

## **Adding Value whilst Keeping the Public Sector Focussed and Accountable**

Broadly the private sector drives the economy, whilst the State provides necessary preconditions, including core infrastructure, services and suitable laws applied even-handedly. These preconditions are also required to ensure the country maximises benefits from domestic and overseas investment, including resource extraction, in the interests of the whole community, not merely some elite.

Elected and appointed officials of the three arms of the State, namely legislature, executive and judiciary, are all ‘public servants’, obliged to act in the public’s best interest. So, why these widespread recent reports of Finance Department staff demanding 20% from all payments, or Ministers and senior staff acquiring luxury homes or land portions abroad and at home (including parks) apparently well beyond normal salaries? What of Ministers reportedly dishing out mobile phones, like beads and trinkets from colonial days, to persuade landowners to transfer title to tens of thousands of hectares for secretive ventures? Do landowners realise what they are committing, what they may forego and how those leaders will gain? Why are leaders so eagerly weakening the Ombudsman Commission’s powers to apply the Leadership Code, requiring the evidential rules of the Criminal code, which is virtually never applied to leaders? Why are Parliamentary debates apparently gagged?

In many other countries leaders’ assets must be publicly disclosed, not just to the Ombudsman; that should apply here also. For that matter, it might be in the best interest of the public and legitimate companies that tax payments are also transparent, as in PNG certain companies bear the brunt of the tax burden, complying with tax obligations and labour laws, whilst a significant portion of both overseas and domestically-owned enterprises are free-loaders, neither paying taxes nor following other laws. Wider tax compliance would enable lower tax rates and more competitive legitimate businesses.

Many Moresby-based Departments are considered of little value in the Provinces. There is support, outside the public sector itself, for closing, merging or “right-sizing” to focus limited resources on meeting public needs, mostly outside the Capital, where public services are badly under-resourced, and lacking needed management and other skills. (Closing that Office of Climate Change might be a good start and re-incorporating its function into existing institutions! all it – or its principals, seem to have achieved to date has been undermining PNG’s credibility on the global stage, with apparently bogus carbon dealings). Planning roads, schools and specialist training to meet the country’s needs requires accurate and current information (from Census and other surveys); data collection/analysis is given inadequate emphasis. The multiple national strategies require better coordination and solid grounding in accurate data, rather than just romantic visions; although suitable shared goals are valuable.

For millennia PNG’s economy was based upon subsistence production (and harvesting) to meet households’ entire needs. Local trade enabled increasing access to outside goods and some specialisation. Nowadays PNG is a trading nation with substantial exports, largely of primary produce, although much of the population remains partially dependent upon subsistence agriculture. With most agricultural exports produced by smallholders the benefits of this trade are widespread. Estates, as in oil palm, also provide wide benefits, especially where supporting extensive

outgrowers. Benefits from enclave industries (notably mining/oil/gas but also logging) are narrower, providing major State revenue (to fund roads and other public goods), as well as to shareholder and landowners (often only some landowner clique); landowners suffer disproportionately from the negative local impacts of extractive industries, although some, like gas, should impose limited direct negative impact compared with some mining and ill-managed forestry and fisheries operations; will the fragile and valuable Madang lagoon be irreversibly damaged by additional fish plants, vessels and Ramu-Nickel? The rest of the economy, however, also suffers from wider, negative macro-economic impacts of major resource developments if they're ill-planned and coordinated by both State and developers.

There is a misconceived idea that the country and its food security would be strengthened by producing every locally-demanded product domestically. Trade provides net benefits and some risks. So long as other don't protect their markets, local and international trade increases food security and improves nutrition, providing access to products not readily available locally, including protein and staple foods, including during seasonal shortages or major droughts, for example. Focussing upon products with a local comparative production advantage provides benefits, although there are inevitable risks. One may have a local comparative advantage, but be unable to survive international competition. Over-specialising has risks from changing markets, producing something no one needs or readily substituted (like oil-based rubber for natural rubber), or from outbreaks of pests and disease, such as cocoa-pod borer now hitting ENBP and threatening other producing areas, unless they apply tough quarantine measures or radically alter farm management.

In choosing to trade one must meet market demand (which is king), including providing the quality or variety sought by consumers, perhaps spread the risk (e.g. with multiple crops or other insurance techniques) and be readily adaptable. To compete in increasingly globalised markets suppliers (whether coffee or pineapple smallholders, big corporations, guesthouse operators or hotels) must keep productivity up and costs down, related to transport, theft, pests and diseases, taxes and rentals, and other inputs, including labour.

PNG is handicapped by various high natural costs, including internal transport, plus poor utilities and other support services. It can, however, produce excellent products, promoting its largely pristine conditions, clean water, limited industrial residue and air pollution etc., but it must focus upon improving its poor reputation over product consistency, reliability and quality. Suppliers must know their markets and what they expect, like guest house rooms facing the view or safe vessels, or cocoa or cardamom not being smoked or coffee neither over-roasted or tainted. Quantities (esp of minor crops) must be increased and throughput reliable to open market opportunities and reduce freight costs. Suppliers must avoid corner-cutting or abuses (like stones or unripe produce in coffee bags) and make the commitment and be confident of their capacity to achieve exacting quality standards. Traders must apply market incentives.

There are often complaints that PNG is merely extracting resources, with little value-adding or additional employment, e.g. with logs, minerals, fish, coffee, cocoa or rubber. Bulk domestic processing is, however, sometimes unrealistic as processing, for example coffee roasting, needs to be near the final consumers with product deteriorating once roasted. Australia's economy is also heavily dependent upon

extracting raw materials (from coal to wheat) without much local processing. There are, however, many opportunities for value-adding in PNG, at least of some products and reducing marketing margins. "Fair trade", often with organic products, has grown worldwide and helped edge back the growing proportion of (rising) retail prices going to traders (retailers, wholesalers etc). Large scale timber processing (e.g. veneer) may add little value (especially if tax exempted), but further processing into finished products has sound potential given consistent and adequate quality. Good progress was made with domestic teak processing for furniture, until apparently illegal exporting by privileged firms largely exhausted the supply. Major domestic processing of coffee and cocoa maybe unrealistic (partly owing to economies of scale and the requirement for overseas blending with bulk cocoa and shelf-life issues in coffee) , but there are opportunities for niche markets. Unlike the bulk crops, like oil palm and copra, which provide opportunities for value-adding with refining and specialist products, spices with their small global markets depend upon consistent high quality, determining whether the spice is marketable or not; further processing into essential oils, as undertaken by Pacific Spices, adds value.

Producers in PNG sometimes plant individual crops during boom years, and are disappointed to find low prices when production commences. There are strong advantages in selected multi-cropping and spreading the risks (as with tree crops in southern India), perhaps winning with one product whilst another suffers from global glut and low prices. The domestic market is often overlooked and will provide increasing opportunities over future years with growing towns. The home market also provides a valuable stepping stone towards larger overseas markets. PNG must protect its reputation for relatively sustainable and uncontaminated agriculture and other land use, unlike questionable food standards in parts of intensely-farmed East and Southern Asia. RSPO standards must be reinforced in oil palm and non-compliant production not permitted, including land-use conversion from rainforest. Prevention of new pests and diseases into the country or new areas, e.g. Cocoa Pod Borer into Bougainville, requires major emphasis and adequate public expenditure. Controls for existing disease, like taro blight, provide new opportunities for commercial production and export.

Public-private partnerships are needed, with additional and sustained expenditure in research and extension (using effective service-providing and agro-nucleus arrangements), but, clearly, unless basic infrastructure and other pre-conditions are in place research will contribute little and there will be limited prospect of investment, value-adding or diversification.

Agriculture's performance since Independence has been disappointing, but there have been positive components, not simply oil palm. The recent stronger agricultural prices have encouraged not only major increases in agricultural income, but also significant (overdue) production increases in many crops. Most prices have fallen back, but remain above medium term averages. Maintaining agricultural growth is important for welfare and wealth distribution with PNG's growing population. Farmers (large and small) will take the lead, together with other investors (in trucking, ships, telecommunications etc) but it will require the State playing its part markedly more effectively, with infrastructure restoration/development, encouraging competition and a level investment playing field, more professionally and accountable agricultural institutions and competent technical support. Accessibility to suitable land, by both

villagers and credible agro-nucleus enterprises, will be important, but not through questionable land expropriation, e.g. entailing cheap trinkets exchanged for people's natural resource inheritance. We must certainly avoid the atrocious exploitation of traditional owners and smallholders prevalent in many Indonesian oil palm estates. There are no quick fixes or agricultural promised lands; for example, contrary to suggestions, Karimui is not some fertile un-exploited wonderland; its soils rapidly deteriorate without forest cover resupplying nutrients. PNG's agricultural success stories are largely dependent upon sustainable low fertiliser, pesticides or other usage.

Broad-based development, including value-adding, will depend upon reliable information, coordinated planning and development of public goods, farmers (etc) hearing and responding to market needs, whilst ensuring State institutions become focussed and public officials (including politicians) become accountable.