



**BUSINESS COUNCIL
OF PAPUA NEW GUINEA**

VOICE OF THE PRIVATE SECTOR

Market Conditions Survey

September 2021

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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 6 August to 3 September 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 three market conditions surveys that the BCPNG conducted in May 2020, August 2020 and January 2021.

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

- 79% of the respondents are heads of their organisations (CEO, Managing Director or equivalent).
- As a whole, the respondents' business operations cover all provinces across PNG.

- **Types of entity**

1. Public company - 4%
2. Entrepreneurial and private (family) business - 23%
3. Privately owned - 54%
4. Subsidiary of a multinational group - 15%
5. State-owned - 4%

- **Employee headcount**

1. <50 - 39%
2. 50 to 100 - 15%
3. 101 to 500 - 28%
4. 501 to 1,000 - 9%
5. >1,000 - 9%

Methodology and respondents

The respondents represent 25 sectors of the economy:

1. Agriculture or primary production
2. Automotive
3. Aviation
4. Banking
5. Construction
6. Diversified corporate
7. Energy
8. Engineering services
9. Gaming
10. Government
11. Healthcare
12. Industrial goods and services
13. Insurance, stock broking and asset management
14. Manufacturing
15. Mining
16. Non-bank financial institution
17. Oil and gas
18. Other financial services
19. Professional services
20. Real estate and property
21. Retail and consumer goods
22. Security
23. Technology, media and telecommunications
24. Tourism and hospitality
25. Transport and logistics

Key findings

- Businesses surveyed continued to experience financial decline in the first half of 2021. 45% of respondents have reported a decrease in year to date (YTD) revenue to 30 June 2021 compared to the same period last year. And 51% say that they did not meet their projected revenue for H1 2021.
- Although there is a trend of continued financial decline, respondents demonstrate optimism when it comes to their short-term business prospects, with 43% projecting an increase in revenue in the next six months.
- 37% of respondents expect their tax bill to increase this year, while 34% project their tax bill to decrease this year.
- Close to half (47%) of the respondents say that their current headcount has remained the same as their headcount in December 2020. 29% of respondents reduced their headcount in the first half of 2021, while 24% increased their headcount in the same period. 84% of the respondents say that they are not considering staff reduction in the next three to six months.
- 63% of the respondents continue to implement employee management strategies in relation to COVID-19. 19% of the respondents report that it is a requirement for their employees to get vaccinated against COVID-19, while some have been encouraging their employees to get vaccinated through education campaigns.
- More than a year into the pandemic, 78% of the respondents say that they are now able to operate in the current environment for more than 12 months. This shows a continuous improvement from the findings of the BCPNG's market conditions surveys conducted in 2020.

Key findings

- Consistent with findings from the 2020 market conditions surveys conducted by the BCPNG, reduced consumption and market demand remains the primary challenge for businesses. Other key challenges they faced in the first half of 2021 include increased cost of imports and imported raw materials due to the weak kina, difficulties in getting work permits and visas on time, aggressive tax collection and regulatory fee increases.
- Consistent with findings from the market conditions surveys conducted by BCPNG in 2020, a majority (69%) of the business leaders surveyed say that they have not yet benefited from the Government's economic stimulus package, while 27% remain unaware of its details.
- 69% of business leaders surveyed also rated the Government's economic stimulus package as 'not effective at all,' citing reasons such as difficulty in accessing the stimulus package, insufficient information around the criteria for businesses to be eligible in availing the stimulus package, and lack of tangible benefits.
- To help businesses recover and create an environment that is conducive to sustainable growth, respondents believe that the Government's key priorities should be prioritising the acceleration of resource projects, restoring investor confidence and resolving foreign investment issues, as well as settling debts to the private sector.

Impact on financial performance

Businesses surveyed continued to experience financial decline in the first half of 2021.

- 45% of respondents have reported a decrease in year to date (YTD) revenue to 30 June 2021 compared to the same period last year. And 51% say that they did not meet their projected revenue for H1 2021.
- In a similar vein, 48% have reported a decline in YTD net profit to 30 June 2021 compared to the same period last year. Half (50%) say that they did not meet their projected net profit for H1 2021.

51%

of respondents did not meet their
projected revenue for H1 2021

50%

of respondents did not meet their
projected net profit for H1 2021

Impact on financial performance

“Government not paying bills as such consumers and SMEs have less cash / revenue and demise in demand for finance i.e. less cash in the system.”

Respondents attribute the decline in financial performance to: business disruptions caused by the spike in COVID-19 cases in the first half of 2021 (40%) and drop in market demand due to the updated COVID-19 restrictions (18%).

Other reasons for revenue decline include closure of operations due to the impacts of COVID-19 (13%) and delay in the approval of resource projects (9%).

Respondents also mentioned reasons such as closure of the Porgera mine, and less spending power of consumers as drivers of business decline.

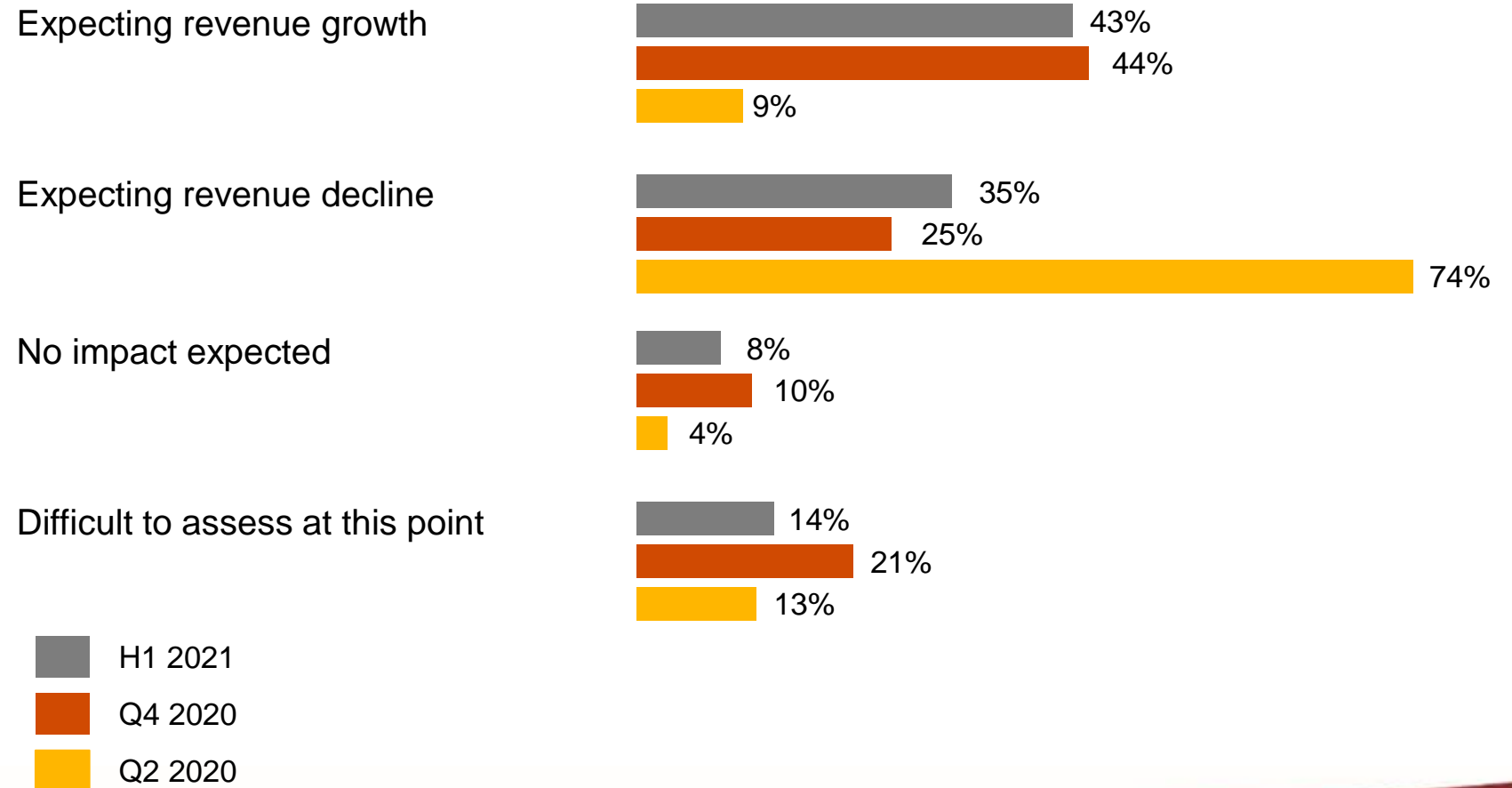
Businesses have turned to the following measures to manage the decrease in revenue: implementing cost containment; deferring planned investments and capital spend; as well as cancelling planned investments and capital spend.

Aside from managing cost, business leaders also implemented strategic measures such as improving their product portfolio; diversifying their client base; increasing human resources to increase production volumes; as well as restructuring their business.

Impact on financial performance

Although there is a trend of continued financial decline, respondents demonstrate optimism when it comes to their short-term business prospects, with 43% projecting an increase in revenue in the next six months. On the other hand, 35% are expecting revenue to decline in the next six months.

Short-term revenue expectations (next six months)



Impact on financial performance

Consistent with findings from the market conditions surveys conducted by the BCPNG in 2020, the tourism and hospitality sector remains to be the hardest hit, with 33% saying that their actual H1 2021 revenue is more than 50% behind their projected revenue.

The sectors that are hardest hit are the following:

	H1 2021	Q4 2020	Q2 2020
1	Tourism and hospitality	Tourism and hospitality	Tourism and hospitality
2	Professional services	Professional services	Professional services
3	Manufacturing	Transport and logistics	Retail and consumer goods
4	Diversified corporate	Manufacturing	Manufacturing
5	Transport and logistics	Real estate and property	Real estate and property

“Tourists cannot travel at this stage, so operators are most affected during this pandemic.”

“There was hardly any international booking for travelling to PNG or other places that we are able to provide logistics for.”

“There is no plan for internal tourism and activities in the country. The Tourism Act requires attention to draft policies on inbound local tourism developing a lot of interest and activities that can attract and be used by the citizens of our country.”

Impact on Government

37% of respondents expect their tax bill to increase this year, while 34% project their tax bill to decrease this year

Summary the indicative impact on the respondents' tax bill:

	H1 2021 (Monthly impact)	Q4 2020 (2020 impact based on actual results)	Q2 2020 (Monthly impact)
Average decrease in SWT payments	K27,620 (K4.4m total indicative monthly impact based on 160 respondents)	K192,000 (K35.7m total indicative annual impact based on 186 respondents)	K129,000 (K33.1m total indicative monthly impact based on 257 respondents)
Average decrease in GST payments	K31,380 (K5.02m total indicative monthly impact based on 160 respondents)	K294,000 (K54.7m total indicative annual impact based on 186 respondents)	K127,000 (K32.6m total indicative monthly impact based on 257 respondents)
Average decrease in corporate income tax payment	K38,680 (K6.2m total indicative monthly impact based on 160 respondents)	K333,000 (K61.9m total indicative annual impact based on 186 respondents)	K164,000 (K42.1m total indicative monthly impact based on 257 respondents)

Impact on Government

The decrease in respondents' expected tax bills for the first half of 2021 could be driven by a number of factors.

- The decrease in expected SWT payment could indicate that most businesses' workforces have now been stabilised.
- While the expected decrease in GST and Corporate taxes could mean that respondents who have been able to continue to operate under the new business conditions are not doing well.
- On the other hand, the increase in respondents' expected tax bills for the first half of 2021 could be potentially due to an increase in workforce, more profitable operations and the aggressive tax collection efforts of the IRC.

H1 2021 (Monthly impact)	
Decrease in SWT payments	could indicate that businesses' workforces have now been stabilised
Decrease in GST payments	Businesses are that are able to continue to operate under the new business conditions are not doing well.
Decrease in corporate income tax payment	K38,680 (K6.2m total indicative monthly impact based on 160 respondents)

Impact on employment

- Close to half (47%) of the respondents say that their current headcount has remained the same as their headcount in December 2020. This is a slight dip from 53% who reported in Q4 2020 that their December 2020 headcount has remained the same as their September 2020 headcount.
- On the other hand, 29% of respondents reduced their headcount in the first half of 2021, almost the same as the 28% that reported headcount reduction in Q4 2020.
- Meanwhile, 24% say that they have increased their headcount in the first six months of 2021.
- 84% of the respondents are not considering staff reduction in the next three to six months, while 3% are intending to reduce their headcount by greater than 75% in the next three to six months.

47%

**say that their current
headcount has
remained the same as
their headcount in
December 2020**

Impact on employment

Top employee management strategies that are being implemented

Actively managing headcount based on business demand	27%
Combination of work from home and on-site work	20%
Requirement for employees to get COVID-19 vaccination	19%
Reduced working hours and remuneration	11%
Skeletal workforce with only essential employees required to report to work	8%

63%

**continue to implement
employee management
strategies in relation to
COVID-19**

Impact on employment

- Aside from these primary measures that are being implemented, business leaders have also been encouraging their employees to get the COVID-19 vaccine.
- Among those who require COVID-19 vaccination among employees, 37% say that more than three-fourths of their staff have been vaccinated.
- Among those that actively manage their headcount, 88% say that less than 15% of their workforce were laid off in the first half of 2021.
- Among those that continue to reduce staff remuneration, 41% say that less than 15% of their workforce are receiving reduced remuneration, while 18% say that more than 75% of their employees are under reduced pay.
- Among those implementing a skeletal workforce, 41% say that more than 75% of their staff are considered essential and are therefore reporting to work.

Challenges

According to the respondents' perspectives, these challenges have been caused primarily by COVID-19 restrictions as well as issues in the resource sector.

They identified the following as the key drivers of business challenges (in order of priority):

1. Ongoing changes to the COVID-19 measures
2. Closure of Porgera mine
3. Travel restrictions due to the COVID-19 Delta variant
4. Delay in the implementation of other resource projects
5. Stricter tax compliance environment

Challenges

The top five challenges that businesses faced during the first half of 2021 are:

1. Reduced consumption and market demand
2. Disruption in getting expatriate employees in-country due to travel restrictions
3. Lack of foreign currency
4. Increased operational cost
5. Effects on our workforce / reduction in productivity

Aside from these, business leaders also say that among the other key challenges in the first half of 2021 the most pressing include increased cost of imports and imported raw materials due to the weak kina, difficulties in getting work permits and visas on time, aggressive tax collection and regulatory fee increases.

Quotes from the Survey

“Slow work permit and visa process and NCC process has severely impacted our speed to market.”

“Government services take longer while government demands for timely compliance are more severe.”

“We are not able to get the IRC to refund the GST payments that we are entitled to. We get no response from the IRC to our requests yet they have acknowledged that they owe us the money but will not pay.”

“Government not paying its outstanding debts over 12 months overdue coupled with a voracious IRC chasing GST. This is not sustainable for the economy.”

Operating in the current environment

More than a year into the pandemic, 78% of the respondents say that they are now able to operate in the current environment for more than 12 months. This shows a continuous improvement from the findings of the BCPNG's market conditions surveys conducted in 2020, which could indicate that PNG businesses surveyed are now experiencing stability in their operations, and therefore making them better placed to make projections about their performance.

The table on the right summarises the respondents' assessment of their ability to operate in the current environment.

How long is your company able to operate in the current environment?	H1, 2021	Q4, 2020	Q2, 2020
Less than a month	1%	1%	2%
1 to 3 months	2%	2%	5%
3 to 6 months	5%	7%	20%
6 to 12 months	14%	20%	22%
More than 12 months	78%	70%	51%

Operating in the current environment

To continue operating in the current environment, businesses surveyed have implemented the following (according to priority):

1. Workplace safety measures and requirements (e.g. wearing masks, temperature checks, physical distancing)
2. Making it a requirement for all employees to get vaccinated
3. Rules on employee movement and travel
4. Investment in technology to support new ways of working
5. Rotation for on-site employees to reduce exposure

Operating in the current environment

With vaccines now available in PNG, some business leaders are also relying on vaccination to protect their organisation and employees.

Some respondents have also implemented policies that are favourable to those vaccinated such as restricting some areas in the office for vaccinated employees only, restricting employee travel to vaccinated staff, and hiring vaccinated individuals only.

“We have given until the end of current contracts for existing employees. Only hiring new people who prove they are injected.”

“Implemented a roadmap to normalcy based on vaccine uptake.”

“Some floors of the office are restricted to vaccinated staff only.”

“New employees to be vaccinated.”

Operating in the current environment

Although more businesses are saying that they are now able to operate in the current environment for more than a year, respondents still need a significant amount of time to recover and get back to business as usual.

41% of respondents estimate that they need at least six months to get back to business as usual, a slight dip from 43% in Q4 of 2020.

Government's economic stimulus package

- Consistent with findings from the market conditions surveys conducted by BCPNG in 2020, a majority (69%) of the business leaders surveyed say that they have not yet benefited from the Government's economic stimulus package, while 27% remain unaware of its details.
- It is therefore not surprising that 69% of business leaders surveyed also rated the Government's economic stimulus package as 'not effective at all'. Respondents cited reasons such as difficulty in accessing the stimulus package, insufficient information around the criteria for businesses to be eligible in availing the stimulus package, and lack of tangible benefits for giving such a rating.

"There was no consistency and clearly stated criteria provided to qualify for the so-called Government's Economic Stimulus Package."

"Because like myself a lot of businesses are still suffering loss of business and are currently not operating due to lack of proper financial assistance and vital information required to continue in business."

"The stimulus was built largely around people depleting their superannuation and they could only use their own contributions. Not aware of any other measures they put in place."

"In spite of the Treasurer's rhetoric on the floor of parliament, there appears to be no report from the key Government bureaucracies on the tangible effect of the Government's Economic Stimulus Package on the sectors of the country's economy that the bulk of PNG's population depends on, like agriculture, MSME, health, infrastructure and of course job retention in both the public and private sectors."

"Not enough information provided to MSMEs on the requirements of this package. Also the challenges to qualify for this package by the commercial banks are too strict."

Government's economic stimulus package

“Qualifying for a BSP MSME loan offered by the Government to assist in managing the impacts of Covid-19 has been arduous and not available to say the least. Government debts still outstanding on our books remain unpaid. We are essentially carrying the Government in these hard times. Living on promises of payment that have not come.”

“Not all SMEs and MSMEs are participating or benefiting from this stimulus and the banks continue to impose their own conditions which prohibit national MSMEs and SMEs to access this stimulus capital.”

“Very difficult to access. Difficult to understand where the stimulus has gone except in allowances to public servants. BSP loans are not relevant if you do not bank with BSP. NDB - what happened there? Our company has operated for 20+ years with a prime asset but cannot even get an extension on our overdraft so have basically tightened the belt, borrowed from family to survive. If credible companies like ours could access finance we would use the down time to build/invest and stimulate the economy ourselves.”

“The roll out of the MSME funding was given or rolled out without any policy to enable local PNG MSMEs to benefit from this funding. The implementation and monitoring part of the MSME funding and incubation of the MSME startup was poor and I believe the success rate would be low and funds allocated wasted with minimal impact to economic MSME growth.”

“SMEs don't just need ‘cash handouts’, they need support with access to markets. The agriculture segment for example needs access to cold chain facilities, to effective and cost effective transport, and shipping and training of export market requirements (certifications / export procedures etc.) so that PNG grown products can be exported to such markets as Australia. Growth in exports will have major impacts for local employment, local businesses and to help increase tax revenues.”

The way forward

To help businesses recover and create an environment that is conducive to sustainable growth, respondents believe that the Government's key priorities should be prioritising the acceleration of resource projects, restoring investor confidence and resolving foreign investment issues, as well as settling debts to the private sector.

These key proposed measures largely echo the sentiments of the business leaders in Q4 2020.

The way forward

The table on the below outlines in detail the respondents' proposed measures to the Government, according to priority, in relation to previous survey findings in Q4 2020.

H1 2021	Rank	Q4 2020
Prioritise acceleration of resource projects	1	Prioritise acceleration of resource projects
Restore investor confidence and resolve foreign investment issues	2	Restore investor confidence and resolve foreign investment issues
Settle Government debts to the private sector	3	Settle Government debts to the private sector
Subsidise wages of employees in the private sector to keep people employed	4	Subsidise wages of employees in the private sector to keep people employed
Permit the offset of GST credits against other tax liabilities	5	Reduce level of GST on certain sectors to encourage continued consumer spending
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)
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
Reduce the taxes applicable on redundancy payments	8	Reduce the taxes applicable on redundancy payments

The way forward

When asked to share their perspectives on their proposed measures to the Government, responses from business leaders surveyed were mostly around the theme of taxation and compliance, as well as government debt.

“Reduce PAYE/S&W tax in order to put more money back into the pockets of employees, thereby increasing their purchasing power. Flow on effect on their increased ability to spend will be of benefit to other service providers, especially those in the informal sectors who have been hard hit by Covid-19.”

“Permit offsetting of government debt with SWT and GST”

“Reduce duplication of compliance demands by taxation and all government authorities”

“Could only wish that the Government actually pays their commercial invoices / bills and not be some 4-5 months behind in doing so. It cripples our business, puts pressure on our supply chain and essentially drags down our business reputation / standing in PNG.”

“Level the playing field - all businesses must be subjected to strict assessments from the tax department so that all pay the same rates of tax and contribute to PNG. In addition there must be strict enforcement of immigration rules and policies where only needed expatriates / foreign workers are allowed into PNG. Foreign nationals should not be allowed in the country to take on jobs that are for low skilled labor. Asian construction companies by using "Asian laborers" are taking jobs from Papua New Guineans and are destroying local PNG construction companies.”

“Settling government debts far outweighs any other thing. This is the major and significant issue at present.”

“Government to review all acts in the tourism infrastructure development of the nation to focus on driving local tourism in the country. Local tourism will pave the way for international tourism business. We cannot continue to survive in the business when international borders are closed for any reason.”



THANK YOU

**FOR MORE INFORMATION PLEASE CONTACT
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