

## Giving PNG's Agriculture Sector the Break it Needs!



*(photo: extension officer explaining effective approach to managing cocoa blocks and containing cocoa pod borer, ENBP)*

Even if not benefiting directly, much of PNG's population will be aware that this country has been enjoying an economic boom for several years based upon high commodity prices, combined with the development of some major resource-based projects, notably the PNG LNG project currently under construction and planned to enter production in late 2014. This boom is reflected mostly visibly in urban construction, notably offices and other commercial premises, plus high-end accommodation, notably in NCD and Lae, but also in increased employment opportunities in a variety of industries, although also reflected in rising costs of accommodation and many essential goods and services.

Except when buying food, the urban population will be less aware that the stronger commodity prices, commencing around 2005/6, also extended to agricultural products, not just minerals, albeit with a temporary plunge for some crops during the 2008/9 world financial and economic crisis. As with the mineral price boom this agricultural lift was the result of stronger global demand, particularly from the relatively buoyant East Asian markets, and supply shortages for some crops. For PNG's farmers with available produce to sell, and able to access the market, these stronger prices provided a valuable boost in income. No doubt some of this extra income was consumed in beer and other pleasures, but some would have been invested in improving household welfare and encouraged households to remain in rural areas.

Over the past year or so agricultural commodity prices, along with the mineral prices, have dropped substantially, albeit still above pre-2006 levels. Furthermore, the higher kina value over the past year, driven in part by LNG construction, has further reduced the kina earnings to PNG farmers. This falls on top of the severe difficulties imposed upon farmers in various provinces from major pests and diseases, notably cocoa pod borer, devastating cocoa production in East New Britain, parts of Bougainville, Madang and East Sepik provinces. A few provincial governments can be commended for recognising the difficulties of their copra and cocoa producers, and commenced providing some local, if ad-hoc financial support, recognising how these crops provide the backbone of their local economies.

Lip service is often paid to the importance of the agriculture sector, providing the livelihood for over 80% of PNG's population. Concern is expressed at the level of urban population growth and the limited capacity of PNG's towns to absorb such numbers, and provide legitimate and meaningful work, housing and other opportunities to in-migrants. Yet for years successive governments have largely ignored the needs of these rural households, scandalously raising, then dashing hopes, by setting up overdue sector support funding (notably NADP) and then largely wasting it, seemingly, on cronies. The farmers' associations, like RIC, could see this coming and recommended a transparent mechanism, but this was ignored, as clearly other objectives were foremost. Funds for rural air freight and disease control were also diverted for the establishment of private airlines and trading businesses. For years successive Ministers have been unable to resist appointing people without the requisite calibre and representativeness to fill the agricultural boards and the most dedicated sector professionals have been constantly sidelined for consideration when it comes to top sector appointments. Sadly over the years PNG's various reputable agricultural institutions have been undermined or left to deteriorate with inadequate financial support, poor management and oversight. Some key sector institutions have apparently turned their backs on their own farmers, failing to provide critical farmer support and services, but focusing instead upon scams and clientism, working in collaboration with external interests and a handful of landowner leaders, or non-landowners, to defraud the customary landowners of their assets, notably for logging or land speculation, using the now notorious SABL system. Apart from the strong need for PNG's farmers to access sound professional support and advice, provided through research and practical field experience, this has largely been unavailable.

The new Government's commitment and focus on infrastructure, law and order, education and health, and especially shifting funds to the Districts, sustainable development and diversification is a welcome and overdue shift in favour of ordinary PNG households and rural areas, including suffering farmers, if the capacity is there to implement the bold aims. That's a very large if; the Government is substantially increasing Budget expenditure in the 2013 Budget, and planning to borrow K2 ½ billion to drive through major change, and help sustain economic activity and alleviate job losses during the wind-down of LNG project construction. However, throwing money at the problem will only be effective if implementation and oversight capacity are in place to use the funds effectively; we know this is not the case currently, unless a very concerted and unified effort is made, embracing the whole community and development partners, and unless adequate time is given for implementation.

Whether they are rural or peri-urban farmers/gardeners, PNG's producers require: -

- Land (usually just a few hectares), with adequate tenure security to make long term commitments (and not grabbed by vast speculative deals, as with SABLs)
- Adequate returns to their labour, for their effort to be worthwhile, in turn requiring:
  - market access; i.e. that they are sufficiently close to market outlets, or the road (airstrip, air or shipping service) is suitable and reliable, to get produce out without it, and hence its price, deteriorating unduly
  - adequate price; if this is too low then producers may just meet cash needs for basics, including school costs, but no more
  - safety, security and low risk of produce theft, whether from trees (or grazing), in storage or when being transported to market
  - price, in turn requires:
    - suitable and consistent world or local market, which in agriculture is often not the case, with a glut often prevailing after periods of high prices, as with vanilla after its boom years, as producers globally respond to positive but temporary price signals; stabilisation schemes were provided hitherto in PNG for some major crops to reduce price/income fluctuations
    - suitable exchange rate (i.e. that the kina is not too strong against the currency in which the product price is set – often US dollars for cash crops.) With major influxes of foreign exchange into PNG from high commodity prices or sales, notably from oil/gas or other minerals, or during the construction phase of major projects, like PNG LNG, the kina tends to appreciate, undermining farmer prices and returns. This so-called “Dutch Disease” impact, which prevails particularly with two-speed economies, such as PNG’s (or Australia’s) can be addressed partly through devices such as well-managed Sovereign Wealth Fund(s), or restraining the growth of that boom sector. The mineral resources will remain in the ground for potential future use, so a phased approach to their development and extraction is justified, especially if extraction provides limited employment or other multiplier benefits, and where, as in PNG, the other sectors, notably agriculture, provide the bulk of employment and broad-based income earning opportunities, and need to be safeguarded. Cross-subsidies or transfers from the boom sector to agricultural producers, partly to counter the effects of the high kina, taking the form of freight or input subsidies, or (temporary) price bounties maybe be justified, with caution; usually needing to limit the duration of such schemes,
  - availability of quality and pest/disease resistant planting material -or stock- to enable improved productivity and lower unit costs (from agricultural research), skills (from training and extension- in production, marketing and business), and market information (from mobile phones etc), especially entailing new material or adding value through higher quality or access to niche markets (e.g. through certification)
  - access to improved producer support, through cooperatives, group marketing and private partnerships (including agro-nucleus enterprises or partnerships, e.g. under the World Bank-funded PPAP project for cocoa and coffee)

- access to savings, credit and advice, notably through new financial inclusion schemes (from micro-finance institutions, NDB, banks, CEFI etc) and lower risks from use of electronic banking, including 'mobile wallets'
- risks are minimised, through crop diversification, where possible, stabilisation/or support arrangements when prices fall below a certain threshold, but also insurance arrangements, only practical for smallholders if enough participate and costs are minimised

PNG has millennia of agricultural production and skills behind it. It has good agricultural land, but not the vast areas, as purported by some speculators and loggers eager to extract the forest resource at low cost or grab a lucrative trading monopoly; continued forest cover is widely the most sustainable option. The country has no option but to foster its agricultural sector and associated downstream processing and value-adding, both as it provides sound long term and broad-based opportunities for the majority of the population, but also because there are no options which will absorb its fast-growing workforce for the foreseeable future. With a talented population and investment in education and skills the economy will invariably diversify over time, with new opportunities, particularly in service industries developing. LNG will provide revenue, but very few jobs; mining will provide more jobs and solid revenue, so long as Government doesn't dish out further over-generous concessions to selected businesses. But neither agriculture's prospects, nor other industries (including manufacturing or tourism), can be guaranteed, unless the economy is competitive.

The cost of living is extraordinarily high, even for a developed country. But PNG is a low income country, despite huge and growing income disparities which distort the average. 2012 saw a relatively low inflation rate for PNG, but only after many years around 10%. Ordinary people can barely afford the living costs in major towns, but apparent urban opportunities combined with poor rural infrastructure, education and health services, (and in some places conflict), still drive migration towards the towns.

These high living costs are also reflected in excessive costs and other impediments to doing business in PNG, whether as small farmers or many large businesses. Poor access, crime, lack of reliable power and other utilities, high ICT costs etc make PNG uncompetitive, in many industries, and in agriculture with the high kina it's also hard to compete with imports, especially when there are few local economies of scale, from combining significant quantities either from large or multiple smallholder producers. Going for top quality niche products is one way to overcome high costs, but it's crucial that these overall costs are reduced to really increase opportunities.

Many of these costs fall in the category of 'public goods' (i.e. meant to be provided by the State). Poor roads, policing, utilities, extension services etc undermine business and opportunities, but could be addressed if government uses its revenue much more effectively and accountably. It requires cooperation between the whole community, business and national and local government. Households cannot expect good public services if they demand exorbitant compensation or even damage public infrastructure; government doesn't need to provide everything, as business can invest and churches/NGOS can provide various goods and services more efficiently, but government must provide a key role, both funding and as regulator, planning, implementing and ensuring

standards. The public and State watchdogs, in turn must keep the government honest, overseeing their use of public funds and not demanding private handouts.

Now is the chance for government to demonstrate that it recognises the critical role of agriculture in providing broad household needs and income, as well as 30% of GDP and sustainable production and exports, and that the sector needs nurturing to survive and mature. Government must stop treating the sector with disdain, slotting non-performing politicians into the portfolio and letting them distribute jobs and goodies to mates as though this had no cost to the sector and country. The leadership must be more responsible and listen to the genuine sector professionals and farmer representatives, rather than peddlers of land-grabbing SABLs or persons with notorious track records. The sector's institutions certainly need reform to make them accountable, principally to PNG's own farmers. Some can certainly be merged, and DAL converted into a largely producer-controlled, professional and responsive organisation; let this be on the basis of wide and effective industry consultation, however, rather than driven from above, or by some cronies or lobbyists pushing their own barrel. Give the agricultural sector a chance, by first listening to those who live and working in it, not the 'Waigani-corridor landowners' that shuffle the foyers of NCD's hotels and government offices seeking out susceptible political or public service leaders and officials...

Paul Barker  
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