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Key Points

- Bougainville is a post-conflict region whose economic base needs to be re-established.
- Given its post-conflict nature, broadening Bougainville's tax base would be better than raising tax rates to achieve economic development.
- A potential way of broadening the tax base is through a 1 percent levy imposed on cocoa sales.
- This levy would be good for several reasons, the main ones being that the tax burden would be shared and revenue reinvested into the cocoa industry.
- The Autonomous Bougainville Government (ABG) should consider further research on the cocoa levy and conduct consultations with key stakeholders before implementing it.

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COCOA LEVY HAS THE POTENTIAL TO BROADEN BOUGAINVILLE'S TAX BASE

By Martha Waim

This article focuses on one of the recommendations in a recent paper by Chand (2018) on broadening the tax base of post-conflict Bougainville. In this instance, broadening the tax base largely refers to bringing people who are working in the informal economy into the formal economy. The paper highlights the need to fund the recurrent budget from internal sources (fiscal autonomy) and considers potential revenue sources for Bougainville given its post-conflict setting. This article takes a closer look at the imposition of a levy on cocoa being sold as a source of revenue and explains why it would be good for Bougainville. It goes on to recommend that more research needs to be done into the implementation of such a levy and that key stakeholders such as the growers and cocoa buyers should be consulted on the possibility. The revenue generated from the levy can be used to develop the cocoa industry and reduce the tax burden on other sectors of the local economy. It has the potential to improve trust and the relationship between the general public and the government. As the levy could be collected from the four cocoa buyers in Bougainville by Bougainville's tax office, it could also be implemented with few or no problems.

The current status of Bougainville

Bougainville is a post-conflict area. Following the civil war of 1988–1998, the economic base that was destroyed is now in the process of being rebuilt. This reconstruction comes after the signing of the Bougainville Peace Agreement, which allowed for the creation of the ABG. This agreement, alongside other governing laws and agreements, gave the ABG the power to have a tax office and to collect some taxes. According to Olsen (2017) in a presentation at the ABG Tax and Revenue Summit, the ABG has the power to collect developed property tax, road user tax, motor vehicle registration tax, liquor licensing fees and other taxes available to provincial and local governments. The collection of income tax, goods and services tax, custom duties and other national taxes has been left to the national government. However, it is also worth noting that due to the post-conflict setting, the

responsiveness to changes in tax rates is very high (Chand, 2018, p. 5). A small increase in the tax rate can lead to large falls in taxes collected. Chand (2018) therefore suggests that rather than increase tax rates, the focus should be placed on bringing people working in the informal economy into the formal economy and thereby broaden the tax base. One of the potential ways this can be done is by imposing a levy on cocoa sold to buyers.

Cocoa and a cocoa levy in Bougainville

Cocoa is one of the largest cash crops grown in Bougainville. A report by Coffey (2016) states that before the Bougainville Crisis of 1988, Bougainville produced the highest amount of cocoa among all Papua New Guinean provinces – 30,000 tonnes. This inevitably and drastically fell during the civil war. However, after the crisis it recovered to about 26,000 tonnes but was affected by pod borer disease in 2009, which drove production down. In 2016, production rose to about 13,000 tonnes. According to Chand (2018), sales of cocoa produced by around 23,000 farmers in 2014 raised K68 million in revenue. This shows that the cocoa industry in Bougainville is formidable and has the potential to help bring about economic development. Due to this potential, Chand (2018) recommends that one way the Bougainvillean cocoa industry can be developed is through imposing a 1 percent levy on all cocoa sold via the four main cocoa buyers. Technically this would mean that for every K1 made from cocoa sold, 1 toea would be collected as levy by the ABG. The sum total of this tax can then be reinvested in areas which need development in the cocoa industry.

Why a levy on cocoa for export would be beneficial to Bougainville

There are several reasons why a cocoa levy would be good for Bougainville, including:

- *Sharing the tax burden:* Imposing a cocoa levy would mean that the cocoa industry's needs could be met by its own revenues rather than through taxes raised from other measures such as goods and services tax and

personal income tax. With cocoa farmers spread out all over Bougainville, in an industry that operates in a somewhat informal manner, such a levy would mean that the tax burden is shared. Although this levy may not directly contribute to the government budget, it would ultimately assist in meeting Bougainville's development needs by broadening the tax base and helping to develop the cocoa industry.

- *Easy to implement:* Bougainville's cocoa industry consists of four main buyers who buy cocoa from local growers in Bougainville. This means that if such a levy was to be imposed it could easily be collected from these buyers. Also since Bougainville has an existing tax office, the levy could be collected from this office thus avoiding the administrative and compliance costs of setting up a new tax office.
- *Levy collected to be reinvested in the cocoa Industry:* This levy, as proposed by Chand, would be used to further develop the cocoa industry – an industry with much potential to bring about development for Bougainville. Chand (2018) found that if a 1 percent levy was collected from total cocoa revenue, K680,000 could have been collected in 2016. This could be reinvested by the ABG into developing cocoa production in Bougainville, thus broadening the tax base and growing the local economy.
- *Relationships built between the people and the government:* In a post-conflict setting such as Bougainville, as well as rebuilding infrastructure and its institutions, the government also needs to regain the trust of the people. Such a levy and its use following collection would require regular dialogue between the government and cocoa growers and exporters. Chand (2018, p.19) points out that such a levy could prompt the creation of a growers' association that could lead to better awareness on issues and impediments faced by growers. This could be communicated to the government and addressed via the levy collected. This levy would also mean that Bougainville's 23,000 cocoa growers would be actively contributing to their industry's development and thus would take more ownership. Furthermore, through the creation of an association, accountability can be demanded from the ABG and authorities on how the levy collected is being used and thus foster trust between the government and the people. This building of relationships is vital in the post-conflict setting.

There is evidence from previous studies in Malaysia (Mad Nasir, 1998) and Indonesia (Effendi, 2016) that imposing

an export levy on a cash crop tends to reduce its production. There is also the question of who exactly would pay for the levy. However, in Bougainville's case, this proposed levy will be a very small portion of total cocoa prices. The total levy collected would also be directly reinvested into areas of need in the cocoa industry itself, thus, it is worth exploring.

Necessary interventions to make the cocoa levy work

Given the benefits of a cocoa levy, there are several things that can be done to make it work. These include the following:

Further research into a cocoa levy: Although this article outlines the pros of a cocoa levy in general, further research should be conducted into the feasibility of such a levy. As mentioned earlier, research such as Effendi (2016) deems cocoa export levies to be somewhat ineffective (especially in cases where they are imposed with the aim of decreasing exports and increasing supply for downstream processing). Although the situation is different for Bougainville, it is still advisable to carefully consider all sides of the argument. Findings from the research can be used to create awareness on the benefits and costs of the cocoa levy.

Dialogue should be held with cocoa growers and other key stakeholders to plot the best way forward for the industry: Through consultations with cocoa growers across the region as well as with cocoa buyers, the idea of the levy should be put to them and their views on it gauged. In the instance that a levy is imposed, they will be the ones directly sharing the burden and benefits hence their views need to be taken into account. Furthermore, through this dialogue, a rate of the levy can be determined by the ABG in collaboration with key stakeholders.

Conclusions

Given the post-conflict setting of Bougainville and because it is still being rebuilt, there is a need for fiscal strategies aimed at development. A levy on cocoa sold in Bougainville is a possible strategy to broaden the tax base and thus develop the economy. It would contribute to Bougainville positively because it has the potential to share the tax burden and can easily be implemented given Bougainville's existing cocoa industry and administrative institutions. It could also assist in developing the industry through the taxes collected, foster a better relationship between the government and the people and raise accountability. Therefore, the government should look into further research on how such a levy could be imposed and should conduct consultations with growers and other key stakeholders about the levy before implementing it.

This paper will assist policy-makers in making an informed decision on whether a cocoa levy should be used to expand Bougainville's tax base.

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