Potential impact of the coronavirus pandemic on Small and Medium-Sized Enterprises in Papua New Guinea

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The outbreak of the Coronavirus (COVID-19) has the potential to slow down business activities of Small and Medium-Sized Enterprises (SMEs). COVID-19 was first reported on 31 December 2019 in Wuhan, the capital city of Hubei Province of China. The spread of the virus was epidemic within China and later became a global pandemic. As it spreads rapidly across the world, the World Health Organization (WHO) declared a Public Health Emergency of International concern. Upon this, governments of most countries with confirmed cases imposed strict measures such as lockdowns, stay-at home orders, quarantines and curfews. While these measures help to contain the spread of the virus, it however affected businesses including SMEs across the world.

Just like other countries, since the outbreak of COVID-19 SMEs in Papua New Guinea (PNG) have been faced with challenges. For PNG, the first case of COVID-19 was announced on the 20 March 2020. Following the first confirmed case, the Government through the National Executive Council (NEC) declared a 14-day State of Emergency (SOE) starting on 24 March 2020. The preventative measures under the SOE includes: closing of the border with Indonesia, a lockdown across the country, prohibition of domestic and international flights, restriction of movement of people from one province to another, limited public gatherings, ban on public transport (this has been lifted). The Government extended the lockdown as the number of confirmed cases increased after the first case. At the time of writing this article, there were eight confirmed cases.

Preventative measures imposed to contain the COVID-19 in PNG significantly affected the operation of SMEs and consequently their revenues. SMEs play significant roles in PNG economic development through employment creation, wealth creation, income generation and poverty alleviation.

Impacts of COVID-19 on SMEs in PNG

SMEs are the most vulnerable businesses during this global health crisis. Most SMEs were forcefully shut down as a result of the lockdown and curfew imposed by the government. Others closed down due to the high operating costs incurred during this time. The capability and capacity of SMEs to survive during this health crisis is very limited since, they are small compared to other large businesses. The impacts of COVID-19 on SMEs in PNG include:

- **Disruption of supply chain**
  The preventive measures severely disrupted the supply chain of SMEs. It prevented SMEs’ access to markets to purchase and sell their products. That affects production and supply of the products to customers. The SME farmers also found it difficult to transport their products to other provinces due to the restriction on domestic flights and public transport. Though the restrictions have been lifted it will take some time for SME operators to bounce back. The restriction on sea ports and airports also hindered SMEs to export and import products.

- **Reduction of customers demand**
  PNG SMEs faced demand plunged due to the lockdown and social distancing. For wholesalers, trade stores and other services in the SME sector, the social distancing measures had a toll on the...
number of customers. Most SMEs also had to close early due to curfews after hours. In addition, some customers find it difficult to travel to the markets to buy goods and access services because of the unavailability of public transport. The reduction in demand imposes critical consequences on profitability of SMEs.

- **Operation cost increased**
  Employees who use public transport to travel to work found it difficult to travel due to the restriction imposed on public transport by the government. Some SMEs incurred additional costs to arrange for pick-up and drop-offs for their employees. Another added expense for SMEs is the procuring of Personal Protective Equipment (PPE) – face masks and sanitizers for their employees.

- **Tax compliance burden increased**
  During the lockdown period, some SMEs shut down operations, with others forced to close due to the high operation costs. But their tax liabilities were due on the specified dates by Internal Revenue Commission (IRC). Their revenue or income were affected but they still carry the tax burden when their taxes are due. Therefore, most SMEs find it difficult to pay their taxes to IRC when it is due.

### Potential policy recommendations
SMEs are the backbone of the PNG economy. It is very important for the Government of PNG (GoPNG) to put in place policy measures to protect SMEs during such pandemic.

- As much as possible, GoPNG should consider focusing on key logistics bottlenecks to keep the SMEs supply chain going.

- Sustainable cost reduction is essential for the SMEs during this pandemic. While focusing on the health of their employees, they should consider removing business activities that do not add much value to business growth and performance. SME managers should consider the use of telecommunication and technology for employers and employees where necessary.

- There should be measures put in place by the government to reduce tax compliance burden on SMEs. Though GoPNG, through the IRC, has provided the opportunity for SME operators to extend their tax lodgements to June 2020, the period appears to be too short. Most importantly, SMEs should be supported by GST tax refund.

### Conclusion
COVID-19 pandemic is certainly affecting SMEs all around the world. The impact of COVID-19 in PNG has slowed down business activities of SMEs in several ways: disruption of supply chain, reduction of customers demand, increase in operation costs, tax compliance burden on SMEs. Since, SMEs are the backbone of PNG economy, it is of great importance to protect SMEs through proper policy measures and interventions. SMEs should also be more innovative and be vigilant during such crisis. Practising sustainable cost reduction and use of technology will help SMEs in PNG survive.


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