

Article on Impediments to Business and Investment for Small to Medium Enterprises for PNG Business

Many are surprised that, with its rich natural resource base, PNG's economy hasn't been more vibrant over many years than apparent from statistics. In reality those statistics probably inadequately recognise the largely rural informal sector, and its success in increasing food supply to meet growing rural demand, but also contributing to urban needs.

This is expected to be the fifth consecutive year of positive economic growth, with 4.5% forecast for 2007, finally a significant margin above the population growth. Much of the increased economic activity this decade has been in the large enclave projects, driven by improved commodity prices, particularly minerals and oil, but improved economic activity has spread to most other sectors, including tree crops like cocoa. It is these sectors, particularly small to medium businesses and informal sector, which generate needed economic diversification and employment.

Deciding whether or not to launch or expand a business, whether a multinational, small or informal sector enterprise, is about whether it will provide satisfactory returns on capital (including land and labour), i.e. whether it's worth the time and effort, and the risks are not too great. For an international investor it entails comparing with likely returns from alternative investment overseas, whilst smaller overseas investors also have other considerations, such as quality of life in PNG. For local investors there is generally less option to invest overseas, with capital largely tied to PNG.

The bottom line is whether income will exceed costs sufficiently for adequate after tax returns. That depends not only on current prices and input costs, but also future costs and earnings, or the investor's forecasts. This includes future expected world and local product markets, including costs of borrowing, likely tax rates or incentives, reliability of public goods and services, notably roads and infrastructure, potentially critical for that investment, including law and order, health and education (including availability of trained employees) and other risks and impediments, such as the corruption level, and natural factors (such as drought, floods, earthquakes or volcanoes).

Businesses hate uncertainty, almost more than high costs or low product prices. In the latter situation investors can decide whether to invest or not, based upon known figures, and take steps to improve prospects. Risk can be assessed and decisions made upon forecasted trends or events, but the less predictable the harder it is to assess potential viability and make, particularly longer term commitments. Uncertainty favours those businesses demanding quick returns, including fly-by-night operations, which are generally not those which PNG needs for development.

A survey by the INA in 2002 found the worst impediments to businesses and investment were, in order of response:- lack of law and order (by far the greatest); political uncertainty; variable exchange rate; corruption; inflation; high or fluctuating interest rates; regulatory instability; lack of skilled labour; poor infrastructure; high input costs;

low standards of financial services; various land problems; others. Their priorities for addressing were: law and order; corruption; then, significantly behind; political uncertainty; transport infrastructure; exchange and interest rates; then electricity supply and various other issues.

Investors share many of the same requirements, whether large, medium or small enterprises or informal sector, but some concerns are of much greater significance for some enterprises than others. The larger enclave developments (such as mining) are relatively immune to some problems, including, of example, some law and order problems, but at the other extreme small locally-owned businesses, particularly tourism and catering for example, are heavily exposed to law and order costs, paying proportionally more for security. Informal sector traders, (despite low entry costs) are also at high risk from theft and abuse (sometimes from authorities).

On the positive side, recent reforms, largely introduced by the former government, enabled the current relative political stability and contributed to improved and steady interest and exchange rates, with the autonomy over monetary management granted to the central bank. Reform of the superannuation industry reassured business and employees, and provided capital for investment. The current government has provided prudent fiscal and debt management under Philemon/Namaliu, reducing inflationary pressures and freeing up credit at affordable rates, rather than squeezing out the private sector, whilst Dr Temu's initiatives should lead to better future land management. Revised investment conditions for mining encouraged further exploration, and Kidu's informal sector legislation, together with new micro-finance schemes, have improved opportunities for micro-enterprises, some potentially evolving into formal sector small/medium enterprises. Finally, addressing poor governance in the Southern Highlands, and starting to put public funds back into transport infrastructure, shipping and essential rural services will provide opportunities for business, and the Impediments Committee and CIMC's efforts towards simplifying work permit and visa procedures need completion.

On the downside, despite additional funds to address law and order – critical particularly for smaller enterprises and potential major industries like tourism – the problems have not been seriously addressed, with leadership disruption in the lead up to the elections a major concern. Despite improved cooperation between anti-corruption agencies, corruption has not been seriously addressed as a whole-of-government issue, whilst malpractice extends from high to petty levels, imposing a major burden upon legitimate business. Recent controversial decisions to grant sole discretion over appointments to NCDC's Chairman and more control to legislators over provincial governments and the multiplication of government tiers, impose serious concerns over answerability and transparent processes, including contracting. Halting the privatisation process and continued inefficient state monopolies have kept costs of utilities and other key services, needed by business and consumers, high and quality of services low, although ICCC has provided positive oversight. Some recent ad-hoc investment incentives in mining and some other sectors, undermine the level playing field and wider investor confidence, whilst the apparent non-application of forestry laws, and weaker natural resource management, jeopardises longer term prospects for sustainable forestry and fisheries,

with a marked decline in the locally-owned long-line fishing fleet, despite some new processing investments.

Improving conditions for business in 2007 and generating longer term growth is not about special once-off incentives, or unrealistic electoral promises, but providing economic and political stability and steadily improving investment conditions, including law and order, roads and services, and addressing corruption and cumbersome bureaucratic procedures, including ensuring reliable and transparent land administration. Opportunities for small and medium business in PNG are considerable, if constraints are addressed. If some of the effort wasted in tribal conflict, in say Nebilyer, could be refocused in 2007 on productive activity, especially agriculture, how many new opportunities could be created for youths, old, women and children?