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Commercial Management Companies in the Agricultural Development of the Pacific Islands
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Andrew McGregor
Charles Eaton
Michael Manning

1992

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# Exchange Rates

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<thead>
<tr>
<th>Currency</th>
<th>June 1986</th>
<th>June 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>F$ (Fiji)</td>
<td>.8834</td>
<td>.685</td>
</tr>
<tr>
<td>Vatu (Vanuatu)</td>
<td>104</td>
<td>120.4</td>
</tr>
<tr>
<td>Kina (Papua New Guinea)</td>
<td>1.0381</td>
<td>1.05</td>
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</tbody>
</table>
Preface

This publication emanates from the research conducted for PIDP's Private Sector Project and is based on fieldwork completed in 1989-90. Since that time the continuing depression in world commodity prices has led to events that are not reported in this publication. However, the policy conclusions and recommendations are still valid.
Executive Summary

The terms of trade of the traditional bulk commodities exported by the Pacific islands have declined significantly over the last decade. Thus there is a need to increase efficiency and reduce production costs. Of great importance is the need to diversify toward new higher value export commodities.

Commercial management companies can be used to expand the value of agricultural exports. Specifically, these qualified companies can overcome the two major constraints to increasing efficiency and diversifying production in the region: (1) the lackluster performance of the development banks and (2) the dearth of skilled managerial expertise.

Because the rural economies of most Pacific island countries are centered on smallholders, the establishment of a nucleus commercial management unit is proposed. Successful adaptations are presented, such as the Southern Development Company in Fiji, the papaya industry in Hawaii, plantation management companies in Papua New Guinea, and the plantation support system in Vanuatu.

However, if these private management and service companies are to have a significant impact on the development of Pacific islands agriculture, the development banks must be an active catalyst.
Introduction

This paper examines the use of commercial management and extension companies as a means of expanding agricultural exports and improving the performance of the region's development banks in the agricultural sector. The findings and proposals presented draw on studies conducted as part of the Pacific Islands Development Program's (PIDP) Private Sector Project. These include the case studies of management systems drawn from the smallholder and plantation sectors and the reviews of the eight South Pacific Development Banks.

The reason for the study stems from the generally lackluster export growth performance of Pacific islands agriculture over the last decade or so (Figures 1 and 2). Earnings from traditional commodities have tended to stagnate in the face of an exceptionally prolonged price trough, the inadequate levels of capital investment, and the generally
low levels of management. Fortunately, the price of most commodities appears to have "bottomed," and a significant price improvement can be expected over the next five years. Yet under the existing management and investment regimes, only a limited production response can be expected.

In the long run the terms of trade can be expected to continue to move against traditional bulk commodities (Thirlwall 1991:55). The need for agricultural diversification is now recognized at the policy level, with horticultural and spice products prominent in the development plans of Pacific island countries. The last few years have seen a modest trade developed in items such as ginger (Fiji), taro (Western Samoa), vanilla (Tonga), and more recently squash (Tonga). Yet the overall horticultural export performance has been disappointing. The reasons for the gap between performance and perceived potential lie mainly on the supply side and not with demand. New commodity export development has been constrained by marketing, which includes the quality and continuity of supply and not markets per se. With significant private sector investment slow to materialize, management has again proved to be a major constraint.
Performance of the Development Banks in the Agricultural Sector

All the region's development banks give priority to lending to agriculture, particularly to the smallholder sector, which is reflected in subsidized interest rates, lending targets skewed in favor of the agricultural sector, and special schemes and projects targeted toward the agricultural sector. In the case of Papua New Guinea the development bank's name was changed to the Agricultural Bank to underscore this priority.

Yet all the development banks' lending performance to the agricultural sector has generally been lackluster, with most suffering a chronically high rate of arrears (Table 1). In his overview of the development bank studies, Cole reports that "by the very nature of their mandates and reinforced by political and public pressures to get loans on the board, the South Pacific Development Bank (SPDB) lending is inevitably at risk" (Cole 1990:17). In addition to the standard risks associated with lending for commodities sold on volatile world markets, low levels of management prevail, and land held under traditional tenure arrangements cannot be offered as security in the normal sense. The banks usually do not have the option of taking possession of land, to work or sell, to recover loans in chronic default. As a consequence, they face the dilemma either of denying the access of substantial areas of agricultural land to development finance or of having exceptionally high rates of arrears.

The development banks have adopted relatively similar measures in response to this policy conflict. Most allow for third-party guarantors such as clan leaders or affluent clan members involved in significant wage employment. Cole reports that while such a kin-based guarantee "creates a degree of moral and social pressure it has, in effect, very little value when put to the test" (Cole 1990:17). The Fiji Development Bank
Table 1. South Pacific Development Bank loan arrears in relation to loans outstanding

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Loans outstanding</th>
<th>Arrears outstanding</th>
<th>Arrears as percentage of loans outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Amount</td>
<td>Number</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>1987</td>
<td>9,082</td>
<td>71.6</td>
<td>2,948</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>1988</td>
<td>2,900</td>
<td>12.2</td>
<td>2,032</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>1988</td>
<td>1,670</td>
<td>549.9</td>
<td>1,000</td>
</tr>
<tr>
<td>Fiji</td>
<td>1989</td>
<td>8,087</td>
<td>134.2</td>
<td>3,953</td>
</tr>
<tr>
<td>Western Samoa</td>
<td>1988</td>
<td>6,926</td>
<td>36.6</td>
<td>4,693</td>
</tr>
<tr>
<td>Tonga</td>
<td>1987</td>
<td>3,344</td>
<td>8.2</td>
<td>800</td>
</tr>
<tr>
<td>Kiribati</td>
<td>1988</td>
<td>-</td>
<td>0.4</td>
<td>-</td>
</tr>
<tr>
<td>Cook Islands</td>
<td>1989</td>
<td>691</td>
<td>7.1</td>
<td>13.9</td>
</tr>
</tbody>
</table>

Note: All amounts represent national currency (millions).

Sources: 1 ABPNC Corporate Plan 1988-97.

has addressed the security problem by insisting that the borrowers have a lease on the land against which they wish to borrow. However, the realities of land ownership mean that such leases cannot be used by the bank. The main value of requiring a lease, as with clan-based guarantees, is to provide security for the borrower against the other claimants on the land. However, the option of requiring a lease for customary land is often not available either because the land has not been registered or because it is not legally available for lease, such as the case of native reserve land in Fiji.

Yet policies directed at balancing arrears with access to development finance have often resulted in the worst of both worlds, where exceptionally high arrears prevail simultaneously with inadequate and inefficient investment in the agricultural sector (Table 1). This situation has occurred despite substantial expenditure on items such as branch
networks, smallholder extension services, and concerted efforts to design appropriate credit delivery mechanisms.

Training, at both the staff and borrower levels, offers the longer-term solution to getting arrears to a manageable level while at the same time increasing the level of lending to the agricultural sector. For staff members, training in project identification, appraisal, and monitoring is a priority need, particularly because the banks are required by necessity, and sometimes by legislation, to have regard for the prospects of a loan becoming successful rather than for the security available. While various staff training programs are already in place, a more intensified and systematic effort is required. Specific proposals in this respect are made in the PIDP development bank overview report (Cole 1990). With respect to borrowers, no effort should be spared to inculcate into smallholders the importance of credit as an adjunct to development. Many loan failures could be avoided if clients were fully conversant with the purposes for which the loans were granted.

The cost of the necessary training is high, and the lags in the effects being realized are long. The infusion of commercial management and extension services can, however, complement the training process and have a more immediate impact on arrears and on the efficiency of agricultural lending. The scope and requirements for such services are the focus of this paper.
Management Constraint

The Smallholder Sector

The majority of the region's population, particularly in Melanesia, is involved in semisubsistence agriculture. In terms of entrepreneurial and management experience this group is ill equipped to make the transition to modern commercial export-oriented agriculture. Fiji has one of the more advanced commercial agricultural sectors in the region. Yet the Asian Development Bank (ADB) Fiji Agricultural Sector Study concluded:

The lack of expertise in farm management is a widespread and serious constraint to increasing farm productivity and is often underestimated in agricultural development planning. Farmers operate under inefficient and low productivity management systems; they have little experience of practical farm planning and elementary financial forecasting, or the methods of controlling or integrating all the farms' resources into a package of practices directed toward the profit objectives (ADB 1985:III-45).

The study identified the inadequacies of the prevailing smallholder systems as a major constraint for the implementation of the proposed diversification program based on horticultural development.

In the smallholder sector the dearth of skilled and ongoing managerial expertise is not offset to any significant degree by the government-operated extension services. Instead of being at the vanguard of agricultural development, extension has tended to be a marginal activity. Ministries of Agriculture throughout the region have operated diffuse extension services with weak links to research, which is usually conducted by the same government departments. Invariably, these services get deeply involved in the administration of agricultural pro-
grams, the collection of statistics, loan recovery, and other non-agricultural activities. While these arrangements have been adequate for stable semisubsistence production systems, they have proved unsatisfactory in the promotion of crop intensification and diversification policies or in handling a crisis such as the outbreak of coffee leaf rust in Papua New Guinea.

The World Bank (1981) review of extension services in Papua New Guinea concluded "the operation of the extension services in the field left much to be desired. Many staff were engaged in a range of activities only marginally related to extension work, there were only a limited number of extension programs, and there was very little supervision of extension activity." A decade later Manning in his study of private management agencies concluded that the existing government service had "deteriorated so far that it cannot be revived as an effective service. The basic reason is institutional where discipline cannot be imposed and nor can incentives" (Manning 1989:101).

The ADB Fiji Agricultural Sector Study (1985) concluded that the successful implementation of the intensification and diversification targets proposed for the Development Plan Nine would require the establishment of an extension program that provided "discipline, close supervision, a strong linkage with research, and dedicated management" (ADB 1985:5-6). This has not occurred, and very little progress has been made in the diversification of Fiji's agriculture.

Governments have been reluctant to make the necessary political and substantial financial commitment to upgrading and restructuring their agricultural extension services. The severe budgetary constraints faced by most governments have been a major factor. Thus projects generally have relied heavily on the reallocation of existing resources, with little change in the basic structure. In situations where substantial additional resources have been committed to upgrading extension services, implementation has tended to be slow. For instance, part of the World Bank loan to Papua New Guinea for the Agricultural Support Services Project had to be canceled due to difficulties in recruiting the necessary professional and support staff.

In the smaller countries the problems facing the government extension service are less intractable, and cost-effective means of increasing their efficiency are likely to present themselves. For example, the recent ADB
Agricultural Sector Strategy Review recommended a move toward a program of Farm Systems Research and Extension (FSRE). The review concluded:

There are already elements of FSRE in Tonga's extension program such as village level committees, routine involvement of farmers in programming and on-farm trials involving research liaison and participation. The Extension Division is therefore already well positioned in terms of staff numbers and organization to move into a program of FSRE, with additional support required for training over a longer program period and provision of infrastructure and other resources (Asian Development Bank 1990 Annex 10:7).

Yet even in such situations, privatized extension and management services have the potential to play an important complementary role.

The Plantation Sector

The dearth of management skills also extends to the plantation sector. In the Pacific islands context a plantation is generally considered to be any holding larger than 20 ha. It employs paid labor and is usually on alienated or leasehold land.

Papua New Guinea has the largest plantation sector. The 1981 agricultural census indicated that there were 895 large holdings covering 395,270 ha (Shaw 1985:62). Solomon Islands, Vanuatu, and to a lesser extent Fiji also have significant plantation sectors.

At independence Papua New Guinea's plantation sector was without adequate management, which was the result of a deliberate disinvestment policy of foreign plantation companies and owners. In Vanuatu the plantations were expropriated from their French owners leaving them devoid of any management. Fiji's copra estates have been declining since the Second World War and are operated with minimal management and technology inputs.

The traditional Pacific island plantations gave no attention to training at any level. They operated on minimal technical input, with labor not expected to know anything other than how to wield a bushknife and
harvest crops. Furthermore, there were no training institutions geared toward providing the necessary skills for modern plantation management. The advent of new high yielding varieties has meant that comparatively sophisticated management needs to be supported by a stable labor force with the necessary skills (Manning 1989).

**PIDP’s Management Studies**

PIDP’s Private Sector Project has investigated the prospects and requirements for expanding the role of private extension and management companies as a means of redressing the management gap in both the plantation and smallholder sectors. This research was based on case studies covering both the smallholder and plantation sectors.
Smallholder Management and Extension Services

The Directed Smallholder Model for New Commodity Development

The rural economies of most Pacific island countries are centered on the smallholder. The availability and distribution of land mean that new commodity development is likely to be smallholder based. Furthermore, a smallholder production system, if well managed, can afford major advantages in the production of new high value crops. However, hapazard, the smallholder production and marketing systems, which are typical of Pacific islands agriculture, are not conducive to new commodity development.

To enable smallholders to successfully participate in new high value crop development, the establishment of a nucleus commercial management unit is proposed to direct contracted smallholders. This recommendation represents a modified version of the standard nucleus estate (NES) model that has been successfully applied to the Papua New Guinea oil palm industry. However, in this case the nucleus unit would not be involved in any production, and its emphasis would be on providing management. The experience of Hawaii's highly successful papaya industry and Fiji's tobacco industry, both studied as part of PIDP's Private Sector Project, indicated that this approach could be adopted to the development of a commercial smallholder-based horticultural export industry in the Pacific islands (McGregor 1990; McGregor with Eaton 1989).

The proposed unit would be responsible for the following:

- The supply of planting material to contracted farmers
- Provision of mechanical services for cultivation and spraying
Commercial Management Companies

- Regulatory control of grower performance
- Technical advice and irrigation technology
- The sole marketing channel for contracted production

Smallholders would be selected to participate on the basis of the following:

- Past farming record
- Availability and suitability of land
- Agreement to follow the defined package of practices
- Agreement with the financing and cost recovery procedures
- Guarantee to deliver the produce exclusively through the nucleus unit.

The Fiji Tobacco Industry Case Study

The Southern Development Company (SDC), a commercial company, has for two decades successfully managed semisubsistence farmers in the production of Virginia tobacco—a sophisticated and delicate crop where the timing of operations is crucial. Thus it would seem that the same management approach could be successfully applied to high value horticultural export crops that have been proposed as the basis of agricultural diversification in several island countries.

The SDC had embarked on its own diversification program, using its own management system to develop papaya exports. While this development remains in the pilot scheme stage, the results are encouraging and confirm the experience of the Fiji tobacco industry that a bona fide directed smallholder operation provides an appropriate model for horticultural commodity development.

The SDC provides the market, production credit, and extension services, as well as operates a research center to service 550 farmers. The SDC is the focus of a detailed case study undertaken by Charles Eaton, SDC’s managing director for over a decade. It provides unique insights into the multiple and diverse functions that a directing agency must play in successfully sustaining a smallholder-based commercial operation. The study examines in detail the technical and supervisory prac-
tices, managerial discipline, and cultural sensitivity necessary to improve the farmers' skills and maintain efficiency and quality standards for the demanding agricultural products market.

The vital need for innovative interaction between the "director" and the "doer" is highlighted. Important components of this interrelationship include: (1) provision for the planning, research, and managerial inputs required for the cultivation, harvesting, and marketing of the commodity; (2) the manner in which field extension services are applied; and (3) the levels of technical diffusion and material and financial support needed for viable sustained production.

Eaton's study shows how a commercial management company, after gaining the farmers' confidence, can transfer new agronomic ideas and innovative techniques to often wary peasant farmers more rapidly than the normal communication routes such as the government's agricultural services, itinerant marketers, and the popular media. The major advantage of a directed smallholder system is that the small farmers, who usually have minimal education and little capital, acquire ready access to experienced management skills pertinent to the particular crop they cultivate, as well as to agricultural inputs and services. The system transfers substantial risk from risk-averting farmers to the commercial company.

According to Eaton, part of the success of Fiji's smallholder tobacco operation was the result of its being a part-time activity for most of the farmers, particularly the Fijian farmers domiciled in their villages, thereby leaving them enough time for their traditional village and social activities including subsistence production. In this way, the operation not only suits their lifestyle and brings a welcome cash input but also improves subsistence cropping by introducing systematic farming techniques and methods (Eaton 1990).

*The Hawaii Papaya Industry*

Hawaii's papaya industry provides important lessons for the development of horticultural export commodities in the Pacific islands (McGregor 1990). Similarities in production, economic structure, market opportunities, constraints, and technology transfer all make Hawaii's experience relevant.
Hawaii is the world's most important papaya exporter and the leader in quality standards and technological innovation. The crop is grown by some 300 smallholders harvesting around 1,000 ha. The typical farmer is a Filipino immigrant who cultivates around 2 ha on a part-time basis. Fresh export and processing are dominated by the Hawaii-based conglomerate American Factors (AMFAC), which had previously been involved in its own papaya production. It now contracts production for its processing and packing operation from 130 independent growers who are supported and directed by the company's extension service.

**Extension through Commercial Industry Associations**

The performance of SDC in the management of semisubsistence small farmers in growing tobacco, and more recently papaya, has been impressive. So too has the record of AMFAC in the management of Hawaii's part-time papaya farmers. The involvement of such companies in horticultural development in the Pacific islands should be encouraged. However, attracting suitable new foreign companies for the development of smallholder-based diversification crops will be difficult, although not insurmountable if the proper incentives can be provided. The fact that these investors do not need to directly acquire land facilitates the transition. Some of the more successful companies in Hawaii's diversified agriculture could be a potential source of investment in this area (Blood and McGregor 1988). However, by and large, it will be necessary to develop an in-country capability. In this respect aid donors, technical assistance, and the development banks have an important role to play.

Selected industry associations can provide a focus for developing an in-country capability. A strong commercially oriented industry association would be well placed to provide extension and other services to its members and other suppliers. Fiji's Fresh Ginger Exporters Association (FFGEA) is now developing its own extension service. Similarly, Fiji's fresh fruit exporters are in the process of forming an association with the view of operating their own post-harvest treatment facilities.

In other countries similar organizations could be examined for their commercial potential. In Tonga, for instance, there is an array of producer-based organizations that have been formed to act as producer lobby groups, to organize growing, and to act as service organizations to the industry. These include the Friendly Islanders Marketing Coop-
Smallholder Management and Extension Services

erative (FIMCO), the Banana Growers Association, the Pumpkin Producers Association, and several vanilla associations. Some of them could offer opportunities to develop their own industry-oriented extension services. A particular advantage of using industry associations is that they are an acceptable focus for aid donors and technical assistance. For example, the United States Agency for International Development (USAID) is already assisting FIMCO and has expressed interest in supporting the development of extension services by Fiji's ginger exporters. Such aid can be crucial during the start-up phase of such organizations. However, the operations of commercial grower organizations should aim to achieve self-sufficiency as quickly as is reasonably possible, which could be achieved by a levy on members. In this respect the government can play an important role by providing the legal environment that ensures compulsory membership.

Entrepreneurial Commodity Developers

The study of squash exports to Japan illustrated the crucial role that foreign entrepreneurial commodity developers (ECDs), with established links in the market, can play in the development of certain types of short-term niche commodities (McGregor with Eaton 1989:44). A bona fide ECD relieves the small farmer of the high risk element of the volatile (albeit highly profitable) market. In the case of squash the ECDs are likely to be the New Zealand squash exporters who entered the Pacific islands as a means of extending the length of their season. If the ECDs in the Pacific islands are to successfully develop crops such as squash, they need to provide an extension service to small farmers, to supply inputs, to set base farm-gate prices, and to be fully responsible for shipping and marketing.

The nature of the market for crops like squash is such that the direct involvement of the ponderous government marketing agencies can be only counterproductive. Furthermore, the government extension services tend to be too diffuse for an intensive short-term crop such as squash where timing is crucial. However, the government has a crucial role to play in assuring that the Japanese quality and quarantine standards are adhered to. The government also has a role in vetting the bona fides of prospective ECDs.

There is scope, and a need, to develop a local capability to take on the extension role of foreign ECDs and eventually their marketing functions. Several alternative models present themselves. An SDC type
directed smallholder operation would be suitable for providing extension support for growers of short-term niche export crops, as well as for bargaining strength in negotiations with exporters. Producer-based organizations, such as the Tongan Pumpkin Association, could also be structured into a commercial vehicle to promote sustained industry development. Its activities would include providing extension services and inputs to members, organizing on-farm selling points, erecting necessary storage infrastructure, and planning crop strategies, market links, and transport. They could also provide a conduit for short-term credit delivery and loan recovery.

**Commercial Smallholder Extension for Traditional Export Commodities**

Smallholder production of traditional export commodities such as cocoa and coffee could not sustain the intensive management and extension support required for high value crops such as papaya. Yet these industries could benefit from an industry focused and operated extension service. The experience of the Fiji Sugar Corporation (FSC) and, more recently, that of the Papua New Guinea Coffee Development Agency (CDA) support this view.

The Fiji sugar industry, with its unique smallholder structure, has a long history of operating its own field extension. The FSC extension service was recently restructured to give greater focus on increasing farm productivity. It is notable that the organization and structure of the Fiji sugar industry have resulted in its being one of the world’s most efficient cane sugar producers (Landell Mills 1982).

Papua New Guinea's CDA, largely financed by the coffee industry, was established as response to the leaf rust crisis of 1986. It has been financed by industry levy funds, supplemented with a substantial injection of Australian aid. The basic program has been designed for smallholder coffee growers to undertake fencing, drainage, shade control, and pruning under the direction of CDA field staff. The staff are employees of the coffee industry and not the national or provincial governments. The CDA has not been without its critics, not surprisingly, particularly from the government agencies it was suppose to replace. The overhead cost of the CDA’s operations has been high. However, the CDA is achieving results superior to government extension services and has been a major factor contributing to the industry’s ability to overcome the leaf rust crisis (Manning 1991:102; Jarrett and Anderson 1989:88).
Scope exists for some of Papua New Guinea's better plantation management companies to provide extension services to smallholders. Manning saw potential for his company, New Guinea Island Produce (NGIP), to use its existing infrastructure to provide smallholders with contract and extension services to village cocoa farmers. However, he cautions that any such scheme should be introduced on a gradual basis, with the most essential element being “an effective market-oriented monitoring system that would prevent the private agency from taking advantage of a monopoly situation and finding shelter behind the same sorts of inefficiencies as the government system” (1991:59).

Such a scheme would need to be project oriented and be formally linked to credit delivery through the development bank, although the commercial banks may also wish to be involved.

In Papua New Guinea the Asian Development Bank (ADB) is currently implementing a K15 million project involving the creation of infrastructure in existing settlement areas, the opening up of new settlement areas, and the provision Papua New Guinea of finance through the Agbank for smallholders and villagers to plant up to 4 ha of cocoa and hybrid coconuts. A plantation management company like the NGIP would be well placed to provide contract services in areas such as weed and pest control and in advisory and extension services. In the design of such projects, serious consideration needs to be given to using, and where necessary, developing commercial support companies, which would enhance the viability of the project and also provide a catalyst for the development of a commercial extension industry.
Plantation Management Services

The concept of management agencies is directed toward small to medium-sized plantations—holdings usually in the range of 20 to 200 ha. The objective is to bring high level management skills to relatively small-scale developments at an affordable price. Essentially, this goal is accomplished by spreading overheads over a number of projects. These agencies have an important training function and can also have buying and selling roles that create economies of scale and bargaining power for their clients.

The management agents are responsible for the provision of skills. They must also ensure that measurable yardsticks are met. Of most importance is their responsibility for training at all levels from management to labor so that the project will be viable and eventually self-sufficient.

A managing agency will not always be the appropriate management vehicle in the Pacific islands plantation sector. With an emerging cadre of plantation managers, owners in the future will have the option of employing their own experienced managers rather than relying on the services of a management agency. Land pressure may also mean that the project owners, with loan repayment, will demand that the plantations are split up and distributed to shareholders as viable producing blocks. Thus the better management agencies probably will eventually evolve into farm management consulting companies, which are common in Australian and New Zealand agriculture.

Management agencies in Papua New Guinea have played a pivotal role in the transfer of ownership of plantation land from foreign to Papua New Guinea nationals. In Vanuatu, a low-key version of the same concept has been directed at providing ni-Vanuatu with the technical and management skills they need to run plantations abandoned by the French settlers.
The National Plantation Management Agency (NPMA)

The Papua New Guinea management companies trace their origins to the introduction of the 1974 Plantation Redistribution Scheme, which was actively pursued by the government until 1980. This scheme gave the government the power to acquire plantation land and lend money to national groups to purchase plantations. Most of these plantations were acquired by local groups that had no management experience, and the loan default rate was high despite the high commodity prices of the mid-1970s. In response to this situation the government established the National Plantation Management Agency (NPMA) in 1977 as a wholly owned non-profit corporation.

The NPMA was established to manage plantations on behalf of land-owning groups that had bought out plantations. It employed a number of expatriates mostly from South East Asia and was charged with the joint roles of managing plantations and training national management staff.

Following the establishment of the NPMA a number of private agencies emerged. They first serviced the coffee industry in the highlands, particularly the 20 ha blocks that were being developed by traditional clan groups. NGIP, the focus of a PIDP case study, began its East New Britain operations in 1982.

While the NPMA pioneered the development of management agencies, its own management was not satisfactory, and it ceased operations in early 1988. The involvement of a government agency may be a necessary first step in creating a management agent industry. However, the NPMA experience illustrates the problem of having a government owned and operated agency that is not subject to market forces. If the government must be involved during the start-up phase, it is imperative that these agencies be set up as separate corporate entities and that competition from the private sector be actively encouraged.

The closure of the NPMA led to a proliferation of small agencies, especially in the highlands. The failure rate has been high among these new entrants, many of which failed to obtain accreditation from the banks.

The Papua New Guinea Management Agent System

In most cases managing agents use an expatriate group manager to oversee a number of projects. This person is responsible for the man-
agement of the project and the training of local assistant managers who will be expected to become project managers at a later stage. Group managers are generally expected to monitor accounts, physical progress, and welfare aspects of plantations. Accounting is generally done by the central office of the agency. Other records such as crop statistics, work programs, etc., are generally kept on the plantation.

The owners are provided with monthly accounts and a quarterly physical progress report. They are encouraged to participate in the development of the project by providing labor for clearing and planting, etc. However, the owners are generally not given any voice in the day-to-day management of the project.

A crucial stimulant for the growth in private agencies was a requirement by the Agbank, and later the commercial banks, that any borrower for plantation development had to demonstrate management capability. Today there are 22 agencies accredited to the Agbank. The banks set management fees for new development or redevelopment. Lending agencies generally insist on a tripartite management agreement as a precondition for the loan. This agreement binds the owner, the managing agent, and the lender to the development of the project for the period of the loan. The primary goal is to protect all parties from a unilateral decision by any single party. The most obvious problem was when project owners tried to misuse funds, and the agent refused and was then dismissed.

To the outside observer the management cost per ha is often considered excessive. However, the cost of running a bona fide agency is also high, particularly where expatriate staff are involved. The agencies have found themselves in a cost price squeeze with prevailing low commodity prices and increasing input costs, particularly since the 1990 devaluation of the kina. Fees for the cocoa industry have remained unchanged since 1983. There is pressure on the Agbank to lower management fee rates to uneconomical levels to provide a quality grade of service—this is reported to be particularly apparent in the coffee industry where a number of the better agencies have ceased operations.

The New Guinea Island Produce (NGIP) Ltd. Case Study
The NGIP is the focus of a detailed study undertaken by Michael Manning, who joined the company as scheme administrator in 1980 and was subsequently appointed managing director in 1985. In addition,
Manning has served on the boards of the Agbank and the Cocoa and Coconut Research Institute and is senior vice-president of the Planters Association of Papua New Guinea.

The NGIP, which had its origins in the now defunct Tolai Cocoa Project, is the largest of the cocoa/coconut management companies and is one of the oldest public companies in Papua New Guinea. It has nearly 6,000 shareholders, most of whom are cocoa growers in East New Britain Province. The company manages 23 projects located on East New Britain and New Ireland. These projects cover some 4,400 ha and range in size from 13 to 700 ha. Current cocoa production is around 1,600 tonnes, projected to increase to 6,500 tonnes at full production. The projects are owned by single owners, partnerships, business groups, and private and public companies. The company is also involved in cocoa buying and processing as well as numerous other commercial activities.

Plantation development has been financed by loans totaling almost K10.5 million, which have been provided by various financing agencies. An additional K900,000 was lent for the purchase of plantations managed by the NGIP.

Development and redevelopment fees are in accordance with schedules set by the Agbank, whose rates have not changed since 1983. Where a project is not under redevelopment the NGIP charges a small fixed fee and operates on a substantial profit share bonus. For the predetermined fee the NGIP clients receive the following services:

- Full management of the project including recruitment, training, and tendering for capital purchases and works
- Supervision of management
- Purchasing and dispatch
- Accounting including payroll
- Monthly physical and accounting reports
- Processing
- Marketing
- Transfer of the latest technology
- Security
A feasibility study, including a soil survey, is undertaken for each prospective client for a prepaid fee. These studies are prepared according to a uniform format required by the Agbank. A ten-year cash flow, with accompanying loan drawdown and repayment schedule, is prepared. The cash flow is revised regularly according to experience and changes in input prices. The Agbank requires a minimum internal rate of return of 12 percent on a large agriculture project (50 to 1,000 ha). At prevailing World Bank price forecasts this rate has been difficult to achieve.

The NGIP played a major role in the introduction of high yielding hybrid cocoa seed into the industry. Prior to 1980 Papua New Guinea planters had been very wary of using hybrid seed and relied heavily on buddings. In contrast all NGIP projects, on the advice of one of their Malaysian group managers, were costed on the basis of the rapid development with hybrid seed produced from their own seed garden. This strategy proved to be an outstanding success with other companies, and smallholders soon began rapidly clearing and replanting with hybrid seed.

Papua New Guinea's yield performance has made it the most efficient cocoa producer in the Pacific islands region. Yet it is a high cost cocoa producer in comparison with Malaysia and Indonesia, which can be partly attributed to labor costs and labor productivity. Papua New Guinea, like all Pacific islands agriculture, faces exceptionally high costs for inputs such as fertilizer and other agro-chemicals, which have traditionally been sourced from Australia and New Zealand. However, the NGIP has been able to make substantial savings for its clients by purchasing agricultural supplies in bulk from Asia, where it carefully buys chemicals under generic instead of brand names, thereby yielding very significant economies.

Initially, the NGIP attempted to undertake its own export marketing. However, in the absence of a skilled cocoa trader and in the face of Papua New Guinea's highly competitive marketing arrangements, this arrangement did not prove profitable. However, in 1988 the company entered a marketing joint venture (Agmark Pacific Pty Ltd) with a large cocoa producer. The joint venture provided marketing economies of scale and access to the experienced cocoa trading expertise of a large overseas-owned cocoa exporter.
The provision of processing facilities is a major service provided by the company. In 1989 a large centralized fermentary replaced the numerous small- to medium-sized facilities, which reduced processing overheads and allowed for the production of uniform good quality cocoa targeted at a specific market. During the period of depressed cocoa prices, attracting premiums associated with a uniformly high quality product is particularly important.

A policy decision was made to follow a high input and high output approach and to adopt the most advanced technologies available, which include a sophisticated "early warning system" for pest and disease control using a sampling technique. Other management companies followed different policies of a more gradual development that were less expensive and easier to manage. The NGIP made a conscious decision to seek expertise from Malaysia, a country regarded as a leader in cocoa technology and plantation management practices. In addition, the staff can be secured at a significantly lower cost than the traditional sources of expatriate staff like Australia and the United Kingdom. Unfortunately, law and order problems have made it increasingly difficult to retain expatriate staff. During the course of 1990 three Malaysians left Papua New Guinea as a result of these problems.

A general management strategy of employing one expatriate group manager for every four projects has been adopted. The accounting and purchasing functions are centralized. Each project has a Papua New Guinea staff member with varying degrees of seniority. The landowners are invited to provide trainee management staff who usually work on other plantations. These trainees would eventually be in a position to take control of their own project.

The turnover rate is high due to the standards of management set. There is a strong emphasis on training at all levels of management. The traditional plantation supervisory structure has been replaced with one based on younger people who have a higher level of education and who are expected over time to become a part of the executive management team. The company policy is to have a staff member for every 100 ha of development—a high level compared with that of Malaysia and Indonesia.

The success of the NGIP has in no small measure been the result of the skill and dedication of the company's managing director. This natural-
ized Papua New Guinea citizen has been involved with the plantation management operation since its inception. However, it is encouraging to note that a management structure has now been created that has reduced the dependency on a single individual.

The NGIP made a significant contribution during the 1980s to the rehabilitation of the cocoa industry and to the commercial revitalization of the East New Britain Province. Prior to this time there was virtually no replanting in the cocoa industry, and plantation production was in decline (Table 2). Plantations were abandoned and rundown, and trees were disease ridden and senile. The NGIP has overseen the planting and replanting of 4,500 ha of cocoa and hybrid coconuts. Most of this process has involved the transfer of land from foreign ownership to Papua New Guinea groups. The company has been instrumental in the diffusion of high yielding planting material and the adoption of modern husbandry and management techniques. A significant demonstration effect has occurred among smallholders.

The company has had some very successful projects while others are only limping along. Continued low prices in 1990 saw the closure of two projects owing substantial amounts to the NGIP. The company and the industry can capitalize on the learning process that has occurred. No two projects are the same. They face different sets of problems. Often soil and climate conditions are vastly different and require different

Table 2. Papua New Guinea cocoa production, 1978-88

<table>
<thead>
<tr>
<th>Year</th>
<th>Plantation</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>13,283</td>
<td>16,843</td>
<td>30,126</td>
</tr>
<tr>
<td>1979-80</td>
<td>14,116</td>
<td>16,698</td>
<td>30,814</td>
</tr>
<tr>
<td>1980-81</td>
<td>12,047</td>
<td>16,082</td>
<td>28,129</td>
</tr>
<tr>
<td>1981-82</td>
<td>11,819</td>
<td>18,055</td>
<td>29,874</td>
</tr>
<tr>
<td>1982-83</td>
<td>9,345</td>
<td>20,056</td>
<td>29,401</td>
</tr>
<tr>
<td>1983-84</td>
<td>8,600</td>
<td>19,112</td>
<td>27,712</td>
</tr>
<tr>
<td>1984-85</td>
<td>9,617</td>
<td>21,170</td>
<td>30,787</td>
</tr>
<tr>
<td>1985-86</td>
<td>9,924</td>
<td>22,795</td>
<td>32,719</td>
</tr>
<tr>
<td>1986-87</td>
<td>10,463</td>
<td>21,284</td>
<td>31,747</td>
</tr>
<tr>
<td>1987-88</td>
<td>11,413</td>
<td>18,993</td>
<td>30,406</td>
</tr>
</tbody>
</table>

Note: Cocoa year is 1 October to 30 September.
Source: Manning, Michael, Development and Performance of Management Agencies in Papua New Guinea Agriculture, Published jointly with the Institute of National Affairs, 1990.
treatments. Labor availability differs. In some isolated and very rundown plantations, labor is very hard to retain, and special policies and incentives are required. The NGIP's overall operations to date have been modestly profitable. In the final analysis the success of the company will be measured by its ability to pay back its clients' loans. In recent years it has faced the challenge of meeting these repayments and of remaining viable in the face of a prolonged depression in commodity prices. Management becomes even more crucial during periods of sustained low prices. The response of many Papua New Guinea plantations to the current price crisis is to enter a downward spiral of reduced inputs leading to lower yields and further reductions in inputs, which eventually lead to closure.

The NGIP's response to depressed prices has been to place major emphasis on cost control, which has involved seeking less expensive sources of materials combined with better utilization and mobilization of labor. An integrated operation has developed that provides inputs more cheaply, produces a high quality uniform product that can command a premium, and involves a marketing agency devoted to obtaining that premium. Thus, the NGIP is well placed to assist its clients in surviving the current price crisis and in so doing to protect the lending of the banks.

Cocoa and copra, at present, are the only cash crops that provide a significant income to island and coastal Papua New Guinea. Fortunately, the medium-term price prospects for cocoa and coconut products are more encouraging than they have been for some years. Papua New Guinea has a comparative advantage in the production of cocoa and should be well placed when the inevitable upturn in prices occurs. It has good soil, climate, and very advanced varieties. In the case of cocoa these varieties come into bearing earlier than, for example, Malaysia, and they command a quality premium.

The present price crisis, however, highlights the need to introduce alternative crops, at least to complement cocoa and copra. A private management company such as the NGIP is ideally placed to commercially investigate and promote new crop development. Experiments have begun with Robusta coffee, various fruits, and balsa wood.
Scope for Replicating the Papua New Guinea Plantation Management Experience

Within Papua New Guinea there is additional scope for the expansion of plantation management services. Ample suitable land is available in Manus, New Ireland, Madang, and other provinces. However, finance presents the most immediate constraint. The Agbank has rigidly used World Bank price forecasts in its cash flow projections. Under these circumstances extremely high levels of equity participation are needed to achieve the return required by the bank on additional loan funds. This situation has effectively debarred Papua New Guinea groups because they do not have access to sufficient equity capital. Moreover, it has led to a slowdown in coffee and cocoa development, which is likely to continue in short run despite some improvement in price forecasts. To avoid wasteful stop-start development and to take full advantage of future price peaks, lending agencies should take a more flexible approach to commodities such as cocoa where Papua New Guinea has a long-term comparative advantage.

Successful Papua New Guinea companies, such as the NGIP, could play an important role in the diffusion of management services in the region. The NGIP has expressed an interest in extending its operations offshore as part of its overall diversification program. Expanding traditional commodity exports is a priority in most development plans, and throughout the region there is an increasing desire among landowners to acquire and develop (or rehabilitate) plantations. Yet the appropriate management skills, and modern plantation technology, is lacking to successfully achieve this goal on any scale. Vanuatu in a small way is already trying to develop a system of plantation management and training to suit its own circumstances. This experience is briefly reviewed later in this report.

In situations where infrastructure is developed, a company may be required to provide services beyond just plantation management. In Fiji, for instance, the development of the cocoa industry is constrained by the absence of high yielding planting material, poor processing, and highly inefficient export marketing by a government authority. Thus it would be appropriate for the management company to operate a centralized fermentary and manage its own seed garden to facilitate the introduction of high yielding planting material. It could also be involved
in export marketing. There is scope for creating marketing linkages with a Papua New Guinea exporting company.

For a country like Fiji the overheads of such an operation would be high compared with the production base served. Current cocoa production is around 400 tonnes, despite priority given to the industry in successive development plans and the investments made in road infrastructure. The ADB Agricultural Sector Study (1985) saw cocoa production of 10,000 tonnes as desirable and attainable in terms of the suitable land resources available. However, without substantial management upgrading, improved planting material, and efficient private marketing, such production cannot be approached. Yet a ten-fold increase in current production would be required to support the overheads of an NGIP type of operation that is envisaged.

Thus the nexus between management and the critical mass of production to support that management can be broken only if the government defrays some of the overhead costs by using aid or loan funds. The introduction of the commercial management company could be made an integral part of a regional development project. Such a concept has been proposed for the Fiji’s Northern Division Project, which is being considered for ADB financing. The region is characterized by numerous underutilized or abandoned coconut plantations located on freehold land. These redevelopment estates could be based on an integrated program of hybrid coconuts, hybrid cocoa, cattle, and spice crops. Furthermore, much native land in the area is currently subject to considerable logging activity. Cocoa planted in secondary forest is an ideal crop to follow the initial logging operations. Several 50 ha cocoa projects based on landholding groups have been established in recently logged areas. However, these projects have been based on a low level technology and on management provided by the government extension service. As a result yields have been low and the projects submarginal under the prevailing price conditions, which have been made artificially low by an inefficient government marketing agency.

Vanuatu’s Plantation Support Association and Plantation Training Center

Vanuatu has developed through the initiative of the Catholic Church a low-key version of Papua New Guinea’s management companies, which combines the services of the Plantation Training Centre (PTC) and the
Plantation Support Association (PSA). The PTC is a residential training center aimed at providing ni-Vanuatu with the technical and management skills they need to run plantations. The PSA is a membership organization that provides continuing support to ni-Vanuatu owned plantations, many of which are managed by graduates of the PTC. Briscoe, in his PIDP study of enterprise support organizations, described the programs offered by the PTC and the PSA as intensely practical and designed to fit the needs of their clients (Briscoe et al. 1990:17). His study regarded them as appropriate models for business development in the agriculture sector and suggested they be evaluated for replication elsewhere in the region.

The PSA was formed in 1983 to support ten plantations managed by ni-Vanuatu. This followed a 1981 agricultural management workshop, presided over by the then Minister of Agriculture and Lands, which identified an urgent need for farm management training and support—if the plantations that had come under the control of ni-Vanuatu were to make a sufficient contribution to the country's economy. The workshop recommended the establishment of a mutually supporting plantation training center and a farm management support organization. These were to be non-government organizations (NGOs) that could charge fees for the services provided. It was thought that if ni-Vanuatu plantations were to become serious about commercial farming, they should at least be prepared to pay part of the operating costs of its support body.

A visit to Papua New Guinea followed to observe the operations of the NPMA. A scaled-down and modified version of the NPMA was adopted to meet the requirements and resources of an NGO operating in Vanuatu. The PSA/PTA has low overheads, less reliance on expatriates, and more emphasis on the training of its clients. However, its ability to successfully expand is constrained by a limited absorptive capacity.

The PSA currently has 27 plantation members. The members receive regular visits from PSA staff to provide managerial and technical support, to keep them in touch with new technologies, and to provide some mechanical backstopping. Emphasis is on financial accounting, work planning, development planning, and land tenure. The PSA also operates an equipment loan fund that enables members to order materials and equipment, which the PSA will procure and dispatch to the member plantations when needed. The PSA then allows repayment
for these inputs to be made in installments. The PSA offers a chainsaw and mini-mill hire service to its members.

Some of the PSA's member plantations are financed by the Development Bank of Vanuatu (DBV). However, no formal tripartite link exists between the DBV, the PSA, and the member plantation. Thus the PSA has less direct control over the activities of members than a Papua New Guinea management company has over its clients.

The PSA is managed by a seven-member executive committee. Four are elected by member plantations and three from government bodies such as the Department of Agriculture and the DBV. Until April 1989 the PSA employed an expatriate general manager, a ni-Vanuatu counterpart general manager, and two fieldworkers. It is now fully operated by ni-Vanuatu. The PTC has since its inception been managed by a naturalized citizen who has been a key factor in its success.

The general manager is responsible for the day-to-day operation of PSA affairs including organizing and planning work and maintaining the accounts; he is also responsible for staff development and training. The general manager is directly responsible to the executive committee, which guides and directs his work. The annual general meetings take place every March, usually in Santo or Port Vila. They usually last one week and include a training component and outside visits of interest to members. The content of these meetings is decided by the committee, and the general manager is responsible for the organization. General meetings are also held each September, and these are usually held on member plantations.

This structure ensures (1) that the management of the association has a strong sense of accountability, (2) that the members at the grass-roots level have a voice in the operation of the organization, and (3) that because there is a strong government involvement in the decision-making process, close links with government help to foster cooperation and government support for its operations. These factors have helped to prevent duplicity and waste of scarce human and physical resources.

Members of the association pay an annual membership fee of Vt1,500 and a service fee of 1 percent of the plantations' sales of copra, cocoa, and cattle. Fees cover only between 10 and 15 percent of the association's expenses. The PSA aims to become financially self-reliant, and as
member plantations redevelop and increase production, their contribution to the operating costs of the association will also increase.

The PSA/PTC programs, while designed to be self-financing, have received substantial assistance from aid donors, in particular, the International Human Assistance Program (IHAP). The government has also channeled some Stabex funds to the PSA. This is seen as an appropriate use of aid moneys, and an expansion of this program, in line with the PSA's and the PTC's absorptive capacity, would be well justified. Additional demand for the PSA's services have been identified among groups operating cattle projects, copra dryers, and cocoa fermentaries, as well as among others who appreciate that management tools are relevant and useful to their operations (Bishop 1987).
Development Banks and Private Management Companies: A Symbiotic Relationship

The region's development banks must play an active catalyst role if private management and service companies are to have a significant impact on the development of Pacific islands agriculture. The fortunes of management companies and the performance of the development banks in the agricultural sector are closely interwoven.

For the plantation sector the tripartite agreement between the landowners, the development bank, and the management agency is the essential interdependent linkage in the system that allows substantial agricultural investment to occur. All parties benefit from the agreement.

The risk exposure of the development bank is reduced by diminishing the danger of a competent manager being dismissed for frivolous reasons such as vetoing an expenditure unrelated to the project's approved development program. If the agency is reputable and technically able to conduct the proposed program, the loan should be repaid. Of course, risks still exist from the vagaries of world markets, but they are minimized by sound and qualified management. Under this system the banks should be able to simultaneously increase their level of lending to agricultural sector and reduce their level of arrears and bad debts. Thus the banks are prepared to make long-term investments in commodity agriculture, where hitherto they would not.

Without the mandatory link to the banking system the management agent industry will not develop to any significant extent. It is not an accident that Papua New Guinea is the only country in the region to have a significant plantation management industry. While some landowners would recognize the benefit of paying management services, they are likely to be the exception. Most would think they could go it
alone provided they can secure credit. Even if the management agent can secure clients, the risks are far greater without the security of the tripartite agreement.

The landowners have access to substantial development finance even in circumstances where they cannot offer land as security. Apart from credit, the prospect of the project succeeding is greatly enhanced by the involvement of a bona fide management agent.

A formal link with banking system is also likely to be important in the successful development of commercial smallholder extension services. A fledgling smallholder service company or commercial industry association is likely to need assistance with establishment capital. It will also require working capital on an ongoing basis to finance the operations of its farmers. The level and efficiency of credit delivery are likely to be enhanced. The bank is able to deal with one entity rather than numerous small farmers. The high risks associated with providing short-term production credit to small farmers is greatly reduced if the nucleus service unit is the sole marketer or processor.
Implementation and the Role of Government, Aid, and Technical Assistance

The policy pronouncements, and recent development plans, of Pacific island countries have been universal in their endorsement of the private sector as the engine of their economic development. The president of Kiribati, and chairman of the Pacific Islands Development Program’s Standing Committee, stated in his address to the Third Pacific Islands Conference:

The focus of this Conference is on the same general issue—the role of the private sector development in the Pacific island economies. This is not only in recognition of the continuing interest in the subject; it is also an expression of a strong conviction that the participation of the private sector is one strategy that would make a great impact in the development of our island countries. While we accept that some progress is being made in this area, we know it is only the beginning, and there is an obvious need for further involvement of the private sector in our development (Tabai 1990:7).

Similarly, support for the private sector has increasingly been in the forefront of the policy declarations of aid donors and international agencies. To quote the director of the Regional Development Office/South Pacific in his submission to the Third Pacific Islands Conference:

U.S. President George Bush has said: 'We believe that the most powerful engine for economic development and growth—in fact, the only engine that works—is the entrepreneur, large and small. An entrepreneurship is a product not of massive aid packages, but of free and open economies that do not carry crushing bur-
dens of taxation and regulation and that maintain the rule of law, including contract and property law.' This theme underlies a major shift in the U.S. foreign assistance program worldwide to focus its support on vitalization of the private sector within a favorable, open policy and regulatory environment. The 1991-1994 USAID program for the South Pacific will promote sustained, broad-based national economic growth:

- through increasing income to private enterprise and entrepreneurs from agro-marine commerce, including commercial environmental protection schemes;

- through strengthening of the private sector to be able to expand and sustain a larger, more diversified export trade base, particularly in agro-marine products. (Woods 1990:1).

Yet aid in practice has done little to accelerate private sector agriculture development in the region. At worst, project aid has actually weakened the position of the private sector by supporting the direct involvement of government agencies in production and marketing activities. The Fiji cocoa industry provides an excellent example of the adverse impact of this direct involvement. If the industry is to make a significant contribution to the Fiji economy it needs substantial private sector investment and involvement in key areas such as management, planting material production and distribution, centralized processing, and marketing.

Yet the entry of the private sector is constrained by the nature of government involvement in all these areas. The Ministry of Primary Industries' extension staff provided free management to the 50 ha "nucleus estate" projects that have been funded by the European Economic Community (EEC). The Ministry's Research Division provides planting material, albeit low yielding, at no cost. Until recently, small-scale fermentaries were heavily subsidized and sometimes given as outright grants by aid donors. The Fiji government's National Marketing Authority (NMA) has the sole license to export cocoa. A creative approach to project design by donors, agencies, and government is necessary to facilitate the necessary private sector involvement in these activities.

A successful management agent or commercial extension/service company must have a depth of experienced staff and backup admini-
Commercial Management Companies

istration systems, coupled with the necessary ability and background to cater to the diversity of both cultures and environments. In addition to human capital requirements, there will be high start-up costs such as accommodation, transport, office space and equipment, etc., particularly if a new country or a new industry is involved. The costs and benefits of establishing a particular management system must be carefully evaluated with the view to minimizing costs. The Papua New Guinea experience, however, indicates the value of using a quality management agency, and the firm offering the cheapest service may certainly not be the best. Thus in developing a management system for a new country and or new industry, the start-up and overhead costs could at times be justifiably subsidized by governments or by aid donors until sufficient economies of scale can be achieved. The subsidy should be clear and for a finite period. The ongoing costs of any agency should be borne by the project and not by any outside body.

For governments and aid donors wishing to promote the use of private management and extension services, strong arguments exist for building on successful companies and organizations. Several companies such as the SDC in Fiji, the NGIP in Papua New Guinea, the FIMCO in Tonga, and the PSA in Vanuatu were discussed in this paper. However, successful institutions tend to be scarce, and care must be taken not to overload them beyond their capability. A particular problem lies with producer-based organizations such as the FIMCO and the PSA. Such institutions are particularly attractive to competing aid donors as they scramble to implement their new policy mandates of supporting the private sector. Such organizations must not succumb to pressure to expand at a rate beyond their absorptive capacity. In addition, the perspective should not be lost that these are commercial organizations that must eventually become financially self-sufficient. Granted, appropriately designed aid and technical assistance programs have a crucial role to play, particularly during the start-up phase. However, such programs can serve as a catalyst to initiating projects by providing start-up funds to cover overhead specialist expertise.

A commercial management and extension industry may be best developed as a project. A regional development project, with a commercial management sub-component, would provide an excellent catalyst. Fiji’s proposed Northern Development Agricultural Development Project is an example.
Project design should involve government, industry, contributing aid donors and international agencies, the development bank, and most important the prospective private sector participants. Each industry, or possibly a cluster of commodities, should be assessed in its entirety along with the geographical area so that the goals can be based on potential productivity and quality standards. Agreement needs to be reached on demarcation parameters, input requirements, geographic size and scope of the extension needed, credit requirement and delivery mechanisms, and the nature and scope of any technical and financial support.

Opportunities for technology transfer within the Pacific islands should be a factor in designing development projects with a commercial management component. For example, it was previously suggested that a Papua New Guinea company, such as the NGIP, could be directly involved in the development of the Fiji cocoa industry. Similarly, the SDC could offer technical advice in the establishment of smaller based horticultural export development in, for example, Tonga, Vanuatu, and Western Samoa. The experience of the PSA in Vanuatu would be invaluable in the establishment of a similar service in Solomon Islands.
In December 1991 USAID authorized a commercial agricultural development project for the South Pacific. This project is directed specifically at promoting private sector development. One objective is the establishment by the private sector of regional training in marketing programs in commercial agricultural management. The NGIP has expressed an interest in becoming a regional training center and has the potential to do so.

The expectation is that this center will be a commercially sustainable venture and that future participants (or their sponsors) will pay sufficient fees to cover the cost of the program and to provide an adequate return to the NGIP. In addition, the training is expected to provide substantial credit toward a diploma in agribusiness by the USP and the University of Papua New Guinea.

The project is expected to provide the following inputs to the selected commercial company to build up this training capability: technical assistance, financing for curriculum preparation, and facilities upgrading. After the capability is established, the company would be contracted to present a training program for management personnel from other enterprises in Papua New Guinea and the South Pacific. As a crucial part of the training program the company will provide follow-up assistance directed at working with each participants' enterprise.
References

Asian Development Bank (ADB)

Asian Development Bank

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PACIFIC ISLANDS DEVELOPMENT PROGRAM

The purpose of the Pacific Islands Development Program (PIDP) of the East-West Center is to help meet the special development needs of the Pacific islands region through cooperative research and training. PIDP conducts specific research and training activities based on the issues and problems prioritized by the Pacific Islands Conference of Leaders, which meets every three years. The Standing Committee, composed of eleven island leaders, reviews PIDP's research projects annually to ensure that they respond to the issues and challenges raised at each Pacific Islands Conference. This unique process enhances the East-West Center's capability in serving the Pacific.

EAST-WEST CENTER

The East-West Center was established in Hawaii in 1960 by the United States Congress “to promote better relations and understanding between the United States and the nations of Asia and the Pacific through cooperative study, training, and research.”

Some two thousand research fellows, graduate students, and professionals in business and government each year work with the Center's international staff on major Asia-Pacific issues relating to population, economic and trade policies, resources and the environment, culture and communication, and international relations. Since 1960, more than twenty-seven thousand men and women from the region have participated in the Center's cooperative programs.

Officially known as the Center for Cultural and Technical Exchange Between East and West, Inc., the Center is a public, non-profit institution with an international board of governors. Principal funding comes from the United States Congress. Support also comes from more than twenty Asian and Pacific governments, as well as from private agencies and corporations.