BUSINESS COUNCIL OF PAPUA NEW GUINEA
VOICE OF THE PRIVATE SECTOR

Second Market Conditions Survey

Data Analysis
September 2020

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Methodology and respondents

The information presented in this report is based on data provided by 257 respondents in an online survey undertaken by the Business Council of PNG, with assistance from PwC.

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 from the first market conditions survey BCPNG conducted in May 2020.

The survey 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. The survey was conducted from 12 to 28 August 2020.

Methodology and respondents

Respondents' profile

- 68% of the respondents are heads of their organisations (CEO, Managing Director, Country Manager or equivalent).
- As a whole, the respondents' business operations cover all provinces across PNG.

- **Types of entity**
  1. Public company - 6%
  2. Entrepreneurial and private (family) business - 21%
  3. Privately owned - 58%
  4. Subsidiary of a multinational group - 12%
  5. State-owned - 3%

- **Employee headcount**
  1. <50 - 49%
  2. 50 to 100 - 16%
  3. 101 to 500 - 20%
  4. 501 to 1,000 - 6%
  5. >1,000 - 9%

Methodology and respondents

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The respondents represent 30 sectors of the economy:

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

Key findings

- A majority of businesses surveyed continued to experience revenue and net profit decline halfway through 2020. And more business leaders expected a drop in annual revenue and net profit in Q2 compared to Q1 2020.
- The tourism and hospitality sectors remain the hardest hit. Other severely impacted sectors are professional services, retail and consumer goods, manufacturing, real estate and property, and construction.
- There is a slight increase in businesses reducing their headcount to keep their businesses afloat. Since March 2020, 19% of businesses surveyed have reduced their headcount, an increase from 12% in Q1. However, 67% of businesses are not considering staff reduction in the next three to six months.
- There are more businesses that are able to operate in the current environment for more than 12 months in Q2 than in Q1. This has increased to 51% from 34% in Q1. This improvement could be attributed to the dialogue between business and the Government, the implementation of the self-regulation policy for businesses and the consistency of the regulations issued by the Government. This also indicates that businesses could already be reaping the benefits of the structures and processes that they have put in place earlier this year to navigate the challenges of COVID-19.

Key findings

- 67% of respondents find the Government's stimulus package not effective, as they are yet to see any tangible results and outcomes flowing from this initiative.
- To help businesses recover, respondents say that it is essential for the Government to pay off its debts to the private sector, as well as create an investor-friendly environment that prioritises the acceleration of resource projects.
- The proposed measures to the Government also highlight the strong need for policies aimed at economic recovery such as advancing resource projects, encouraging consumer spending and helping businesses recover through tax relief measures.
- While the proposal to permit inbound overseas travel for workers, and to allow all establishments to operate as long as they follow health protocols remain in the top five, the need to improve the communication of policies have dropped. This could be attributed to the Government's improvement in the consistency and communication of regulations to the public.

Impact on financial performance

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PNG businesses continue to struggle financially as a majority of the respondents did not meet their projected revenue and net profit for Q2 2020 and H1 2020. This finding shows that not much has changed in the financial health of PNG businesses since BCPNG conducted its Q1 survey in May.

- 75% said their Q2 revenue is below their projection in May, while 79% said their Q2 net profit is below their projection. At least 20% said their Q2 results are below forecast by more than 50%.

- Almost eight out of each ten respondents (79%) did not meet their projected results for H1 2020, with nearly a quarter (24%) seeing their results fall behind their forecast by 21% to 50%.

79%

of respondents did not meet their projected results for H1 2020

Impact on financial performance

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The tourism and hospitality sectors continue to be among the hardest hit, with 41% of respondents seeing their H1 2020 results drop by more than 50% compared to their projected results.

"Most tourism operators may consider not reopening as we have been given no money to assist with no revenue. Our resort is in total shutdown and we are the lifeline to the community."

"Our company has closed 2020, unless there is a significant change in tourism travel 2021 we will no longer be operating in Papua New Guinea due to COVID-19. Support, communication and direction for PNG tour operators from the PNG Tourism Promotion Authority has been non existent."

"Tourism and Travel in Madang have reduced to domestic travel, but now further restrictions have been implemented, which reduce the already slow demand of travel without any light at the end of the tunnel. No testing of Covid19 is being carried out in Madang, which places us in a very bad position to know exactly where we are and this is a disgrace."

Impact on financial performance

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Given the state of their financial performance, it is not surprising that business leaders are still pessimistic about their immediate business prospects.

- In fact, the number of business leaders expecting a drop in annual revenue and annual net profit has increased compared to the findings in Q1 2020. Almost 80% are expecting their annual revenue to decline this year, compared to 75% in Q1. While 74% are expecting their annual net profit to decline, compared to 70% in Q1. About 25% of them are expecting a decline of more than 50%.
- Respondents are also anticipating that there will be no significant changes to the business environment in FY21, with nearly half (48%) continuing to expect a decline in revenue and net profit.

80%

of business leaders are expecting their annual revenue to decline this year, up from 75% in Q1

Impact on financial performance

The top sectors that expect annual revenue and net profit to drop this year are also expecting results to continue to decline in FY21. These are largely the same sectors that anticipated declining results in Q1.

- The revenue decline in the real estate and property sector could potentially be driven by various factors such as businesses not being able to pay rent and the drop in the number of expatriates in the country.
- The impacts of the pandemic, in addition to the delay in resource projects, are likely the key drivers of revenue decline in the construction sector.

"No engineering and construction activity with the gas sales agreements and mining leases not getting agreed."

Q2	Rank	Q1
Tourism and hospitality	1	Professional services
Professional services	2	Tourism and hospitality
Retail and consumer goods	3	Retail and consumer goods
Manufacturing	4	Manufacturing
Real estate and property	5	Transport and logistics
Construction	6	Technology, media and telecommunications

Impact on financial performance

Weak market demand and closure of operations due to COVID-19 restrictions remain the top drivers of revenue decline for PNG businesses. Although there are fewer businesses that ceased operations in Q2 than in Q1.

- 45% of business leaders attributed the revenue decrease to a weaker demand due to their products and services being deemed as non-essential and as their customers scale down operations. This is a slight decrease from 47% in Q1.
- On the other hand, 21% cited the closure of their operations due to COVID-19 restrictions as the primary reason for revenue decline, which is fewer than 35% in Q1.

Impact on financial performance

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- The lack of progress in resource projects and the closure of the Porgera mine also negatively affected the revenue of some businesses. Some said that the closure of the Porgera mine was a key reason for the decline in their Q2 revenue.
- Additionally, the lack of foreign currency remains an impediment to business. While this has been an issue prior to the pandemic, this was exacerbated by the restrictions in Q1 and continues to be a pressing barrier for business.

"Of far far greater concern for our Group is the politics of BNL playing out at Porgera, the constant struggle to pay our import accounts through lack of fx, and the constant struggle to receive payment on State contracts. Covid is a quite manageable blip compared to these."

"FX slowing down purchases for capital items. Limiting expansion."

"The biggest challenge is the lack of forex for the payments of imported goods and services."

Impact on financial performance

To manage their financial situation, businesses continue to implement the following strategies: containing costs, as well as deferring or cancelling planned investments and capital spend. Key areas where investment has been reduced or deferred are:

i. Facilities or general capital expenditure
ii. Operations
iii. Workforce

As a result of a reduction in investment, we can expect a decrease in initiatives that could potentially generate market demand and new employment opportunities.

Business growth for a minority

- While a majority of the respondents are pessimistic about their short-term business prospects, 8% of business leaders surveyed are expecting their annual revenue to grow this year.
- Most of the businesses forecasting growth this year are in the retail and consumer goods, manufacturing, and transport and logistics sectors.
- Respondents cited that their primary growth drivers include updating their business models and diversifying their offering to meet market demand. Some are also benefiting as other businesses turn to locally available resources in lieu of imported ones, and as their competitors cease operations.

"Diversified service offering allowed us to retain more business than we expected. It was still down 85% on 2019.

Impact on Government

As a result of revenue loss, 62% of businesses expect a decline in their tax bill, a slight dip from 69% in Q1. Among respondents, 20% are anticipating that they will be paying 10% to 20% less tax for the year.

The average decrease in tax payments are shown below, vis-a-vis the data from Q1:

	Q2	Q1
Average decrease in SWT payments per month	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 per month	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	K164,000 (K42.1m total indicative monthly impact based on 257 respondents)	K206,000 (K24.3m total indicative monthly impact based on 118 respondents)

“Focus on border controls to ensure appropriate taxation of goods coming in. Also increase the policing of businesses that are clearly avoiding paying their taxes. Broadening the tax base through real uncorrupted enforcement will help to increase government revenues rather than trying to increase taxes on those already abiding by the existing laws.”

Impact on employment

There is a slight increase in businesses that are reducing their headcount in Q2 compared to Q1. However, a majority of businesses (67%) are not considering staff reduction in the next three to six months.

- Employee headcount reduction is now the top strategy used by 19% of businesses to manage their workforce, an increase from 12% in Q1. This is followed by implementing a skeletal workforce (18%) and reducing working hours and remuneration (17%).
- Since May 2020, 42% of businesses surveyed have decreased their headcount. This is a slight increase from Q1 when only 38% were expecting a staff reduction in the next three to six months.
- Among the businesses that reduced headcount, half laid off less than 15% of their employees while almost a fifth (19%) let go 15% to 30% of their people.

"The group was suffering from the poor logs export market since the last two to three years. A sudden hike in logs export tax in Feb 2020 was simply an added salt to the soars. In results we have to cut prolonged losses by standing down majority of our logging operations in March 2020. The standing down of those operations caused a loss of employment for about 2500 employees. The extended lock down worldwide due to COVID-19 caused more damage to the markets as demand further shrunk. We have no choice but further stand down all the rest of our logging and sawmilling operations in Aug 2020. This caused another about 1000 locals to lose their jobs."

Impact on employment

Unsurprisingly, the reductions in headcount and remuneration happened in the top sectors that also expect annual revenue and net profit decline this year:

a. Tourism and hospitality
b. Real estate and property
c. Retail and consumer goods
d. Manufacturing
e. Professional services

The most number of staff reductions occurred in the tourism and hospitality, and real estate and property sectors, while the most number of reduced remunerations occurred in the manufacturing sector. Staff reductions in the next three to six months are likely to happen in the tourism and hospitality, and professional services sectors.

On a positive note, 46% of businesses have retained the same headcount since May 2020, and 67% of businesses are not considering staff reduction in the next three to six months.

> "Financial actions we're taking as a company are reducing staff by 60% for the next 12 months. Sourcing materials locally. Reduction of staff salary."

Lockdown in Port Moresby

The 14-day lockdown in Port Moresby from 28 July to 11 August also created challenges for businesses. The top five challenges experienced are:

1. Reduced consumption and trading hours, and consequently reduced customers
2. Reduced workforce productivity
3. Disruption in domestic business travel for employees
4. Supply chain disruptions
5. Financial impact including effects on results of operations, future periods and liquidity and capital resources.

Businesses have also experienced day-to-day challenges such as difficulties in accessing government services with government employees on skeletal work, the need for in-country foreign expertise to drive projects, and for those in the legal sector, the closure of courts, which impacted their revenue.

Business leaders are most concerned about the reduction of consumption and trading hours during the lockdown period in Port Moresby. With the implementation of the COVID-19 restrictions, businesses also expressed concerns about additional operating costs and disrupted supply chains.

As a consequence of these challenges, about half (48%) of businesses operating in NCD are forecasting a revenue decrease in August 2020.

If further or stricter COVID-19 restrictions will be implemented, the manufacturing, and retail and consumer goods sectors will be severely impacted by the potential disruptions.

Operating in the current environment

Half (51%) of the businesses surveyed are able to operate in the current environment for more than 12 months, an increase from 34% in Q1. This indicates that close to six months into the pandemic, businesses have already passed the phase where they are setting up structures and processes to navigate the challenges of the current environment. At present, it is likely that these structures and processes are helping create a sense of stability in their operations, thus, enabling business leaders to make such projections.

This improvement could also be attributed to the dialogue between business and the Government, the implementation of the self-regulation policy for businesses and the consistency of the regulations issued by the Government.

51%

of respondents are able to operate in the current environment for more than 12 months, up from 34% in Q1

Operating in the current environment

Businesses surveyed have put in place measures to be able to continue operating in the current environment. However, there is still a small proportion (2%) that do not have any planned measures yet.

The top measures that businesses have implemented (according to priority) are as follows:

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

In some cases, businesses are providing additional transport for employees to enable physical distancing, and offer COVID-19 tests for employees travelling out of Port Moresby before and after travelling.

Despite having structures and processes in place, more businesses expect that recovery will take longer than they anticipated in Q1. Currently, 41% expect that getting back to business as usual will take at least another six months, up from 31% in Q1.

Government's stimulus package

Consistent with findings from the Q1 survey, many businesses remain uninformed on the details of the Government's stimulus package and how to access it.

- In fact, when asked if their business has benefited from the stimulus package, 31% of respondents said they are not aware of the details of the stimulus package, 68% said no and only 1% said yes. Hence, for the Government, this means that there is a need to clearly communicate the implementing guidelines with businesses, especially SMEs, and for structures to be in place to support efficient implementation.

> "We have put an application to BSP SME for the refinance of loan for the Government funded SME under the K600 million. The Government funds have not reached the bank as yet and we are waiting."

Government’s stimulus package

67% of the respondents also rated the stimulus package as ineffective as they have yet to see any tangible benefits and outcomes flowing from this initiative.

“We would use the downtime to improve our property and services if we could source a loan at the same low rates and long terms that the rest of the world can access. The PM's announcement of funds to lend to SMEs at low rates for long terms has not turned into action. Very disappointing. Our company has 95% equity in our property and would happily use some of that equity to build further, create jobs, stimulate the economy and be prepared for an upturn whenever that may happen. This is not possible though as bank lending criteria does not recognise short-term impact of a pandemic and would refuse any application as our income has dropped so much.”

“As an SME, we have not received any information pertinent to the Stimulus Package. We have not been able to receive anything positive from any of the financial institutions. Things seem to have become harder instead, dealing with the financial institutions regardless of all the government promises. Financial institutions are putting in place protective measures for themselves which is understandable but are making things difficult for some of us and near impossible for others who don't have the network in place to escalate blockages.”

“Nothing has been done as far as we can see. The stimulus package appeared to be predominantly about raising funds to pay the government’s own wages. Nothing has been sent to the private sector. In fact they seem to be actively trying to kill the private sector by shutting down and / or preventing resource sector projects. This means less employees in the economy, less tax remitted to them, fewer government projects given the go-ahead. The level of transparency appears to have shrunk further with the current government offering simple popularist statements on social media to appease the masses. They aren't taking the risk of COVID-19 at all seriously with government employees and politicians swanning around the country.”

The way forward

To help businesses recover, respondents say that it is essential for the Government to pay off its debts to the private sector, as well as create an investor-friendly environment that prioritises the acceleration of resource projects.

"Make loan facilities available to companies that have proper business plans. And allow government agencies to do proper assessment before they can qualify."

"Stability is important, past agreements put in place with investors need to be honoured so that the investment community have confidence in the PNG Government. The delay of previously agreed projects, cancelation of current projects to "renegotiate" shows that the PNG Government cannot be trusted and this drives investors away. Grandfather clauses need to be put into current large scale projects so as to build trust amongst foreign investors. Clear messages on future policies and getting a better share for PNG is a very good direction as long as this is not retrospective."

"Follow-through with public commitments to make funds available for loans. If that's impossible, put pressure on banks to relax cash flow lending criteria - especially when secured against prime real estate assets - and pressure on banks to reduce interest rates and allow for longer terms of borrowing. Or both."

"We would like the government to meet its financial obligation by paying us for services provided and to refund GST payments that we are entitled to."

The way forward

The proposed measures to the Government also highlight the strong need for policies aimed at economic recovery such as advancing resource projects, encouraging consumer spending and helping businesses recover through tax relief measures.

"Encourage spending in the resources sector with gas sales agreements and mining leases agreed by the PNG government. The opportunities for Papua LNG, P'nyang, Twinza and Wafi to mention a few are essential to our business and will generate local employment and local learning and upskilling opportunities for economic growth. This would also bring an influx of foreign investment and currency to help with the forex issues."

"A lot of uncertainty as to economic recovery. In the absence of major resource projects coming on stream as a matter of urgency, the outlook doesn't look promising for the near to medium term."

"The State needs to get some of the major resources projects off the ground to absorb some of the economic shocks."

Proposed measures to the Government (according to priority)

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Q2	Rank	Q1
Settle Government debts to the private sector	**1**	Allow inbound overseas travel for workers, returning citizens and permanent residents subject to quarantine controls
Restore investor confidence, quickly resolve foreign investment issues, prioritise acceleration of resource projects	**2**	Allow all shops and establishments (including cinemas, restaurants and clubs) to operate as long as social distancing and hygiene protocols are followed
Allow inbound overseas travel for workers, returning citizens and permanent residents subject to quarantine controls	**3**	Improve the communication process of regulations to implementing agencies (e.g. police) and the public
Allow all businesses (including shops, cinemas, restaurants and clubs) to operate as long as social distancing and hygiene protocols are followed	**4**	Defer all deadlines of tax liabilities payment for a minimum of 90 days
Subsidise wages of employees in the private sector to keep people employed	**5**	Permit the offset of GST credits against other tax liabilities / fast tax refunds
Reduce level of GST on certain sectors to encourage continued consumer spending	**6**	Extend the SWT amnesty benefits
Improve the communication process of regulations to implementing agencies (e.g. police) and the public	**7**	Remove duties on raw materials used in the production of locally made products
Permit the offset of GST credits against other tax liabilities	**8**	Allow full deductibility of expenses incurred by the taxpayers on measures to prevent the spread of COVID-19
Remove duties on raw materials used in the production of locally made products	**9**	Extend the duration of immigration documents which are due to expire soon (e.g. with a limited period of 90 days)
Lift the curfew	**10**	Allow deductibility of donations performed by the taxpayers to fight against COVID-19

Proposed measures to the Government

- The top recommendations from businesses highlight the strong need for action and policies that could help businesses and the economy recover. The number one priority for business is for the Government to settle its financial obligations to the private sector. Getting paid by the Government can help improve affected businesses’ cash flow and can therefore have positive direct impacts to the economy through job retention and sustained consumer spending.
- Also at the top of business leaders’ list is to create an investor-friendly environment and accelerate resource projects to generate market demand.
- Measures directly related to COVID-19 restrictions such as allowing inbound overseas travel and allowing businesses to operate as long as health protocols are still a priority, despite moving down slightly in the rankings. This emphasises that businesses heavily benefit from having their employees in country and therefore this need is crucial to get back to business as usual.

Proposed measures to the Government

- The need to better communicate regulations has also moved down the list of proposed measures, highlighting an improvement as Government issued more consistent regulations and enabled self-regulation for businesses.
- The rest of the proposed measures relate to some form of relief, especially around taxes and duties, that businesses need urgently from the Government.
- Survey findings show that more businesses expect a longer recovery period than they anticipated in Q1. At present, 41% say that they will need at least six months to get back to business as usual, up from 31% in Q1.
- This data highlights that the Government needs to enable the implementation of the stimulus as quickly as possible. Further delays will contribute to longer business recovery periods and consequently, a longer economic recovery period.

FOR MORE INFORMATION PLEASE CONTACT

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