PNG’s SME policy: the right aim, but dubious means

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Introduction

Small and Medium Enterprises (SMEs) are the largest source of employment across the world. Papua New Guinea (PNG) recently released a new SME Policy with the fundamental aim of promoting and driving inclusive economic growth through employment and wealth creation. The overall vision of the Policy is that the SME sector would be a major contributor toward PNG becoming a middle-income country by 2030 and a high-income country by 2050.

The government through its agencies intends to achieve inclusive economic growth through promoting SME sector. Other countries that have experienced robust economic growth through success in the SME sector include New Zealand, Malaysia, Taiwan, and Japan, among others. Many of these countries have transitioned from Third World to developed economies as a result of the SME sector, which has historically been an engine for economic growth.

The recently developed PNG SME Policy is consistent with other development and strategic plans such as the PNG Vision 2050 [pdf] and Development Strategic Plan 2010-2030 [pdf]. The SME Policy states that SMEs are expected to grow from a current 49,500 to 500,000 by 2030. By 2030 employment opportunities in the SME sector would increase from current 291,348 to about 2,000,000 jobs. This is anticipated to cause the unemployment level to fall from the current 84.1% to 49% of the population.

It is also anticipated in the policy that by 2030 PNG citizens would own over 70% of formal economic sector from current 10% by 2030. Income per capita is expected to rise from current $2000 to US $9600. Inclusive and sustained economic growth would be achieved by 2030, as SME’s GDP contribution of 6% would increase to 50%. Most importantly it is expected that, through SME growth, the share of PNG’s population living below the poverty line would reduce from the current 40% to 30%.

The SME Policy as protectionist

In essence the SME Policy is protectionist. Its fundamental aim is to protect locally owned businesses ahead of foreign competitors. Protectionist policies are intended to help the domestic industry to maintain or increase its market share while foreign entities are expected to lose market share and sales revenue.

Currently, only a few cottage-type activities are closed to foreign investment in PNG. The new PNG SME Policy has an extensive Reserves Activity List (RAL) under which many sectors are reserved for 100% PNG ownership (and a few for 51% PNG ownership). Sectors reserved for 100% PNG ownership include trade stores, building, and tourism and security services.

It is also envisaged that special taxation and non-taxation incentives are to be provided for SMEs engaged in RAL activities.

Effects of the SME Policy

The PNG SME Policy is wrongly seeking PNG business development through protectionist policies. The SME Policy would reduce competition, not advance welfare, and it would hamper economic growth. Protectionist policies are also likely to cause the prices of domestic goods and services to increase, and depress foreign investment.

The SME Policy, which is tailored to protect locally owned business, would limit physical, financial and human capital inflows. The SME Policy would disadvantage current foreign businesses and provide a disincentive for future foreign investment in the country. There would be potential loss of skilled employment, training and foreign exchange earnings as foreign business interests diminish.

Many PNG businesses may possess the required resources like the land and ideas to do business, but they are limited with respect to funding and skills. This is where foreign participation can be crucial.

The SME policy is anti-foreigner, discriminatory and contradictory to PNG's government interests and agenda to attract foreign businesses opportunities in the country. The SME policy is not conducive for growing a vulnerable economy like PNG.

How to support local businesses

Rather than pursuing a protectionist agenda, the government should take alternative measures to support SMEs. The major constraint for doing business in PNG is the lack of essential infrastructural services like better roads and bridges, electricity and telecommunication, among others. The government should increase funding and support such infrastructure services.

An important resource for any business is funding. The government should ensure that the financial sector is providing funds for small businesses to borrow.

The government should encourage locally owned businesses to partner with and learn from foreign businesses, and maximise skills and technological 'spill-overs' from foreign to local businesses. A skilled and well-trained workforce would be created through such arrangements.

Conclusion

The SME Policy has the right aim. We should be supporting PNG businesses, but the way to do this is not by shutting out foreign business. PNG needs the capital and expertise of foreign businesses, large and small. The SME Policy should focus on improving the environment for all small businesses, and on strengthening the workforce; not on shutting out access to what we need.

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