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MTDP III-Growing the Economic Sector

"I have recently congratulated the government for allocating increased funding to the economic sector under the 2018-22 Medium-Term Development Plan (MTDP III). Funding has been lifted from 5% to 12% of planned capital expenditure over the next five years. However, the national government doesn't actually know how to get growth and jobs growing again in the economy. They are spending the increased money it seems, on their besties, Maserati's and more fast cars, rather than actually doing what is necessary for lifting the standards of living for Papua New Guineans" stated the Shadow Minister for Treasury & Finance Ian Ling-Stuckey.

"When you look at the entire economic sector program, over one-half is wasted or ineffectively spent. There is over K1 billion provided for the government to take up equity stakes in agricultural activities best left for private sector entrepreneurs as well as special economic zones that are constantly delayed, deliver few benefits and largely rely on tax concessions. The government is trying to raise revenue – these two activities have proven to be failures in PNG's own experience. Then there is another K1 billion spent between what are poorly explained credit facilities and what should be classified as administrative expenditure. Once again, PNG's own experience is that such credit lines and loans are disproportionately approved for political cronies and tend to never be repaid back to government. SME's who are promised government loans simply miss out again-year after year.

"Less that one-third of MTDP III is allocated to appropriate activities. These worthwhile activities are focused on improved infrastructure to access rural areas, rehabilitation of plantations, agriculture research and development, establishing nurseries, distributing seeds and improving nutrition. This includes important donor assisted programs such as their work on cocoa and coffee in the “Productive Partnership for Agriculture Program” stated the Shadow Treasurer.

The government fails to understand the entire subsistence agriculture economy and hence is massively under-investing in this key area. There is very little support for nutrition programs – a miserable K2m per year. Treasurer Abel, in your recent meetings in Bali, you acknowledged that PNG had a very high rate of child stunting. How do you correct this? Investing in better nutrition programs is a key element of this. However, only 0.3% of MTDP III is allocated to this critical area.

“This appalling conceived K3 billion splurge on the wrong parts of the economic sector plan stands in stark contrast to the sensible policies of the Alternative Government. For example, when developing my local district’s 5yr development plan, I have prioritised six practical initial agriculture activities. These are: 1. Improved subsistence nutrition provided by increasing supply of pathogen-tested sweet potato, open-pollinated corn, taro, cassava and African yam; 2. Expanded cocoa production and sales including options for cocoa plantation rehabilitation. The business plan approach is to consider and possibly recommend actions for value adding for coconuts, in particular activated carbon and coir; 3. Expanded galip nut production and sales; 4. Cash crop marketing to the Lihir mine including staple foods, vegetables and fruit such as mandarins, oranges, mangosteen, rambutan and langsat; 5. Expanded vanilla production and sales; and 6 Training program agricultural production, basic human nutrition and hygiene at New Ireland high schools. This is the type of practical program that should be fully supported by MTDP III. There are some sensible overlaps such as elements of 2, 4 and 5. However, less than one-third of MTDP III expenditure is actually in priority areas for our economic sector. Once again, the O’Neill/Abel government tries to steal our ideas but doesn’t know how to deliver the goods” said the Member for Kavieng, Mr Ling-Stuckey.

“The agriculture sector planning is foolishly optimistic in what can be achieved over five years. For example, the plan expects cocoa exports to increase from 40 tonnes to 160 tonnes – a quadrupling in only five years. Similar unrealistic increases are expected in other sectors. One does not create a plan by simply putting forward crazy projections.

“On top of failing to understand the realistic gains from strengthened incentives and better investments, when using the government’s own misguided figures on expected increases in export values, we find an extraordinary misallocation of resources. When comparing the expected costs of supporting the oil palm industry in 2022 relative to the increased oil palm export values, we have a rate of return of over 3,800 per cent (so K15m investment in 2022 increasing palm oil exports by K590m). Very good returns are achieved also for coffee and to a lesser extent for cocoa – but these are again, based on unrealistic projections for export increases. However, an annual K30m into rice development will increase domestic rice production from only 4,500 tonnes to 5,700 tonnes – this is using the government's own figures straight out of their plan. This extra 1,200 tonnes of rice is valued at some K2.4m meaning there is an extraordinary rate of return of *minus* 92% (K30m only having returns of K2.4m). And how does producing an extra 1,200 tonnes of domestic rice allow a 50,000 tonne reduction in rice imports, especially when our population continues to grow so rapidly? The details of this plan simply lack credibility. The spending increase on the economic sector is welcome, but it is generally being spent on the wrong things. Once again, the O'Neill/Abel government tries to steal the Alternative Government's ideas but it doesn't know how to deliver the goods-But we can show them and we can help them-if they care to ask" said Mr Ling-Stuckey.

Hon.Ian Ling-Stuckey,CMG.MP
Shadow Minister for Treasury & Finance

16 October 2018

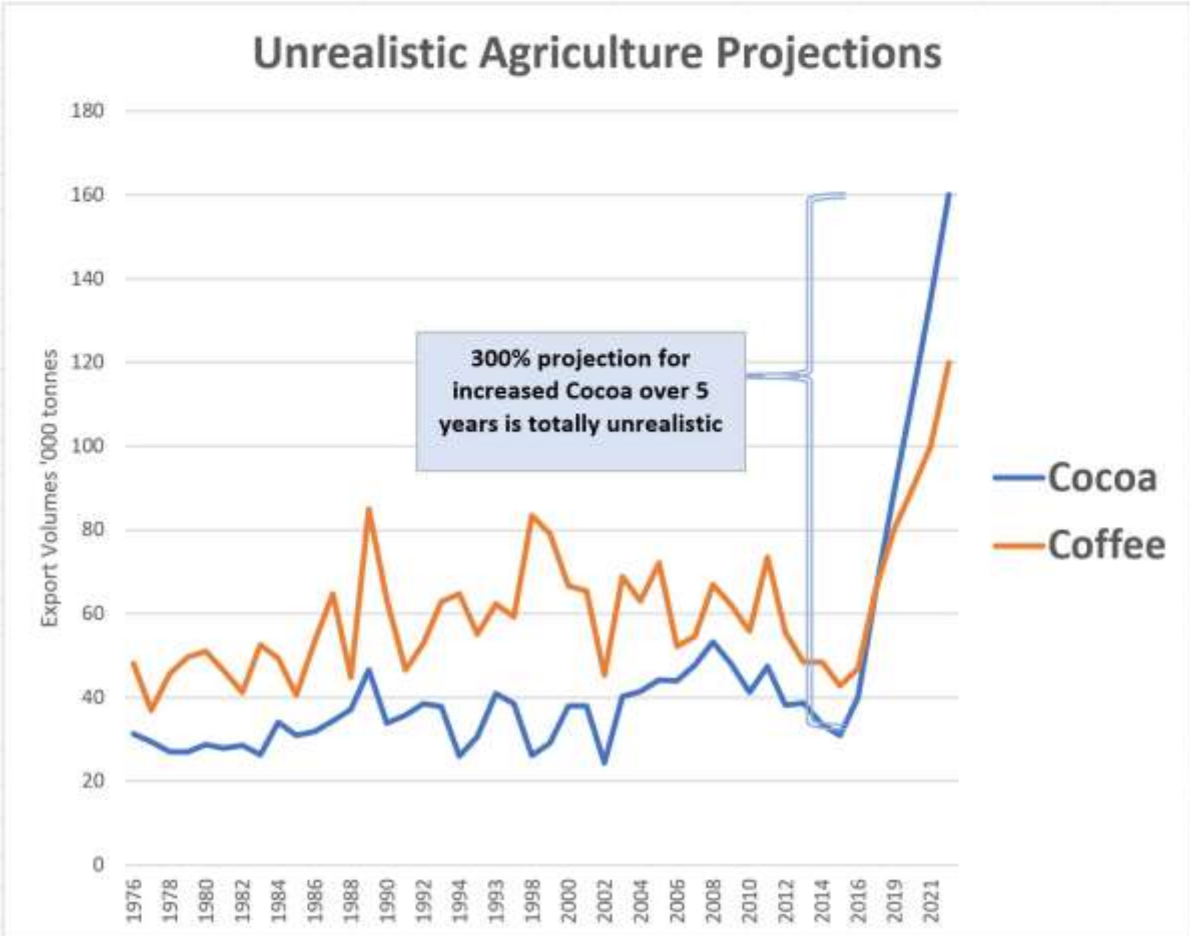
Details

Extract from Volume 2 of MTDP III page 7 which gives an example of increasing cocoa export production from 40.2 tonnes to 160 tonnes – a totally unrealistic increase of 300%. The table also reveals how messed-up are some of the detailed figures used through out the plan – so the "Total cocoa production volume (000 tonnes)" is then shown as growing to 310,000,000 tonnes by 2022!!

Cocoa Logframe

Goal: Quality Cocoa production is increased and expanded for the betterment of livelihood of small scale cocoa farmers and economy of the nation								
SDG and Growth Goal (GG) Ref.	Indicator	Source	Baseline (2016)	Annual Targets 2018	2019	2020	2021	2022
EGG 1.1, 1.2	1. Total cocoa exports earnings (K million, f.o.b)	PNG Cocoa Board Database	359.90	428.19	471.01	518.11	569.92	626.91
EGG 1.2	2. Total cocoa export volume (tonnes)	PNG Cocoa Board Database	40.20	65.60	88.90	111.90	134.90	160.00
EGG 1.5	3. Total cocoa production volume (000 tonnes)	PNG Cocoa Board Database	40,508	50,000	150,000	200,000	250,000	310,000
Lead Department/Agency		Department of Agriculture & Livestock						
Executing Department/Agency		Cocoa Board PNG						

The unrealistic nature of these export volume increases are clear when we look at PNG's history of actual exports of coffee and cocoa.



The government's figures of minimal increases in rice production of 1,200 tonnes leading to an absurd reduction in rice imports of 50,000 tonnes is shown in the following extract from page 12 of MTDP III Volume 2.

Rice Logframe

Goal: Domestic commercial rice production industry is established in partnership with private sector and small scale farmers to reduce the volume of imported rice and meet growing demand									
SDG and Growth Goal (GG) Ref.	Indicator	Source	Baseline (2017)	Annual Targets					
				2018	2019	2020	2021	2022
EGG 1.3	1.Population in Rice farming (smallholder farmers)	RIPNG	12,902	13,633	14,364	15,905	15,827	16,558
EGG 1.4	2.Current estimated Ha of Rice in PNG	RI PNG	3,663	3,877	4,091	4,306	4,520	4,735
EGG 1.5	3. Total Rice Import volumes (tonnes)	RI PNG	200,000	206,000	212,000	200,000	190,000	150,000
EGG 1.2, 1.5	4. Domestic Rice production volume (tonnes)	RI PNG	4,500	4,625	4,750	4,875	5,500	5,700
EGG 1.1, 1.5	5. Total purchase from imports value (K million)	RI PNG	400	420	390	350	300	250

Calculations can be made of a basic measure of "rates of return" from various agriculture investments. These are calculated by simply comparing the value of increased exports with the costs in 2022.

Sector	2022 MTDP III Expenditure Kmill	2022 increased Exports Kmill	Rate of Return
Palm Oil	15.00	590.00	3833%
Coffee	26.08	478.10	1733%
Cocoa	45.00	120.00	167%
Coconut	30.80	60.00	95%
Rubber	5.00	2.00	-60%
Rice	30.00	2.40	-92%

Using the figures from MTDP III Volume 2, we get an aggregate view of expenditure by economic sub-sector – some areas such as "Food Security", described as nutrition programs, are clearly chronically under-funded.

Economic Sub-Sectors	K Million						
	2018	2019	2020	2021	2022	Total	% Share
Agriculture	124.00	162.50	154.50	157.50	151.50	750.00	23%
Palm Oil	15.00	10.00	10.00	10.00	15.00	60.00	2%
Coffee	28.63	50.00	40.00	40.00	26.08	184.71	6%
Cocoa	30.63	33.00	41.35	40.00	45.00	189.98	6%
Coconut	10.00	17.00	27.00	32.00	30.80	116.80	4%
Rubber	3.00	3.00	3.00	3.00	5.00	17.00	1%
Rice	0.00	30.00	30.00	30.00	30.00	120.00	4%
Livestock	10.00	10.00	10.00	10.00	10.00	50.00	2%
Food Security	2.00	2.00	2.00	2.00	2.00	10.00	0%
Fresh Fruit and Vegetables	20.45	20.00	15.00	18.00	20.00	93.45	3%
Fisheries	0.00	49.00	54.00	54.00	64.00	221.00	7%
Forestry	5.88	5.00	10.00	10.00	10.00	40.88	1%
Tourism	22.58	25.00	28.00	28.00	33.00	136.58	4%
Manufacturing	1.00	2.00	5.00	5.00	5.00	18.00	1%
SME	222.67	163.00	115.00	130.00	135.00	765.67	24%
Land Development	5.00	15.00	10.00	10.00	10.00	50.00	2%
Trade and Investment	24.66	23.50	33.00	35.50	40.50	157.16	5%
Financial Inclusion	22.24	33.00	3.00	3.00	3.00	64.24	2%
Petroleum	5.00	15.00	16.00	15.00	15.00	66.00	2%
Mining	11.00	13.00	16.00	26.00	32.00	98.00	3%
Totals	**563.73**	**681.00**	**622.85**	**659.00**	**682.88**	**3209.46**	**100%**

K101m Productive Partnerships for Agriculture Program split evenly between coffee and cocoa.

Using the details in the plan and very brief descriptions provided, we can then break these sub-sector spending into the following broad categories:

	MTDP III Expenditure Kina Millions						
Type of Activity	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**	**% Share**
Agriculture and Fishing Equity Funds/ Special zones	120.00	227.50	227.50	227.50	237.50	1040.00	32.4%
Poorly Explained Credit Facilities	120.00	145.00	65.00	80.00	85.00	495.00	15.4%
Administration	66.62	75.50	94.50	108.50	106.30	451.42	14.1%
R&D/Rehabilitation/Nurseries/Seeds	64.79	55.00	55.00	58.00	58.00	276.79	8.6%
Infrastructure - small access roads	15.66	38.00	59.85	63.00	80.00	256.51	8.0%
Nutrition	2.00	2.00	2.00	2.00	2.00	10.00	0.3%
Other (Donor programs)	103.74	50.00	53.00	53.00	48.00	307.74	9.6%
Other	70.92	88.00	66.00	67.00	66.08	372.00	11.6%

The majority of the plan is spent in the areas shaded in orange (62%) indicating most activities are poorly conceived, open to abuse or misclassified such as administrative costs. The areas highlighted in green, accounting for less than 20% of the program seem worthwhile if properly implemented. There will be elements of the "Other" which also could be well spent. Overall, the judgement is that less than one-third of total expenditure is being effectively allocated.