



# BCPNG Market Conditions Survey

Data analysis - Quarter 4, 2020  
April 2021

# Methodology and Respondents

The information presented in this report is based on data gathered from an online survey conducted by the Business Council of PNG, with assistance from PwC, from 20 January to 19 February 2021.

Therefore, the findings are only reflective of the experiences of the respondents and may not mirror the experiences of other industry players that were not able to participate in the survey.

Where possible, the data gathered from this survey was compared to the findings of the first and second market conditions survey that the BCPNG conducted in May and August 2020, respectively.

The questions were both open ended, which required a free text response, as well as multiple choice questions. The survey questionnaire was sent to respondents using an online survey tool, and the data gathered was analysed and organised by responses into themes. The responses were gathered on a confidential basis and the responses have not been audited or validated.

# Methodology and Respondents

## Respondents' profile

- 77% of the respondents are heads of their organisations (CEO, Managing Director, Country Manager or equivalent).
- The respondents represent 25 sectors of the economy, and 18 out of 22 provinces in PNG.
- Types of entity
  - 1. Public company - 8%
  - 2. Entrepreneurial and private (family) business - 21%
  - 3. Privately owned - 53%
  - 4. Subsidiary of a multinational group - 13%
  - 5. State-owned - 5%
- Employee headcount
  - 1. <50 - 47%
  - 2. 50 to 100 - 20%
  - 3. 101 to 500 - 20%
  - 4. 501 to 1,000 - 7%
  - 5. >1,000 - 6%

# Key Findings

- A majority of businesses continued to experience financial decline through to the end of 2020. At least 60% did not meet their projected results for Q4 2020. 69% of respondents have reported a decline in their 2020 annual revenue compared to the previous year.
- Despite the continued trend of financial decline, business leaders in PNG are showing a hint of optimism when it comes to their short-term business prospects. 44% are expecting revenue growth in the next six months while 25% are expecting revenue decline. This is a significant improvement from the previous quarter when only 9% anticipated revenue growth in the next six months and 74% anticipated revenue decrease.
- Survey findings also show that there are less businesses that reduced their headcount in Q4 2020 compared to Q2. Furthermore, 82% of respondents do not intend to reduce their employee headcount in the next three to six months.
- Reduced consumption and market demand remains to be the top challenge that businesses face. Aside from financial and productivity challenges, respondents also say that the lack of foreign currency and the inability to get the right skills in-country at the right time remain a business impediment.

# Key Findings

- 70% of the respondents are now able to operate in the current environment for more than 12 months. This is a continuous improvement from Q2 and Q1 when only 51% and 35%, respectively, of the business leaders surveyed were able to operate in the current environment for more than 12 months.
- Close to a year after the announcement of the Government's stimulus package, it is still yet to create a positive impact on the respondents' businesses, with 59% rating the stimulus package as 'not effective at all'.
- To boost business recovery and to create an environment that will foster growth and investment, respondents believe that the Government should focus on accelerating resource projects, restoring investor confidence and resolving foreign investment issues, as well as settling debts to the private sector.

# Impact on Financial Performance

A majority of businesses continued to experience financial decline through to the end of 2020. At least 60% did not meet their projected results for Q4 2020.

It is therefore not surprising that 69% of respondents have reported a decline in their 2020 annual revenue compared to the previous year.

More than half of the respondents (53%) said that the primary driver of revenue decline is a drop in market demand due to COVID-19 restrictions. Other reasons for revenue decline include delay in the approval of resource projects (12%) and closure of operations due to the impacts of COVID-19 (7%). Respondents also mentioned reasons such as the closure of Porgera mine, lack of foreign exchange and general global and local economic decline.

64%

of respondents did not reach their projected Q4 revenue

60%

of respondents did not meet their projected Q4 net profit

# Impact on Financial Performance

Consistent with findings from surveys in the previous quarters, the tourism and hospitality sector remains the hardest hit. The sectors that are hardest hit by the pandemic are:

	Q4	Q2	Q1
1	Tourism and hospitality	Tourism and hospitality	Professional services
2	Professional services	Professional services	Tourism and hospitality
3	Transport and logistics	Retail and consumer goods	Retail and consumer goods
4	Manufacturing	Manufacturing	Manufacturing
5	Real estate and property	Real estate and property	Transport and logistics
6	Insurance, stock broking, and asset management	Construction	Technology, media and telecommunications

Although a majority of businesses have experienced financial decline, there are also some players in the retail and consumer goods sector that have recorded growth of up to 20% in Q4 2020 and in the year 2020. Growth drivers in the retail and consumer goods sector are increase in market share as well as updated business models to meet market demand changes due to the COVID-19 pandemic.

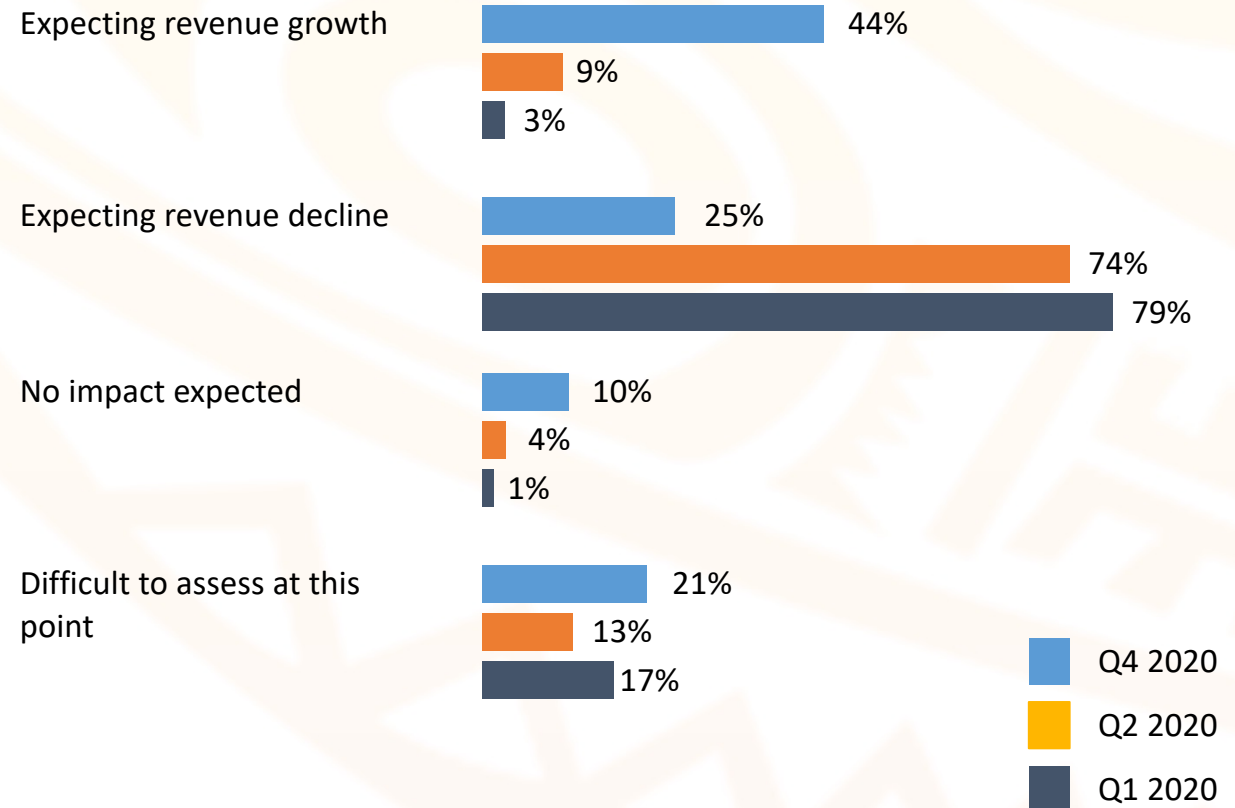
# Impact on Financial Performance

Despite the continued trend of financial decline, business leaders in PNG are showing a hint of optimism when it comes to their short-term business prospects.

44% are expecting revenue growth in the next six months while 25% are expecting revenue decline. This is a significant improvement from the previous quarter when only 9% anticipated revenue growth in the next six months and 74% anticipated revenue decrease.

When asked about their projection of their company's growth in 2021, some business leaders have also shown optimism. 32% expect their companies to grow this year, an increase from 19% in Q2.

## Short-term revenue expectations





# Impact on Government

37% of respondents say that their actual 2020 tax bill is below their projected tax bill, with 12% saying that their actual tax bill is 21% to 50% lower than their forecast. The impact on respondents' tax bills are shown below:

	<b>Q4 survey (2020 impact based on actual results)</b>	<b>Q2 survey (Monthly impact)</b>	<b>Q1 survey (Monthly impact)</b>
Average decrease in SWT payments	K192,000 (K35.7m total indicative annual impact based on 186 respondents)	K129,000 (K33.1m total indicative monthly impact based on 257 respondents)	K113,000 (K13.4m total indicative monthly impact based on 119 respondents)
Average decrease in GST payments	K294,000 (K54.7m total indicative annual impact based on 186 respondents)	K127,000 (K32.6m total indicative monthly impact based on 257 respondents)	K115,000 (K15.6m total indicative monthly impact based on 136 respondents)
Average decrease in corporate income tax payment	K333,000 (K61.9m total indicative annual impact based on 186 respondents)	K164,000 (K42.1m total indicative monthly impact based on 257 respondents)	K206,000 (K24.3m total indicative monthly impact based on 118 respondents)

# Impact on Employment

More than half (53%) of the respondents say that their current headcount is the same as their September 2020 headcount.

Survey findings also show that there are less businesses that reduced their headcount in Q4 2020 compared to Q2. Only 28% of respondents say that their current headcount decreased compared to their Q2 headcount. In the Q2 survey, 42% reported a reduction in their headcount.

On the other hand, 19% say that their current headcount increased.

Furthermore, 82% of respondents do not intend to reduce their employee headcount in the next three to six months.

## Top employee management strategies

Actively managing headcount depending on business demand	35%
Combination of work from home and on-site work	19%
Reduced working hours and remuneration	18%
Skeletal workforce with only essential employees required to report to work	14%

# Challenges

Reduced consumption and market demand remains to be the top challenge that businesses face, which is also consistent with findings from the Q2 survey.

Aside from these, the lack of foreign currency and the inability to get the right skills in-country at the right time remains a challenge for businesses.

“As we are executing an important capex this year we have been facing strong headwinds to get the necessary engineers and technicians in PNG from abroad to install and commission the productive investment. Get sufficient and timely forex to operate.”

“As an importer we face daily challenges in trying to meet our supplier payments and often face delays of shipments courtesy of the lack of available forex”

“No visas for engineers to come and maintain the machinery – resulting in increase in airfreight”

## Top challenges businesses face

- |   |   |
|---|---|
| 1 | Reduced consumption and market demand   |
| 2 | Financial impact including effects on results of operations, future periods and liquidity and capital resources |
| 3 | Effects on our workforce / reduction in productivity  |
| 4 | Supply chain disruptions  |
| 5 | Disruption in domestic business travel for our employees  |

“Due to COVID19 our local supply chain has been severely affected. Rural farmers are too scared of coming into town to sell their produce since we buy from them and export. So from January to October 2020 we did not export anything and in November we slowly picked up and did the first shipment for 2020.”

# Operating in the Current Environment

70% of the respondents are now able to operate in the current environment for more than 12 months. This is a continuous improvement from Q2 and Q1 when only 51% and 35%, respectively, of the business leaders surveyed were able to operate in the current environment for more than 12 months.

This could indicate that after a year into the pandemic, PNG businesses have now settled and have put in place frameworks and structures to help them navigate the challenges of the current environment. It is likely that these frameworks and structures continue to help create stability in their business operations and therefore enable business leaders to make such projections.

<b>How long is your company able to operate in the current environment?</b>	<b>Q4</b>	<b>Q2</b>	<b>Q1</b>
Less than a month	1%	2%	4%
1 to 3 months	2%	5%	13%
3 to 6 months	7%	20%	26%
6 to 12 months	20%	22%	22%
More than 12 months	70%	51%	35%

# Operating in the Current Environment

To continue operating in the current environment, businesses surveyed have implemented the measures

1. Workplace safety measures and requirements (e.g. wearing masks, temperature checks, physical distancing)
2. Investment in technology to support new ways of working
3. Rules on employee movement and travel
4. Remote working for some or all employees
5. Rotation for on-site employees

Technology investment to support new ways of working now ranks second in priority, up from being fifth in Q2. This increase in priority indicates the importance of digital technology to enable business continuity while maintaining employee management strategies and safety protocols such as remote working. This also shows that business leaders surveyed are banking on digital technology to keep their business going given that there is no clear indication yet on when the pandemic could end.

Despite the improvement in businesses' ability to be able to operate in the current environment, respondents believe that they need more time to recover and get back to business as usual. 43% of respondents say that they need at least six months to get back to business as usual, a slight increase from 41% in Q2 and 30% in Q1.

# Government's Stimulus Package

Close to a year after the announcement of the Government's stimulus package, it is still yet to create a positive impact on the respondents' businesses.

Consistent with findings from our Q2 survey, a majority of the respondents (75%) say that their company has not benefited from the Government's economic stimulus package, while 22% say that they are unaware of its details. This highlights the continuing need for information, awareness, clear terms and guidelines as well as structures to be in place to support the effective implementation of the different stimulus efforts.

59% of the respondents also rate the stimulus package as 'not effective at all', citing reasons such as lack of action and clear direction to implement the stimulus package, lack of positive outcomes that would have come from the stimulus package, and the package not being accessible to SMEs and MSMEs.

"The Stimulus Package was a failure as it does not broadly address the needs of the businesses and SMEs across the country. The package is nothing new to the traditional stimulus in the past. It lacks consultation and is grossly inadequately funded. The SMEs were not able to make a restart despite its launching primarily because it does not solve the issue of disruption of supply chains and failed to assist struggling companies that have closed shops."

"It has been extremely difficult to access this funding as at the moment it is totally tied to the banks' normal lending policies. If the company has an existing loan with the bank and deposits were not good because of COVID-19 restrictions and reductions in business activities, my company will not qualify for this."

# The Way Forward

To boost business recovery and to create an environment that will foster growth and investment, respondents believe that the Government should focus on accelerating resource projects, restoring investor confidence and resolving foreign investment issues, as well as settling debts to the private sector.

Rank	Proposed measure
1	Prioritise acceleration of resource projects
2	Restore investor confidence and resolve foreign investment issues
3	Settle Government debts to the private sector
4	Subsidise wages of employees in the private sector to keep people employed
5	Reduce level of GST on certain sectors to encourage continued consumer spending
6	Extend the duration of immigration documents which are due to expire soon (e.g. with a limited period of 90 days)
7	Permit the offset of GST credits against other tax liabilities
8	Reduce the taxes applicable on redundancy payments