The Dynamics of SMEs and its Growth Prospects in PNG
OUTLINE

- Why study SMEs and what are they?
- How has the sector been performing?
- Can government help?
- Conclusion
Objectives

➢ To determine how big is Micro and SME sector and assess its contribution to the economy.
➢ To decide whether Government policies and strategies has helped SME growth
What are they?

- PNG definition under SME Policy
  - broadly stated as any formal enterprise

- Current working definition
  - Micro = 1-4 staff, sales <K30,000, invest. <K30,000.
  - Small = 5-30 staff, sales >K30,000 <K500,000, invest = sales figures,
  - Medium = 31-100 staff, sales >K500,000 <K2 million, invest.= sales figure
Study scope

- **Location**
  - Milne Bay, Madang and EHP (from May –July 2003)

- **Interviewed**
  - 75 formal SMEs,
  - 235 urban informal sector participants,
  - 3 commercial banks- BSP, ANZ, Westpac and RDB.

- **Meetings with officials**
  - Department of Trade and Industry (DTI), SBDC, SIYB project, IPA, Skills Development Project, FPDC, and CIMC regional forums.
Performance of urban informal sector

- Features
  - Sources of funds: 61% from savings (previous sales/wage incomes)/donations/contributions/gifts
  - 55% participate to sustain their lives
  - 86% would like to continue,
  - Majority 43% attended primary education only
- Bottom line: graduating into formal SME is generally not possible
Performance of formal SME sector

- **Sectors**
  - Wholesale/retailers account for 48% of all SMEs, 63% total labor, 44% investment
  - Manufacturing/processing for 11% of total, 8% labor, 11% investment
  - Services = 9%, 10% labor, 11% investment

- **Origins**
  - Indigenous + naturalized citizens 59%, foreign 28%, joint venture 13%

- **Trade**
  - Only 11% (8 firms) are exporters.
Performance of formal SME sector

*cont-*

- **Foreign firms**
  - Foreign firms: 50% employment, 17% investment, 27% sales, (> joint vent/partnership)

- **Sourcing**
  - Most supplies/inputs come from other provinces and countries

- **Bottom line:** few direct forward & backward linkages
Financing SMEs

- **Start up capital**
  - 36% from personal savings, 20% savings + bank loan, 13% from Equity, 31% others

- **Refinancing**
  - 48% borrowed after being in existence, 52% did not borrow (costly & tight credit liquidity or liquidity constraints)

- **Outlook**
  - 41% willing to borrow in future (speculative), 25% did not want to borrow, 34% are indifferent (wait & see approach)
Major impediments and constraints on SME growth

- **Urban Informal SMEs**
  Lack of access to both formal & informal credits, no proper marketing and business training & information facilities, com. Banks won’t allow participants to operate savings accounts, high transaction cost, e.g., business licence.
Major impediments and constraints on SME growth

- **Formal SMEs**
  Limited access to markets for inputs/exports, access to credit is limited and costly, high transaction cost, no clear government policy direction. Inefficient transport & com Infrastructure network, high cost of utilities, access to land is limited (these add to high risk & increase cost of production)
The role of Government in investment

➤ Government has provided business training & information
  ➤ But because of general decline in Gov’t support services, Gov’t initiated programs with support from donors for SME development.

➤ There are Some success stories from FPDC, SIYB, & SSSPP
  ➤ But financially self-sustaining businesses remain unlikely
  ➤ also testing effectiveness of models matters
The role of Government in investment cont-

- Bottom line:
- Government investment and industrial development policies/strategies over years appears not consistent, and not fully implemented.
Conclusion

- Urban informal sector seem not likely to evolve into formal sector as would rural informal sector
- SME sector will continue to remain stagnant or not vibrant in the medium - long term
- Government policies and administrative reforms do not reflect realities