



Cash Crop Completion Report

Papua New Guinea



Banzaid
RESTORING LIFE

Cash Crop Development Completion Report

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Introduction

Papua New Guinea is one of the most diverse countries in the world, with over 850 indigenous languages and tribal societies in a population of seven million. With less than 20 percent of its people living in urban areas, much of the population lives in the thousands of traditional communities scattered through the fertile highland valleys, most made up of barely a few hundred people and separated from neighbouring groups by language, custom and tradition.

Coffee is an important cash crop in Papua New Guinea, involving about one-third of the population in its production. However, the production of coffee in Papua New Guinea has been noted as inefficient.

In 2013, Banzaid commenced the Papua New Guinea Cash Crop Development Project. The project's long term goal was to achieve sustainable agricultural livelihoods for coffee growers of the project district, the Baiyer Valley.

This report will cover why the project was relevant to *needs* within Papua New Guinea, more specifically Baiyer Valley; the *process* which the project undertook; and what the *outcomes* have been.

01 The Need

The Background

Papua New Guinea gained its independence in 1975 but had been working towards statehood since the end of World War Two. As early as 1948, Australian Baptist missionaries had gone into the highlands and begun working in the Baiyer Valley to address the health, educational and economic needs of the people. One of those pioneers recognized the possibilities for growing coffee in the region, and a Kiwi began to promote the programme. Unfortunately, when tribal conflicts broke out in the mid-1980's much of the work was undone. The grower co-op that had been established fell apart, the coffee bushes were neglected and the processing facilities ruined. Since the fighting ended, without the organized support of the co-op coffee growers have been unable to make good returns on their crops.

Why Coffee?

Coffee is a major cash crop for many rural areas of Papua New Guinea (PNG). It involves about one-third of the population in its production, and PNG is now the 17th largest producer of coffee globally. For many of the highland districts, it is the major income earner of the local economy. However, a 2009 World Bank supported report states that in PNG "Coffee production and marketing are inefficient and not as remunerative as they could be. Despite its socio-economic importance, coffee has undergone an overall deterioration in quality and now both incomes and exports are at modest levels".

[1]



Banzaid's Connection with Papua New Guinea

New Zealand Baptists have a historic connection with PNG with NZ Baptist missionaries working in the area until the 1990s. This project came out of discussions with the Baptist Union of PNG (BUPNG) leaders around areas where New Zealand could offer help. The BUPNG has an extensive education, health and community development programme in the area. This project's focus on economic needs will complement the existing education and health activities and is in line with wider PNG Government objectives. BUPNG has also worked with community leaders to restore peace to the region. This project was established with the goal of supporting the peace process by improving the local economy.

Banzaid worked with the BUPNG through 2011 and 2012 to research and design this project. An application for funding was submitted to the Aid Programme of the New Zealand Ministry for Foreign Affairs and Trade (MFAT) in April 2012, and funding was received for commencement from April 2013.

[1] Papua New Guinea Strategic Assessment of the Coffee Sector, Giovannucci and Hunt 2009. Executive summary page iii

01 The Need



Choosing Baiyer Valley

The Baiyer Valley site of the Banzaid/BUPNG project showed the problems within the coffee sector. New Zealand Baptists were a part of the introduction of coffee to the Baiyer Valley region more than 40 years ago. The returns to coffee growers were lower than average due to: a period of clan fighting disrupting production for several years; cultivation, harvesting methods and initial processing are erratic; facilities to ensure quality processing in the district are limited; the remoteness of the area; and difficulties of transport. The average smallholder in the Baiyer Valley region was not motivated to produce more, or better coffee if it would require a significant increase in labour or investment.

All the analysis and technical advice confirmed the relevance and need for this project in Baiyer Valley. Discussions were had with the Coffee Industry Corporation, an Australian agriculturalist who was a consultant to the Western Highland Provincial government, and Staff from the NZ High Commission. They all affirmed the goals and the structure of the project as being relevant to the Baiyer area needs.

A combination of the need within PNG, an established connection between Banzaid and BUPNG, and an opportunity presenting itself within Baiyer Valley, the project 'BU Kofi' was commenced.

02 The Process

The Design

'BU Kofi' was formed and registered in PNG as a social enterprise company owned by the Baptist Union of Papua New Guinea. The objectives of BU Kofi were:

- a) Improve the market chain from grower to factory by establishing a trading operation to buy direct from the growers and get the parchment coffee to the factories in Mount Hagen;
- b) Support and facilitate the government agriculture extension services to reach the remote areas of the project districts; and
- c) Establish a demonstration farm able to provide seedlings of improved coffee varieties to replenish and upgrade the plantation stocks of the growers and to trial additional cash crops that could be introduced to reduce dependence on the single coffee crop.

As a social enterprise company, the aim was to maximize the returns to village farmers for their crops. This saw any profits from the company's operations to be reinvested in the company's operations, or used in community development programmes in the target districts. The aim was for it to be a self-sufficient unit by the time the funding was stopped after 3 years.

The Finances

Proposed funding for the establishment and setup of the company was to come from three sources: The MFAT Sustainable Development Fund (NZD 698,979); Donations from New Zealand Baptist Churches through Banzaid (NZD 100,000); and grants from the Government of Papua New Guinea (PGK 1,000,000 equivalent to NZD 575,000 at the time of budget preparation). Below is the financial summary of BU Kofi project.

	Actual (NZD)	Expenditure % of funds received
Expenditure		
1. Coffee Trading Company	232,283	23%
Net Trading Loss	19,772	
2. Demonstration Farm	451,177	41%
3. Agricultural Extension Services	0	0
Direct Activity Support Costs	188,911	17%
Indirect In-Country Support Costs	70,747	6.4%
NZ Based Support Costs	51,896	4.7%
Total Expenditure	1,014,786	
Income		
MFAT SDF Round 3	698,979	
Banzaid	100,357	
PNG Government	287,500	
Fx Gain	10,583	
Total Income	1,097,419	
Carried Forward Funds		
Cash on hand or in Bank	22,360	
Receivables	94,105	
Less Payables	-33,832	
Balance of Funds	82,633	7.5%

The Five Years in Summary

The first year was taken with the legal processes of setting up the company, recruiting management staff, and building the base for operations in Kumbareta. The second year saw the establishment of the seedling nursery for new coffee seedlings and establishing a place in the market for BU Kofi. It was a learning period for the trading staff, with significant losses in the coffee trading activity. At the end of the two years, we had still only received a quarter of the promised PNG Government Funds. The third year began to show the intended shape of the project, with a successful rice crop on the farming side, and a small profit from the trading side. However, years four and five ran into a succession of obstacles. A drought in the PNG Highland districts impacted both farming and coffee growing. Promised PNG Government funding dried up, halting construction of a rice hulling facility, and limiting trading funds. What intended to be a 3-year project, and to conclude on 31 March 2016, was extended by a further 2 years. This decision was made after discussions with our MFAF liaison around the obstacles experienced and the limited progress made. This did not grant any further funding but was intended to give the project time to see if they could consolidate the progress made. However, violence around the 2017 PNG national elections forced the suspension of all activity. Two key management staff became discouraged and resigned. Another man appointed to manage the trading programme was diagnosed with cancer and was unable to continue.



Effectiveness

How well were each of the objective achieved?

- A) Improve the market chain from grower to factory by establishing a trading operation to buy direct from the growers and get the parchment coffee to the factories in Mount Hagen.** This aim held that BU Kofi should be established as a significant operator in the local markets, with 30% of farmers selling through the company. Year 3 (2015) came closest to achieving this objective. In that year, 220 tonnes of parchment were traded, with a small profit margin. The 2015 result indicated that the concept should be viable, however the project was overtaken by challenges (indicated in 03 section of report) in the remaining years, and the planned results were not achieved.
- B) Support and facilitate the government agriculture extension services to reach the remote areas of the project districts.** This objective was formed when the lack of agriculture advisory services in the project villages was identified as a major issue. The government services are underfunded and understaffed, and so are not reaching more remote rural areas. The thought was that once BU Kofi trading and farming activities were well established, they would be able to facilitate visits from the government advisory services. Discussions around this with relevant government organisations during the planning phase of the project were very positive to this concept – showing full support. However, throughout the project we discovered that government services were far more limited than we understood. Funding limitations and the departure of senior management meant this objective did not occur.
- C) Establish a demonstration farm able to provide seedlings of improved coffee varieties to replenish and upgrade the plantation stocks of the growers and to trial additional cash crops that could be introduced to reduce dependence on the single coffee crop.** The seedling nursery was successfully established, and an initial 40,000 seedlings obtained from the Coffee Industry Corporation in Goroka. These seedlings were successfully grown to transplantable size, ready for distribution. Unfortunately, due to the lack of progress with extension services (refer to objective B), meant that there was limited promotion for the need for farmers to be introducing new stock. Unclaimed seedlings were sold to a neighbouring district.

Another part of this objective included the research and introduction of new cash crops. The global coffee market is subject to sporadic rises and falls unrelated to anything that is happening in PNG. This has a significant impact on local farmers, who are dependent on coffee as their only source of cash income. Rice was explored as an option, and four tonnes of rice were grown and sold locally. The key issue met was in post-harvest handling and processing facilities. There were plans to build a shed and bring in a small hulling machine, but these failed due to the lack of finance. Citrus and cardamom seedlings were also introduced. However, investigations in these areas came to an end with the departure of the farm manager at the end of 2016.

‘Roadblocks’ Encountered

In financial terms, the activity has failed to provide ‘value for money’. However, many of the major factors to this failure were beyond the control of management. Political, economic, social and environmental issues all worked against the success of the programme.

- **Political:** The project failed to receive the full level of promised PNG government support and funding (only 50% of the promised funding was received), and the failure of state processes such as the provision of advisory services and the functioning of the tax system. An overall look at the finances will see only 80% of the original budget received. These political and financial issues impacted how the project functioned from the beginning to end.
- **Economic:** The project operated through a difficult time for the PNG economy
- **Social:** There was increased civil disturbances around the 2017 parliamentary elections. This level of inter-communal disunity and violence in PNG halted the project in 2017, eventually leading to the projects conclusion.
- **Environmental:** During 2015/16, there was a drought that affected the Highland districts. This halted the project during the high coffee season.

The two senior management staff (trading consultant and farm manager) had some issues. The coffee specialist was appointed as a part-time position as he had other responsibilities. This did not work well as expected, as the Agricultural specialist frequently had to take on responsibilities in the trading area due to the other man’s absences. This, including the factors mentioned above, was very discouraging to them, resulting in both senior management partners leaving the project.



Lessons

While a lot of the issues encountered were out of our control, there are a few things that in retrospect could have been done differently to make the project more durable and sustainable. Firstly, having an overall supervisor with business skills would have been beneficial to the functioning of the project. This would have encouraged cohesion between the two parts (trading and farm) of the project and would have provided a stronger business drive to the project. Secondly, rather than putting the success of the project on the back of PNG Government funding, we should have treated the promises from them with caution, and not put too much weight on them until they were in hand.

Where to now?

While the need and the relevance of this project was well demonstrated, it has not performed well, and at the time of writing this report it is struggling for survival. The context of Papua New Guinea is a difficult environment for project operation. While this can be discouraging, it only emphasises the need.

This report marks the end of New Zealand funding for this project. However the BUPNG have declared their intention to work with the facilities that have been established and the remaining funds and attempt to continue operations as a coffee trading company for the benefit of the Baiyer Valley community. Banzaid is committed to maintaining the partnership and will continue to work with the BUPNG to support the progress of the project. The most challenging issues for continuation will be the ongoing political, social and economic issues of the country of PNG. We continue to pray for the BUPNG in their commitment to serving their people.



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