

The Ups and Downs of Cooperative Societies in Papua New Guinea

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Abstract

This article explores concerns of an officer with the Highlands Farmers and Settlers Association Incorporated in Papua New Guinea in regard to inadequate government input to commercial production and marketing of agricultural products. The paper presents a history of the success of cooperative societies in colonial times, the repeal of the Co-operatives Act at the time of self government because it was seen to be 'too colonial', the collapse alternative initiatives over the next two decades, leading to the re-introduction and the establishment of a Co-operative Societies Unit within the Department of Commerce and Industry in 2003.

Key words: rural development, co-operative societies, agriculture, resource mobilisation, national economic development, recovery strategy

Introduction

This article is based on my observation on and analyses of inadequate focused input by the government in revitalizing and promoting rural development and economic growth. This article aims to stimulate debate and discussion for stakeholders in agricultural developments to review and discuss how best the vast land and labour resources of Papua New Guinea (PNG) can be utilised through the principles of a co-operative society movement.

The government has launched an ambitious *Green Revolution Policy* and a *Co-operative Societies Movement* backed with K13 million funding and a K100 million *National Agriculture Development Plan* to develop the rural areas by empowering them in what they do best – agriculture. Despite that, the issue of business management and how enterprises can survive and be viable remains a dilemma. Experience has indicated that despite having managers and accountants, national agricultural businesses have largely floundered. The purpose of this article is to give an historical background and explain how the business concept of co-operatives can be nurtured and developed.

Co-operative societies

A co-operative society is an autonomous, united and voluntary association of persons, usually with limited resources, that come together to meet their common economic, social and cultural needs and aspirations. The concept of co-operatives is best applicable to the rural populace, which is generally poor and has few resources to get into economic activities. The association is based

on the values of self-help, equality and solidarity whereby members display honesty, openness, responsibility and care for each other (Department of Commerce and Industry 20007). Benefits of cooperatives include self employment with economic and social gains, resource mobilisation, maximum prices for produce by selling directly to exporters, access to import and export licences, reduction of land conflicts and under-utilisation, and national economic development.

History of co-operatives and national enterprise

The origin of co-operatives in PNG is traced to the Northern Province where, prior to 1942, some compulsory communal plantations were established. In August 1949, the Anglican Mission initiated the registration of Yega, Gona, Gorara and Buna co-operative societies as the first co-operatives. The mission encouraged the production of rice for subsistence and to supply the mission. There was discontent, as people were interested in earning income from these ventures. Officially, the concept of co-operative societies was introduced in 1947 by the Australian colonial administration under a legislation called the *Native Societies Ordinance*, which later became the *Co-operative Societies Ordinance* (1965). The colonial government thought that people would contribute effectively to the economic growth of the colony by combining their resources.

During the war, the idea of co-operative societies passed on to the wartime carriers and native soldiers. After the war, community ventures described by their leaders as either co-operative societies or a 'kampani' (company) grew up in villages all over PNG. The production of rice, peanuts, coffee and copra continued including marketing and selling of goods to members. However, the leadership of the organisations was a problem. Though doomed, the importance in introducing village people to modern cash economy through co-operative ventures and their role in economic development and political history is relevant (see *History of Agriculture in PNG*, Institute of PNG Studies [IPNGS], 1981).

In the 1960-70's, the government encouraged business activities through promotion of rural progress and co-operative societies involving the local people and mobilising their resources such as customary land, labour (sweat equity) and cash contributions. It was an early form of a legal entity used to conduct business and had its advantages and disadvantages. Well over 500 co-operative societies dealing in cash crops, retail, credit facilities, etc. were formed. They became vibrant business entities that effectively served the rural areas from the 1950s, 60s and to the early 70s.

Just after self-government, the House of Assembly repealed the Ordinance, which was seen as a colonial construct, and this led to the demise of co-operative societies. Co-operatives operating at that time were transformed into either companies or business groups and had their assets placed in trust. The co-operatives provided the business experience and impetus to develop a similar concept, which resulted in the *Business Groups Incorporation Act* that

came into being. It allowed for fair and communal development of customary resources and became the vehicle for nationals to take over plantations and other expatriate owned businesses in the years towards and after Independence (16 September 1975). The business groups who took over coffee plantations under the *National Plantations Redistribution Scheme* then diversified into other business such as transport and retailing. Since independence, successive governments and the state agencies have been attempting to engage the vast rural populace in some meaningful socio-economic activities that would contribute effectively to the growth and development of Papua New Guinea.

However, after 34 years of independence, much of the rural areas of Papua New Guinea are yet to see any form of economic and social development in their respective villages. The Department of Commerce and Industry, in its endeavours to bring about economic growth and development to the rural areas, has decided to reactivate the co operative concept that once existed under the colonial administration. The Act governing the Co-operative Societies was re-enacted by the government in 1981 leading to what is now the *Co-operative Societies (Amended) Act 1985*. Nothing much happened for the next two decades and only recently (2003) the Department of Commerce and Industry has established a Co-operative Societies Unit as a Public Investment Program, (Department of Commerce and Industry 2007).

The commodity sector: coffee industry

Let us look at the coffee industry and problems it experienced in the post-independence era. From a post-independence analysis, it became apparent that coffee plantations were operating with huge bank loans, had management problems, were experiencing shareholder and landowner disputes and the coffee industry was on a downward spiral. This then affected subsidiaries of the industry and the eventual demise of associated enterprises. Similarly, it was found that individuals did not have the financial capacity and skills to enter into large scale enterprises. Around 1995, the plantations were on verge of collapse and with it nationally owned businesses, which were propped up by coffee enterprises.

In the 1990's, the Department of Agriculture and Livestock, the Coffee Industry Corporation, the Papua New Guinea Chamber of Commerce and Industry, and the Rural Development Bank (now the National Development Bank) thought that the management style of 'co-operatives' was outdated and irrelevant. They emphasised models such as *Smallholder Rural Projects* to be used to manage rural plantations and industries and enhance smallholder productivity. The issues of small land holdings and individual owners and shareholder problems including financial capacity were not noted and that co-operatives were deemed colonial and outdated.

Not long afterwards, the *Smallholder Rural Projects* program folded as the plantation and block holders thought the fees were very high and the loans and interest charges were beyond reach of these business entities. To date, the National Development Bank advertises these properties as mortgage sales;

however, it is unlikely that anyone would consider purchasing these because of the inevitable trouble and fights that would occur with local residents, especially in the highlands but also in most rural areas. Personnel from the National Development Bank and other commercial banks do not even visit the mortgaged properties to know their physical state as this would undoubtedly create tensions that could lead to violence.

The Coffee Industry Corporation has seen the plantation sector collapse and production reduced from 85 percent to less than 25 percent. The Coffee Industry Corporation has not even informed the public that coffee production is mostly from the pioneer plants of the 1950's and no attempts have been made to replace these ageing stock, let alone provide advice on any new acreage of customary or state land that has been cultivated up to 2005. They are focused on the amount of money currently being generated, and, due to high commodity prices; it appears as if the industry is healthy. Today, many coffee plantations lay to waste. Hence it is argued that there is a need to revitalise co-operatives and return to practices that worked in 1960-70's to enable people to contribute labour and capital and make productive use of land which is abundant in rural areas.

From observations and interaction with a wide spectrum of the people, a specific area of concern regarding the demise of plantations is the role of plantations as a service centre for people in the vicinity. The plantations were the backbone as well as the service centre for many rural communities. Plantations provided employment, trade stores, and opportunities for food markets for labourers and the community. Plantations provided access to electricity and telephone services and even transport into towns. The plantation factories and processing plants and the land can be vested with co-operatives to operate as service centre whilst the land should be given back to traditional owners. Similarly, those who have no land in the existing plantations can still develop their own coffee gardens on customary land.

Due to the failure of the smallholder plantation system, the need to free up 97 percent of land vested in traditional land owners, and the need to utilise the 82 percent of people living in the rural area, a medium is required that acknowledges the customary land and the people who depend on it. In this instance, it is argued that the co-operatives model would allow individual members of society to utilise their own land, labour and resources and to bring their production output and produce to the co-operative for marketing.

Success stories: Mainland Holdings, Namasu and Farmset

Mainland Holdings

Advent Tarosi, Stoi Umut and Zibang Zifuyu Zurenuoc were three entrepreneurs identified in Finschaffon, Sio and Kabwum, Morobe Province. Today, we are familiar with FISIKA, which stands for these three Districts.

Advent Tarosi was the person who mobilised the Sio community and was largely responsible for the formation of the Finschhafen Marketing and Development Society. Stoi Umut was vocal for the economic betterment by encouraging people to plant coffee as cash crop and collected funds for trade stores and churches in interior to serve the people. Umut operated 11 trade stores, cultivated 4700 coffee and 1400 coconut trees and had 11 cows. He served as President of Finschhafen Marketing and Development Society. Zurenuoc had a trade store as well as operated a family society that was involved in kaukau, coconuts, coffee, cows and a trade store. Zibang Zifuyu Zurenuoc served as President of the Finschhafen Marketing and Development Society and was a member on the Board of the Development Bank. In 1962, the Finschhafen Marketing and Development Society was the largest co-operative in the country.

The Finshaffen Marketing and Development Society went through many changes such that when secondary co-operatives were established, primary and marketing co-operatives from Watut, Menyamy, Bulolo, and Finschhafen and from Northern Province subscribed to form the Mainland Co-operative, which at repeal of the Co-operatives Act was converted into a company that is now called Mainland Holdings Ltd. It is a very big company involved in crocodile and chicken farming, coffee buying and processing, electrical and maintenance and transport and haulage.

Namasu (Native Marketing & Supply Ltd)

Namasu (Native Marketing & Supply Ltd) was formed by the Lutheran Mission to provide goods to remote missionaries, to help villagers sell their crops and to serve local needs through trade stores. Namasu began operations on 10 April 1959 with indigenous people contributing \$178,000 as shares and the mission providing \$40,000. In 1963, this was extended to the highlands. People in Goroka contributed a substantial amount of money in excess of \$10,000. By 1966, 1000 of the over 5000 indigenous shareholders were from the Eastern Highlands. Although it may not have delivered large sums of money to the indigenous shareholders, Namasu continued to grow and expand. From trade store, boats and trucks, it diversified into other ventures such as plantations, shipping, coffee processing and exports and did well and survived to be known as Kambang Holdings with Lutheran Shipping being the flag bearer and expanding and diversifying into other business ventures.

Farmset (The Farmers & Settlers Co-operative Ltd)

In the highlands, the members of the Highlands Farmers and Settlers Association Inc. were encouraged to acquire shares in a co-operative entity, and the Farmers & Settlers Co-operative Ltd was established in 1969. Its purpose was to import and sell agricultural and pastoral supplies to its members as well as transport the members' coffee and other products to markets and buyers in Goroka and Lae.

The association encouraged its members to purchase vehicles and provide drivers that were available for hire to the Farmers & Settlers Co-operative. Due to the repeal of the co-operatives Act, the Farmers & Settlers Co-operative was converted in 1978 to a company, popularly known as the Farmset, which is now a leading supplier of agricultural supplies. The transport operation was incorporated into the company known as Highlands Henene Ltd, which was wholly owned by indigenous persons. With the business concepts learnt, Highlands Henene continued its freighting business as well as taking on a Shell franchise with operations in Lae. However, its importance was its investment in other local entities and the taking over of expatriate businesses. In 1977-78, with Numbia Plantations, the Karangka Plantation and PSS Co. Ltd, large farm supply companies were acquired. Highlands Henene Ltd and its associates acquired shares in Farmset Ltd, and assisted Numbia Plantations Ltd in its expansion throughout the Highlands Region and in the Morobe Province.

Co-operatives and progress to date

Whilst people are still looking for answers, what are the rationale and the objectives of the government reintroducing the concept? How has it operated since 2000 and what is its focus and what does it intend to achieve and how? It is said that in PNG, 97 percent of land is under customary ownership, whilst 85 percent of the people live in rural areas and survive on agriculture for subsistence and for cash. The government has been trying various policy options for the utilisation of the abundant land in the hands of the nationals (customary land) and for the utilisation of the underemployed population in income producing industries.

There had been problems in enabling all factors of production to be combined to achieve governments intended objectives. For example, activities that were initially successful but then failed include the Business and Land Incorporation Acts, the Plantation Redistribution Scheme of the 1970's, the provision of 20 hectare coffee and cocoa blocks with Development Loans and Management Company by State agencies in the 1980's. They were successes initially but failed when the State withdraw assistance strategies such as the Plantation Management Training Program and the National Plantation Management Agency and reduced funding to Rural Development Bank. Problems began appearing once many commodity boards were created and extension services were decentralised.

Plantations and 20 hectare business group coffee blocks on customary land were defaulting on loans due to closure of the Bougainville copper mine, shocking fluctuations in world commodity market prices, escalating law and order problems, default notices and mortgage sale advertisements. The issue of usage of customary land and even the Customary Land Registration Scheme were hotly disputed in the 1990's and early 2000's.

From 2002, the National Government through the Export Driven Economic Recovery Policy re-introduced co-operatives to enable the people to mobilise labour and land resources and with capital and skills, these can be captured

within the co-operative concept. The government even went to the length of allowing co-operatives to be granted direct export licenses for export of various commodity goods, to cut out middlemen and enable the people to have access to international markets. Even further, the government through home grown innovation and research, has approached the issue of land mobilisation from within PNG context, which at present is progressing smoothly.

Mobilisation and management of co-operatives

At present, nearly 500 co-operatives have registered with the Office of Co-operatives. These co-operative societies are mainly based in the rural areas whose members are predominantly farmers and are engaged mainly in agricultural activities such as cocoa, coffee, copra, vegetables, spices and retailing and transportation. The production of the major commodities comes from individual small holders. If these smallholders can be mobilized through the co-operative societies, they can be able to do bigger things like direct exports and earn higher returns for their labour, thus bringing about change and improvement in living standards and the quality of their lives.

These co-operatives will have access to land and labour in abundance but lack finance to effectively undertake viable business and economic activities. Financial institutions and commercial banks have stringent lending policies which make it difficult for ordinary Papua New Guineans to have access to these facilities. Co-operatives were very vibrant socio economic organizations during the colonial era and were able to bring goods and services closer to the people. It is hoped that the same will happen again.

The government's objectives for rural development, poverty alleviation and people's empowerment is intended to be realized through the co-operative societies. The government through Office of Co-operatives should provide assistance to co-operative societies with seed capital through a revolving fund to kick-start the mobilisation of communal resources such as land, labour and capital with expertise through government officers and expert volunteers.

In 1960's, co-operatives drew on clan financial and labour resources. In the 1970's, the need for national control of economy resulted in legal barriers removed so those nationals could own and operate business and to contribute effectively to national economic development. This resulted in business groups, development corporations and of locally owned companies taking over expatriate plantations and business under government policy and assistance.

Revitalising the concept of co-operatives

Since 1995, the Department of Commerce and Industry had been attempting to revive the co-operative concept. The rationale behind the department's attempt was that co-operatives would be effective in driving the government's small and medium enterprises policy by mobilising people in the rural areas to participate in economic activities. The export driven and economic recovery strategy under the government's policy on economic recovery and sustainable

development has given further prominence to the development of co-operatives in rural areas (Department of Commerce and Industry 2007).

Though the Act had been re-enacted in 1981 and later amended in 1985, no co-operative societies were registered as there was no regulation in place until recently. The National Executive Council passed the necessary regulation in April 2003 and the department finally managed to set up the *Co-operative Societies Unit* (CSU) of PNG.

Upon its establishment, the Co-operative Societies Unit adopted its mission statement to encourage effective and meaningful participation of ordinary people in the rural communities and villages in the national development process to perpetuate economic prosperity, enhance progress on communal social welfare and to restore dignity to individuals through the co-operative societies movement.

(Department of Commerce and Industry 2007)

As part of the revitalisation and development program of co-operatives, officials from the Co-operative Societies Unit, National Fisheries Authority, Commerce and Industry and Agriculture Departments have been taking provincial trips to promote and at the same time gauge views from provincial administrations, private sector, farmers and the general public. This awareness program is particularly important because co-operatives had existed in the past and the Co-operative Societies Unit wants to find out if the people are still interested in them. Feedback shows that there is overwhelming support and people are keen in forming co-operative societies (Department of Commerce and Industry 2007).

Since then, the Co-operative Societies Unit has registered six co-operative associations and more than 471 societies. There are an overwhelming number of applications from all over the country and the Co-operative Societies Unit is assessing them. The number of applications received each week is improving rapidly (Department of Commerce and Industry 2007).

Conclusion

In conclusion, this article has traced the fate of cooperative societies in Papua New Guinea over three stages. First there were there the humble beginnings of cooperative societies in the 1940s leading to boom years in the 1950s to 1970s period under the Australian colonial administration. Ordinary people in rural communities were able to meaningfully participate in national prosperity and have a degree of economic prosperity and social welfare.

The second stage was the years between 1975 and 2000. At the time of self government and Independence the Cooperatives Act was repealed by the Papua New Guinea government because it was thought to be too colonial and alternative strategies were put in place. The following couple of decades saw the rise of small holdings, individual ownership of blocks of land, huge bank loans, and the take-over of plantations previously owned by expatriates. With

growing debts, inadequate management capacity, wildly fluctuating commodity process, land disputes, law and order issues and dwindling government support, it was not long before the small holdings were experiencing real difficulties. Banks took over properties and advertised mortgage sales although there was little interest in either selling or buying the properties because of the inevitability of disputes and social tensions. Drastic action was needed and the government decide to re-introduce cooperatives to mobilise people in the rural areas to participate in economic activities.

Though the Cooperatives Act was re-enacted in 1981 and later amended in 1985, nothing happened as a result of this action. The Department of Commerce and Industry (2007) reported that since 1995 it had been attempting to revive the co-operative concept, with little effect. It was not until 2003 (just six years ago) that the necessary regulation was passed that enabled a Co-operative Societies Unit to be established to give the impetus needed to revitalise the establishment of co-operatives in rural areas. This then is the third stage and the reports from the Co-operative Societies Unit indicate overwhelming public support for cooperatives with hundreds of cooperative societies now being registered.

The most important fact is that times are changing and people are changing too. Rural communities are now more aware of management and economic issues and have a growing desire to participate in sustainable development in a communal way that is culturally appropriate for the Papua New Guinea context. It is hoped that the government will learn from lessons of the past and sustain the support that is now on offer, over the years to come. It is now time for members of Parliament to deliver on their election promises to ensure development and economic benefits reach people in rural and remote areas. rural development, poverty alleviation and people's empowerment is intended to be realized through the co-operative societies.

The government needs to uphold the National Goals and Directive Principles of the Constitution and provide the environment for utilization of the vast labour and land resources in rural areas for rural development, poverty alleviation and people's empowerment through the co-operatives movement.

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