are an important source of economic growth and their Government has prioritized SME development as a priority national agenda. The potential of SMEs to promote domestic-led growth in new and existing industries and to strengthen the resilience of the economy in a competitive and changing and challenging environment are inarguable as seen in other countries.

1.4 The Status of SME in PNG.

Whilst the SME sector plays a significant role in other economies, it has not been the case in PNG. PNG remains a low-income country with a dual economy. The mineral sector, developed by foreign investment and operated by international companies, constitutes the modern segment, accounting for a third of value added and three fourths of exports.

The sector remains an enclave, with the domestic content of production limited, contribution to local employment low, and the level of profit leaving our shores high. Our present budgetary system is devised in a way where mineral revenues benefit the domestic economy. The non-mineral sector, on the other hand, consists almost entirely of subsistence agriculture and low-value added services. Agriculture employs 85 percent of the population but crop production is limited with little downstream processing of produce except for exports of raw cash crops and products. In services, construction is wedded to mineral projects and the contribution from niche tourism is marginal. In comparison to other developing nations, the contribution from the SME sector is way below globally accepted standards which is up to 50 percent of the GDP and contributing over 50 percent of formal sector employment.

Reliable SME data in PNG is limited. Information collected from various alternative sources provides varying estimates of the number of existing firms that fit within the defined market segments. According to the IPA it is estimated that the existing market segment is at least 49,500 firms. By sector, the distribution of formal SMEs is shown in figure 1.2

⁵ Malaysian SME Corp.

Figure 1.2 Estimate of the Sectorial Composition of Formal SMEs

Sector	% of Total
Retail/ Wholesale trade	35.0
Transport	15.0
Building & Construction	12.5
Manufacturing	10.0
Business Services (e.g. security)	10.0
Hospitality	7.5
SME	5.0
Other	5.0
Total	100

Source: Bank of PNG data interpreted / extrapolated by World Bank consultant.

Figure 1.3 Status of SME in PNG.

Description	Status	Remarks
SME population	49,500	Current SME population is 49,500
GDP contribution (billion)	K3.3 bn	PNG GDP is estimated at K19 bn
% of GDP contribution	17.3%	K3.3 bn of K19 bn
SME ownership skewed male	75.2%	24.8 % is female owned
SME ownership is skewed older	66.8%	33.2% below 34 years old
Heavy skew towards retailing, wholesaling and farming	68.3%	31.7% in other SME activities
Heavily skewed towards income below K200, 000 per annum	79%	21% above K200, 000 per annum
SME ownership is skewed highlands	55.8%	Southern 12.4%, Momase 19.4%, NGI 11.9%, Expat 0.5%
SME current market is skewed local	82.6%	Provincial 13.9%, National 2.8%, Export 0.7%
Current SME is skewed informal	86.9%	Formal IPA registered SMEs are 13.1%
Majority of SMEs have never obtained any form of loan	94.4%	5.6% have obtained some form of bank loans for their operations
Government assistance in the form of cash or kind is minimum among SME	2.5%	97.5% of SMEs have not received any form of direct government assistance

Source: SBDC SME Database, IPA

The extensive consultative provincial and National workshops and programs conducted since August 2013 show the following key insights that have affected the SMEs development in PNG;

- The majority of the 22 provinces have little to no economic activity except for a central administrative hub for the provincial governments' headquarters. Such environment does not stimulate SME growth, as SMEs grow where there is economic activity.
- Most provincial governments are currently heavily dependent on the National Government grants for their annual provincial budgets.
- The major form of businesses conducted is predominantly retailing. Over 95% of such businesses are foreign owned.
- Citizens are engaged primarily in cash crop or subsistence farming.
- Basic infrastructure is lacking. Law and order is a major issue in most provinces. It is difficult under such circumstances for meaningful participation by citizens in economic activities.
- Number of SMEs in most provinces is negligible.
- No alignment, visibility and coordination of SMEs development across all sectors and government agencies.
- Funding for economic development programs and institutions is concentrated in Port Moresby and Lae with little progress in other provinces.

- SOEs who are the key providers of public utilities in PNG do not have strategies for the reduction of costs of their services to our people. Most of SOEs are massive cost centres to the government and are not profitable. NICTA was the only government agency that had a structured cost reduction strategy for its customers.
- There is no central point for market information and insights to understand SMEs and also no central available hub where SMEs can draw on information to drive, expand and improve their business potentials.
- Value Add and Down stream processing is underdeveloped in all economic sectors.
- Dispersment of monetary benefits such as levies and royalties and payments to landowners from sectors such as fisheries and forestry are not aggressively geared at building large SMEs. Such benefits and payments are often made to smaller unsustainable corporative entities and individuals.
- Commodity Boards are not integrated and basically concentrate on Research and Development of commodity for which they are responsible. Support in business development is an area that the commodity boards must focus on developing if they are to facilitate participation by farmers and SME development.
- NARI as a research institution has made significant progress in understanding challenges of Agricultural farming and have developed solutions and hence their expertise to be partnered by DAL, and other commodity boards and stakeholders for synergies going forward.
- The current development stage of PNG has triggered the growth of the informal sector and its place is established. The challenge going forward would be to facilitate the transition into the formal sector.
- Approximately 85%⁶ of adult population are excluded from financial services.
- NDB's total lending is K300 million. This is about 2.7% of the total lending in PNG of K11 billion. NDB's lending is simply inadequate to cover the SME growth requirements.
- Estimated large proportion of SMEs are non-compliant with tax obligations.
- Not much incentives have been given to SME to stimulate participation and growth.
- The current Education system concentrates on knowledge dissemination, with little done in facilitating Entrepreneurial mindset and skills development. TVET to be given more emphasis to facilitate skills development in this area.

The above key highlights show that it is imperative that the focus be on the development of SMEs. The ability of SMEs to grow is crucial for economic progress.

1.5 The Progress of SME Development in PNG.

Since the 2010 National Indigenous Business Summit in Kokopo, there has been widespread public interest and discussions on the concept of the development and growth of SMEs in PNG as an economic empowerment vehicle for the people. Our people's aspirations on the development and growth of SMEs are recorded in the following:

- ◆ The Kokopo Indigenous Business Summit Communique
- ◆ The Alotau Accord
- ◆ The 12 point Stimulus Package
- ◆ 21 Point Summit Resolutions at the Madang SME Summit 2013.

To achieve these aspirations, appropriate SME policy and legislation which is now being developed is required to enable this dreams to materialise.

The SME Corporation Act 2014 has been enacted by Parliament. The Act provides for the Prime Minister of our country to be the Chairman of the SME Council of PNG. This is significant. It demonstrates the Government's commitment to the development and growth of the SME sector to achieve Vision 2050.

⁶ In the context of PNG, SMEs are defined as registered companies with at least 3 and up to 150 employees



PART 02

THE NATIONAL
SME POLICY

THE NATIONAL SME POLICY

2.0 Policy Vision, Mission & Objectives

2.1 Policy Vision

“The SME Sector to be a major contributor towards PNG becoming a middle income country by 2030 and a high income country by 2050”

2.2 Policy Mission

“To stimulate inclusive and sustainable economic growth resulting in the fair and equitable distribution of our country's wealth, to create employment opportunities for our people and for our people to have greater control and ownership of our economy”

2.3 Policy Objectives

The Key objectives for the development & growth of SME Sector in PNG are;

Key Objectives	Measure	Time Achieved
1. Support and facilitate the growth of SMEs.	- Grow SMEs from current 49,500 to 500,000 SMEs.	2030
2. Employment creation	- 2,000,000 jobs	2030
3. Fair and equitable distributioun of our national wealth to PNG Citizens	- Our citizens to own 70% of the formal economic sector - Increased income per capita of US\$2,000 to US\$9,600.	2030
4. Support strong inclusive and sustainable economic growth	- 50% GDP contribution by SME's	2030

The key deliverables that must therefore be achieved and will form the basis of tracking and monitoring the progress of SME development in PNG are outlined in Figure 2.0 ;

Figure 2.0 Key deliverable targets for 2030

	Current	2030 Target
Number of SMEs	49,500	500,000
Employment Creation	291,346	2,000,000
Ownership of the formal Economy	10%	70%
% Contribution to GDP	6.0%	50%
SME Contribution to GDP (K'mn)	3,262	50,674
Per Capita GDP (K'000)	2.0	9.6
Unemployment	84.1%	49%
Below the Poverty Line	40%	30%
Unbanked	85.6%	40%

Source; PNG IPA, PNG Vision 2050, SBDC SME census

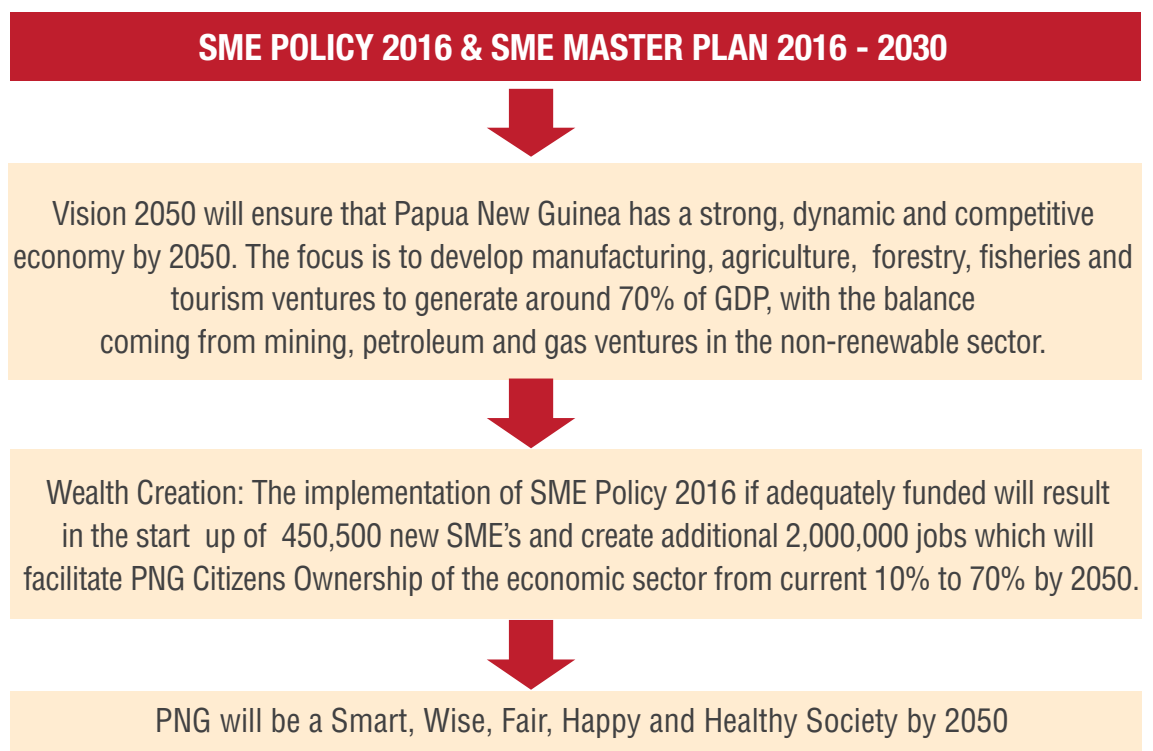


2.4 Policy Alignment

The SME Policy 2016 and SME Master Plan 2016 -2030 are strategically aligned to achieving the Vision of the founding fathers, the Eight Point Plan and the Vision 2050 as reflected in Figure 2.2. The Policy and the Master Plan will drive the operational requirements of delivering the desired outcome of Vision 2050.

In the context of Vision 2050, PNG also aims to broaden the sources of growth for the domestic economy over the long term. The country's Strategic Development Plan (SDP) for 2010 to 2030 aims to quadruple agricultural production and to triple manufacturing output over the next 20 years. The Plan also aims to process about 80 % of our timber to semi-processed matter, harness fishery resources for tuna exports, and attract some 1.5 million tourists during the period. The details of how this will be fully developed are yet to be fully developed in the respective sectors and industries.

Figure 2.1 Alignment to Vision 2050





PART 03

THE NATIONAL
SME POLICY
FRAMEWORK



3.1 DEFINITION OF SME

The economic sector in PNG is made up of the non formal and the formal sector and also large multi internationals, hence it is vital to give a quantitative definition for SME to distinguish one from the other. The quantitative definition looks at the size of the business in terms of number of employees, its gross turnover and the value of its assets. It is broken down into sectors due to intensity of capital, machinery required, labor intensiveness and revenue capacity for each of the sectors.

It is important to have a clear definition so that:

- ◆ The growth of the SME Sector is facilitated more effectively and efficiently through government provided support programs and initiatives. The types of support given will be dependent on the type and size of the business and potential of growth and so forth. Details of which will be articulated in the SME Master Plan. The government support programs and initiatives will be geared towards encouraging and creating a incubation space for new start ups, facilitate the current existing SMEs to build strong sustainable businesses and facilitate transitional growth from one level to another.
- ◆ Adequate segmentation of businesses are established which will enable proper research and recording into an information hub or database for SMEs, which will make it more distinct for government planning and budgetting purposes.
- ◆ The SME sector is being monitored and tracked to ensure the targets for SME development as set by the government are being achieved.
- ◆ It encourages the migration of SMEs in the non formal sector to the formal sector.

The non formal sector comprises mainly of small to micro businesses that are not properly structured and not formally registered with IPA and or other Provincial and Local Level Governments who also issue licenses for businesses to trade in selected business activities. A clear definition of SME will enable SMEs who trade in the non formal sector to see the benefits they can get from being in the formal sector. This will encourage their migration into the formal sector. The definition covers two different categories of SMEs.

- (i) The Manufacturing, Construction & Engineering Group
- (ii) Agriculture, Tourism, Forestry, Fisheries Service and other sector groups.



Figure 3.0 Manufacturing, Construction and Engineering

MANUFACTURING, CONSTRUCTION AND ENGINEERING		
MICRO	SMALL	MEDIUM
<ul style="list-style-type: none"> ▪ Annual sales turnover of less than K200, 000 ▪ Employees of less than 5 ▪ Asset of less than K200, 000 	<ul style="list-style-type: none"> ▪ Annual sales turnover of more than K200, 000 and less than K5m ▪ Employees of more than 5 and less than 20 ▪ Asset of more than K200, 000 and less than K5m 	<ul style="list-style-type: none"> ▪ Annual sales turnover of more than K5m and less than K10m ▪ Employees of more than 20 and less than 100 ▪ Asset of more than K5m & less than K10m

The manufacturing, construction and engineering industry are more capital and machinery intensive, and also have high revenue earning opportunities therefore they have been grouped together, whilst all other sectors have been grouped together as per figure 3.1.

Figure 3.1 Agriculture, Tourism, Forestry, Fisheries, Service and Other Sectors.

AGRICULTURE, TOURISM, FORESTRY, FISHERIES, SERVICE AND OTHER SECTORS		
MICRO	SMALL	MEDIUM
<ul style="list-style-type: none"> ▪ Annual sales turnover of less than K200, 000 ▪ Employees of less than 5 ▪ Asset of less than K200, 000 	<ul style="list-style-type: none"> ▪ Annual sales turnover of more than K200,000 and less than K5m ▪ Employees of more than 5 and less than 40 ▪ Asset of more than K200, 000 and less than K5m 	<ul style="list-style-type: none"> ▪ Annual sales turnover of more than K5m and less than K10m ▪ Employees of more than 40 and less than 100 ▪ Asset of more than K5m & less than K10m

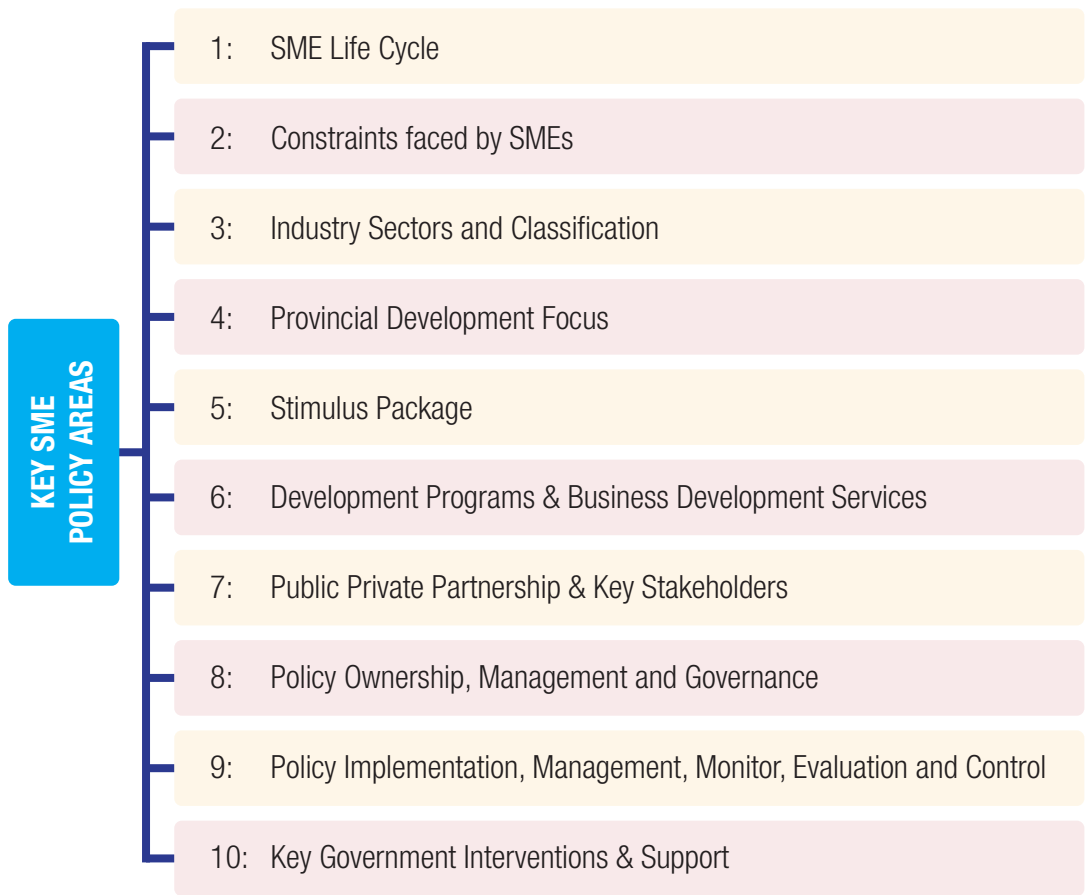
Agriculture, Tourism, Forestry and Fisheries are more labor intensive so the number of employees required defers from manufacturing, construction, and the engineering sectors.

3.2 THE COVERAGE OF THE SME POLICY.

The National SME Policy review looked at all elements that must be developed, initiated or established for the purposes of developing and growing the SME sector in PNG. The review of this sector in the last two years has established 10 key policy areas that will comprehensively cover all requirements for the development and growth of the SME's in PNG, as outlined in Figure 3.2

Policies covering each of these areas will be expounded on. Due to the development stage of SME development in PNG, it is imperative to note that most of the elements and areas identified are enablers and infrastructure development requirement that the government needs to facilitate. Without a conducive economic environment, it will be near impossible for SMEs to grow. The 10 policy areas identified are therefore critical for setting the foundational basis for which will emerge the SME sector. The specific requirements for SMEs is focused around building the mindset, competence and capabilities of the individual entrepreneurs and facilitating and supporting them in an environment that will give them a fair chance of survival.

Figure 3.2: Key SME Policy Areas



Policies covering each of these areas have been derived from extensive consultations with all key stakeholders in all provinces and key government agencies critical to the development of SME in PNG





PART 04

**POLICIES ON SME
LIFE CYCLE AND
CONSTRAINTS
FACED BY SMES
IN PNG**



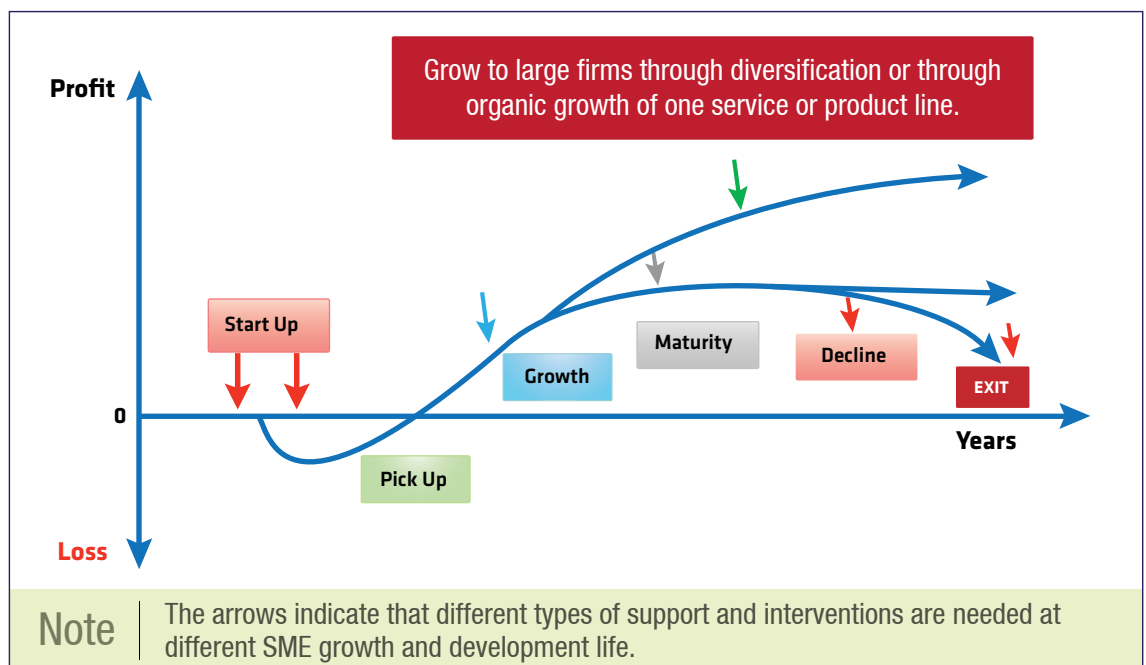
4.1 SME LIFE CYCLE

To initiate targeted support services and interventions which effectively address key constraints and stimulate SME development at the different growth phases, it is important to understand the SME Growth Life-Cycle.

SME can be likened to a biological organism. There are different stages of growth: from start-up, growth, maturity and exit and/or diversification. SMEs are the same and therefore their needs vary as they move through the different development stages.

Figure 4.0 below defines the SME growth life-cycle and indicates different needs and constraints at every stage and, the critical stages at which key interventions are required to support the sustainability and growth of the SMEs as indicated by the arrows.

Figure 4.0 SME Life Cycle



It is accepted that all businesses will follow this growth pattern but the time in each stage of development will vary for each SMEs. Some business may mature quicker than others. Some may grow bigger and become more profitable. Some may take advantage of market opportunities and grow through diversification and so forth.

Not all SMEs will grow into successful businesses and some will face problems and will exit the market. The exit of a business can be due to different reasons. It could be because of bankruptcy or sale of the business to another, most likely a larger business. The reasons for an exit will be considered before support is provided. Businesses that exit due to capacity or market and environmental conditions will most likely be assisted for possible restart.

With over 85% of participation of micro and small business activities in the non-formal sector it is imperative that the transition from non-formal to formal is a key action plan. The migration and transition will increase the government revenue earning capacity, as more businesses will be formalized to pay the appropriate business taxes. SME needs at the different growth stages are varied and different.

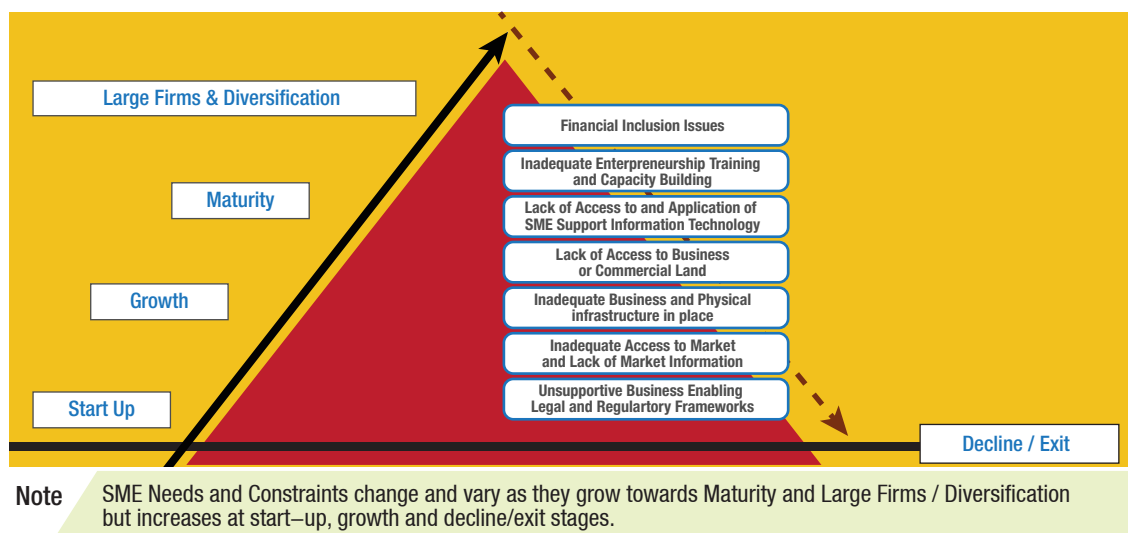
Key Policies:

- 4.1.1 Address identified SME constraints at every stage of the SME Growth Life-Cycle to encourage the transition of SMEs from non formal to formal and from one growth phase to another. This also ensures that there is growth in start ups and increased survival rates of SMEs in PNG.
- 4.1.2 Facilitate formalisation and supporting the graduation of SME's from one level of growth to another and become larger.
- 4.1.3 Facilitate smooth diversifications and exits for SME's already in existence.
- 4.1.4 To provide support mechanisms for businesses who have exited to re-enter the market.

4.2 CONSTRAINTS FACED BY SMES IN PNG.

Papua New Guinea is in the early stages of developing its SME sector and there are considerable constraints that have been identified that is affecting the development and growth of economic sector and SME in PNG. These constraints identified must be addressed to enable a conducive environment for SMEs to grow. Most constraints identified are enablers and infrastructure considerations as these are lacking and if not supported and provided will make it impossible for SMEs to survive. Addressing these key SME development constraints requires coordinated systematic approach by all stakeholders across the different sectors. Key SME development constraints and the level of needs with attention at every stage of their Growth Life-Cycle are identified and indicated in figure 4.1 below;

Figure 4.1 SME Constraints and Level of Needs per Growth Life–Cycle.



Note: The constraints listed above are not exhaustive but are the critical ones identified for SME development which have policy implications. The Policy provisions to address identified key constraints in the SME Growth Life-Cycle are articulated below;

4.2.1 Financial Inclusion

Over 85.62%⁷ of our citizens are unbanked! They do not have access to financial services or facilities of any form. It is important therefore, that appropriate targeted financial inclusion strategies are put in place to increase the bankable percentage of our citizens.

⁷BPNG, PNG National Financial Inclusion & Financial Literacy Strategy 2014–2015

The Financial Inclusion Strategy covers the following areas.

1. Financial and Savings Mindset Development.
2. Access to Financial Infrastructure.
3. Financial Services.
4. Financial Products.
5. Credit Guarantee Corporation.
6. Credit Data Bureau
7. Non-formal sector coverage and financial needs.

1. Financial & Savings Mindset: From Savings to management of finances to investment.

Given our people's subsistence & instantaneous spending culture coupled with lack of financial education on saving, managing and investing money, it is challenging for the aspiring entrepreneurs to start and continue any meaningful long term business venture. The few income-generating individuals are threatened by the entrenched culture of "wantok system" or the extended family expectations, as they become the main social security providers for their families and communities instead of investing to grow and expand their businesses. It is therefore, paramount that a shift in mindset must be developed in the whole society.

Key Policies:

- 4.2.1.1.1 The government through the SME Corporation, the Department of Trade Commerce and Industry, the Department of Treasury and the Bank of PNG must partner appropriate stakeholders to develop financial literacy programs and facilitate the development of innovative solutions to increase participation of SMEs in operating bank accounts and having access to credit facilities as offered by financial institutions.

2. Access to Financial Infrastructure and credit.

Access to sufficient and sustainable credit finance is essential for all SMEs. At different stages of the business life cycle of SME growth they have varying needs for financial support growth. The finance and banking market must understand the credit needs at different stages of the SME growth cycle to effectively provide credit supply to meet their specific credit demands.

Access to Finance is a big constraint in PNG due to the high cost of credit and physical and psychological accessibility to banking services and facilities. The financial institutions know that the cost of providing service to SMEs is comparatively higher than bigger established businesses. They are therefore, reluctant to service SMEs. However, global experience shows that SMEs are a highly profitable market segment. Following the success of the Gramine Bank in Bangladesh, the trend worldwide is to operate bank specifically for SMEs. Apart from NDB, BSP, ANZ and Westpac. We have now the entry of microbanks like Mibank and People's Microbank who are specifically targeting the informal business sector and the SME sector.

NDB was established to serve the needs of our citizens. It has however, been under capitalised and not accessible to all provinces to date. Its current loan book of K300,000,000 is only 2.7% of the total credit of K11,000,000,000 that is being accessed through the commercial financial institutions. At the current rate of borrowings, the K300,000,000 can only cater for 800 SMEs. As a major financial institution for the Government to drive the economic development of this country, this needs to be seriously addressed. There are SMEs who have requirements for larger loan amounts, however, NDB does not have the capacity to service them. The stringent commercial banks credit requirements leaves SMEs fearful of sourcing funding from them and credit difficult to access due to their risk averse credit policies. The high bank fees and transaction charges are a major deterrent to Savings and use of formal commercial Banking Institutions.

The SME baseline survey shows that 94% of SMEs have never taken out a loan or accessed any Government support due to stringent criterias. Current high cost of credit can only be reduced if there is increased competition or the government provides more low interest loans through NDB of up to K1Billion. It is therefore critical that People's Micro Bank (and other micro banks) be facilitated to grow and expand its operations to all Provinces and Districts where it is commercially feasible to do and be upscaled to a commercial bank by 2017.

Key Policies:

- 4.2.1.2.1 The Government may intervene directly or indirectly in the Banking and Financial Market to ensure appropriate credit finance is readily and easily accessible by all SMEs at every stage of their growth life-cycle.
- 4.2.1.2.2 The Government through the Bank of PNG to provide conducive environment as a catalyst for increased credit supply and investment to stimulate SME development and growth including supporting the micro bank and encouraging new entrants into the banking sector.

3. Financial Services

Given the current high rate of over 85.6% of our people being unbanked and the perceived fear of banks by a larger percentage of population, innovative ways of servicing SMEs are to be initiated to address this. User-friendly environment and approaches are to be used by banking institutions to encourage SMEs to access financial products. E-banking and mobile banking solutions to be facilitated to drive the servicing of SMEs. It has proven very successful in Kenya where over 80 % of the people are banked because of the use of mobile wallet, especially by those in rural and remote communities.

Key Policies:

- 4.2.1.3.1 Where the legal framework is not sufficiently robust to support a full range of financial services including insurance, leasing, guarantee and counter guarantee and factoring, appropriate legislation be enacted to support an expansion in financial services and products.
- 4.2.1.3.2 E-banking and mobile phone banking solutions to be driven by the Central Bank as initiatives to increase number of SMEs and the general population to banking services.
- 4.2.1.3.3 User-friendly environment, approaches and processes are to be used by NDB and other banking institutions to encourage SMEs to access financial products.
- 4.2.1.3.4 Strong accounting and auditing standards to be instituted to improve SME access to finance by reducing complexity and encourage lending based on financial statements.
- 4.2.1.3.5 The government to direct NDB through its subsidiary the People's Microbank to apply for a full commercial banking license, so it can mobilise cheap savings and provide more accessible credit and banking and financial services to our rural communities and SME's instead of NDB depending on annual government budget support for recapitalization which has proven to be unreliable.
- 4.2.1.3.6 The government to develop the People's Microbank into a bank for SMEs and securing sustained profitability turn the SME Bank into a community bank using an appropriate community banking model, that is suitable for our local PNG market conditions but taking into account successful global experiences and modalities.

4. Credit Guarantee Corporation.

SMEs have difficulties in accessing start-up capital or loans from established financial and lending institutions. The lack of collateral and reliable customer information due to unavailability of proper financial records, limited management skills, technical capacity and unreliable markets for banks to make informed decisions. These issues make financial institutions perceive a higher risk in dealing with SMEs.

Key Policies:

- 4.2.1.4.1 The Government to establish a Credit Guarantee Corporation and ensure that it has mandatory functions to provide guarantees to SME's to access finance.
- 4.2.1.4.2 Credit Guarantee Corporation is to assist, develop and promote SME's especially those without or with inadequate collateral and without business track record to gain access to financing from the Participating Financial Institutions at a reasonable cost and reduced risk. This is in addition to the current Risk Share Facility housed in the Department of Trade Commerce and Industry.

5. Credit Data Bureau.

There is no centrally coordinated Credit Data Bureau protocol in place that would assist in facilitating the credit worthiness and check organizations that are setting up for businesses. This service would give credit suppliers confidence in giving credit and will force businesses and entrepreneurs to be responsible in servicing their debts. The currently established Private Credit Data Bureau to be coordinated effectively and made visible with greater awareness for integration with institutions and agencies that facilitate credit and management of its risks.

Key Policy:

- 4.2.1.5.1 The Government to set a fully integrated Credit Data Bureau for easy access by all users including SME's in partnership with the Private Sector.

6. Non formal Sector Coverage and their Financial Needs

85% of Papua New Guineans are engaged in businesses in the non-formal sector. They have remained in this sector for as long as they have operated. There are several reasons why they have not graduated into the formal sector, and this is because;

- Most of the entrepreneurs do not have access to institutions and services that will support and facilitate the requirements needed for them to comply to Government requirement of Business compliance.
- Lack of understanding of the compliance requirements breeds psychological fear in Entrepreneurs.
- Lack of financial education and knowledge and so forth.

Key Policy:

- 4.2.1.6.1 Special business education and financial programs to be developed for the facilitation of the non formal sector participants to migrate into the formal sector.
- 4.2.1.6.2 The government to develop incentives and support programs to assist the migration of businesses from the non formal to the formal sector.

4.2.2 Access to Business or Commercial Land

Land is a critical asset required by all sectors of the economy and especially SMEs, as there is limited supply of Land in PNG that are available for commercial use. 97%⁸ of land in PNG is held under customary ownership for which there is no recorded title. Only the state may acquire customary land from customary land owners. All other land is alienated land held by the state (i.e. land that has at some time in the past been acquired by the state) and administered under the land Act. This however, is in critical shortage as districts, towns and cities are expanding. It is therefore crucial that land is made available for SMEs promotion and development through the key land reforms that are being instigated.

The MTDP 2011- 2015 land development goal identified four pillars to be implemented by the Government's National Land Development Program (NLDP). These include:

1. Land Administration and Support,
2. Customary Land Development,
3. Dispute Resolution, and
4. Developing Land Markets.

Key land reforms by the Government through the National Department of Lands and Physical Planning based on the four Land Development Pillars are now necessary and critical to make commercial land available and accessible by SMEs and to facilitate private sector development.

Key Policies:

- 4.2.2.1 The Government through the National Department of Land and Physical Planning must initiate key land reforms based on the four pillars of Land Development to develop land markets and make commercial land readily available and easily accessible by SMEs.
- 4.2.2.2 SMEs are to be given priority or equal opportunity to acquire commercial land through the available 3% of State Land through transparent State Land Management, administration, procurement, and disbursement processes and procedures.
- 4.2.2.3 State to support Customary land registration process (ILG) for the purposes of assisting land owners with options to make available land for commercial purposes.
- 4.2.2.4 State to enact new revised Land Act to restrict State land acquisition to citizens only.
- 4.2.2.5 State to acquire Customary land to increase availability of State land for leasing to SME's.

4.2.3 Access to Market and Market Information

Generally, the importance of SME access to market is critical, particularly in the regional or global markets, especially when the domestic market is fragmented. SMEs in PNG face difficulties in selling their products and service as there is no market for specific businesses. An example of this would be in the arts and craft industry. SMEs also face difficulties in accessing new markets as they are limited by resources, expertise and market information for regional and global markets. Major glaring issue for access to domestic markets for SMEs is the increased influx of sub-standard cheap products mainly from Asia.

Five critical factors in enhancing SME access to market are;

- I. Knowledge about business opportunities, customers, competitors, distribution procedures, local rules and regulations, and taxation of local, regional, and global markets,
- II. Policy and regulatory framework must be well-organized, and must provide the necessary trade business infrastructure and other facilitation services,
- III. Trade barriers - both tariff and non-tariff must be addressed,
- IV. Networking and corporation between SMEs and large firms provides an important source of information, knowledge and skills, and
- V. Market Intelligence, Export Promotion and Regional and Global Supply Chains

Key Policies:

- 4.2.3.1 Access to market information is key to facilitate SME trade and investment and therefore, provision of such information must be made available to SME Corporation by appropriate government agencies, like IPA, IRC, financial institutions and other appropriate bodies.
- 4.2.3.2 The Government through key economic sector departments, agencies and institutions must ensure commodity specific market infrastructure is available and accessible by all SMEs in their specific industries.
- 4.2.3.3 The government through relevant agencies and departments must design key incentives to promote export and utilise bilateral and multilateral trade arrangements to encourage SME exports with particular emphasis on regional and sub-regional trading blocks and new existing market frontiers like the Indonesian market.
- 4.2.3.4 The Government is to ensure the establishment of a coordinated central agency for the purposes of facilitating the collation of appropriate SME information about local, regional, and global markets and all other research insights through external and internal government and non government agencies that are required to facilitate business in PNG to SMEs.
- 4.2.3.5 The Government must set up a International Trade office under the Ministry of Trade, Commerce & Industry to manage all aspects of trade including developing and accessing new markets for SME goods & services using International trade instruments like regional and sub-regional trade agreements operating under the WTO multilateral trading system and so forth.
- 4.2.3.6 The Government to facilitate the promotion of PNG Businesses through trade fairs and exposition both domestically, in the region and globally.

4.2.4 Mindset Change and Entrepreneurial Training and Capacity Building.

Systematic entrepreneurship training and capacity building is critical to promote sustainable SME development and growth. SME owners have different training needs and requirements at different stages of their business's growth life-cycle. This can range from simple financial literacy and business management skills training at start-up to more advance business management and leadership knowledge at the business maturity and diversification stages. Entrepreneurial Mindset development is also a key development need to build confidence for entrepreneurs. Mindset development and personal viability programs are prerequisites to other business training as if an individual does not have the right attitude and mindset it will be a waste of time to impart training on business concepts as they will not be able to do anything with skills learnt unless they are conditioned in their mindset first. Some key contributing factors to lack of entrepreneurial development include:

1. Instantaneous cultural practice of harvest now and consume now has to a certain extent conditioned Papua New Guineans to be instant users of money and or resources instead of saving and investing for greater prosperity. There is also a very low self-esteem and self-worth amongst the general population of this country, which has affected confidence and entrepreneurship.
2. SME owners possess limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited,
3. Weak management skills and application of unproven business practices, thus inhibiting the development of a strategic plan for sustainable growth,
4. SME owners making unwise/uninformed investment decisions, resulting in reduced cash-flows and difficult experiences in encountering extreme working capital volatility,
5. SME owners' lack of technical know-how and inability to acquire skills and modern technology impede growth and development opportunities,
6. SME owners lack professional capacities to keep appropriate business information (auditing, marketing, financial statements, and operational reports) to present to financial institutions to justify their credit worthiness.

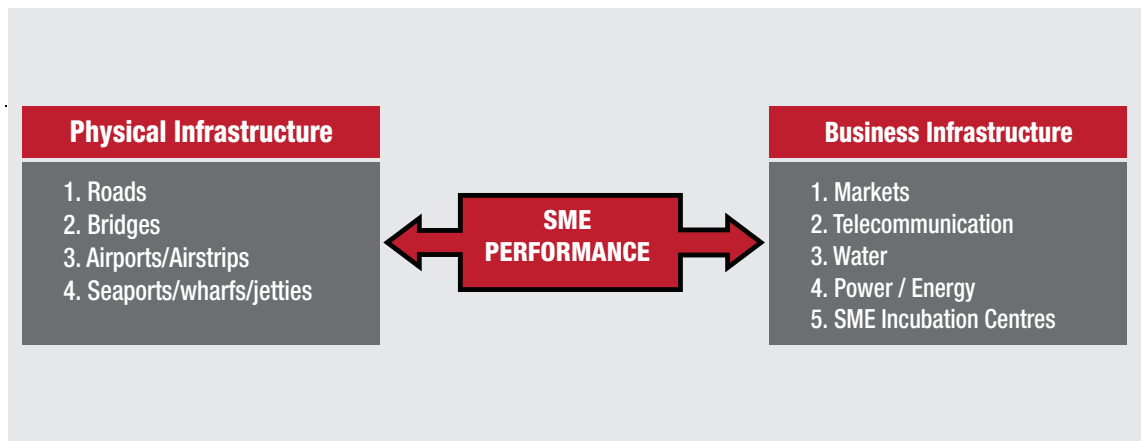
Key Policies:

- 4.2.4.1 Targeted skills training are to be appropriately provided to facilitate sustainable promotion and development at the different development stage of each SMEs.
- 4.2.4.2 The Government through key SME Policy implementing institutions such as SME Corporation and in partnership with appropriate Private sector stakeholders must establish key SME training institutions and business incubation centres and intervention programmes like the NDB Stret Pasin Business Incubation Schemes and the V Shop schemes organised by SVS to facilitate SME training and capacity building.
- 4.2.4.3 The Government to develop and introduce Entrepreneurial skills development programs into the education curriculum, and at all levels of communities down to district centres to facilitate mindset change.
- 4.2.4.4 Personal viability programs as the prerequisite to business and entrepreneur skills development be conducted for the unemployed youths and adults to instill self worth into their lives.
- 4.2.4.5 The Government to include training programs in Teachers' training institutions for the teachers to develop their capacity to teach entrepreneurial skills development programs in education institutions.

4.2.5 Access to Physical and Business Infrastructures

PNG, like other developing economies has the highest cost of doing business due to huge deficiencies in both physical and business infrastructure. Unlike, large firms and multinational companies, SMEs are mostly affected and their performance is highly dependent on accessibility and efficiency of both business and physical infrastructure as they do not have the power of the economies of scale to be competitive, as illustrated in figure 4.2.

Figure 4.2: SME Performance is dependent on Business and Physical Infrastructures



- 4.2.5.1 The Government through relevant responsible government departments, agencies, and SOEs both at the National and Provincial levels must build new business and physical infrastructures and improve deficiencies in the existing infrastructure to drive down cost of doing business.
- 4.2.5.2 Responsible Government departments, agencies, and SOE are to align their plans with the National SME policy and Master Plan so that appropriate coverage and network of infrastructure is available for the development of SMEs at a competitive cost.
- 4.2.5.3 The National and Provincial Governments and Districts through their responsible departments and agencies must ensure that critical economic physical infrastructures are available and easily accessible by all SMEs throughout the country based on social and economic benefits to the people. The prudent use of DSIP funding to support generating income generating opportunities for SME's and the rural based subsistence economy is critical to assist the development of a large cadre of citizen entrepreneurs who will grow over time into formal sector SMEs.

4.2.6 Access to and Application of SME Support Information Technology

The information Technology space in Papua New Guinea has shifted significantly in the last 10 years. The industry has become more dynamic and competitive since the entry of Digicel and other telecommunication and ICT providers into the PNG market, as this has reduced prices of mobile calls and other related services and increased network coverage. The introduction of online Business registration and lodgments through IPA shows the significant potential and opportunity this sector can contribute towards facilitating SME development in PNG. This sector has the potential of further improving the business environment for SMEs through its products and business solutions.

Key Policies:

- 4.2.6.1 The Government to provide through the established or sourced ICT providers, adequate ICT support systems and tools for business development that will reduce cost and assist SMEs to enhance their operating capability.
- 4.2.6.2 The Government to facilitate through the SME Corporation the appropriate establishment and use of ICT information hub or portals and make available easy and ready to use market information, supplier information, supply chain information, market conditions and all other related information that are required by SMEs to operate.

4.2.6.3 The government to put in place adequate ICT policy and legislation and measures that will safeguard SMEs from Cyber-crimes.

4.2.7 Business Enabling Legal and Regulatory Frameworks

Enabling Legal and Regulatory Frameworks provides the fundamentals for all private sector development, and favorable conditions to form the foundation for SME growth, survival and competitiveness.

Transparent and prudent legal and regulatory framework such as business registration, corporate governance, anticompetition, anti-corruption, labour laws, and bankruptcy play key roles in giving confidence to SMEs and SME service providers while creating a level playing field for all players in the SME sectors.

PNG's legal and regulatory environment is not clearly established, complicated and confusing. In the absence of clearly defined aligned laws and regulations, there is little formal and systematically regulated SME activity or none at all. Businesses in the private sector are largely dominated by foreign enterprises or predominantly monopolised by a few. Furthermore, key SME support businesses are regulated monopolies such as SOEs hence effectively reducing new entrants, allowing no competition, thereby increasing the cost of SME operations. Encouraging a dynamic competitive environment will force the regulated monopolies to become efficient and reduce their cost as they provide the services and infrastructures that SMEs need to operate.

Key Policies:

- 4.2.7.1 Supportive and effective legal and regulatory frameworks shall be in place to properly regulate SME business activities and protect citizens' SME activities while allowing equal and inclusive participation in the private sector development.
- 4.2.7.2 The Government through the Ministry of Trade, Commerce and Industry shall formulate a National SME Law and National Content Law to properly regulate SME business activities and protect the interests of non-citizens SMEs while allowing them to equally participate in all SME business activities in PNG.
- 4.2.7.3 The government to formulate a new policies and law on the local ownership and benefit sharing of mining/petroleum and other major large socio economic projects to maximise the business spin off benefits to our SME's and impact communities including landowners.
- 4.2.7.4 Government to build the capacity of regulatory institutions to ensure laws are enforced.





PART 05

**POLICIES BY INDUSTRY
SECTOR AND
CLASSIFICATIONS**

5.1. Agriculture

The Agricultural Sector plays a significant role in the country as it supports 85% of the population who live in the rural areas and will continue to do so in the foreseeable future. The agriculture sector has the highest untapped potential to create more citizen SME's if we can harness its unlimited potential. Despite the importance of the sector, its performance has declined over the years since independence. The agriculture sector contributes only 17% of total exports, while the mining and petroleum sector account for 77% of the exports. Forestry and fisheries account for 5% and 1% respectively.

The poor productivity in the agriculture sector is caused mainly by the following;

- ◆ Poor infrastructure and high transport cost
- ◆ Inadequate access to extension services
- ◆ Lack of credit finance
- ◆ Lack of improved farming methods
- ◆ Lack of comprehensive market information
- ◆ Lack of food or agriculture processing facilities

The Vision 2050 emphasizes for the need to build a strong, dynamic and competitive sustainable sector that will generate around 70% of GDP, with the balance coming from the extractive sector. The challenge therefore is, 'How do we shift an economy that is currently dominated by the mining and energy sectors, to one that is dominated by agriculture, forestry, fisheries, eco-tourism and manufacturing, between 2010 and 2050? The SME sector has a critical role to play in achieving this goal. SME technologies are practical, affordable and manageable and are thus appropriate for the rural areas; SMEs can effectively process locally available raw materials and add value to the sustainable industries output.

Key Policies:

- 5.1.1. The Government is to facilitate the establishment of manufacturing enterprises for specific tree crops, fruits or vegetables in identified locations to add value to agro products, under the nucleus estate agriculture development strategy. This includes the investment in developing many agriculture based Special Economic Zones starting with the Sepik Special Economic Zone, in the Sepik Plains of East Sepik Province.
- 5.1.2. The government is to introduce export taxes for all Agriculture commodities that are currently being exported in their raw form to encourage downstream processing.
- 5.1.3 The government to increase agriculture exports by commercialising crops like cassava or kaukau etc..., and also introduce new viable crops into the sector as appropriate.



- 
- 5.1.4. The government to replace agriculture imports through the introduction of a dairy and feed industry.
 - 5.1.5. The Government is to review and adopt the lessons learnt from the failures and weaknesses of the SABL concept and facilitate a better model to unlock and make available customary land to facilitate SME sector growth
 - 5.1.6. The Ministry of Agriculture and Livestock must develop appropriate strategies in line with the SME Policy and the National Agriculture Development Plan to ensure that SME players in the Agricultural sector are supported innovatively and become major players in the sector especially using the nucleus estate business model to stimulate SME sector growth.
 - 5.1.7. The government must consider transport infrastructure to be in place and subsidies to reduce the cost of transport and to encourage productivity.
 - 5.1.8. The government is to build the capacities of agricultural support institutions such as NAQIA, NISIT and NARI.
 - 5.1.9. The Government must consider subsidising the costs of imported machinery and products such as fertilizers that are required for SMEs in the agriculture sector.

5.2 Forestry

PNG has significant forest resources that have been commercially exploited in industrial scale developments since the 1970s. While much of the richest and most accessible tropical forest areas are already been harvested, PNG still has some five million hectares of natural forest that are suitable for logging

PNG exports round logs, sawn timber, wood chips, veneer and plywood. Of these, raw logs provide most of the export volume and value, although sawn timber and veneer have become increasingly important in the last three years. However, there is little investment in downstream processing or value adding. The Vision 2050 calls for sustainable management of the forest resources considering global issues such as climate change or global warming.

Key Policies:

- 5.2.1. The Government is to facilitate investment in agro sustainable forestry and downstream processing and ban exports of round logs by 2020 as announced by the government
- 5.2.2. The Government must encourage SMEs to go into downstream processing of logs with the technical and financial support of reputable trading partners.



- 5.2.3. The Government is to ensure sustainable management of forest resources including developing policy framework for climate change mitigation and carbon trade.
- 5.2.4. The Government through the district development authorities to encourage local SME to supply timber for infrastructure projects like building of classrooms and so forth.
- 5.2.5. The Government is to encourage the exploration of other business activities apart from logging such as eaglewood and sandalwood development.

5.3 Fisheries

The fisheries sector in PNG comprises subsistence and commercial fishing. It is one of the largest sector that is contributing to the export earnings of the country apart from the extractive sector. In addition, this sector has progressed well in downstream processing and the Government is encouraging more through the development of the Pacific Marine Industrial Zone. The existing tuna processing facilities have allowed for PNG owned businesses or individuals to supply five tons of tuna per day but due to capacity problem this quota has not been utilized.

The NFA is encouraging both coastal and inland fishing especially for SMEs and has financial and technical support programs for SMEs involved in the fisheries sector. However, the millions of kina spent has been a complete waste to a large extent because we have not developed a local feed industry like other inland fishing projects in nations like the Phillipines, which has been the enabler for growth in inland fishing programs.

Key Policies:

- 5.3.1. The government under a PPP business structure is to set up an integrated commercial fishing company to engage and build the capacity of SMEs in the fishing sector.
- 5.3.2. The Government must align the existing support programs and resources available to the SMEs involved in the fisheries sector to build capacity and sustainability.
- 5.3.3. The Government must support SMEs to participate in big tuna processing facilities and its associated spinoff activities by building up their capacities appropriately.
- 5.3.4. NFA must develop a model inland fish farm that facilitates extension training for SMEs.
- 5.3.5. The government must encourage a cheap fish feed factory combined with development hatcheries to supply inland fish farmers.
- 5.3.6. NFA in partnership with National, Provincial and rural district level governments to facilitate the development of marine storage & marketing infrastructure to provide ready markets for SME's in the fisheries sector.

5.4 Mining

The mineral industry is an important sector of the economy.

PNG is now amongst the top ten gold producers in the world. A portion of gold and Silver production is refined in the country and exported in dore bars to refineries in Australia and Japan, whilst copper is exported as concentrate to Japan, Germany and Australia. Smelting operations in the country is underdeveloped.

The Mining industry is dominated by multinational corporations whilst the SMEs are more involved in the spin-off activities and alluvial mining. However, the spin-off business activities from major mining projects have been controversial in that SMEs have not benefited from them as expected. The argument has been that SMEs do not have the capacity in terms of both financial and technical expertise.

The spin-off benefits contained in the project agreements are either loose or there is no policy guiding the implementation of the supply and procurement aspects of the project agreement. Furthermore, the monitoring of this provision in the agreements has not been effective.

SMEs are mostly involved in alluvial mining. Although the amount of gold produced by alluvial mining is smaller compared to the bigger mines. The economic benefits and support system to the alluvial miners and their families is significant. Alluvial mining contributes to significant spin-off benefits to the rural economy. Current estimates indicate that there are about 60 000 people involved in small scale mining nationwide, earning over K66 million annually. This however could be higher as some gold is thought to be smuggled out of the country.

There has not been much government support for this sector in terms of training and finance, although some training was conducted by the then Department of Mining and currently continued by the Mineral Resources Authority.

Key Policies:

- 5.4.1. The government must provide appropriate support services to build the capacity and technical expertise of SMEs and or landowner SMEs participating in big mining and oil and gas projects and build the capacity of SMEs to last beyond the life of the mine.
- 5.4.2. Appropriate Government support programs must be designed to help small-scale miners to build profitable mining businesses.
- 5.4.3. The Government must include in the respective project MOAs that the revenue from the extractive sector be used for the development of the sustainable sector and the growth of SMEs.
- 5.4.4. SME development and long term sustainable development of SMEs must be in place by the mining developers as part of the agreement as their CSO obligations and also ensure gender equity involvement is also in place.
- 5.4.5. The government to ensure there are NO environmental damage and or impact that would affect the livelihood of the people including their mental and physical health especially from pollutants.
- 5.4.5. The government to ban the Fly In and Fly Out practice for the purposes of streamlining the development of infrastructure and other required facilities and keeping revenue in the country to stimulate SME Sector growth.

5.5 Manufacturing

Growing the industrial sector and adding value to resources in the country has been a challenging task. The industrial sector has not progressed much and it is not enough to function as “an engine of economic growth”, especially in comparison to other developing countries. The sector has been inward-looking with limited technological progress. The Manufacturing sector is suffering from the impact of trade liberalization with cheap imported products because the cost of doing business in Papua New Guinea continues to be amongst the highest in the world. Furthermore, the manufacturing sector is also suffering from long-standing weaknesses, including poor investment climate and business environment, inadequate physical infrastructure, underdeveloped industrial technology systems and low skills and education levels.

Key Policies:

- 5.5.1. The Government must facilitate research into appropriate technology suitable to be used by SMEs for the purposes of downstream processing.
- 5.5.2. The Government is to put in place appropriate policy framework and incentives that will ensure the growth of the manufacturing sector.
- 5.5.3. The Government must facilitate large investment in downstream processing of identified cash crops that will become catalytic projects.
- 5.5.4. The Government will provide incentives and other support services for the SME sector to become more innovative and utilize the raw materials available for downstream processing.

5.6 Electricity, Gas, Water and Waste Serves

The Electricity, Gas, Water and Waste Services industry is responsible for providing households with essential power, water, and waste removal services. Hundreds of thousands of kilometers of pipes, poles and wires extend electricity, gas, water, drainage and waste services across the country.

The Electricity Supply sector is responsible for the generation of electricity as well as its transmission and distribution. It is also responsible for arranging the sale of electricity via power distribution systems operated by others. PNG Power, an SOE currently generates around 99% of national energy for its citizen's domestic use. It is however not sufficient to power large commercial consumption and therefore large private resource projects like mining companies.

The Gas Supply sector pipes gas (for example natural gas or liquefied petroleum gas) from the point of extraction and refinement. Distribution of gas for household consumption and factories are currently delivered by the private sector. Use of gas for electricity generation; should be supported as a cheaper and cleaner source of energy.

Water Supply, Sewerage and Draining Services are responsible for the bulk storage, treatment and



distribution of water through a system of pumping stations, aquaducts and the water mains. They also operate sewerage systems, drainage systems and sewage treatment plants. This service is being currently operated by state owned enterprises.

These are enabling sectors that are essential for the functioning of the economy and thus are heavily regulated by government aiming to achieve availability, quality, and reduced adverse environmental impact at a cost effective price.

The prices however, have been quite high and unreliable as they are operated by state owned enterprises and have become monopolies that are ineffective and inefficient in their operations.

- 5.6.1. The Government will encourage and support SMEs participating in the transmission, generation or distribution of electricity, which will also help in reduction of rates and its reliability which also includes distribution and sale of solar power equipment.
- 5.6.2. The Government must put in place appropriate measures to facilitate through PNG Power, Water PNG and other utility service providers, to ensure efficient and consistent supply at reduced cost of Electricity, Gas, Water and Waste Services as current rates are very high compared to other developing countries.
- 5.6.3. The government to partner the private sector under the PPP Policy to increase new entrants in the utility sector like water, power and ports to increase competition in order to secure cheaper and reliable services.

5.7 Constructions and Infrastructure

The construction sector in PNG has enjoyed rapid growth in recent years. The industry, worth K265.6 million (\$126.38m) in 1994 is now one of the economy's largest contributors of GDP, valued at K4.81-billion (\$2.29b) in 2012. Annual growth in the sector has averaged 17.9% since 2007. This has been the direct result of the PNG LNG construction phase which also had spin off effects in the other sectors notably in the building and construction, storage, transport and the wholesale and retail sectors.

The government is planning and putting in place measures to support cooling of the construction sector as it emerges from a period of change and growth. The sectors' contribution to GDP growth is 14.3% in 2011 and it is projected that the sectors contribution will grow at 0.7% in 2015. This is indicative of new sectors firing up than any largescale cessation of the activity.

The Government is relying on the revenue from the LNG project to fuel a wholesale reformation of the national economy and the construction sector remains firmly at the forefront of national development planning.



In implementing the Vision 2050, the government has already embarked on an ambitious four-decade roadmap to transform PNG's urban centers and national infrastructure. PNG's roads, ports and airports are all subject to intense repair and new constructions are planned funded both internal and by donor support. This will allow the construction industry to continue to grow and reduce the cost of transport for the sector.

However, PNG construction companies do not have the capacity to bid for and participate in big construction works due to low capacity, technical know-how and expertise. PNG has experienced big foreign construction companies taking over much of the construction work in the country, especially evident as hardly any Papua New Guinean companies have won any of the multi-million kina South Pacific Games construction contracts and any of the major road contracts.

Key Policies:

- 5.7.1. The Government must design and provide appropriate training and other support services for the SMEs involved in the construction sector so that they are able to take on major construction works in the country.
- 5.7.2. The Government must ensure that foreign construction companies who win government tenders must support SMEs by subcontracting up to 50 percent of the work in their contracts.
- 5.7.3. Government infrastructure development contracts up to and under K10 million must be reserved for citizen companies only.

5.8 Wholesale and Retail

The wholesale Trade sector comprises of establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The wholesaling process is an intermediate step in the distribution of merchandise. Wholesalers are organized to sell:

1. Goods for resale (i.e., goods sold to other wholesalers or retailers),
2. Capital or durable non - consumer goods, or
3. Raw and intermediate materials and supplies used in production.

Those involved in the resale of goods from the wholesale are retailers. They are a direct link to consumers.

Most SMEs in PNG are involved in this sector and are responsible for providing much needed merchandise such as clothing to the rural areas. The whole sale and retail sector grew by 25% over the last few years due to the LNG construction phase. This is expected to slow down by 5% as the LNG winds down its construction phase.

Key Policies:

- 5.8.1. The Government to provide appropriate support services to SMEs involved in the wholesaling and retailing sector to ensure its growth and continue to provide that much needed services to the rural areas.
- 5.8.2. The Government is to reactive the Stret Pasin Stoa concept supported by tax incentives and other similar arrangements to enhance the development of the wholesaling and retailing sector under a business incubation scheme.

- 5.8.3 Retail shops that sell up to and less than K10 million a year in annual gross sales must be a reserved business for citizens only. This includes all fuel-based service stations, travel agencies and so forth.
- 5.8.4 The government through the PPP arrangement to establish a PNG trading company to service the SME wholesale and retail sector to bring down the cost of goods and services for SMEs to be competitive.

5.9 Accommodation and Food Services

The Accommodation and Food Services sector comprises of establishments providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption. The sector includes both accommodation and food services establishments because the two activities are often combined at the same establishment.

The Accommodation industry includes hotels, motels and similar places providing short-term accommodation. This industry also covers the provision of accommodation at camping grounds, caravan parks, guest and holiday houses and flats, private hotels or serviced apartments which offer short-term accommodation.

The accommodation and food industry has huge potential in the country. Major hotels are owned and operated by foreigner enterprises whilst lodges, motels and rental accommodations are owned and operated by Papua New Guineans.

The same cannot be said for the food services as most food bars and restaurants are owned and operated by foreigners.

Key Policies:

- 5.9.1. The Government through the Tourism Promotion Authority must provide appropriate support services for SMEs to participate equally in the accommodation and food industry.
- 5.9.2 The government to restrict the acquiring of Gaming Licenses taken out by foreigners to operate sites.

5.10 Tourism and Hospitality

PNG's tourism sector is showing solid signs of consistent growth with increased visitor arrival numbers in recent years. A renewed focus on niche markets, particularly adventure and ecotourism, has seen international recognition burgeoning sector. However, lack of infrastructure and security issues is frustrating further achievements.

The Government is targeting 1.5 million visitors and \$6.28 billion in tourism receipts by 2030. The latest figures indicate that it is on right track. Visitor's arrival numbers more than doubled from 77,730 in 2006 to 165,059 in 2011. In the same period, average spending grew by 47% to \$3133, and the average length of stay hit 20.4 days in 2011.

To continue this trend, the government has put in place a Tourism Development Master Plan and is focusing on the country's natural attractions. With more than 600 islands, a land mass of 470,000 sq. km and a population of 7.06 million, PNG remains one of the world's last frontier destinations, replete with adventure destination options and a myriad of animals and plant species. The government envisages developing PNG as one of the world leading adventure destinations, which offers niche segments of diving, surfing and bird watching.

The Tourism and Hospitality industry has the potential to create more business opportunities for Papua New Guineans if developed appropriately. Whilst guest houses and lodges are covered above, the potential for handcraft, tour guides and operators, transport amongst others have the potential which SMEs can tap on.

Key Policies:

- 5.10.1. The government must facilitate the development of all key infrastructure in provinces that have been identified as tourist destinations.
- 5.10.2. The government to reduce costs of tourism products to drive the growth of Tourists inflow for increased opportunities for SMEs especially new products like the Baiyer River Bird Sanctuary.
- 5.10.3. Introduction of standards for the development and ratings of Tourism product and services in PNG.
- 5.10.4. The Government through TPA will design appropriate support services to the SMEs involved in the Tourism Sector in line with the Tourism Development Master Plan, the SME Policy and SME Master Plan.



- 
- 5.10.5. TPA to expand aggressively the marketing of PNG tourism products overseas through an integrated and targeted approach to increase tourist flow into PNG.
 - 5.10.6. The Government must encourage more foreign airlines to enter the PNG market under our open sky policy to reduce the cost of international travel to PNG and target more tourists from bigger tourism markets like China and Indonesia by encouraging Air Niugini to fly to those countries under code share arrangements initially with their flag ship airlines. More competition shall be encouraged in the local domestic air travel space.
 - 5.10.7. The government to selectively partner more countries to offer visa on arrival as a deliberate policy to attract for tourism and business travellers to Papua New Guinea.
 - 5.10.8. With the significant investment in world class sports and convention facilities to host the South Pacific Games and APEC 2018, the Government must actively seek to market Port Moresby and Papua New Guinea as a sports and convention capital of the Pacific under our sports tourism and convention tourism initiatives and provide business opportunities for our local SME's to participate and benefit from.

5.11 Transport, Postal and Warehousing

The Transport, Postal and Warehousing industry is responsible for the transportation of passengers and cargo, warehousing and storage for goods, the movement of passengers as well as support activities that are related to various modes of transportation. Businesses that facilitate the movement of freight such as import-export agents, freight forwarders, and shipping agents are also part of this industry.

This sector has experienced growth over the last few years due to the LNG construction phase. It grew by 16% but is expected to be reduced to 2.6% due to the winding down of the LNG construction phase.

Key Policy:

- 5.11.1. The Government must design and provide appropriate support services and incentives to SMEs involved in this sector so that they become more efficient and provide quality services that will ensure growth in other sectors.



5.12 Information Media and Telecommunication

The Information, Media and Telecommunications Industry cover a broad spectrum of activities within both the public and private sector. This ranges from newspaper, book and software publishing to motion picture production and distribution, sound recording and music publishing, to Internet publishing, broadcasting and service provision, library and related information services.

The industry is responsible for the creation and storage of information products, such as creative content - the stories, photographs and music - contained in movies, newspapers, books and television and radio broadcasts. It also provides services to enable the storage and transmission of these information products via electronic, wireless, optical and other means.

The Information Media and Telecommunications Industry is a dynamic sector that has been dramatically impacted by changes in technology. Coupled with the breadth and diversity of its activities, the industry employs people interested in creative and technical writing, photography and music production, back stage production services, as well as computer programming, engineering and related technical and electronic support.

Key Policies:

- 5.12.1. The Government must provide tailored support services to this sector to ensure its growth and diversification.
- 5.12.2. The Government must legislate and enforce the Copy Rights and Intellectual Property Rights to support the growth of this sector.

5.13 Financial and Insurance Services

The Financial and Insurance Services industry consists of both public and private sector organizations involved in the provision of finance and related financial services.

Private sector participants in this industry sector include banks and credit unions, superannuation providers, insurance providers, investment managers, stockbroking and securities firms, and a diverse range of other financial services providers.

Banks and credit unions create and facilitate credit by acting as an intermediary between lenders and borrowers, and operating the payments transfer system. Industry participants provide a range of services, including securities (stocks) dealing, foreign currency exchange, corporate financial advice and assistance, facilitating trade finance, risk management services, wealth and asset management and financial planning advice.

Many of the large companies operating in this industry either have international offices, or work closely with overseas companies.

Apart from the major players, many smaller players (both formal and informal) have merged over the years providing loans for personal needs. The high cost of living as well as the need to meet customary obligations, has forced the working class to borrow from smaller financial institutions and those from the informal market. Although, the interest rates are high, they are demand driven and are designed to meet individual needs immediately.

Key Policy:

- 5.13.1. The Government to establish a new Commercial Bank to service the needs of the SME Sector.
- 5.13.2. The Bank of Papua New Guinea and our Government must actively seek to increase competition in the banking and financial services sector to help reduce the high cost of banking fees and charges and encourage more investment in e-banking products to increase outreach, increase market penetration to help to reduce our unbanked population to encourage SME sector growth, especially amongst our women and our youth.

5.14 Rental, Hiring and Real Estate Services

The Rental, Hiring and Real Estate Services industry includes all enterprises predominantly engaged in renting and leasing assets as well as businesses engaged in selling, buying and managing real estate.

Goods that are made available for the use of others through rental or lease agreements include heavy machinery and scaffolding, videos and other electronic media, coin operated amusement machines, art works, bicycles, camping equipment and costumes. Do-It-Yourself equipment and hand tools, electric and electronic appliances, furniture, office machinery, pot plants and sound reproducing equipment are also hired, as are sports and recreation equipment, suits and other formal wear. electric and electronic appliances, furniture, office machinery, pot plants and sound reproducing equipment are also hired, as are sports and recreation equipment, suits and other formal wear.

The industry also manages the hire and lease of assets such as brand-names, patents, trademarks and franchise agreements, plus the rental, valuation, selling and management of domestic, commercial and industrial real estate.

Key Policy:

- 5.14.1. The Government must provide appropriate support services that are required for the SME's involvement in this sector including concessional loans through the National Development Bank to support our local SMEs doing business in the industry.
- 5.14.2. Franchise car businesses are to be a reserved business for Papua New Guinea citizens and companies.

5.15 Professional, Scientific and Technical Services

The Professional, Scientific and Technical Services Industry specializes in performing professional, scientific, and technical activities for others in a variety of industries and, in some cases, to households. The major product sold by this industry is specialist professional expertise. It is rare for materials or equipment to be provided.

Specific services provided include legal advice and representation; accounting; architectural engineering and design; computer system design; consulting; scientific research; advertising; photographic; translation and interpretation; veterinary; and a range of other professional, scientific and technical services.

Key Policy:

5.15.1. The Government is to provide appropriate support services to its professionals who render their services in the Professional, Scientific and Technical Services sector.

5.15.2. The Government is to give priority to giving such business opportunities to professional citizen SMEs.

5.16 Administrative and Support Services

The Administrative and Support Services industry provides a wide variety of important routine support functions that are vital to the day-to-day running of businesses and organizations in both the public and private sectors.

While many businesses and organizations perform these services themselves, the recent trend is for both public and private sectors to outsource such non-core work on a competitive fee basis, usually through tenders or through preferred contractor lists where they meet specific administrative and support services standards and criteria.

Service providers offering administrative and support services are mainly engaged in activities such as office administration; hiring and placing personnel for others; preparing documents; taking orders for clients by telephone; providing credit reporting or debt collection services; arranging travel and travel tours.

Other Support Services provided by this sector are cleaning services; pest control services; gardening services; and packaging products for others.

Key Policy:

5.16.1. The Government will design and offer appropriate support services to the SMEs involved in this sector.

5.17 Public Administration and Safety

The Public Administration (government) and Safety industry looks after the needs of the public and assists them to access government services. It also maintains public order and safety. The sector includes the national, provincial and local level governments.

The Public Safety sector is responsible for the prevention and protection of the general population from natural and other threats. It protects and preserves the safety and security of the people and property. Over the years due to the high crime rate, private security companies have emerged providing private security to properties and businesses.

Key Policy:



- 5.17.1. The Government is to design and offer appropriate support services to the SMEs involved in this sector.

5.18 Education and Training

Education and Training comprises both the public and private sector operators. In PNG, private education and training has expanded much faster due to the high demand for training and education given the fast population growth rate.

Private Child care, pre-school and training institutions have emerged over the years especially in the urban areas. Due to the high population growth rate, the government cannot adequately provide for the school facilities and teachers. Hence, this private education and training programs have filled in the gap that is much needed.

Key Policy:

- 5.18.1. The Government is to provide appropriate support to the education and training institutions that will continue to train and educate its citizens. Further, the Government will ensure that entrepreneurship training becomes a curriculum in these training institutions.
- 5.18.2 The Government must formulate a policy to encourage and support more private education and training providers to improve the quality of education in the country and encourage more SME's to take business opportunities available in providing better education for our children and even post-secondary education like private TVET educational opportunities.

5.19 Health Care and Social Assistance

The Health Care and Social Assistance industry offers a wide variety of services in helping and caring for all within predominately a community services environment.

Health Care comprises both public and private sector operators and includes all the services offered by hospitals, specialist medical services and many other allied health services, such as dental, optometry and ambulance services.

Social Assistance includes aged care, people with a disability, those from a culturally diverse background as well as children's services, emergency accommodation, and refuge centers.

Key Policy:

- 5.19.1. The Government is to develop appropriate support services for SMEs involved in this sector



5.20 Arts and Recreation Services

The Arts and Recreation Services industry is diverse from museums and galleries to sporting and outdoor adventure activities, preservation and exhibition of objects and sites, organizing live performances and exhibitions, and the operation of sporting and recreational facilities and events. It covers variety of opportunities for social, cultural and sporting enjoyment. Through the management of museums, zoological and botanical gardens, nature reserves and conservation parks this sector is responsible for the preservation of our national heritage and history, and conservation of habitats and species. It also manages performing arts, sporting and physical recreation facilities and venues such as theatres, large entertainment centers, health and fitness centers to gymnasiums and sporting and recreation club grounds and Facilities. Other popular smaller venues included in this sector are amusement and theme parks, outdoor adventure activities such as rafting, cave tours and bush walking or tracking.

Additionally, organizations such as casinos, lotteries and other gambling activities such as Internet gambling, bookmaking and TAB operation are included in this industry division. These provide the opportunity for involvement in a number of different recreational areas, such as in bet making and even in the organization of lottery funded community initiatives.

Key Policy:

- 5.20.1. The Government is to develop appropriate and tailored support services to support the SMEs involved in this sector.
- 5.20.2. The government to partner the International Trade Centre to commercialise the bilum industry in the country.
- 5.20.3. The government through NDB to develop a new franchise shop for arts and crafts including bilums to be set up in cities and towns where there are high tourist inflows and large expatriate population like Port Moresby.
- 5.20.4 PNG Boutique Shops must be open in international tourist locations at airports or relevant high traffic tourist destinations to market PNG arts & crafts.





PART 06

**POLICIES ON SME
DEVELOPMENT
IN EACH PROVINCE
OF PNG**

6.1 Current Status of Provincial Economies and SME Development

The growth and development of SMEs around the world is always preceded by the development and growth of its economic sector. SMEs spring up from opportunities that are being created by the various activities that facilitates economic development.

Good examples of these is that of Taiwan and Japan, where the number of SMEs have significantly grown as they turned their economies around and SMEs now constitutes over 90% of their economies. With this insight, the provincial consultative workshops highlighted that majority of the 22 provinces reviewed had little to no economic activity except for a central administrative hub for the provincial governments. All provincial governments currently are very dependent on Waigani for their annual provincial budgets. The major forms of businesses conducted were predominantly retailing and over 95% of them were foreign owned. Local Indigenous Papua New Guineans are only engaged in cash crop or subsistence farming. This further re-enforced foreign ownership of businesses in PNG and also clearly shows the disproportionate distribution of wealth amongst Papua New Guineans. Existence and or development of basic infrastructure and social care amenities is under developed or has greatly deteriorated which makes it very difficult for every day living. This environment makes it very difficult for any meaningful participation by the people in any forms of economic development, hence the presence of SMEs in most provinces is negligible.

Key Policies:

The development and transformation of our Nation rests on the ability of the government to drive and facilitate the growth of SMEs. For this to happen, the following developmental priorities must be initiated:

- 6.0.1** The National Government and each provincial governments must align all its economic development plans and resources for the development of each province.
- 6.0.2** The Identified Catalytic projects in each provincial plans must be developed.
- 6.0.3** All provincial governments and Districts must have an SME development plan that is aligned to the National SME Master Plan and inclusive of districts, local level governments and the Wards.
- 6.0.4** The infrastructure and business enabling requirements for each provinces to facilitate each of the catalytic projects must be delivered-including provincial business growth centers to be reactivated. (Currently known as business promotional centres.)
- 6.0.5** Major cross cutting issues and threats identified in each provinces must be addressed as enablers to facilitate SME Growth. Major cross cutting issues that has been identified for all provinces are:

- ◆ Break down of Law and Order in nearly all provinces.
- ◆ Substance abuse especially by youths which gives rise to increased law and order problems.
- ◆ High incidences of HIV aids and its effects on the communities.
- ◆ High unemployment and disengaged youths in all provinces.
- ◆ Women and youth are not active players in economic activity and this must change as these two segments of population caters for more than 70% of the population.

The major threats as identified are:

- ◆ Continued focus on extractive sector with no clear integrated directions to move away from that industry by way of legislation or policy, except political statements etc.
- ◆ Sea bed mining.
- ◆ Poaching of marine products in all marine provinces.
- ◆ Non Organic practices if we are going down organic platform for Agriculture development.
- ◆ International Trade and Investment liberalisation
- ◆ Cross cutting Issues not addressed.

6.2 Private Public Partnership

Development and growth of the SME sector and the success of the national SME policy will depend on the partnership between the government and the private sector. Under the policy framework the government will very much play a regulatory role. Private sector will facilitate and drive the implementation of the policy. Therefore, the Government would need to invite and engage reputable companies to manage SME development funds that SME business can have access through some rigorous process. Private Companies, Development Partners and Non-Governmental Organizations would also need to be engaged to provide business management training and mentoring program. Government together with other partners should be involved in the monitoring and evaluation of the outputs and impacts of the policy



PART 07

**POLICIES ON
STIMULUS
PACKAGE FOR SME
DEVELOPMENT**



7.0 Incentives to Stimulate SME Development and Growth

7.1 Taxation Incentives for SME Development and Growth

Tax remains the biggest revenue base for Government Budgetary financing. The tax regime covers individuals Income to profit making groups and businesses. High Income tax rates on the taxpayer is a long standing concern as it ultimately affects the take home pay which in most instances is unable to cater for families, or let alone difficult to foster a savings culture due to lack of access income to the tax payer. High goods and service tax has further put strain on the take home pay.

Company taxes in PNG is more favourable to larger organisations. Compared to other sectors the extractive sector is more favourable and this has affected the government full revenue potential. The challenge remains that there is more support by way of tax incentives and benefits to larger organisations as opposed to encouraging entry into market of smaller Papua New Guinea enterprises. The encouragement of growth of SMEs in most part operate in the informal sector will further bolster the revenue stream which is currently not even captured. The negative perception of taxes has further exacerbated the growth of the informal sector, who do not pay the required company taxes. Lack of awareness and information into current available tax incentives has greatly affected SMEs to fully capitalise on elements that would give them greater tax relief and increase their competitiveness.

Key Policies:

- 7.1.1 Taxation support must be strengthened with appropriate reforms and a review to ensure that taxation processes are stream lined and simplified to encourage formalization of SMEs from Nonformal to the formal sector. The volume of tax and concessions will be determined to weigh in favor of the growth of SME sector and of facilitating the savings culture mindset for the medium to long term.
- 7.1.2 Employee and Employer Tax Awareness must be conducted through the available modes of communication to educate more people and businesses about the benefits they could gain from the current tax regimes as tax incentives provided to SMEs.
- 7.1.2.1 The Government must provide attractive Tax incentives for formalised SMEs as a vehicle to drive the formalisation of businesses from the non-formal sector. Recommendations to be analysed for endorsement are:
- ◆ Micro and small SMEs do not pay Tax in first 5 years of operation.
 - ◆ Medium SMEs to be taxed at a reduced rate.
 - ◆ Tax Credits for larger companies who provide patronship or mentoring and or business development services to grow SMEs.

7.2 SME Award Schemes

The Government now with the establishment of the SME Council should formulate a new SME Awards Scheme that should be an annual much sought after event to recognise exceptional performance in the SME sector.

The Government has taken the bold step to launch the Award Schemes and actions are being taken to roll out the schemes. Further actions will be taken to identify international best practices, innovative ideas and strategies and tailor them to address emerging SME growth and entrepreneurship challenges.

Key Policy:

- 7.2.1 The government must facilitate the appropriate award and recognition schemes to different categories to encourage and stimulate the growth of SMEs in the calendar of the SME Council. The Prime Minister shall preside over these awards annually, as Chairman of the SME Council of Papua New Guinea.

7.3 Commodity Price Support

Agriculture sector is the backbone of the PNG economy. It has, however, received little or no support and if any, support systems and mechanisms and structures are either non-existent, defunct or deteriorated beyond use, whilst the institutions mandated to provide much needed support at the national and provincial level continue to function.

In the midst of the current downturn in global prices for the country's major agricultural exports such as copra, cocoa and coffee, actions must be taken to cushion the adverse effects of low commodity prices.

Due to the reduction of global commodity pricing farmers have been reluctant to engage actively as net benefit of their day's labour has been negligible. This has affected the expected quota required within the expected timeframe.

It has also been revealed during the SME consultative workshop that farmers are not responding as well as anticipated to the new clonal cocoa seedlings which have been developed and introduced to deal with the current cocoa borer disease that is threatening not only the cocoa industry but other crops as well.

Key Policies:

- 7.3.1 Re-introduce the Price Stabilization Fund to provide the much needed domestic price support during global downturn in commodity prices.
- 7.3.2 Introduce Trading houses as middlemen for those commodities that do not have effective middlemen to purchase from small holders and resell on their behalf whilst maintaining price stability.
- 7.3.3 Revamp the Extension Services programme and resourced appropriately for impact delivery into Rural areas through the BDO and or Commerce Advisors for each districts.
- 7.3.4 Government would need to provide an enabling environment by establishing regulatory policy framework for supply chain that will create an effective link between the growers/producers and consumers. This will allow SME business to flourish and also address market access issues.
- 7.3.5 In areas of agriculture the focus should be on value adding through downstream processing and improvement in farming methods and introduction of appropriate and affordable farming technology.
- 7.3.6 The policy would also need to address crosscutting issues that acts as barriers and impediments to the development and growth of the SME sector. These issues include inadequate access to finance by SME players and participants, unavailability of land for use by SME participants, lack of business management skills by ongoing SME participants and new entrants to the sector, law and order and issues and lack of infrastructures which prevents people from engaging fully into business activities.

- 7.3.7 Government would also need to review immigration policy regime particularly on areas on business and employment visa. There should be an effective process of processing immigration documents for foreign business participants and foreign citizens engaged and employed in PNG owned SME business. This allow transfer of skills, knowhow and technology to back business players hence promoting the growth of SME sector in the country.

7.4 Public Utilities & State Owned Entities

SOEs come under the jurisdiction of the IPBC. Currently ten SOEs are administered by IPBC providing utility services to the nation. Most of them are legalized monopolies which have since inception enjoyed the comfort of state protection, and have now proven to be generally inefficient, ineffective and costly.

Key Policies:

- 7.4.1 State protection must be removed and allow for competition and the forces of supply and demand to dictate price of service.
- 7.4.2 All SOEs are to reduce their cost, improve the quality of services and increase the coverage and outreach services in terms of rural communication, rural electrification, urban and rural water supply, postal and port services and airfares among others.
- 7.4.3 PNG Power and PNG Water as State owned agencies to promote the use of renewable power energy and engage SMEs in the provision of such services and facilities.

7.5 Reserve Businesses

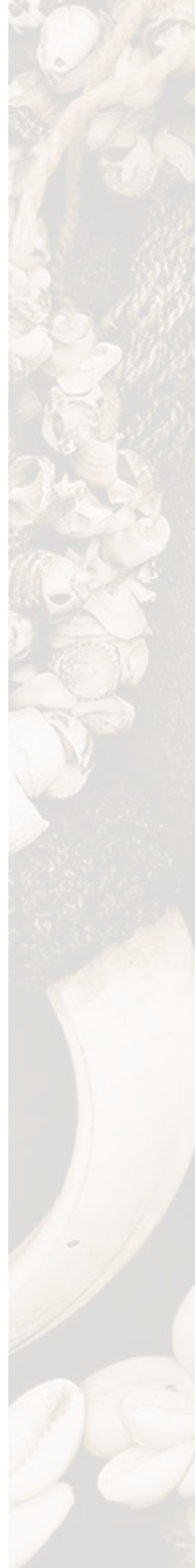
Under the IPA Act , some business activities were reserved exclusively for citizens only to venture into. However, under the Structural Adjustment Program, the reserved business activities list was revised and only the cottage industries was reserved for citizens. This has resulted in foreign enterprises taking over business activities that an ordinary citizen can do.

Citizens find themselves unable to compete in business activities that were once reserved. Despite reserving a smaller cottage activity list, it was only artisan backyard-type activities that did not give any prospects of venturing into full time successful SMEs. This among other concerns prompted the O'Neil-Dion Government to re-introduce the reserve activity list to bring back some degree of confidence and comfort to the affected local businesses and prospective business startups.

The National Executive Council can change or amend the listings from time to time as appropriate.

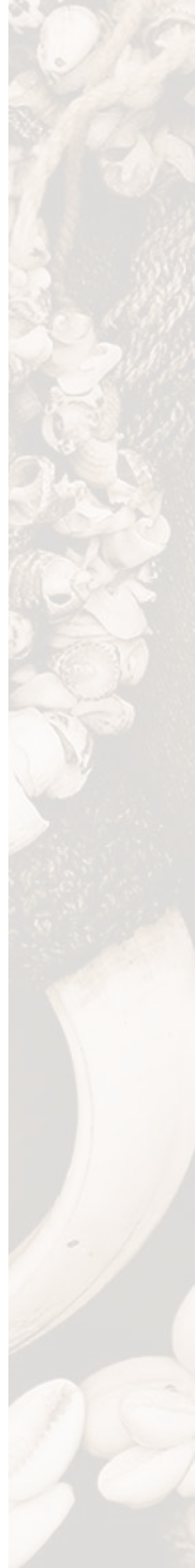
PARAMETERS	100% PNG	PARTNERSHIP (49% FOREIGN / 51% PNG)	OPEN
Initial Investment	Less than <K10,000,000	More than K10,000,000 & less than K20,000,000	K20,000,000 +
Technical requirements of the Business	Low	Medium	High
Turnover	Less than K10,000,000	More than K10,000,000 but less than K15,000,000	Less than K15,000,000
Number of Employees	Less than 50	More than 50 but less than 200	200+
Trade or Skill Competency within PNG	High	Medium	Low

RESERVE ACTIVITY LIST (RAL)		OWNERSHIP (100% PNG or 49/51) PARTNERSHIP
NO. #	Agriculture and Livestock	
1	Growing of tree crops (Coffee, cocoa, Copra, Vanilla, Tea, Oil Palm etc).	100% PNG
2	Processing and development of tree crops for export.	100% PNG
3	Roadside buying of cash crops	100% PNG
4	Export of Cash Crops.	100% PNG
5	Wholesale and retail sale of commodity coffee and copra, except by growers and processors	100% PNG
6	Cultivation & Growing of crops & other market produce.	100% PNG
7	Horticulture	100% PNG
a	Traditional Herbal Medication 100% PNG	100% PNG
b	Plant Nursery and farming 100% PNG	100% PNG
c	Florist / Flower arrangement. 100% PNG	100% PNG
d	Mushroom Farming and retailing	100% PNG
8	Farming of animals. (cattle, pigs, rabbit)	100% PNG
9	Dried or preserved nut, vegetables, fruits and or other crops.	100% PNG
10	Poultry Farming	100% PNG
11	Growing of crops combined with farming of animals (mixed farming)	100% PNG
12	Farming of Fruits and nuts.	100% PNG
13	Coffee pulping using manual pulping machine with the beans saleable at buying points or at coffee depots.	100% PNG
14	Hunting, trapping and game propagation including related services activities.	100% PNG
15	Downstream processing of cash crops	49/51
Building & Construction		
1	Architectural firms.	49/51
2	Building and Maintenance of buildings and dwellings.	100% PNG
3	Electrical contracting	100% PNG
4	Erection of fences	100% PNG
5	Plumbing maintenance, drainage and repair	100% PNG
6	Painting	100% PNG
7	Institutional and housing maintenance	100% PNG
8	Welding	100% PNG
9	Brick laying	100% PNG
10	Tiling	100% PNG
11	Carpentry	100% PNG
12	Air Conditioning and Refrigeration	100% PNG
13	Joinery	100% PNG
14	Metal Fabrication	100% PNG
15	Drilling operations for quarrying of stone, sand and clay.	100% PNG
16	Pre Fabricated Buildings.	49/51
17	Furniture Making.	49/51
Clothing & Apparel & Textile and related activities		
1	Second Hand Clothing retailing.	100% PNG
2	Sewing.	100% PNG
3	Curtain Making.	100% PNG
4	Colouring or dyeing of fabric with patterns or designs.	100% PNG
5	Tailoring.	100% PNG
6	Screen Printing.	100% PNG
7	Fashion Accessories .	49/51



Culture and related Activities:		
1	Indigenous culture & art (any form of displaying with the original art form or establishing outlets for commercial purpose).	100% PNG
2	Wholesale and retail sale of handicrafts and artefacts.	100% PNG
3	Commercial Reproduction of artefacts and or Indigenous Art symbols and emblems onto clothing or saleable items.	100% PNG
4	Manufacture of handicrafts.	100% PNG
Entertainment and Music.		
1	Night Clubs and Social Clubs if stand alone.	100% PNG
2	Discotheques if stand alone.	100% PNG
3	Deejay Businesses.	100% PNG
4	Standalone Licensed Liquor Outlets.	100% PNG
5	Motion picture distribution and projection	100% PNG
Fishing & Related activities.		
1	Fishing on a commercial basis in coastal and inland waters. "Coastal" means within three miles off the shoreline.	100% PNG
2	Taking of marine or freshwater crustaceans and molluscs. Hunting of aquatic animals such as turtles, sea squirts and other tunicates, sea urchins or other echinoderms and other aquatic invertebrates.	100% PNG
3	Small scale fishing.	100% PNG
4	Fish farms	100% PNG
5	Gathering of marine materials such as natural pearls, sponges, coral and algae.	100% PNG
Forestry, Logging and Related Activities		
1	Gathering of wild growing forest materials including balatta and other rubber-like gums; cork; lac, resins and balsams; rattan; vegetable hair and eel grass; acorns and horse chestnuts; mosses, lichens and cut evergreen trees used for festive occasions; saps; bark; herbs; wild fruits; flowers and plants; leaves; needles; reeds; roots; or other wild growing materials.	100% PNG
2	Wok about (mobile) sawmills.	100% PNG
3	Sawmilling	100% PNG
4	Timber yard and Timber retailing.	100% PNG
5	Timber logging to downstream processing. – 49/51	49/51
Food & Catering and Related Activities:		
1	Fast food / Kai Bars.	100% PNG
2	Mobile food delivery service.	100% PNG
3	Catering.	100% PNG
4	Bakeries that have no manufacturing attached business options like flour.	100% PNG
5	Restaurants.	49/51
Hospitality & Tourism		
1	Eco Tourism Resorts.	100% PNG
2	Backpacker accommodations.	100% PNG
3	Guest Houses/ Motels / Inn.	100% PNG
4	Tour and Tour guide services.	100% PNG
5	Tourism services.	49/51
Household		
1	Distribution of Cooking gas.	100% PNG
2	Water cartage.	100% PNG
3	Waste collection & disposal	100% PNG
Information Technology and Related Activities		
1	IT Service Businesses.	100% PNG
2	Computer technology Repair and maintenance.	100% PNG
3	Internet Cafes.	100% PNG
4	Website Development and Hosting.	100% PNG
5	Laptop and Virus repairs.	100% PNG
6	IT network cabling . 100%*PNG	100% PNG
7	Retailing of IT consumables.	100% PNG
Legal Services: Lawyers Act & Regulations		
1	Law Firms	49/51
Mining		
1	Alluvial Mining.	100% PNG
2	Shot Hole Drilling (Up to 30 metres).	100% PNG
3	Shot Fires.	100% PNG
4	Buying of Gold on a small scale basis.(up to K500,000)	100% PNG
Recycling:		
1	Recycling of motor vehicle wrecks, used steel drums, bottles, scrap metals, aluminium, plastics and cardboards.	100% PNG
Retailing and Wholesaling.		
1	Stret Pasin Stoas.	100% PNG
2	Trade Stores.	100% PNG
3	Mini Super markets.	100% PNG
4	Retail sale through stalls, tucker shops and markets.	100% PNG
5	Retail sale carried out from a motor vehicle or motorcycle.	100% PNG
6	Retail sale via stalls and markets.	100% PNG
7	Specialised retail sale of newspapers and magazines if not part of a chain or supermarket.	100% PNG
8	Wholesale and retail sale of secondhand clothing, footwear, furnitures, & other home chattels	100% PNG
9	Repair of footwear when not done in combination with manufacture or wholesale or retail of these goods.	100% PNG
10	Wholesale and retail sale of commodity coffee and copra.	100% PNG
11	Wholesale and retail sale of wild growing forest materials: balatta and other rubber like gums; cork; lac; resins and balsams; rattan; vegetable hair and eel grass; acorns and horse chestnuts; mosses, lichens and cut evergreen trees used for festive occasions; saps; bark; herbs; wild fruits; flowers and plants; leaves; needles; reeds; roots or other wild growing materials except for rattan.	100% PNG
12	Repair of electrical household goods when not done in combination with manufacture or wholesale or retail sale of these goods.	100% PNG
13	Repair of watch, clock and jewellery when not done in combination with manufacture or wholesale or retail sale of these goods.	100% PNG

Security Services		
1	Provision of security guards, dogs and premises security.	100% PNG
2	Armoured fleet services and management.	100% PNG
3	Security and Security infrastructure and utilities e.g. electronic security systems and monitoring; fire alarm systems, GPS tracking etc	49/51
Training and Educational Institutions.		
1	Basic Secretarial trainings.	100% PNG
2	Early child development institutions and pre schools.	100% PNG
3	Primary School and Secondary Institutions (49/51)	49/51
Health and Social Work		
1	Child care centres and activities / Kindergartens	100% PNG
Transportation (Sea, Land and Air) and Related Activities		
1	Customs clearance and forwarding services except when integrated with international freight forwarding activities.	100% PNG
2	Transport of freight and passengers by land when not predominantly done as delivery of own goods or transport of own staff or, in the case of school buses, or students.	100% PNG
3	Coastal and inland water transportation (of passengers or good in boats.)	100% PNG
4	Airport terminal building maintenance	100% PNG
5	Airport general aviation apron Maintenance	100% PNG
6	Airport terminal kiosks leases	100% PNG
7	Airport business concession leases.	100% PNG
8	Airport access road design and documentation.	100% PNG
9	Airport retaining wall design	100% PNG
10	Airport Water Supply System	100% PNG
11	Aerodrome concession lease	100% PNG
12	Air services licenses	100% PNG
13	Navigation aids site clearance.	100% PNG
14	Hire Car services	100% PNG
15	Fleet Management Services.	100% PNG
16	Vehicle service and Maintenance as a standalone	100% PNG
17	Taxi services.	100% PNG
18	PMV Services.	100% PNG
19	Coach Services.	100% PNG
20	Tyre Repair Services	100% PNG
21	Heavy Equipment Hiring.	100% PNG
Wild Life		
1	Hunting or collecting all non-protected fauna including insects, shells, animal teeth, tusks, feathers, declared sedentary organisms and similar products and living and death fauna	100% PNG
2	Wholesale and retail sale of crocodile or any native animal skins including exports	100% PNG
Renting of Machinery and Equipment without Operators and of Personal and household goods		
1	Renting without operator of all kinds of land transport equipment, e.g. Buses, coaches, cars, trucks, trailers, and semitrailers, motorcycles, caravan and campers.	100% PNG
2	Renting of venting, amusement machines, and entertainment gadgets	100% PNG
3	Renting of television receivers, video recorders, video tapes, DVDs and records	100% PNG
Other Businesses		
1	Land surveying and valuation 100% PNG	100% PNG
2	Acceptance and movement of letter class mail except courier service 100% PNG	100% PNG
3	Installation and servicing of telephones, telex, Data, Facsimile, Cellular mobile, HF, Trunk mobile,coastal radio.	100% PNG
4	Installing and letting of Post Office boxes or mail delivery or mail units 100% PNG	100% PNG
5	Sign Writing	100% PNG
6	Labour recruitment and provision of personnel except for recruitment and provision of foreign personnel	100% PNG
7	Cleaning of building of all types, including offices, shops, institutions, and other business and professional premises and residential buildings.	100% PNG
8	Service on a fee or contract basis related to work permit or visa application in Papua New Guinea.	100% PNG
9	Secretarial services	100% PNG
10	Agents and franchises	100% PNG
11	Fuel Service stations	100% PNG
12	Custom Clearance	100% PNG
13	Recycling of motor vehicle wrecks, used still drums, bottles, scrap metals, aluminum, plastic and cardboards.	100% PNG
14	Establishment of services and sales relating to consultancy work on retrieving information on insects, arts, culture, tourism, history and marine life in PNG.	100% PNG
15	Media and Communication companies	100% PNG
16	Event management and coordination	100% PNG
17	Marketing Services and Consultancies in that regard	100% PNG
18	Gaming machine Operators	100% PNG
19	Travel Agencies	100% PNG
20	Telecommunication, Installation and Maintenance	100% PNG
Weaving		
1	The activity includes, but is not limited to, rings, arm bands, primary form of sea shells, tusks and beads for sale at home, street markets or retail outlets on a fee, weaving of cane products, textiles, baskets, nets, dishes, ropes, and bags that are saleable at home, streets markets, or retail outlets on a fee.	100% PNG
Bilum Making		
1	Making of string bags (billums) from traditional bush ropes and cottons taking traditional and contemporary designs that are saleable at home, street markets or retail outlet on a fee.	100% PNG



Knitting		
1	The activity includes knitting of textiles, wearing apparels, cloth, garments, designs, fabrics and decorations that are saleable at home, street market or retail outlet on a fee.	100% PNG
Art and Craft		
1	All sorts of handicrafts and artistic designs that are saleable at home, street markets or retail outlet on a fee	100% PNG
Carving		
1	Wood carving and sculpture on a fee (contract) or assorted carvings that are saleable at home, street market or retail outlet on a fee	100% PNG
Pottery Making		
1	All sorts of pottery products including clay pots, cups mugs, dishes, plates, sculpture and other art forms that are saleable at home, street markets or retail outlet on a fee.	100% PNG
Painting		
1	All sorts of painting in any shape, type and form including portrait paintings, sand paintings, oil paintings saleable at home, street markets or retail outlet on a fee.	100% PNG
Jewellery Making		
1	Making of simple jewellery products including necklaces, earrings, rings etc...	100% PNG
Hunting of Crocodile and Processing of Skin		
1	Hunting and processing of crocodile skins for sale at established market outlets	100% PNG

Key Policies:

- 7.5.2 The Government must effect a protective legislation that ensures that the Reserve Activity List (RAL) for citizens is clearly defined and administered.
- 7.5.3 The current definition of Reserve Activities (RAs) have been abused and therefore RAL are to be reviewed to redefine some RAs such as Food Bars to differ from Restaurants whilst taking into account other excluded activities for possible inclusion in RAL.
- 7.5.4 Special Taxation and Non-Taxation Incentives are to be provided for SMEs engaged in RAL or for prospective business start-ups.
- 7.5.5 The Government must fund and build capacity in the institutions which are set up to administer the RAL legislation so that the purposes or objects are achieved.

7.6 Local Content - Government Procurement & Inclusion in business opportunities from major development projects

Local content in this regard is about SMEs and businesses being given preferential consideration in bidding and or applying for contracts and or spin offs from development projects or through contracts of procurement through the Government procurement process. This preferential treatment also extends to Franchise type arrangements.

The CSTB is the Government's procurement facilitation and approval authority. It is responsible for all public procurement requirements. The CSTB Board comprises membership from the National Departments of Works and Trade, Commerce and Industry, among others and is guided by the Public Finance Management Act 1995. CSTB has been accused of lack of transparency in its dealing with public goods and services procurement processes. CSTB has been viewed as the cause of many incomplete, sub-standard, highly priced projects that were delivered or are being implemented. Hence an overhaul of its policy to be a priority Major development projects in the extractive sector and especially the LNG project have from the start a very loose local content policy hence, the resource owners and citizens have not fully benefitted from the spin offs that were made available as a result of these projects. This needs to be addressed to enable the development of SMEs from these types of projects.

Key Policies:

- 7.6.1 The Government must develop a national content legislation to ensure that SMEs benefit from spin off business activities in development projects.
- 7.6.2 The entire public procurement process needs an overhauled, restructured and redirected to live up to expectations in delivering “value for money” goods and services.
- 7.6.3 Amendments must be made to enabling laws and legislations to provide strict bidding process that is fair in preferential access to reputable SMEs and Contractors to securing and supplying goods and services to the State. It also means that Contract Values reserved for local SMEs and Contractors in different job/project types and categories should be clearly detailed and enforced. In this instance procurement of goods and services to the value of K10mn be reserved for national SMEs only.
- 7.6.4 The government must put in place a system to ensure that SMEs involved in procurement adhere to quality standards and specifications and delivery time frames and non compliance will attract penalties.
- 7.6.5 For franchise type business arrangements, the Master Franchisor can be of the larger Corporate or International Franchisor and be located in one location only in the country whilst all other franchisee across the country and in suburbs are to be licensed to citizen SME only.
- 7.6.6 A National Franchise Act to be developed by the National Government to facilitate the development of franchises to provide more business opportunities to our citizens in setting up and operating franchise businesses.

7.7 Tariff Protection and Exemptions on Import Duties


Since becoming a member of WTO, PNG had to deregulate and conform to the requirements of the global multilateral trading rules, which also obliged PNG to reduce or eliminate elements of restrictive policies and practices under the Most Favoured Nation and National Treatment rules. Subsidies in all forms, both direct and indirect government interventions that are considered biased towards others had to be reduced or eliminated. Trade flows are dictated by bound tariff rates, and in some cases imposition of tariff on zero-rated items to protect local industries may be technically impossible.

Key Policies:

- 7.7.1 A thorough review of the Tariff and non-tariff regime has to be undertaken to ensure that interest of the local industries and the SMEs are taken on board through Tariff reforms to stimulate SME sector growth.

7.8 Special Economic Zones

As outlined in the provincial reviews that were conducted, over 70% of the provinces today have no or little economic activities hence it is difficult to stimulate the economy for the development and growth of SMEs in each of the provinces. Therefore, going forward it is critical that special economic zones be created and developed as key demand stimulant and enabler. The Special Economic Zones will facilitate growth initiatives and opportunities and develop the appropriate infrastructure that will set the foundation in which SMEs will emerge from. The following areas have been identified as Special Economic Zones. The Sepik Plains, the Markham Valley, the Baiyer River Valley, the Ramu



Valley and Trans Gogol in Madang Province, the Purari area of Gulf Province and the Karimui Nomane area of Simbu Province.

- 7.8.1 The government to facilitate the development of the Special Economic Zones in at least all provinces to stimulate economic activities on which SME can merge and grow.
- 7.8.2 The spin offs benefits and opportunities of the development of the Special Economic Zones to be reserved for Papua New Guinea Citizens.
- 7.8.3 A consistent fiscal incentive package should be formulated and offered to attract foreign investors and their PNG equity partners including the State to invest in SEZ's. A new SEZ Policy and Legislation is to be enacted in 2016/2017.
- 7.8.4 The Government to annually park significant PIP funding to fund core prerequisite infrastructure in areas identified as SEZ's to create an attractive and conducive to attract investors to invest in large scale transformational economic projects to stimulate SME Sector demand and growth opportunities.
- 7.8.5 The Government to initiate the setting up of a private equity fund to provide much needed critical capital for investors to invest in especially SEZ's transformational economic projects as feasibility studies and confirm the viability of the project and in particular high yielding products which will attract private investment capital.
- 7.8.6 The Government to give priority to import replacement, value creation, economic projects and new export industries in our SEZ's, which we aim to build a more robust and sustainable economy that is not dependable on the non- renewable resource sector



PART 08

**POLICIES ON
SPECIAL SME
DEVELOPMENT
PROGRAMS AND
BUSINESS
DEVELOPMENT
SERVICES AND
PUBLIC-PRIVATE
PARTNERSHIP (PPP)
AND KEY STAKEHOLDER
DEVELOPMENTS
BY INDUSTRY
SECTOR AND
CLASSIFICATIONS**



8.0 Mass Recruitment and Development of PNG Entrepreneurs.

To achieve the ambitious target of growing the SME sector from current levels of 49,500 SMEs to 500,000 SMEs by 2030, it is critical that potential budding entrepreneurs be identified, recruited, trained and supported through the incubation and support programs that are in place for their development.

Key Policies:

- 8.0.1 The Government through the SME Corporation and NDB to facilitate the mass recruitment of budding entrepreneurs annually and train, develop and support them through the identified incubation programs.
- 8.0.2 The Government to actively encourage private sector partners, to assist to find and develop and support more citizens take up business as an alternative to formal employment as employees.
- 8.0.3 The Government to partner business associations of SME's to encourage more and more women to take up business opportunities through the provision of training, mentoring, and access to new market opportunities and credit.
- 8.0.4 The Government to provide entrepreneurship training in High Schools to create interest amongst our youth to take up business as a career choice.
- 8.0.5 The government to provide annual funding to the district development authorities to fund the SME Sector growth initiatives under DSIP as current.

8.1 Development Programs and Services

There is increasing demand to have increased or wide-range of Business Development Services (BDS) provided by Business Service Providers to facilitate the development and growth of SMEs due to their size and the cost of them accessing these services currently. The need to identify and encapsulate 'best practice' in provision of Business information and Advice services to SMEs is increasingly necessary to progress towards programs and services that are client driven (tailor-made) taking into account the SME's needs and requirements, rather than institutionally driven.

Key Policies:

- 8.1.1 The Government through the SME Corporation must develop, and provide "Special SME and Business Development Programs and Services" specifically designed to support SME growth in key areas, among others, such as finance, counselling and consultancy, training and education, information and communication technology, innovation and incubation centres and its support mechanisms.
- 8.1.2 The Government to provide other specialist services such as export market support, Legal advice, Market research information, Supply Chain optimisation mechanisms and business evaluation systems among others that SMEs can access at an affordable cost.
- 8.1.3 BDS Service Providers will be encouraged through a Rebate System to provide com-

prehensive differentiated services in all facets and life cycle of SME, including basic networking and information, business management support, support to collective events such as trade fairs and exhibitions, trade competency testing or training and worker skills development.

8.2 Equal Participation and Inclusive SME Development

It is embedded in the Constitution and National Goals and Directive Principles that equality must be prevalent in all forms of Human Development including opportunities in economic activities. Despite this, our Women and Youth still continue to face challenges in accessing service. People living with disability and disadvantage minority groups are also in this category.

PNG rectified the United Nations Charter for Recognition of People with Disability (UNCRPD). Through this document, the Government is committed to ensuring persons living with disability are given accessibility to all basic needs and opportunities including businesses.

Women and Youth comprise more than 50% of our population, and are capable of forming the core of the engine room for SME development in our country. The issues faced by all are common with the major constraint listed as access to finance and entrepreneurship training. By discussing the issues, policies should be adopted to establish a clear vision and make commitments to guide the process of greater inclusiveness and equal opportunity for the aforementioned groups.

Equal Opportunity for Women

Current issues that have affected full participation of Women in Economic Development have been Access to Finance, Skill and Entrepreneurship Training, Access to Information and Market, lack of support from established government agency and promoting Women in Business (WIB) and unfair business environment. Cultural norms and practices are also key barriers that women face in participating in businesses.

Equal Opportunity and support for Youths

Many of our young are maturing into the employment age group with very little employment opportunities and with an unplanned population growth, more youths will join the long queue of unemployed youth. A large population of unemployed youth can be a national disaster if less or nothing is done to create business and employment opportunities. There are serious issues that have hampered development for youths in Business like lack of youth Entrepreneurship Training, difficulty-accessing finance, in adequate supporting Business infrastructure, and lack of youths' opportunities in Rural Areas.

Equal Opportunity and support to Disabled, Disadvantaged and Marginalised groups

The proportion of disabled/marginalised citizens in business today is significantly lower than that of other able citizens, due largely to social stigma and inefficient social and financial support.. through strategic partnerships with key line departments,private sector (NGO) and development partners the government will create sound policies,and esestablished specific programmes to assist our disabled and marginalized groups engage in and participate in the SME Sector. Due to their disabilities issues with Access to finance, Access to business infrastructure, Capacity building and training are usually compounded.

Equal SME Development Support Services and incentives for Rural Communities

Rural communities often have difficulty in accessing basic SME support services. Intervention is now necessary at the district level to assist rural based SMEs to have access to basic Support services.

This access will empower and harness the mindset of change. Current issues faced would be similar to those that have been addressed in the other marginalised groups.

Key Policies:

8.2.1 Access to Finance

- 8.2.1.1 Tailored and concessional lending facility to be created by the Government owned National Development Bank (NDB) with minimal lending rates to promote Women, Youth and other marginalised persons in the community.
- 8.2.1.2 Direct Financial Intervention through SME Corporation including Guarantee facilities must be established to provide collateral support to Women, Youth and the marginalised groups.
- 8.2.1.3 The government to partner donors, NGOs and other stakeholders to support and deliver Women in Business intervention programs to stimulate and grow women's participation in business activities.

8.2.2 Skills and Entrepreneurship Training.

- 8.2.2.1 Provincial Business Centres and other facilities must be established which will be the focal point for delivering tailor made skills and Entrepreneurship training in all provinces and District centres for the identified groups by the SME Corporation and any other appointed agents.
- 8.2.2.2 The Government must support Youth Entrepreneurship Training through a program rolled out by the SME Corporation, NDB and other partners.
- 8.2.2.3 Tailored initiatives and programs to be developed by all relevant stakeholders to specifically target the growth of women owned SME's and youth owned SME's.

8.2.3 Information and Market

- 8.2.3.1 Government to disseminate information on all aspects of business through established Government Agencies and create linkage for market accessibility for the specified groups.

8.2.4 Lack of Business Development and Support Services.

- 8.2.4.1 Government to fully fund and strengthen existing BDS services at the district level by way of recruiting and training of more BD officers. Rural Business Development officers stationed in all districts are paramount as they are often the first contact for aspiring rural entrepreneurs, when it comes to providing BDS services.
- 8.2.4.2 The Districts to set up District and LLG based Community Learning and Development Centres in all Districts to provide a venue for training, mentoring, networking and other support services in Districts under the District Development Authorities ownership and oversight. Private Sector partners and the private sector should be actively sought to support the growth and development of SME's in the Districts.

8.2.6 Stimulating SME Development in Rural Areas

- 8.2.6.1 The Government to create Business opportunities in rural areas, through funding of key catalytic projects and other direct and non-direct incentives in the provinces to encourage growth of Women and Youth owned SMEs.

8.3 Development of Specialised SME Development Support Institutions.

Establishing and enhancing specialised SME development institutions are crucial to addressing SME needs as well as creating a sustainable SME sector now and into the future. It is important that government provide funding annually to sustain these institutions if the SME sector is to witness growth and diversify.

8.3.1 SME Training and Capacity Building (SME College)

The ILO recognizes the importance of social and cultural influences on entrepreneurship and the formation of new enterprises. In light of this, it has recommended that member states endeavor to create and strengthen an enterprise culture, meaning an environment that favors initiative, enterprise creation, productivity, environmental consciousness, quality employment, good labor and industrial relations, and adequate and equitable social practices.

Key Policy:

- 8.3.1.1 The Government to establish a SME College to cater for the training and capacity building needs of SMEs.

8.3.2 SME Advocacy (Indigenous Business Council)

Advocating and dissemination of relevant information for promotion and marketing of SME activities to potential and established entrepreneurs is important to the sector. Advocacy shall be systematic to influence SME legislation policy and practice that will benefit all SMEs.

Key Policy:

- 8.3.2.1 The Government to partner the Indigenous Business Council to promote and attract and give a voice to SMEs and other peak bodies to support the SME Sector growth including the Women's Chamber of Commerce, the National Council of Women, District SME Council's and other SME peak bodies.

8.3.3 SME Laws and Regulatory Bodies – National SME Corporation Act.

Policy implementation and monitoring has not been very effective due to lack of coordination among different Departments and State agencies. Many Government policies have not been fully implemented as policies cut across different sectors. To ensure effective implementation of the SME Policy, it is necessary to legislate it so that it becomes mandatory for all stakeholders to implement. Further, it will be necessary to restructure and re-organise the implementing agency. A Foreign Investment legislation is necessary to screen and allow foreign companies who meet our national interest test and meet our local content policies to be allowed to invest or continue doing business in our country. This includes bringing back a comprehensive reserve business list for citizen businesses only.

Key Policy:

- 8.3.3.1 In addition to the SME Corporation Act of 2014 the Government should also enact a new Franchise Act Legislation and a Foreign Investment Review Board Legislation and bring back a comprehensive Reserve Business Legislation.

8.3.4 SME Research and Development Centre

Research is an important catalyst for SME innovation and creativity and will enhance SME expansion growth and development. Entrepreneurs will appreciate the benefits of research through accessing data information leading to innovative ways of doing business.

Key Policies:

- 8.3.4.1 The Government to establish SME Research and Development Centre and or support established research institutions for the purposes of ensuring appropriate and relevant data for SME Sector are collated and analyzed for insights that will drive the development and growth of SMEs into the long term. The preferred option is for the Centre to be part of one of our existing Universities.

8.3.5 Entrepreneurial Class Development Scheme

As a stimulus package for stimulating the development and growth of SMEs, it is vital that individual entrepreneurs are supported. SME are made up of individuals that must be mentored, coached and developed to be able to operate successfully. The Entrepreneurial class Development is a scheme that looks at identifying entrepreneurs in the different sectors that shows potential of becoming a successful entrepreneur and helping them through the initial startup phase till they are confident enough to do it alone.

This initiative is critical as this is where real people behind the face of SMEs are identified, recognized and supported. This is what SME development is about. It is about our citizens and how they can be empowered to help and empower others become successful.

Key Policy:

- 8.3.5.1 The government through the SME Corporation to develop a support mechanism scheme, where promising entrepreneurs are identified and supported through to becoming competent business operators through identified and facilitated services and facilities.

8.3.6 Other SME Specialized Institutions and Services

Other specialised institutions to be established as required during this plan period

Key Policy:

8.3.6.1 Specialised SME institutions must be established in future to embrace the growth and expansion of SMEs coupled with the increase in population.

8.4 Private-Public-Partnership (PPP)

PPPs are a method to procure and deliver infrastructure and services through cooperation between a public institution and one or more private entities. PPPs are most frequently used for major infrastructure projects. PPPs are mainly to enhance infrastructure and service delivery by utilizing private sector capital, management, innovation, technology and other resources.

Under PPP approach, the Government ensures value for money and shares the risks with the private sector in a partnership approach. Risk is transferred to the partner that is best able to manage that risk – generally the private sector bears the financing, delivery and completion risks while the governments bear risks associated with service delivery, land acquisition and meeting minimum revenues to ensure the projects remain financially viable.

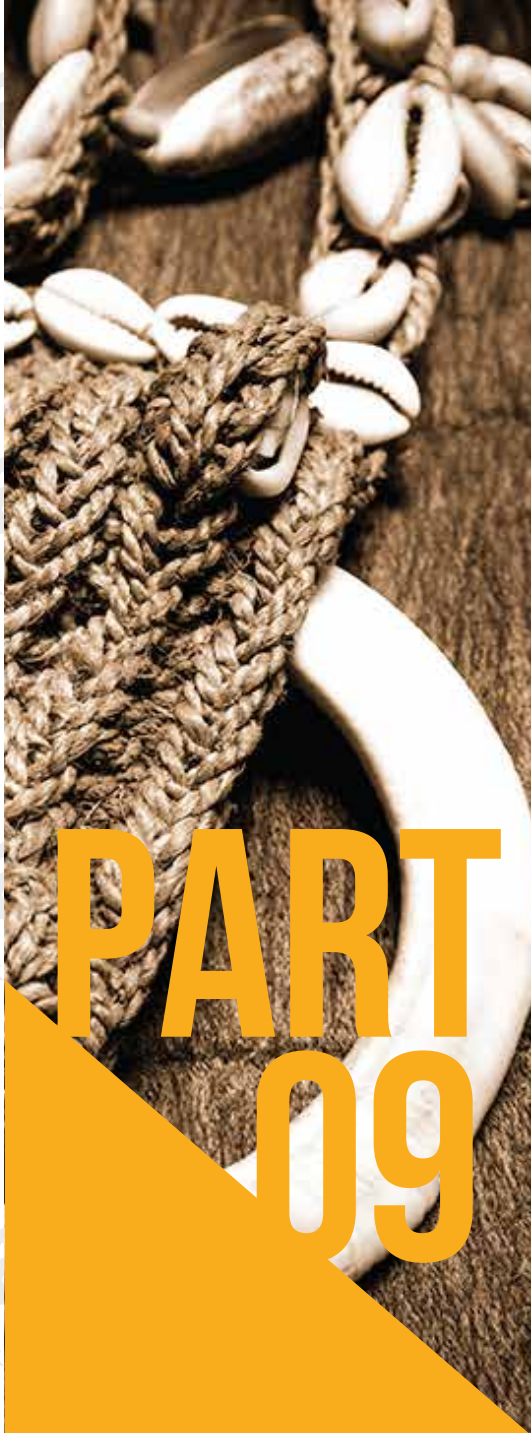
Development of SMEs should be a partnership between the public and private sectors. SMEs often have limited capacity to engage effectively in an international production and marketing network. Hence, increased collaboration and partnerships between the public and private sectors usually offer a way of addressing these challenges. SMEs are constrained by lack of financial resources, lack of entrepreneurial & management skills, trained workers, marketing, product & price barriers, distribution and logistics barriers.

New institutional ways of building bridges between the public and private sectors and to gear up public support for private sector led SME development need to be determined so that the constraints SMEs face are addressed collectively.

Key Policies:

8.4.1 The Government through the SME Corporation to identify and build a comprehensive partnership database in which to draw from to assist in facilitating and delivering the development programmes and extension works to SME and where possible assist in building capabilities of appropriate stakeholders that promotes the development and growth of SMEs





PART 09

**POLICIES ON
OWNERSHIP,
MANAGEMENT
AND GOVERNANCE**

9.1 Ownership, Management, and Responsibility

The most critical factor to ensure successful implementation of the SME Policy 2016 and the SME Development Master Plan 2016 – 2030 is the existence of a strong central policy-coordinating agency to take ownership and management of the policy. It shall oversee governance, reviewing and also monitoring and evaluation responsibilities to achieve intended milestones and goals.

The establishment of extensive coordination by the Ministry responsible and central policy-coordinating agency with all stakeholders is also important because, SME cuts across all sectors and they all have different roles and responsibilities.

Key Policies:

- 9.1.1 The Department of Trade, Commerce & Industry must take ownership and be the custodian of the SME Policy 2016 and SME Master Plan 2016-2030 to ensure effective implementation.
- 9.1.2 The Department of Trade, Commerce & Industry in collaboration with SME Corporation and the Department of National Planning & Monitoring will track, monitor and evaluate the progress to ensure that the objectives are achieved within the intended time frame.
- 9.1.3 The Department of Trade, Commerce & Industry in collaboration with SME Corporation and the Department of National Planning & Monitoring shall review the SME Policy 2016 and SME Development Master Plan 2016 - 2030 from time to time when required.
- 9.1.4 The SME Corporation is the state agency responsible for the implementation and the achievement of the objectives of the Policy.

9.2 Policy Management and Governance

Effective policy implementation depends on effective management and ownership of a policy. Policy Management and Governance ensures that there is continued monitoring and assessment in implementation.

Key Policy:

- 9.2.1 The Department of Trade, Commerce & Industry is the central coordinating agency of the government who must manage and govern the SME Policy 2016 and SME Development Master Plan 2016 - 2030. Implementation by the SME Corporation as the lead agency on a day to day basis.

9.3 The Policy Implementing Responsibilities

The achievement of intended milestones and goals of the SME Policy 2016 and the SME Development Master Plan 2016 – 2030 is very much dependent on the clear demarcation of roles and responsibilities of all stakeholders involved in the development of the SME sector. Clear demarcation of these roles and responsibilities should leave no room for duplication so that scarce resources are wisely used to achieve maximum benefits

Key Policy:

- 9.3.1 SME Corporation will be the Agency responsible for the effective implementation and coordination agency of the SME policy and the Master Plan 2016 – 2030.
- 9.3.2 The Ministry should create extensive coordination and networking mechanisms with all Ministries and Agencies and the private sector for monitoring and evaluation of the SME policy and Master Plan.

9.4 Economic Sector Agencies

The economic sector agencies are key partners in the effective management and implementation of the policy. The implementation of this policy will depend entirely on coordination and alignment of these different economic sector agencies. The shared synergies in driving and facilitating the development of SMEs will be possible if all are aligned.

Key Policy:

- 9.4.1 The economic sector implementing agencies of the Government is an important stakeholder in the development of the SME sector. All plans and policies of economic sector agencies in relation to SME development shall be aligned to the SME Policy 2016 and SME Master Plan 2016- 2030.

9.5 Social Sector Agencies

The social sector implementing agencies of the government are an important stakeholder in the development of the SME sector.

Key Policy:

- 9.5.1 Plans and policies of the social sector agencies in relation to SME development must be aligned to the SME Policy 2016 and SME Master Plan 2016- 2030.

9.6 Small Medium Enterprises (SME's)

SME participants are the key drivers of the development of the SME sector and the economy. Developed and developing countries rely heavily on the SME sector to drive their economy and hence will need to play an active role in the implementation of this policy.

Key Policy:

- 9.6.1 SMEs should work together with all Ministries and Agencies including the private sector, Non-Governmental Organization and International Development Partners to enhance their development.
- 9.6.2 SMEs will be mobilized through the Indigenous Business Council, the Council of Women and other relevant bodies in all districts and provinces for the purposes of networking, encouraging and facilitating the SMEs development needs with the respective authorities and stakeholders.

9.7 Non State Actors

Non State Actors have an important role in creating business development awareness and collecting and disseminating information to communities. Non state actors working at the community level have an important role to play in helping to deliver services such as training to those SMEs who most need them.

Key Policy:

- 9.7.1 The Government will work in partnership with Non State Actors to deliver some of the SME support services and programs.

9.8 International Development Partners

International development partners are an important stakeholder in SME development. Their role in financing SME development in partnership with the Government is vital. Technical assistance is needed from donor agencies to build capacity for sustainable business development.

Key Policies:

- 9.8.1 SME related support programs from donor agencies must be coordinated and implemented according to priority programs as identified in the SME Master Plan.
- 9.8.2 The Government encourages development partners to initiate discussions with public and private stakeholders on lessons learned in SME support including opportunities for up-scaling and for pursuing good practices in support service delivery.

9.9 Law and Justice Sector

The quality of life in both rural and urban centers depends on the current levels of crime and violence and the infrastructure development and amenities provided by the government. This in-turn affects the fair distribution of goods and services and impedes economic growth. The poor law and order situation often leads to the destruction of assets within a community and therefore hinders economic participation by locals and discourages foreign investment.

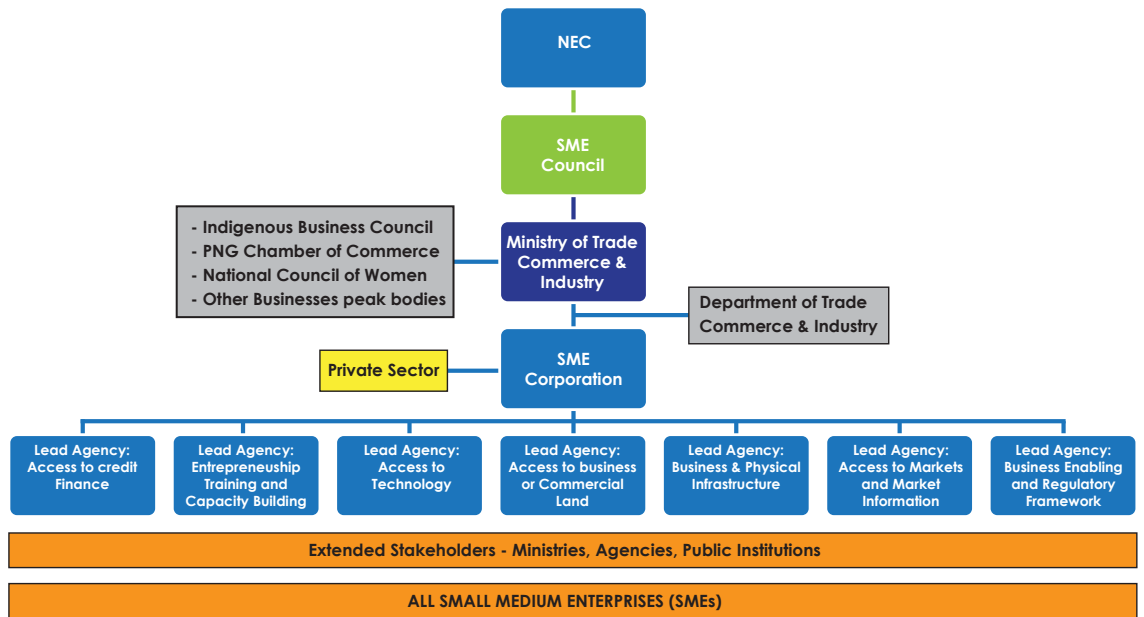
Key Policy:

- 9.9.1 The Law and Justice Sector must work together with the Ministry of Trade Commerce and Industry and SMEs to review and address and strengthen law and order concerns.

9.10 SME Co-ordination Structure

SME development is a key strategy in delivering the government economic objectives of Wealth Creation under Vision 2050. The SME vision and objectives are ambitious but it is achievable if the structure, support and delivery mechanisms are made available to facilitate this. It is therefore important that a structure be established to coordinate, drive and monitor the progress of this key economic development strategy. To this end the SME coordinating structure as seen in Figure 7.0 is set up to show the prominence and belief the government has in SME as the pivotal initiative to drive the PNG economy forward. The SME coordinating structure will have NEC as the head of the structure with the Prime Minister as the Chairman and head of the SME Council.

Figure 7.0 Co-ordination Structure:



The coordinating structure explains how the SME will be coordinated through the creation of SME Council and the establishment of sub-committees to address each of the SME constraints. The creation of the SME Corporation is very important to implement programs and activities and effectively work together with other stakeholders to achieve intended milestones and goals.

Key Policies:

- 9.10.1 The Government must create an agency called the SME Corporation, which will be the primary implementing agency of the SME Policy 2015 & SME Master Plan 2015 – 2030. It will also be responsible for promotion and providing guidance on implementation of SME programs.
- 9.10.2 The SME Corporation will house the secretariat to the SME Council as well as the seven subcommittees to address the seven identified constrains.



PART 10

**POLICIES ON
IMPLEMENTATION
MANAGEMENT,
MONITORING,
EVALUATION AND
CONTROL AND KEY
INTERVENTIONS
AND COMMITMENT
BY THE GOVERNMENT**



10.1 Policy Implementation and Management through (SME Council of PNG)

Policy implementation, management, monitoring, evaluation and control are very important processes in ensuring that policies are effectively implemented and the set objectives are achieved. Monitoring and evaluation mechanisms ensure that there is regular assessment on the impact of the policy and the short falls and gaps are identified and corrective measures are put in place.

Key Policies:

- 10.1.1 Political Support and direction for SME growth and expansion in PNG is a key ingredient to economic growth and prosperity. The PNG SME Council is to be established and headed by the Prime Minister of Papua New Guinea to provide the political leadership, support and direction for SME growth and expansion.
- 10.1.2 The National SME Council will be chaired by the Prime Minister, and represents the Governments top level commitment to promote SME development. The Council will comprise of Key Economic Ministries, Relevant Public and Private sector agencies involved in SME development.
- 10.1.3 The SME Corporation in conjunction with the Prime Minister's Department to play a lead role in mobilizing all stakeholders and oversee the establishment and management of the PNG SME council.

10.2 Monitoring and Evaluation

Monitoring and Evaluation (M&E) enables all key stakeholders to see how the programs have fared in terms of achieving the goals and objectives. Effective M&E of various programs depends on a well-established M&E mechanism among other things. M&E is necessary to measure the output of every activity undertaken by various sector agencies.

Key Policies:

- 10.2.1 Consistent with the reporting from M&E, a review be conducted after every 5 years for the National SME Policy and 2 years for the Master Plan to allow for changes and adjustments.
- 10.2.2 A Monitoring and evaluation process mirroring the budgetary requirements be developed to ensure adequate resourcing and system analysis, monitoring and evaluation is done on time.
- 10.2.3 Adequate Key Performance indicators and dashboards must be developed to ensure the right parameters are being analyzed for growth.
- 10.2.4 Monitoring and evaluation mechanism to be established to effectively monitor and evaluate the SME Policy and SME Master Plan.

11.0 Key Interventions and Commitment by the Government

Appropriate financial support and resourcing is the most important enabler that will drive the development of SME in PNG. Without this support the SME Policy and the Master Plan becomes another Government "paper dream" that will never be achieved.

The factors set out below concerning Budgetary Support, Infrastructure, Institutional and Provincial Government support must be given reasonable financial backing to drive the growth of SME. The focus on development of SMEs forms a key measure that the Government can use for its resource allocation priorities. For purposes of comparison, the Government of Malaysia invests 18 billion Ringgit to fund the sustenance and growth of the SME sector annually. That is why the Malaysia Government has successfully grown the SME sector to 450, 000 SMEs as at 2014, even though they started at the same development status as PNG in 1975. PNG currently has only 49,500 SMEs.

Key Policies:

1: Budgetary and Alternative SME Sector Funding

- 11.1.1 The Government must give the necessary budgetary support for the development and growth of the SME sector to its assigned Government agencies and institutions to ensure the implementation and delivery of the initiatives and plans as outlined in the National SME Master Plan 2015 - 2030.
- 11.1.2 The government to use innovative ways to fund SME sector growth in the long term including the up-scaling of the People's Microbank and renaming it as the SME Bank.

2: Infrastructure Financial Support

- 11.2.1 The Government shall provide funding for the development and maintenance of the required infrastructure like roads, bridges, wharves, jetties, airports, water and power supplies and so forth and all other enabling requirements and initiatives for the purposes of engagement and provision of a conducive environment of its citizen participation in the SME sector development and growth

3: Institutional Support

- 11.3.1 The National Government to establish and fund the required institutions as required ensuring the development and growth of SMEs is facilitated, and driven to achieve the SME development objectives and contribute to the overall economic goals as stipulated by the government.

4: Provincial Government and District Authority Support.

- 11.4.1 Each Provincial Government and District Development Authorities to provide Budgetary, Infrastructural and Institutional funding and support for the development and growth of the SME sector as demarcated by Provincial and District responsibilities.



LIST OF FIGURES

PART 1: BACKGROUND

- a. Figure 1.0 PNG Performance Highlights
- b. Figure 1.1 Economic Growth Comparisons
- c. Figure 1.2 Estimate of the Sectoral Composition of Formal SMEs
- d. Figure 1.3 Status of SMEs in PNG

PART 2: NATIONAL SME POLICY

- e. Figure 2.0 Key deliverable targets for 2030
- f. Figure 2.2 Alignment to Vision 2050
- g. Figure 3.0 Manufacturing, Construction and Engineering
- h. Figure 3.1 Agriculture, Tourism, Forestry, Fisheries, Services and Other Sectors
- i. Figure 3.2 Key SME Policy Areas
- j. Figure 4.0 SME Life Cycle
- k. Figure 4.1 SME Constraints and Level of Needs per Growth Life-Cycle
- l. Figure 4.2 SME Performance is dependent on Business and Physical Infrastructures

PART3: POLICY OWNERSHIP, MANAGEMENT AND GOVERNANCE

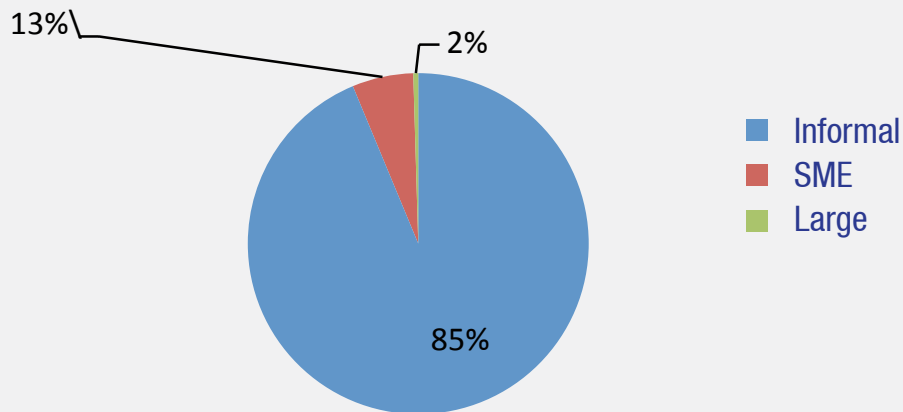
- m. Figure 7.0 Co-ordination Structure

BIBLIOGRAPHY

1. Bank of Papua New Guinea, Financial Inclusion and Monetary Policy, National SME Policy & Master Plan Consultative Workshop, October 2013, Gateway Hotel, Port Moresby
2. Bank of Papua New Guinea, PNG National Economic Statistics; <https://www.bankpng.gov.pg/>
3. Bank of Papua New Guinea, Quarterly Economic Bulletin, 2007 to 2013, various issues
4. CIA World Fact Book, January 2012; <https://www.cia.gov/library/publications/the-world-factbook/>
5. Department of National Planning, 2012, "Papua New Guinea 2013 National Budget"
6. George Bopi, Labour Market Assessment (2010). Supply & Demand in PNG, SME National Workshop presentation
7. Index Mundi, Papua New Guinea Country Profile; http://www.indexmundi.com/papua_new_guinea/economy_profile.html
8. International Monetary Fund; The World Economic Outlook; World Economic and Financial Surveys <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>
9. Investment Promotion Authority (IPA) of Papua New Guinea, 2013, Business Registration Database
10. Kazuchika SATO; October 2013; Experience of SME' Development in Japan; Deliver at the National SME Policy Consultative Workshop on 30/Sept./'13
11. Organization for Economic Co-operation and Development (OECD); The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses; Centre for Entrepreneurship, SMEs and Local Development
12. Organization for Economic Co-operation and Development (OECD); World Economic and Social Statistics <http://www.oecd.org/statistics/>
13. Papua New Guinea National Strategic Planning Task Force, 2008, "The Vision 2050",
14. Small Business Development Corporation (SBDC), 2013, SME Census 2011 Database
15. SME Corporation Malaysia; SME Master Plan 2012 – 2020; <http://www.smecorp.gov.my/vn2/publication>
16. SME Corporation Malaysia; The SME Handbook; <http://www.smecorp.gov.my/vn2/publication>
17. The National Research Institute (NRI), 2010. "Papua New Guinea District and Provincial Profiles",
18. United Nations Development Program; Human Development Reports, Human Development Index (HDI) <http://hdr.undp.org/en/statistics/hdi>
19. JLL- Investment Guide – Papua New Guinea – Property Tenure; <http://www.joneslanglasallesites.com>country>

APPENDIX 1 | NUMBER OF ENTERPRISES IN THE ECONOMIC SECTOR OF PNG

Number of Enterprises in the Economic Sector of PNG



APPENDIX 2 | GUIDING PRINCIPLES FOR THE POLICY DEVELOPMENT

1. As a Christian nation, God is the Head of all things considered.
2. Fair and equitable distribution of national wealth and opportunity in the country.
3. Inclusive financial inclusion strategy that facilitate increased knowledge and practice in financial and investments disciplines
4. Our citizens to develop a savings and investment culture.
5. Renewal Sectors and sustainable development will be the focus.
6. Focus on women and youth.
7. Businesses owned by our citizens to be promoted and given priority in;
 - a. Government procurement projects with CSTB
 - b. Spin off businesses from major government project initiatives.
 - c. Use of PNG businesses and products.
8. Value Adding and Downstream processing.
9. Encourage evolvement of entrepreneurial mindset and development of many entrepreneurs.
10. Empowering our citizens to have greater ownership of the economy through
 - a. Mass recruitment of our citizens to take up business as an alternate employment and wealth creation opportunity.
 - b. Empower our citizens to start and grow their business using various strategies including business incubation schemes, entrepreneurial teaching and training in schools, low interest loans, developing a savings and business and investment culture and Networking opportunities to mentor and encourage each other
 - c. Reward and award system.
 - d. Encouraging and supporting PNG owned Businesses.
11. Identify all key Business enablers and alignment to Provincial and national Plans and Resource allocation.
12. Each province and District to have an SME plan that is aligned to National Master Plan.
13. The SME Policy and Master Plan to be aligned to Vision 2050 and must challenge all other plans.
14. Positively discriminate for the betterment of Papua New Guinea citizens.
15. Every province must be financially independent.

CONSULTATIVE WORKSHOP FINDINGS - PROVINCES

- That over 77% of the 22 provinces reviewed had little to no economic activity except for a central administrative hub for the provincial governments.
- All provincial governments currently are very dependent on Waigani for the annual provincial Budgets.
- The major forms of business conducted were predominately retailing and over 95% of them were foreign owned.
- Local Indigenous Papua New Guineans are only engaged in cash crop or subsistence farming. This further re-enforced foreign ownership of business in PNG and also clearly shows the disproportionate distribution of wealth amongst Papua New Guineans.
- Existence and or development of basic infrastructure and social care amenities is under developed or has greatly deteriorated which makes it very difficult for everyday living. This environment makes it very difficult for any meaningful participation by the people in any forms of economic development, hence the presence of SMEs in most provinces is negligible.

APPENDIX 4 | CONSULTATIVE WORKSHOP KEY FINDINGS THE NATIONAL WORKSHOPS WHICH INCLUDED ALL MAJOR STAKEHOLDERS

CONSULTATIVE WORKSHOP FINDINGS - NATIONAL

National consultative workshops key highlights;

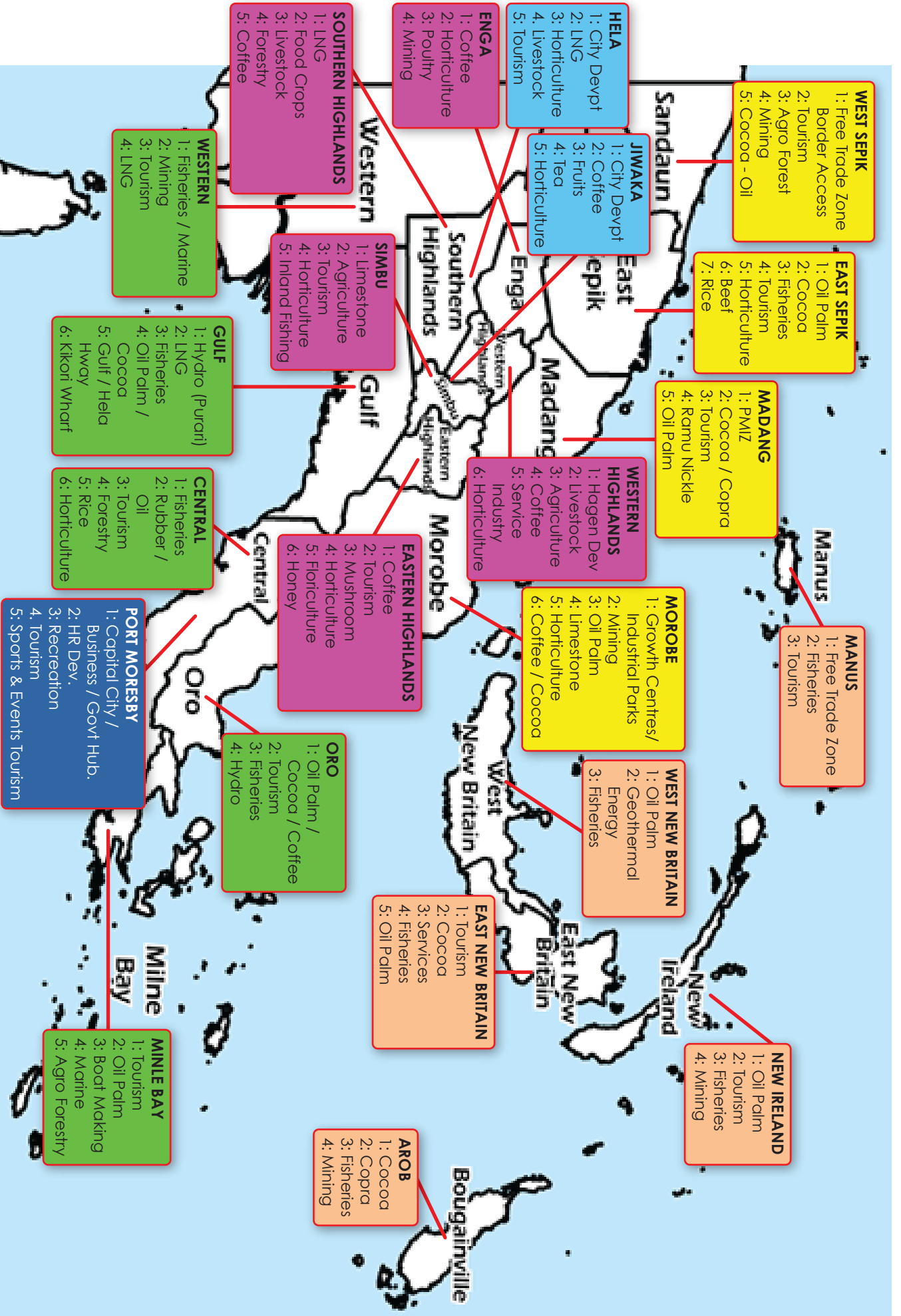
- No alignment, visibility and coordination of SMEs development across all sectors.
- Lack of funding for economic development programs and institutions.
- SOE's who are the key providers of public utilities do not have reduction of cost of services provided as a priority. NICTA only body driving cost reduction.
- No central point for market information and insights for SMEs.
- Value Add and Down stream processing is underdeveloped in all economic sector.
- Disbursement of levies and landowner funds from sectors like fisheries, forestry are not aggressively geared at building large SMEs but distributes to smaller unsustainable corporative and individuals.
- Commodity Boards are not Integrated and basically concentrate on Research and Development and adequate support in Business development.
- NARI expertise to be partnered by DAL and other commodity boards etc.
Clearly defined space for Formal and Non formal given market, dynamics Transition and capacity building strategy to migrate to formal for those that are more established
- Approximately 85% of adult population excluded from financial services.
- NDB total lending is K300 million which is about 2.7% of the total lending in PNG of K11 billion.
- Estimated large proportion of SMEs non-compliant with tax obligations.
- Not much incentives to stimulate SME, growth.
- Education system concentrates on Knowledge and not much investment in skills development. TVET to be given more emphasis.

MANUFACTURING, CONSTRUCTION AND ENGINEERING		
	SCORE	COMMENTS
Sales turnover less than K200,00	1	Companies scored between 0 and 3 are classified as MICRO
Employees less than 5	1	
Asset less than K200,00	1	
TOTAL	3	
	SCORE	COMMENTS
Sales turnover more than K200,00 & less than K5mn	2	Companies scored between 4 and 6 are classified as SMALL
Employees less more than 5 & less than 20	2	
Assets more than K200,00 & less than K5mn	2	
TOTAL	6	
	SCORE	COMMENTS
Sales turnover more than 5mn & less than K10mn	3	Companies scored between 7 and 9 are classified as MEDIUM
Employees less more than 20 & less than 100	3	
Assets more than K5mn & less than K10mn	3	
TOTAL	9	
AGRICULTURE, TOURISM, FORESTRY, FISHERIES, SERVICES & OTHERS		
	SCORE	COMMENTS
Sales turnover less than K200,00	1	Companies scored between 0 and 3 are classified as MICRO
Employees less than 5	1	
Asset less than K200,00	1	
TOTAL	3	
	SCORE	COMMENTS
Sales turnover more than K200,00 & less than K5mn	2	Companies scored between 4 and 6 are classified as SMALL
Employees less more than 5 & less than 40	2	
Assets more than K200,00 & less than K5mn	2	
TOTAL	6	
	SCORE	COMMENTS
Sales turnover more than 5mn & less than K10mn	3	Companies scored between 7 and 9 are classified as MEDIUM
Employees less more than 40 & less than 100	3	
Assets more than K5mn & less than K10mn	3	
TOTAL	9	

The 8 point plan for Papua New Guinea aims to encourage;

- ◆ A rapid increase in the proportion of the economy under the control of Papua New Guinean individuals and groups, and in the proportion of personal and property income that goes to Papua New Guinea;
- ◆ More equal distribution of economic benefits, including movement toward equalization of incomes among people and toward equalization of services among different areas of the country;
- ◆ Decentralization of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade and more spending channeled to local and area bodies;
- ◆ An emphasis on small-scale artisan, service and business activity, relying where possible on typically Papua New Guinean forms of economic activity;
- ◆ A more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production;
- ◆ An increasing capacity for meeting government spending needs from locally raised revenue;
- ◆ A rapid increase in the active and equal participation of women in all forms of economic and social activity;
- ◆ Government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development.

<http://www.paclii.org/pg/CPCReport/Cap2.htm>



PROVINCE	POPULATION	% of Pp'n	CURRENT SME	% of SME	TARGET SME
Western Province	180,455	2.6	457	0.9	11,515
Gulf	121,128	1.7	269	0.5	7,730
Central	237,016	3.4	671	1.4	15,125
NCD	318,128	4.5	15,484	31.3	20,301
Milne Bay	269,954	3.8	812	1.6	17,228
Northern	176,206	2.5	167	0.3	11,244
Southern Highlands	515,511	7.3	7,847	15.9	32,897
Hela	352,698	5.0	0.0	0.0	22,509
Enga	452,596	6.4	3,445	7.0	28,882
Western Highlands	543,915	7.7	2,210	4.5	34,709
Jiwaka	150,947	2.1	0.0	0.0	9,632
Chimbu	403,772	5.7	675	1.4	25,766
Eastern Highlands	582,129	8.2	547	1.1	37,150
Morobe	646,876	9.2	7,514	15.2	41,279
Madang	487,460	6.9	1,034	2.1	31,106
East Sepik	422,481	6.1	1,1992	4.0	27,662
West Sepik	227,657	3.2	368	0.7	14,527.6
Manus	50,321	0.7	1,479	3.0	3,211
New Ireland	161,165	2.3	1,983	4.0	10,285
East New Britain	271,252	3.8	1,620	3.3	17,310
West New Britain	242,676	3.4	927	1.9	15,486
AR of Bougainville	234,280	3.3	0.0	0.0	14,950
TOTAL	7,059,653	100.0	49,501	100.0	450,50

Targets set for each province is based on the entrepreneurial potential based on planned economic opportunities and the mindset of the population for each province. This figures also assumes that all the foundational entrepreneurial training and development and support is administered as planned. These are the figures that must be quoted in each provincial plan and reallocated to Districts under the Provincial SME Sector Development Plan.



**ENTREPRENEURIAL YOUTH
SUMMIT 2015**
PORT MORESBY





MINISTRY OF TRADE, COMMERCE AND INDUSTRY
MOALE HAUS | WAIGANI
P O BOX 375, WAIGANI, NCD, PORT MORESBY, PAPUA NEW GUINEA
PHONE: +675 325 5653

