

Learning from experience

Sustainable economic development in the Pacific

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Cover: Poiva Feu'u, 61, prepares fresh organic coconut on his new drying unit before it's pressed into virgin coconut oil, Poutasi village, Samoa. Poiva is one of 350 farmers working through local Samoan organisation, Women in Business Development, to supply organic coconut oil to international cosmetic giant The Body Shop. **Photo:** Jane Ussher/Oxfam

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Executive Summary

This research aims to learn about economic development in the Pacific from some of the organisations that are doing it successfully. The approach used was to screen a long list of potential enterprises and identify those that are both able to compete internationally and generate tangible benefits locally. In-depth surveys were then used to identify critical success factors.

Particular attention has been given to the issue of how organisations have overcome the serious constraints posed by operating in small, remote islands with poor infrastructure. The breadth of interesting and innovative organisations profiled presents evidence that, despite inherent disadvantages, the Pacific is home to some of the entrepreneurial talent and resources necessary to excel in high-value international markets.

The 14 organisations profiled in this report are mostly agricultural-based ventures. It is not surprising that agricultural enterprises would be prominent among initiatives providing significant benefits to poor communities considering that just 15 per cent of the Pacific's people work in formal employment and the majority of cash-poor communities work in agriculture. If economic development is to benefit the most remote and cash-poor communities in the Pacific, it needs to centrally involve producers based in the informal and agriculture sectors.

This report shows that organisations working with agricultural products can provide links between the informal and formal economies and give remote communities the opportunity to turn commodities into higher-value cash crops. This is crucial because high transportation and infrastructure costs in the Pacific make it difficult for commodity producers to survive in competition with large scale low-cost suppliers. Short term price hikes offer some temporary opportunities, but in the longer term there is little future for Pacific producers in trying to export undifferentiated, unprocessed raw materials. The returns will not be sufficient for them to earn a decent living.

Instead, the organisations profiled in this research have developed agricultural-based products that can sell in higher-value international markets. In these markets, characteristics that are inherent in remote Pacific communities can be used to gain advantage over international competitors. For example, Pacific growers using traditional organic farming methods and situated in tropical environments can gain market access and higher prices through organic certification. Similarly, the Pacific's cultural richness contributes to an exotic 'sourced from the Pacific' brand that can provide a competitive advantage in high-end cosmetic markets.

By building on the Pacific's strengths, a number of similar enterprises have been able to create products that excel in niche markets. These higher-value markets demand smaller quantities that are more appropriate to the scale of Pacific producers and provide higher prices. The ability to target markets that reward distinctiveness allows Pacific enterprises to overcome cost disadvantages and compete internationally.

Another critical element to the success of enterprises surveyed is adding value to raw materials in order to tailor the products to identified markets. This is not only important in delivering a distinctive product, but also captures more of the overall value for the local economy, thereby raising incomes and creating employment opportunities. A number of the organisations profiled have shifted a significant part of the processing of agricultural products into the villages to save transport and processing costs, strengthen linkages with growers and support community development.

Throughout these processes, the role of the exporter (whether private sector or NGO) is crucial. Access to markets is not possible without experience and expertise in forging market linkages. In the organisations profiled, market-oriented entrepreneurs have built close relationships with the buyers and experts in their sector. These links cannot be maintained without ongoing investment in marketing, whether in the form of high-quality websites or regular visits to trade shows and customers.

Just as important is the role of the producer support organisation. The exporter may play a direct role in helping to organise and develop a base of suppliers, but a separate organisation tends to play this role for the larger producer networks. Producers need more than decent prices and regular orders. They also need support for organising efficient transport and delivery; training in agricultural production standards, certification schemes and business; and support for developing value-adding processes in their village or region.

But the most important ingredient of success is the quality of the relationships between these key actors. Unlike many commercial supply arrangements that rely on purchasing raw materials at the lowest possible cost, the enterprises profiled in this research have built longer-term relationships that allow for mutual benefit. Exporters gain the ability to improve the quality, reliability and scale of their businesses, while producers gain skills, capacity and opportunities to invest and add value. The tools for this relationship-building are trust, training, investment by all parties and fair sharing of the higher prices that result.

This research finds that these strategies can help build the basis for sustainable economic development, with broad-based benefits for a large number of growers in rural areas. Regional and international donor governments, regional bodies, inter-governmental agencies and NGOs can and should support the necessary investments to ensure the growth and development of organisations like the ones profiled here, and promote the emergence of new enterprises. This requires those agencies to recognise that different forms of economic development have differential impacts on the broader population. If donors intend to support economic development for those who are most in need, clear criteria are required to indicate the type of development being promoted.

The criteria proposed in this paper comprise the key elements of sustainable economic development, drawn from development literature and from Oxfam's experience. In order to be regarded as *sustainable economic development*, the activity should be:

- **Sustainable**, environmentally, socially, culturally, economically, and financially
- Generate **broad-based benefits**, with equitable distribution of the benefits throughout the community, including for women and disadvantaged groups
- **Appropriate** to the culture and situation
- **Scalable** in being able to make a significant contribution to the region's resources and needs

In addition, this research has focused on enterprises producing **a tradable product**, across regions or internationally, since they have greater economic impact in bringing wealth into a community or region than is the case with non-tradable goods and services.

It requires patience to nurture initiatives such as those profiled in this research. All of those discussed in the following pages have taken many years, sometimes decades, to get to where they are now. They have been buffeted by natural disasters, economic volatility, occasional social turmoil and rising numbers of young men and women with unmet expectations. Results are not achieved quickly; donors need to recognise that the usual three year project cycles are inappropriate for the challenges. Capacity building is required.

The purpose of this research is not to make specific policy recommendations, but to inform those working in economic development about the important lessons that come from some of the most exciting initiatives in the Pacific, and to help those who would promote such initiatives to do so more effectively.

The seeds for sustainable economic development in the Pacific lie in the lessons that come from these initiatives. The people involved deserve our recognition and support, along with those before them who laid the foundations.

Acronyms

ACTIV	Alternative Communities Trade in Vanuatu
ADB	Asian Development Bank
CDE	Centre for the Development of Enterprise
COSP	Costs of sustainable production
CRP	Comprehensive Reform Program
DARD	Department of Agriculture and Rural Development
ECF	Enterprise Challenge Fund
FLO	Fairtrade Labelling Organisation
FSA	Farm Support Association
HOAC	Highlands Organic Agriculture Cooperative
NAEP	Nucleus Agro-Enterprise Project
NASAA	National Association for Sustainable Agriculture
NGO	Non-Governmental Organisation
PIC	Pacific Island Country
PITIC	Pacific Islands Trade and Investment Commission
PNG	Papua New Guinea
POPACA	Projet d'Organisation des Producteurs Agricoles pour la Commercialisation Associative
SFTMS	Smallholder Fair Trade Management System
SSO	South Sea Orchids
VOCGA	Vanuatu Organic Cocoa Growers Association
WFTO	World Fair Trade Organisation
WIBDI	Women in Business Development Incorporated

Exchange rate table

Base Currency: New Zealand Dollar NZD on Thursday, May 20, 2010

Currency	NZD/1 Unit	Units/1 NZD
Fiji Dollar	0.7484	1.3505
Papua New Guinea Kina	0.5541	1.8953
Vanuatu Vatu	0.01471	70.966
Samoan Tala	0.5868	1.7816

Introduction

The Pacific has been hit by a series of difficult external circumstances – internal conflicts, political turmoil, a spike of basic food prices, the effects of the global financial crisis and the onset of climate change impacts. These have affected Pacific societies and their economies. However, even before these crises, the economic development base of the Pacific was weak. Historical figures from the Pacific show that exports of agriculture and food have fallen significantly while imports have risen.¹

Building a stronger economic base is crucial for the Pacific. The area is rich in natural resources, but mining and unsustainable resource extraction is no substitute for rural development – they will not provide the employment and higher incomes for the growing numbers of young men and women who are forced to leave their villages to find new opportunities to support their families and clans. Migration and seasonal labour may ease unemployment in the short term, but cannot substitute for rural development. As important as remittances are for countries like Niue, Cook Islands, Tonga and Samoa, they are not a development strategy. The Pacific needs to retain and engage its talented young men and women if it is to have a vibrant future and if it is to avoid problems of severe unemployment and rising levels of crime in urban areas. The major tragedy is the waste of the energy and creativity of the Pacific's most valuable resources – its people.

Economic development is essential for the Pacific. It is essential if the Pacific is to avoid a future of dependency on aid and remittances. It is also essential to support urgently needed investments in health care, education, clean water and sanitation, security and other vital functions of government. And it is essential if the Pacific is to accelerate social progress towards meeting the international targets in the Millennium Development Goals.

In recent years there has been an increasing donor concentration on economic development internationally. This comes after several decades of neglect of the productive sectors of agriculture; “since the beginning of the 1980s, the agricultural sector has gradually dropped down the list of priorities for Official Development Assistance (ODA), as well as that of many Southern governments. In 2006, the sector represented only three per cent of global ODA, falling to its lowest level in decades.”²

In April 2009 the Government of New Zealand implemented a new mandate and policy focus for New Zealand's ODA. The new strategic objective and mandate for NZAID is: *Support sustainable development in developing countries, in order to reduce poverty and contribute to a more secure, equitable and prosperous world.*³ There is a core focus on the Pacific and on “sustainable economic development”.

It is important to note in New Zealand's mandate for NZAID that economic development is not an end in itself. The mandate says that the purpose of economic development is “*in order to reduce poverty and contribute to a more secure, equitable and prosperous world.*” This makes it clear that the aim is to support a particular type of economic development that is of benefit to those living in poverty. Broad-based is the term that is used throughout this paper to describe economic development that involves and benefits those who are disadvantaged, vulnerable or living in poverty.

The need for economic development to be targeted towards the inclusion of those who are disadvantaged is reinforced by the emerging dualistic structures of many Pacific societies. All too often the benefits from aid and commerce are concentrated in a small, elite sector of a society clustered around the capital city, while the majority of the population live without access to essential services or opportunities for youth. As a consequence, the Pacific has some of the highest levels of inequality in the world.⁴ A greater degree of equality is not only good for poverty reduction, it is good for growth as it enables the productive resources of the largest possible section of the population to be effectively utilised.⁵ Meanwhile “the vast majority of the population of every country draws its income from the informal (and mostly agriculturally-based) sector...the

¹ Data analysed using individual country data retrieved 20 May, 2010, from www.spc.int/prism.

² Crola, J. (2009). *Aid for Agriculture: Turning Promises into Realities on the Ground*. Oxfam International Research Report.

³ Cabinet Minutes. (20th April 2009). *New Zealand Agency for International Development: Mandate and Policy Settings (Paper Three)*. Portfolio: Foreign Affairs, 13/3C.

⁴ Coates, B. (2009). *Getting Serious About Achieving the Millennium Development Goals in the Pacific: Strengthening Economic Development*. Policy Quarterly, 5(3)

⁵ Green, D. (2007). *From Poverty to Power*. Oxford: Oxfam International.

formal economy typically employs only 15 per cent of the population and is concentrated in the urban sector and dominated by the public sector.”⁶

However, when it comes to putting the NZAID mandate into action, there is a surprising lack of research on what kinds of economic development are broad-based, and even less research that is grounded in the realities of economic development in the Pacific. A few studies provide relevant material but furnish few insights into the conditions that favour broad-based economic development.⁷ The need for this research is particularly relevant to the Pacific region where, as outlined by a recent influential report from the Lowy Institute, donor governments working in the region lack a coherent policy framework for addressing the growth of the rural or informal sector of Pacific Island economies.⁸

This research project was initiated after discussions with New Zealand government Ministers and officials about the challenges facing the Pacific, and the experiences of Oxfam and other non-governmental organisations (NGOs) in facilitating economic development. This reflects the reality that, in rural and remote areas, economic development is not driven by foreign investment or the cluster of commercial enterprises in capital cities, but by NGOs, entrepreneurs and small businesses. NGOs and community-based organisations have a crucial role to play in helping create the conditions for enterprise development and the supportive relationships with growers. In the Pacific, Oxfam has nine years of experience in supporting Women in Business Development Inc. (WIBDI), one of the organisations profiled in this research, as well as a number of smaller scale initiatives in Melanesia.

The research set out to look at the experiences of a range of small enterprises (private sector or NGO) that provide tangible benefits for local communities. The approach was to survey a number of interesting organisations engaged in agriculture and rural development, with an emphasis on those that have been able to make a transition to a larger scale (although still small by international standards). The research uses the experience of these enterprises to provide insights that can help inform Pacific entrepreneurs, governments and policy makers.

The research draws on information from a wide range of organisations that were contacted, and particularly 14 that were selected to participate in an in-depth survey on the key success factors that have enabled their organisations to become established and flourish. These interviews provided the core material to draw out the themes that follow.

After profiling the organisations involved, the first section examines the unique constraints Pacific Island Countries (PICs) face when conducting business. The second examines strategies and factors that enabled enterprises to make the leap into overseas markets: obtaining fair trade and organic certifications, niche marketing, value-adding, developing strong relationships with buyers, accessing market information and the role of entrepreneurs. Whilst the ability to connect with higher-value markets was identified as playing a crucial role in the success of enterprises, it did not guarantee the impacts would be broad-based. Instead, what really set these organisations apart was their ability to develop close relationships with the growers at a community level to create benefits for both producers and the enterprises themselves.

The report’s third section explores these relationships in more depth, outlining how some of the enterprises have provided producers with training and encouraged them to adopt new value-adding processes. These approaches have created economic benefits for both producers and exporters.

The final section of the report examines some of the types of funding that are currently available to specifically support broad-based economic development. All of the organisations interviewed noted that they could benefit from additional support for important economic functions such as agricultural extension, improved access to market information, ease of access through biosecurity regulations, organisation of local markets and business development training. The report calls for funding to be prioritised towards supporting organisations that are promoting broad-based economic development rather than funding to support economic development as an end in itself.

⁶ Coates, B. (2009); Hayward-Jones, J. (2008). *Policy Brief: Beyond Good Governance: Shifting the Paradigm for Australian Aid to the Pacific Islands Region*. Lowy Institute For International Policy, Sydney.

⁷ International Finance Corporation (IFC). (2010). *Economic Opportunities for Women in the Pacific*. Washington: IFC; O’Garra, T. (2007). *Supplementary Livelihoods Options for Pacific Island Communities: A Review of Experiences*. Foundation of the Peoples of the South Pacific International (FSP); Asian Development Bank (ADB) Completion Report. (Dec 2007). *PNG: Nucleus Agro-Enterprises*. ADB; McGregor, A., Watas, P. & Tora, L. (Nov 2009). *The Vanuatu Organic Cocoa Growers Association (VOCGA): A Case Study of Agriculture for Growth in the Pacific*. Food and Agriculture Organisation of the United Nations (FAO).

⁸ Hayward-Jones, J. (2008).

Methodology

This research sought to identify a number of organisations that are successfully creating broad-based economic development in the South Pacific. The countries that were included in the research were: Papua New Guinea, Solomon Islands, Vanuatu, Fiji, Samoa and Tonga.

The criteria used to measure an organisation's success were drawn primarily from an earlier paper published by Oxfam on the role of economic development in supporting poverty reduction in the Pacific.⁹ The criteria are:

1. **Sustainable** – environmentally, socially, culturally, economically, and financially
2. **Broad-based benefits** – with equitable distribution of the benefits throughout the community, including for women and disadvantaged groups
3. **Appropriate** – to the culture and situation
4. **Scalable** – able to make a significant contribution to the region's resources and needs
5. **Producing a tradable product** – across distinct regions or internationally

A criterion of tradability was added to enable a focus on the internationally competitive sectors that are able to provide opportunities for growth and replication. This recognises the crucial role that traded or potentially traded goods and services have in the economy. By comparison, if a non-traded business (such as a retail store) fails, another will replace it to satisfy the local needs. But if an export business or import substituting business fails, it may never be replaced, and the foreign exchange earnings and the economic value will be lost to the economy. Enterprises competing internationally carry a particular significance in generating foreign exchange, jobs and opportunities.

The project started with a thorough literature review to identify any similar research done in the Pacific region and to learn from the wider experience of economic development promotion and its links with poverty reduction. The literature review was also used to generate a long list of potential organisations to be involved in the research. The researchers then started to compile information from publicly available sources to help determine how well each organisation met the above criteria.

Secondly, a large number of experts from agencies that promote economic development in the Pacific were invited to comment on the long list and to recommend additions to the list. Thirdly, extensive internet searches, email surveys and phone interviews were used to compile a shorter list of organisations that were best able to meet the criteria. Fourthly, experts from independent multilateral and civil society organisations operating in the Pacific were contacted again to provide objective appraisals of the shortlisted organisations. They were used to substantiate previous information and obtain new data that permitted the creation of a final short list of 14 organisations that best met the criteria for broad-based economic development.

At this point, four forestry-based organisations were excluded on the basis that there was a lack of resources available to obtain the necessary corroboration of the social benefits and ecological sustainability of forestry operations.

Since the majority of populations in Pacific countries derive their incomes from agriculture, the focus of this research concentrated primarily on enterprises within agriculture and agro-processing sectors. Follow up research on forestry, fisheries and tourism sectors would be very useful, since each has strong potential links into rural economies in the Pacific. Oxfam plans to extend the research into these sectors in the future.

Finally, an extensive phone interview was conducted with each of the 14 organisations. The interviews aimed to discuss the factors important to each organisation's success, support received, and main problems faced. Interview responses were compared and contrasted across the organisations and examined to draw out common themes that had significantly impacted on the organisation's ability to create broad-based economic development. The final report has grouped these themes under a number of headings and sought to link them with previous research on broad-based economic development in the Pacific.

A draft of the report was shared with the 14 organisations and relevant experts to ensure that respondents had an opportunity for input into the final paper.

⁹ Coates, B. (2009).

It is important to note that this research is not setting out to establish the 14 organisations as “the best” in the Pacific according to any set of criteria. The selection was influenced by factors such as whether organisations responded to initial enquiries, whether they agreed to participate and whether there was information that allowed a basic verification of the organisation’s experience.

Since this research was conducted from Auckland, it misses some of the organisations that are producing and processing locally to substitute for imports. These organisations tend to have a low international profile, limited internet exposure and have little contact with donor agencies or governments. Yet their production makes a major difference to the trade balance of Pacific countries, particularly the larger economies such as Papua New Guinea (PNG), Fiji and Solomon Islands.

Despite these caveats, it is clear that these 14 initiatives are interesting and exciting, and are providing tangible benefits to people in rural areas, as well as contributing to the wider economy. They are, in many cases, serving as inspirational examples for development that can provide important lessons and support for others to follow. Above all, this research is about their experiences and their stories.

Organisational profiles

The following section provides a short profile of each of the 14 organisations that were assessed to best meet the criteria. These organisations were then interviewed and it is their experience that provides the basis for this report.

Alternative Communities Trade in Vanuatu (ACTIV)

ACTIV is an NGO based in Port Vila, Vanuatu, that aims to “empower the disadvantaged and marginalised people of Vanuatu: socially, economically and environmentally, through the concept of fair trade.”¹⁰ The organisation was officially registered in February 2008. It consists of three components: ACTIV Forum, which connects rural people with traditional skills to local and international markets in an equitable way; ACTIV Community, which assists disadvantaged Ni-Vanuatu small producers through skills transfer and capacity-building projects; and ACTIV Earth, which develops and coordinates social and environmental projects aimed at improving the livelihoods of the rural communities in Vanuatu.

ACTIV provides assistance in value-adding development, promotion and sale of handicrafts and agricultural products (cocoa, nuts, oils and jams) produced by over 3000 individuals. The interviews were conducted with Sandrine Wallez, the President of ACTIV. Some current activities include: the creation of ACTIV Ltd as the business platform to promote and retail products to the corporate and consumer markets; creation of the ACTIV website (www.activ.com.vu); organisation of three fair trade exhibitions in Port Vila, assisting organic and fair trade certification for cocoa, acting as trade facilitator for the export of 259 tonnes of cocoa, completing a national inventory of handicrafts production (AusAID) and the distribution of 2500 solar lighting modules to eradicate kerosene in household lighting (AusAID).

Bris Kanda

Bris Kanda is a rural enterprise development programme established to promote economic growth in the rural areas of the Huon Gulf District, Papua New Guinea (PNG). It is fully funded by NZAID and was formed in August 2006. It is a legally constituted association that aims to reduce poverty and vulnerability in the Huon District through improved and sustained income generation. This will be achieved by promoting a business-enabling environment and entrepreneurial skills and practice among rural men, women and youth in Salamaua, Wampa and Morobe local level government areas while preserving traditional value and practices.¹¹

Bris Kanda believes that the private sector is the engine of growth in the District, but a successful private sector requires effective partnering with both government and civil society to harness all capabilities and resources in the district. The interviews were conducted with Lukis Romaso, the General Manager. Prior to starting, Bris Kanda commissioned a market linkages and business analysis study and a livelihood analysis study, which identified cocoa, fish farming, coffee and eco-tourism as priorities for economic development in the area.¹² They are currently working with around 1500 cocoa growers and are distributing seedlings to a larger group. Current activities include: working with a variety of organisations to provide business skills and agricultural training to improve quality, quantity and consistency of production, as well as assisting cooperative development when appropriate. Their website is www.briskanda.org.pg.

Farm Support Association (FSA)

FSA is an NGO that has been working in Vanuatu for over 30 years, providing agricultural extension services to a variety of organisations. Their work includes: spices development, sustainable agriculture, poultry programmes, working horse programmes, erosion control and improving planting material. This work includes a contract with Venuei Vanilla to maintain the organic certification for the Vanuatu Spice Network – Venuei Vanilla’s network of 300 spice producers, which are spread over Vanuatu’s islands. FSA received funding from POPACA¹³ for seven years for the development of the Spice Net. The interviews were conducted with Charles Rogers, a director of FSA.

¹⁰ Alternative Communities Trade in Vanuatu (ACTIV). (2009). *Annual Report 2008/09*.

¹¹ Bris Kanda. (2007). *Strategic Plan 2007-2010*. Retrieved 16 Dec, 2009, from www.briskanda.org.pg/.

¹² Bris Kanda. (2008). *Bris Kanda News*, Issue 2. Retrieved 18 Dec, 2009, from www.briskanda.org.pg/.

¹³ POPACA is an EU funded project; Projet d'Organisation des Producteurs Agricoles pour la Commercialisation Associative.

Highlands Organic Agriculture Cooperative (HOAC)

HOAC is a cooperative spread over an area of 500 square kilometers in the remote Eastern Highlands Province of the Okapa Region of PNG. It was founded in 2004 and the cooperative achieved Fairtrade Labelling Organisation (FLO) certification in 2005. An exporter called Coffee Connections funded the registration of the cooperative and the Fairtrade certification. Coffee Connections employs 12 representatives from the cooperative who each look after operations in 3-5 villages. Each village is comprised of around 20 family units, each with 10-12 households.

HOAC also has National Association for Sustainable Agriculture (NASAA) organic certification. The cooperative consists of 2006 members, who are mobilised into 300-400 family units supporting around 12,000 family members. In 2009, they sold 600 tonnes of coffee to Coffee Connections. All members are village growers who tend small plots and individually process the coffee in their villages, following organic and sustainable practices. The interviews were conducted with Daniel Kinne, the Chairman of HOAC.

Origins Pacific Ltd. (OPL)

Origins Pacific Ltd. is a Fijian-owned and operated company involved in the production of virgin coconut oil and low temperature coconut oil for local use (resorts, spas and supermarkets) and export markets (New Zealand and Taiwan). OPL is based in Suva, Fiji with two production areas on the outer islands of Moala and Taveuni. They operate in a rural village set up, where family communities are stakeholders in the mill, and are involved in all levels of production. They emphasise that their virgin coconut oil is not just a premium natural product; it also supports the livelihoods of indigenous village communities.

OPL currently employs 15 staff and has 28 suppliers of coconuts in three villages. They are aiming to implement value-adding processes wherever possible at the village level. OPL plans to diversify into coconut water, coconut vinegar and coconut flour. The interviews were conducted with Peni Drodrolagi, a Director of OPL. Their website is www.originspacific.com.fj.

Pacific Spices Ltd.

Pacific Spices is based in Vunakanau, near Rabaul in East New Britain, PNG and comprises of growers, buyers, processors and exporters of herbs, spices and essential oils. Their main emphasis is on developing value-adding in the villages and working more closely with farmers and farming communities. Pacific Spices assisted 218 producers in the Komgi Community to achieve NASAA and USDA organic certification and also works with 1500 other conventional producers in East New Britain, New Ireland and Bougainville.

Their first five year plan (1999-2004) focused on: consistent purchasing at farmer level and quality control; setting up purchasing, processing and export of cardamom; increasing awareness and farmer confidence; establishing central facilities; and market research. Their second five year plan (2005-2009) involved: addressing the issue of small quantities through sale of high quality, packaged spices; connecting farmers to higher-value markets; increasing local value addition; marketing products with organic certification; and diversifying the income base for small farmers.¹⁴ The interviews were conducted with Ian Sexton, a founder of Pacific Spices. Their website is www.pacificspices.com.pg.

Paradise Spices (Puritau Ltd.)

Paradise Spices is a family run company that has been involved in the agricultural sector since 1987, exporting spices, vanilla and indigenous nuts. The main processing site is in Port Moresby, PNG and their main brand is called La Laura. Around 30 per cent of their product is sold domestically to local supermarkets. They work with approximately 2500 farmers spread throughout PNG and fly their produce from remote communities to the central facility for final processing.

Current activities include providing farmers with access to markets through assisting with producer training, marketing, implementing value-adding in villages and helping growers meet quality standards. They believe

¹⁴ Arek, T. (2005). Development of Pacific Spices: A Small Producer, Buyer and Exporter Spice venture. *Development Bulletin*, 67: 19-21.

that their key success factors include assisting farmers to value-add in villages, allowing them to pay above-market prices and establishing a strong network of smallholder growers throughout the country in the last ten years. The interviews were conducted with Micky Puritau, the owner of Paradise Spices.

Pure Fiji

Pure Fiji is a bath and body products manufacturer that caters to the spa and salon industry and exports beauty products to niche markets in Australia, Europe and the USA. Gaetane Austin and her daughter Andrée founded pure Fiji in 1995 and started producing their products around the kitchen table.

Their products are based on local traditions with raw materials and handicrafts supplied by more than 600 craftswomen and men in rural communities and assembled into a final product in their factory in Suva, where they employ 80 people, mainly women. Products sourced from local communities include baskets, nuts and hand-made paper. There is a significant focus on community development and environmental sustainability. An emphasis has been put on high-value luxury goods, with recent requests from large discounters like Walmart being resisted. The interviews were conducted with Gaetane Austin. Their website is www.purefiji.com.fj.

South Sea Orchids (SSO)

Aileen Burness and her horticulturalist husband Donald established South Sea Orchids in 1996 in Nadi, Fiji. SSO is a business that aims to assist village women to earn incomes through floriculture and they have managed to support approximately 240 women across Fiji to become floriculturists through helping them to access finance, training and markets.

Grower members of SSO bring their cut flowers to the wholesale market on their designated day and at the end of the month the growers are paid for the previous month's delivery at predetermined prices. SSO has provided growers and the florists with a stable market, which has enabled significant growth in floriculture and resulted in improved livelihoods for growers. SSO also earns additional income by offering eco-tours of their beautiful flower gardens to tourists. The interviews were conducted with Aileen Burness.

Tinopai Farms

Tinopai Farms was established in 1994 in Tonga, and mainly exports taro and coconuts. They have developed markets in Australia, New Zealand and Japan for value-added coconut products, such as coconut oil moisturizer, and are the largest exporter of coconuts in Tonga. Their products are completely natural, with no pesticides used in production.

Tinopai Farms employs 16 full-time staff and purchases coconuts from around 150 small farmers who bring their coconuts to the factory on selling days. Tinopai Farms has invested significant resources into developing a stable supply chain to meet requirements of international buyers. They intend to expand into frozen taro and kumara chip production in the future. The interviews were conducted with Pousima Afeaki, the owner of Tinopai Farms.

Venui Vanilla

Venui Vanilla is based in Vanuatu and was established in 1987 by Piero Bianchessi. Initially, his main interest was vanilla production, but his passion for tropical agriculture soon led him to begin cultivating other spices with a focus on sustainable farming practices, advanced processing techniques and quality standards. Venui Vanilla represents the Vanuatu Spices Network, a group of around 300 producers, organically certified by AgriQuality, spread over seven Vanuatu islands and organised with the help of the Farm Support Association (FSA).

They employ 6 full-time staff. The growers conduct first stage processing of the spices and the final processing is done in Venui Vanilla's tailor-made processing facilities. The average farm size is 0.3 hectares. Venui Vanilla has a reputation for producing some of the highest quality spices in the Pacific and is able to access high-value gourmet markets in Australia and New Zealand. The interviews were conducted with Piero Bianchessi. Their website is www.venuivanilla.com.

Vanuatu Organic Cocoa Growers Association (VOCGA)

VOCGA was established in 1989 and is an umbrella cooperative for ten primary processing cooperatives that supply organically-certified dry cocoa beans. Each primary cooperative operates one or more centralised fermentaries, and there are now 25 fermentaries in the VOCGA network. Each of these primary cooperatives operates as a separate registered entity that has its own management committee. All together the cooperative has 1,205 members from 25 villages. Exports of organic cocoa commenced in 2006, with 400 tonnes exported to France. All of the members are organically certified by ECOCERT.

VOCGA is under contract to supply to a French buyer, Kaoka who provides extensive support to VOCGA including: paying for their organic certification, providing a CEO for VOCGA and developing cash flow management systems that allow cash on delivery for growers. The interviews were conducted with Pierre-Chanel Watas, the CEO of VOCGA.

Volcanic Earth

Volcanic Earth is a Vanuatu-based manufacturer of natural, organic skin care products specifically developed to provide safe solutions to consumers around the world who suffer from skin conditions. Volcanic Earth sources its raw materials from various locations in Vanuatu and is currently extending its manufacturing and processing facility in Port Vila due to the continued growth in exports. They have been developing their highly-differentiated, chemical-free skin care products and traditional skin treatments since 2004, with a particular focus on locally produced tamanu oil, virgin coconut oil, volcanic ash and volcanic pumice.

Volcanic Earth employs ten full-time staff, one part-time employee and casuals as required. Their latest initiative involves the establishment of a small coconut oil factory in Port Vila to provide high-quality, virgin coconut oil. Instead of directly employing the five young ni-Vanuatu men who work in the factory, Volcanic Earth set about assisting one of them, Donald Hokau, to obtain his own business license so he could then employ the other four young Ni-Vanuatu men in his team. Volcanic Earth is now in the process of negotiating strategic distribution deals for exporting to Australia and elsewhere. The interviews were conducted with Barry Roche, the Export Manager of Volcanic Earth. Their website is www.volcanicearth.com.

Women in Business Development Incorporated (WIBDI)

WIBDI is an NGO based in Samoa that works in a number of areas: the development of organics both nationally and regionally; providing microfinance services as a tool for developing family financial literacy; assisting handicraft makers; production of fine mats; and supporting fair trade and organic certification for a number of products. Their vision is that rural farmers and the most vulnerable people in Samoa are able to contribute to the development of themselves, their families, their communities and their country through income generation, job creation and participation in a village economy.

WIBDI has assisted 350 farmers to obtain organic certification through NASAA in a range of products including vanilla, honey, Misiluki bananas (known as 'lady finger' bananas) and virgin coconut oil. Around 15 extended families also produce and export organic virgin coconut oil through The Body Shop's Community Trade Program. Additionally, WIBDI is working with the Tindall Foundation to develop the export of organic Misiluki bananas to New Zealand. WIBDI plays a national role in assisting other organisations to obtain organic certification and is a member of the Regional Organic Task Force (ROTF), which aims to encourage the development of organics in the Pacific. The interviews were conducted with Adi Maimalaga Tafuna'i, a founder of WIBDI. Their website is www.womeninbusiness.ws.

The longer list

These organisations were by no means the only interesting enterprises identified during the research. Some other promising organisations that were of smaller scale or unable to participate include: Titikaveka Growers Association from the Cook Islands, Niue Island Organic Farmers Association, Vanuatu Kava Store, and the Foundation for Rural Integrated Enterprises and Development in Fiji. We hope that this report will encourage others to extend the research and include some of the smaller and less visible enterprises that also have important lessons to offer.

Section 1: Overcoming inherent constraints

Pacific enterprises face significant challenges relative to larger international competitors. Pacific countries are very small, located a long distance from international market hubs, and generally have limited communications and business infrastructure. In addition, most of the Pacific faces other constraints common to many developing countries such as low education levels and skills base. Agriculture is characterised by smallholder farmers, many of whom are located in remote areas. This limits the potential for exploiting economies of scale and makes the job of ensuring consistency of supply more difficult.

It is therefore unsurprising that the Pacific finds it difficult to compete internationally in commodity markets or as a low-cost producer. Empirical studies have shown the above factors can combine to produce a significant cost disadvantage for smallness and remoteness.¹⁵ On average across the PICs, the impact of just some of these constraints means that exporters are facing the equivalent of an 11.9 per cent tariff.¹⁶ Interviews found that these constraints are a daily reality for Pacific businesses, and the challenges they present should not be overlooked or underestimated.

Yet many Pacific businesses have managed to thrive within this environment. This is both a tribute to their skill and a result of their strategies that seek to minimise the Pacific's disadvantages and build on the Pacific's unique strengths. The Pacific has an exotic image; agricultural fertility coupled with low levels of pests, diverse and rich cultural heritage, sustainable and organic farming traditions, unique arts and crafts and resilient communities founded on strong extended families and clan cohesion. The organisations involved in this study demonstrate how successful Pacific enterprises are implementing innovative solutions to overcome challenges, while drawing on the advantages inherent in the Pacific's characteristics in order to excel within world markets.

Some of the specific constraints facing the enterprises profiled in this research and strategies for overcoming these challenges are outlined below.

Communications

Communications infrastructure plays a crucial role in connecting organisations with overseas markets through improving the flow of information from markets to producers. It allows organisations to develop relationships with overseas traders and consumers and access funding opportunities. Organisations such as Paradise Spices invest considerable time searching the internet for markets, organisations and connections. Similarly, Volcanic Earth is heavily reliant on the internet to market its products. The organisation has a website and uses sophisticated techniques to draw people there. Recently, tamanu oil from Vanuatu, which is Volcanic Earth's signature product, featured on a popular television show in the United States as the best natural acne cure, reaching millions of potential customers. Because of Volcanic Earth's established website, when consumers subsequently Googled "Vanuatu, Tamanu Oil", Volcanic Earth came up as the first four hits, leading people to Volcanic Earth's website and resulting in a significant increase in orders.¹⁷

In addition, telecommunications can play a vital role in the efficient operation of agribusinesses that depend on remote rural communities to supply their product. Recent improvements in mobile phone services in many Pacific islands have transformed the activities of several organisations. For example, Vanuatu Organic Cocoa Growers Association (VOCGA), Paradise Spices and Pacific Spices all rely on mobile phones to communicate market and production information to their growers. Both spice companies claim that their increased ability to communicate with growers using satellite mobile networks has enabled greater consistency of produce supply.

Despite improvements, communications in the Pacific are still expensive and of poor quality, along with being unreliable, which impacts the competitiveness of Pacific businesses.¹⁸ For example, Pacific Spices is located in a remote area in the Highlands of PNG and has found that poor internet and phone connections

¹⁵ A recent report from the New Zealand Institute cited the disadvantages of size and remoteness as an explanation for New Zealand's poor export performance. If this is true for New Zealand, it is far more significant for PICs. See Winters, A. & Martins, P. (2004). When Comparative Advantage is not Enough: Business Costs in Small Remote Economies. *World Trade Review*, 3(3): 347-83.

¹⁶ Factors used to calculate include: time for document preparation, inland carriage and handling, inland customs and terminal clearing. See Nathan Associates Inc. (Dec 2007). *Pacific Regional Trade and Economic Cooperation: Joint Baseline and Gap Analysis*. Nathan Associates Inc: 16.

¹⁷ See Volcanic Earth's website: www.volcanicearth.com/.

¹⁸ Nathan Associates Inc. (Dec 2007).

have hindered their communications with overseas buyers. Similarly, Daniel Kinne, Chairman of HOAC, has noted that when they were obtaining their Fairtrade certification, the lack of internet access in his community meant that he had to rely on his exporter, Coffee Connections, to relay information. To email the cooperative or Daniel, it is still necessary to contact him through Coffee Connections, highlighting the lack of internet access in the region.

Further contributing to the problem of poor communications infrastructure is a lack of information technology training in areas such as website maintenance. A majority of the organisations profiled have websites of decent standard, showing a clear recognition of the potential of the internet to improve access to markets. However, except for Pure Fiji and Volcanic Earth, which have more advanced online marketing campaigns, none of the organisations are able to use their websites to sell their products directly to consumers. Most organisations had external support to set up a website and typically, once the organisation or individual who helped to create the website left, there was no one to maintain or upgrade it.

Improvements in communications infrastructure and skills would help create tangible economic benefits for these organisations, helping them to better understand and learn from overseas markets and strengthen their relationships with producers.

Transportation

The high cost of transportation reduces the competitiveness of many Pacific organisations, preventing them from expanding their access to markets. A variety of challenges in the Pacific contribute to the high cost of internal transport including small, remote islands only accessible by expensive sea transport and areas with non-existent, dangerous or impassable roads, such as the Highlands highway in PNG.¹⁹ Inter-country transport is also subject to a high cost structure with expensive air and sea freight, despite low backloading.²⁰

For example, in Vanuatu, Venuei Vanilla found that even when consumers seeking to buy gourmet pepper were able to contact them by email, the high cost of air freight prevented the sale from taking place. Piero Banchessi, owner of Venuei Vanilla, noted that while it was profitable to send goods with a high value-to-weight ratio such as vanilla by air freight, it was not economically viable to sell lower value-to-weight goods such as pepper. Limited availability of air freight is a Pacific-wide problem.

Similarly, Paradise Spices has found roads are too deteriorated for economic use and instead fly their produce from the remote villages in the Highlands to their factory, even though they consider PNG freight to be one of the most expensive in the world. In addition, Pacific Spices (which also works in PNG) has found the remote location of farmers, combined with poor roads, has limited their business significantly. The impact of poor transport on exporting is supported by research showing that inland carriage and shipping accounts for 15 days of export time in PNG while accounting for no more than four days in other PICs. Indeed, by itself the cost of inland transport in PNG has been calculated to be the equivalent of imposing a 37.2 per cent tariff, a large disadvantage when compared to a 1.4 per cent tariff equivalent in China.²¹

Organisations in the Pacific have used a variety of methods to overcome the high costs of transportation. Many of the organisations interviewed have found that value-adding in the village can reduce the weight of produce, helping to reduce transportation costs. Furthermore, Bris Kanda, HOAC, Paradise Spices and Pacific Spices each spend their own money and work with their communities to improve the roads. They would all benefit from investments to improve the roads in their regions.

Trade barriers

Trade barriers can play an important role in preventing Pacific producers from making the leap into overseas markets. Across the Pacific, quarantine compliance for exports to Australia and New Zealand has been found to be "one of the most formidable barriers for food exports."²² In the past the Pacific exported significant quantities of fruit and vegetables; however, increasingly stringent quarantine standards have

¹⁹ Nathan Associates Inc. (Dec 2007): 12-15.

²⁰ Backloading means using the extra space on ships/planes on their return trip. This often occurs in the Pacific due to the high volume of imports and low volume of exports.

²¹ Nathan Associates Inc. (Dec 2007): 14.

²² Nathan Associates Inc. (Dec 2007).

contributed to a decline in Pacific agricultural exports.²³ While quarantine requirements are necessary to prevent the spread of pests, some regulatory actions are more restrictive than necessary. More support should be given to Pacific producers to help them meet the standards within their production systems and achieve compliance prior to export. The costs of failing to meet biosecurity requirements on arrival in the destination country are high.

Quarantine regulations have impacted a number of the organisations interviewed. For example, South Sea Orchids said they are unable to export to New Zealand because there is no quarantine protocol for flowers from the Pacific Islands, while Venui Vanilla says that there is no way to send small amounts of ginger to Australia. Charles Long Wah, owner of the Kava Store, notes that in Vanuatu there are no laboratory testing facilities. Given that Venui Vanilla's average shipment size is 100 kg, they have found that it is not economically viable to test every small shipment, as they would have to use expensive overseas testing facilities. Venui Vanilla indicated that they would like to see a more standardised approach and user-friendly quarantine services that help Pacific exporters to access these important markets. Lastly, Tinopai Farms noted that the biggest constraint to their expansion is the quarantine regulations of Australia and New Zealand. Pousima Afeaki, owner of Tinopai Farms, said, "it doesn't matter what export market opportunities are available, we can't expand due to quarantine regulations."

Many organisations interviewed have begun using value-adding processes to overcome quarantine constraints, as often the value-added product is not subject to the same regulations. For example, Tinopai Farms has found that it is much easier to export coconut oil rather than raw coconuts because there are no quarantine restrictions on coconut oil.

The forthcoming negotiations on the Pacific Agreement on Closer Economic Relations (PACER) potentially provide an opportunity to address trade barriers that constrain exports from the Pacific.²⁴ The New Zealand government has signalled that it is willing to step outside the framework of a World Trade Organisation-compliant free trade agreement in order to forge an agreement that will support the Pacific's development. This is denoted by the term PACER Plus being used to describe such an agreement.

An agreement that has the Pacific's development priorities at its core would help remove technical barriers to Pacific exports and allow Pacific governments to retain the flexibility to use targeted policies to boost exports, improve the supply to domestic markets and add value to their natural resources.²⁵ It could also provide predictable and additional funding for vocational training and economic development infrastructure, support for key sectors and commitments to expand migration and seasonal labour opportunities. The majority of organisations surveyed had only limited information with regard to the upcoming negotiations, despite the fact that the negotiations could have significant impacts on some of their enterprises. The adoption of a standard 'Free Trade Agreement' model would pose significant risks for Pacific economies, particularly for producers supplying domestic markets. This highlights the need for extensive national consultations with key stakeholders in the Pacific at this early stage in the negotiations.

Inconsistent supply

Limited and erratic supply from growers in the Pacific Islands is a major challenge to securing export markets. Organisations interviewed were often unable to meet basic importer demands for consistent and sustained shipments, which has also been highlighted in other studies.²⁶ The Pacific Islands Trade and Investment Commission (PITIC) notes that it is a regional problem and is one of the main reasons organisations fail to access overseas markets.

Through developing a strong interdependent relationship with growers that mutually benefits both parties, producer organisations such as Pacific Spices, Paradise Spices, Volcanic Earth, South Sea Orchids and Tinopai Farms have each developed innovative strategies to overcome irregularities in supply from growers.

For example, Pacific Spices has partially overcome this problem by offering growers higher prices and a consistent market. When organisations provide consistent long-term markets, growers are able to invest in planting extra produce that may take years to mature. Pacific Spices found that a consistent and reliable

²³ Calculations made from individual country data, retrieved 10 May, 2010, from www.spc.int/prism.

²⁴ Braxton, N. (2009). *PACER Plus and its Alternatives: Which Way for Trade and Development in the Pacific*. Oxfam New Zealand briefing paper

²⁵ Braxton, N. (2009): 17.

²⁶ Nathan Associates Inc. (Dec 2007).

price provides a stable income and allows expansion of production, which brings greater consistency of supply and long-term development to the community.

Some organisations have found that their growers will only work for a certain period of time in order to satisfy their immediate cash needs for essential school fees and important cultural events. To overcome this erratic supply and be able to meet the demands of international buyers, Paradise Spices and Volcanic Earth are using warehouses to build up stockpiles.

Finally, Tinopai Farms, Venui Vanilla and WIBDI are seeking to expand the number of growers they work with to minimise the risk of disruptions to supply. In contrast to most of the organisations that work directly with producers, Venui Vanilla has used FSA to develop a network of growers, called the Vanuatu Spice Network, which enables them to ensure a consistent supply. Tinopai Farms purchases coconuts from locations on opposite ends of the island to reduce vulnerability to weather-based supply inconsistency.

In some cases organisations seek to develop regional networks in order to provide security of supply. For example, WIBDI is looking to promote organic production in Samoa's neighbouring countries to ensure that they are able to maintain their supply in the face of natural disasters such as tsunamis or cyclones.

These innovative techniques demonstrate the ways that Pacific producers are overcoming limitations and adapting their businesses to enable them to meet the demands of international markets.

Section 2: Accessing higher-value markets

The starting point for most Pacific producers of agricultural products is supply for the local market. Local markets allow organisations to gain experience while avoiding the high cost of exporting from the Pacific. This study, by focusing on the potential for larger scale production and employment, concentrates on export-orientated enterprises. However, it is important to note that the majority of the Pacific's rural population earn their cash from local markets and there are also opportunities for Pacific enterprises in displacing imports and developing higher value production in sectors such as tourism.

For example, WIBDI has not only developed export markets but is also organising domestic sales of organics grown in Samoa to compete with high-end imported food products. The organisation runs fortnightly organic markets and sells organic baskets of fresh produce weekly. WIBDI is also developing stronger links between organic growers and local hotels, restaurants and conferences. Similarly, ACTIV has been able to sell large amounts of handicrafts produced by its network of women's groups at local markets in Vanuatu.

While such local markets are typically quite small, they provide a springboard that can help producers make the leap to overseas markets. For example, Paradise Spices is reliant on local sales to ensure a stable income base, providing a large amount of spices for major supermarkets in PNG. This has given them the confidence to begin exporting small quantities of vanilla beans and vanilla extract to a variety of countries. This pathway of learning through import substitution first, while gaining the skills and experience to compete in export markets, is a common way for small enterprises across the developing world to grow.

However, most Pacific islands have small populations with low levels of income, and enterprises need to look abroad to find growth and higher-value opportunities. Organisations such as ACTIV have found they have quickly outgrown local demand and now need to access new markets to continue providing their handicraft producers with a steady income. Due to high production costs, Pacific enterprises cannot compete with low-cost commodities produced on a significantly larger scale. Whether exporting or competing with imports, the more successful organisations covered in this survey have adopted strategies that allow them to compete through adding value to raw materials.

This is achieved through a range of approaches, including internationally-recognised certifications, production for niche markets, skilful international marketing, and forging strong relationships with overseas and domestic buyers. These strategies are enabling Pacific organisations to make use of their distinctive natural advantages and earn the higher prices that enable them to be competitive with larger-scale producers.

South Sea Orchids: *South Sea Orchids (SSO) has supported approximately 240 women across Fiji to become floriculturists and access finance to start their businesses. SSO trains women to grow flowers and then buys the flowers from them to sell to florists, all under the SSO label. They are easily able to compete with imported flowers as their flowers sell for \$2 Fiji dollars whilst imported flowers are often as much as \$15 Fiji dollars. SSO believes that supply from villagers will eventually outgrow the local markets and they intend to export to other PICs and New Zealand in the future. This is a good example of a Pacific organisation accessing high-value local markets by replacing expensive imported goods and subsequently using this as a springboard for future exports.*

Making the leap to overseas markets: Niche marketing

Niche marketing involves the use of branding and other forms of product differentiation in targeting specific market segments. As with other strategies discussed above, it has the potential to improve Pacific organisation's access to higher-value overseas markets and achieve higher prices.

The Pacific brand

Using the common perception of the Pacific as an unspoilt, unique and exotic paradise, organisations such as Volcanic Earth and Pure Fiji have been able to differentiate their products in overseas markets. They have used innovative marketing to draw the attention of the media and consumers to Pacific culture and their products. Volcanic Earth notes that they are not in the business of selling naturally-organic skin care products in a world of homogenous skin care competitors, but rather they sell "exotic chemical-free ethical bio solutions for specific problem skin conditions." They have developed their marketing position by promoting the natural resources of Vanuatu and traditional Melanesian skin care treatments. Similarly, Pure Fiji asks its customers to "discover the South Pacific secret for beautiful skin and hair...Pure Fiji brings you the best of these traditional blends for today's natural bath and body care."²⁷

The Pacific brand can be used in conjunction with more specific single-origin marketing techniques to further differentiate a product. For example, Kaoka, a French chocolate manufacturer, is about to launch a single-origin Vanuatu chocolate made solely with cocoa produced from VOCCA. They will market this chocolate by emphasising the unique characteristics of Vanuatu's cocoa beans.

Volcanic Earth has also been able to make full use of its limited resources through innovative marketing strategies such as writing articles for magazines and newspapers like the Vanuatu in-flight magazine, giving them free exposure to consumers who are looking for a uniquely Pacific product. Similarly, Fiji Water uses the Pacific brand to market its "natural artesian water". Their website notes that "There's no question about it: Fiji is far away. But when it comes to drinking water, 'remote' happens to be very, very good."²⁸ The use of the Pacific brand can play a significant role in differentiating Pacific products in often-crowded markets.

Quality as a marketing position

The quality of the products that are produced in the Pacific can play a significant role in determining which markets organisations are able to access. Producers of low-quality products often find they are unable to meet the strict requirements of overseas markets, whilst average-quality products are often unable to compete due to the need for high production levels and economies of scale that don't exist in the Pacific. However, producers of high-quality products are often able to access niche markets, characterised by high-value, low-volume products.

The Pacific climate provides enterprises with an advantage in producing high-quality products in many agricultural industries. Several of the organisations interviewed were able to harness this advantage and work with producers to create high-value produce. For example, Venui Vanilla, according to PITIC, produces some of the best quality vanilla in the world. FSA notes that Venui Vanilla is able to produce such good vanilla due to their provision of agricultural training and because Venui's dominant position in spice exports has allowed them to maintain high quality standards. This is common in the Pacific, where organisations often work with remote communities with limited access to alternative markets.

Venui Vanilla has been able to use its focus on quality to turn its low production volumes into an advantage. It is able to sell organically-certified vanilla to niche, gourmet markets where it commands a significant price advantage over conventional vanilla. In 2009, the organisation was able to sell organic, first-grade vanilla for 3000 Vanuatu Vatu (NZ\$44)/kg and non-organic vanilla for 2500 Vanuatu Vatu (NZ\$37)/kg. Due to the high quality of the vanilla, both of these organic and non-organic prices are 30-50 per cent higher than world market prices.

Recognising the importance of quality in improving livelihoods, the Pacific Cooperation Foundation is working to see if a quality mark for the Pacific is feasible, with the aim of supporting access for Pacific exporters to higher-value markets in New Zealand and other countries.

²⁷ Pure Fiji Website. Retrieved 15 Jan, 2010, from www.purefiji.com.fj.

²⁸ Fiji Water Website. Retrieved 25 May, 2010, from www.fijiwater.com.

Venui Vanilla & Farm Support Association: *Venui Vanilla has been working with the Vanuatu Spice Network for over 15 years, employing the Farm Support Association (FSA) to undertake agricultural training, maintain the Internal Control System for organic certification and develop in-village value-adding. FSA regularly travels to various islands to give hands-on assistance to agricultural producers. FSA helps these producers to provide a consistent supply of high-quality spices and maintain their organic certification. As a result, Venui Vanilla produces some of the best vanilla in the Pacific, enabling the organisation to ensure high prices and a long-term market for growers.*

Making the leap to overseas markets: Certifications

Certifications can play an important role in assisting organisations to gain access to overseas markets. They provide an opportunity to differentiate products from other large-scale commodities. Certifications can be seen as a marketing tool to establish long-term supply relationships and obtain higher prices. There are a wide variety of certifications used in the Pacific, but the main ones discussed fall into two categories: Organic and fair trade.²⁹ The following section will outline some of the advantages and disadvantages of each form of certification, while also discussing constraints and recent developments.

Fair trade certifications

There are currently two bodies providing fair trade certification in the Pacific: The Fairtrade Labelling Organisation (FLO) and the World Fair Trade Organisation (WFTO). These provide producers in the Pacific with the opportunity to access rapidly-growing niche markets. Currently the Pacific has only a few certified producers but there is potential for a significant increase and substantial economic development benefits.



Fairtrade Labelling Organisation (FLO) certification

The aim of Fairtrade labelling is to connect disadvantaged producers with consumers, promote fairer trading conditions and empower producers to combat poverty and take more control over their lives. This is achieved through the certification and labelling of products under the fair trade standards, a set of agreed environmental, labour and developmental criteria.³⁰ The labelling of products with the Fairtrade logo allows consumers to identify products that meet the fair trade standards.

To receive Fairtrade certification, producer organisations must meet a minimum set of standards and be prepared to undergo and pay for regular audits.³¹ A key element of the standards is governance: to comply, growers must be prepared to organise into producer organisations that have a democratically-elected board and general assembly. Once producers have obtained Fairtrade certification they can receive a range of benefits.

The benefits of FLO certification

The most well known benefit of FLO certification is the fair trade minimum price. The fair trade minimum price protects farmers from volatility and ensures they receive a price that reflects the costs of sustainable production. In addition to the minimum price, fair trade producer organisations also receive a fair trade 'social premium'. A fair trade organisation's general assembly, in which each member has one vote, then chooses which community development project the premium will be spent on.

²⁹ Within forestry, Forest Stewardship Council certification is also becoming increasingly common.

³⁰ The Fairtrade Labeling system is overseen by a standard setting body, FLO International, and a certification body, FLO CERT. For more information on Fairtrade Standards, see www.fairtrade.net.

³¹ Successfully meeting these standards leads to the granting of Fairtrade certification for a three year period during which the producer organisation will undergo two surveillance audits and then a renewal audit at the end of the three year period. In addition, traders, wholesalers and manufacturers are also audited to ensure that at least the Fairtrade minimum price and Fairtrade premium is being paid to certified producers and to maintain supply chain traceability. The audits are conducted by FLO-CERT, an independent body. The cost is calculated on the number of audit days required, which depends on the size of the organisation.

The fair trade system encourages long-term relationships between producers and importers or processors, and often results in cutting out the role of middlemen. This allows longer-term investments and higher prices for producers, while resulting in equal or only slightly higher costs to consumers. Fairtrade certification also requires organisations to meet an extensive list of standards that help to establish greater equality, participation and transparency, which can have a positive impact on minority groups and gender equality within many agricultural cooperatives.

The benefit of Fairtrade certification is greater when the product is both fair trade and organic, a common situation with fair trade producers.³² For example, the Oceania fair trade minimum price for conventional bananas is NZ\$0.73/kg, whilst the fair trade minimum price for *organic* bananas is NZ\$0.91/kg. This organic price differential provides significant benefits, accounting for more than half the fair trade economic benefit from the fair trade coffee imported into New Zealand in 2007 and 2008.³³ By guaranteeing that producers will receive a higher price for their organic produce, Fairtrade certification makes it easier for producers to cover the costs of maintaining organic certification. This is particularly important in the Pacific as most of the agricultural produce from rural communities is grown using traditional organic methods and could benefit from organic certification if it were to be exported.

Highlands Organic Agricultural Cooperative: *Like all FLO-certified cooperatives, Highlands Organic Agricultural Cooperative (HOAC) receives the fair trade minimum price and fair trade social premium, as well as an organic price differential. An exporter, Coffee Connections, which purchases all of HOAC's coffee, provided the initial funding for the cooperative and the Fairtrade certification. For a cooperative like HOAC, the initial certification cost was NZ\$7350 for the first year and NZ\$5150 for each subsequent year. It took HOAC two years to establish their cooperative and achieve Fairtrade certification. Now the fair trade minimum price provides stability for HOAC farmers and allows them to earn a decent income by ensuring they receive at least NZ\$2.14 per pound, the current minimum for organic, fair trade coffee, even if the market price falls below that. HOAC also receives an additional premium of ten cents per pound, which the cooperative spends on agricultural training, education, healthcare and transportation projects.*

In addition to the fair trade minimum price, social premium and organic price differential, FLO-certified organisations receive other benefits such as long-term contracts, access to export markets through fair trade networks and the opportunity for pre-financing.³⁴ The fair trade market for coffee in New Zealand grew by 53 per cent in 2008, demonstrating the potential benefits of being able to access fair trade markets.³⁵

Difficulties with FLO certification in the Pacific

While many of the organisations involved in this research expressed interest in achieving certification in the future, they highlighted a number of difficulties that prevent them from applying. The fact that only four organisations in the Pacific have managed to achieve Fairtrade certification through FLO – and all are coffee producers in PNG – demonstrates these difficulties.

Firstly, the costs of certification are high relative to the scale of production in most Pacific countries. Many of these problems stem from the fact that whilst FLO was created to help small and disadvantaged producers, the size of small producer organisations in other regions is large relative to those in the Pacific. Fair trade minimum prices differ around the world because various regions have different costs of production. When a fair trade price is created for a particular region it aims to cover the costs of sustainable production (COSP) for the specific product (including the cost of maintaining Fairtrade certification). A lack of fair trade prices set for the Pacific region in many categories means that fair trade is not economically-feasible for Pacific producers.

³² It is common because organic certification requires that an internal control system be established to audit the farmers, whilst Fairtrade certification requires producers to be organised into small producer organisations, worker unions or with an NGO or exporter under the contract production standard. This makes obtaining a second certification easier as all the producers are already well organised and have regular communication structures in place.

³³ Fair Trade Association of Australia and New Zealand (FTAANZ). (2009). *Progress Report: Linking Asia-Pacific Producers with Fair Trade Markets in Australia and New Zealand*. Appendix 1: Internal Briefing: Tackling Poverty Through Trade: 15.

³⁴ This research does not cover these benefits in greater detail as only one of the organisations interviewed had obtained Fairtrade (FLO) certification. For more information see www.fairtrade.net.

³⁵ Fair Trade Association of Australia and New Zealand (FTAANZ). (2009). *Tackling Poverty Through Trade*.

For example, preliminary calculations using the worldwide fair trade price for vanilla show that individual organisations must be producing at least seven tonnes for Fairtrade certification of vanilla to be financially sustainable, which is more than the total of the Pacific's supply. This is the minimum production that would be able to cover the costs of obtaining and maintaining Fairtrade certification. Clearly, a higher fair trade minimum price needs to be set for Pacific vanilla.

In addition to the costs of obtaining and maintaining the certification, there can be substantial pre-certification costs, as producers typically have to make a number of changes to meet fair trade standards. Often this work is conducted with the help of NGOs who can provide the long-term support and cultural understanding to assist producers to make the required changes.

The Fair Trade Association of Australia and New Zealand (FTAANZ) aims to promote and build the fair trade movement, support producers in the Asia-Pacific and develop the fair trade market in Australia and New Zealand. They have recognised the problem of high costs and small production scale in the Pacific, and have identified some solutions to help Pacific organisations access Fairtrade certification. This includes defining a specific minimum price for the Pacific to cover the costs of sustainable production. So far, minimum Pacific prices have been established for bananas, cocoa, sugar and coconuts.³⁶ Although not widely known, producers can also now apply for certification of any product for which fair trade standards exist, even when a fair trade minimum price has not been issued. Once they apply, FLO has a period of 12 months to define the specific pricing.

A second problem is that certification requires the formation of democratic producer's organisations. This is likely to be a more intractable problem than cost. A large number of organisations work with family-based or clan-based producers and find that this is more suitable to the Pacific. However, in most regions of the world, producer organisations take the form of membership associations or cooperatives. There is a long history of failed attempts to create cooperatives in the Pacific despite the potential benefits that can be achieved through pooling production for transport and processing or sharing the costs of improvements. Given this turbulent history, additional external support for cooperative formation and improved integration of extended family and clan structures may be needed for cooperatives to be more widely adopted in the Pacific. This point is discussed further in the next section.

FTAANZ has recognised this as an important issue in the Pacific. In their 2008 progress report they noted that since "most farming groups in Small Island Developing States (SIDS) are essentially extended families and clans that work through a system of relationships and respect, most producer groups cannot comply with the requirement of democratic organisational structures."³⁷ Furthermore, they note, "considering the concept of democratic organisations is foreign to producer groups in SIDS, it is not realistic to expect them to adapt their traditions to join the Fairtrade system, which they are in need of."³⁸ As a result of FTAANZ's advocacy, FLO has sought to address this issue by recently approving a new set of standards for the Pacific called "Contract Production Projects" which will cover a wide range of products in the Pacific. These standards allow small producers who are not yet democratically organised to obtain Fairtrade certification if they have a partnership with a promoting body (such as an exporter or NGO). It should be noted, however, that the standards are designed with the end aim of getting all the growers to eventually form small producer organisations such as cooperatives, with the time frame for this process decided on a case-by-case basis.

With these improvements, the FLO system now looks more feasible for Pacific producers. However there is still a need for more Pacific product standards and lower certification costs for small producers. Moreover, greater external support is required for the formation and integration of cooperatives with extended family and clan structures.

³⁶ Pacific minimum prices remain to be set for other major products, but due to the significant cost involved in the COSP research, this will only occur once there is sufficient demand from producers. These Pacific fair trade minimum prices have been set to take into account the smaller production levels and higher costs of sustainable production in the Pacific and they should allow Pacific producers to cover the costs of certification. The fair trade price is able to be revised and new COSP studies done if producers are finding the price is too low. Encouragingly, WIBDI, which is on track to obtain the first Fairtrade certification in Samoa, believes that the recently established Pacific minimum price for coconuts has been set high enough to make Fairtrade certification financially sustainable for them.

³⁷ FTAANZ. (2009). Appendix 1: 15.

³⁸ FTAANZ. (2009).



World Fair Trade Organisation (WFTO) certification

WFTO membership does not result in a fair trade label on individual products. Instead, it endorses the whole organisation as operating under fair trade standards, including all of its products and services.³⁹ This means that there are no individual product minimum prices or premium. It provides an alternative to artisan cooperatives, groups and businesses that are unable to meet FLO requirements due to the complexity and variation of their products and processes. Furthermore, there are no requirements for the formation of democratic producer's organisations.

Alternative Community Trade in Vanuatu: *Alternative Community Trade in Vanuatu (ACTIV) is now in the process of obtaining WFTO certification, which is expected to take three months. They are applying for WFTO certification because their organisational structure and main product (handicrafts) are not suitable for FLO certification. Given their annual turnover in 2008 was less than NZ\$185,000 they will pay around NZ\$515 a year for WFTO membership and monitoring costs. This is significantly less than FLO certification, which would cost them around NZ\$2900 a year. ACTIV has been unable to find an export market for its handicrafts and the organisation is optimistic WFTO membership will help. WFTO certification will also provide them with access to other higher-value markets: TradeAid in New Zealand has given them a letter of intent to begin importing cocoa value-added products (cocoa butter, powder and chocolate) once they obtain the certification.*

The main criticism of the current WFTO system is that it doesn't allow organisations to place a fair trade logo on each individual product. In response to this criticism, WFTO is developing a new certification system called the Smallholder Fair Trade Management System (SFTMS). This new system will certify the whole organisation as fair trade, whilst also enabling producers to label individual products with the WFTO Fair Trade label.⁴⁰ Once the SFTMS certification system is finalised it will provide the opportunity for more Pacific organisations to derive significant economic benefits from fair trade certification.⁴¹

Women in Business Development Incorporated & The Body Shop's Community Trade Programme: *The Body Shop is a multinational corporation that operates a fair trade program called Community Trade. This program is similar to WFTO in that it seeks to certify that a whole organisation is operating under fair trade principles. A long term partnership is developed with an organisation and comprehensive initial auditing is undertaken to ascertain if fair trade principles are being followed. Women in Business Development Incorporated has established a Community Trade program with The Body Shop that involves around 15 families producing organic, virgin coconut oil. These producers are paid a premium price for their oil. It is estimated that for each batch of 100 coconuts processed into oil, producers can receive two to three times what they would receive for copra. The success of Community Trade in Samoa, and its similarities to the principles of WFTO highlights the potential of WFTO certification to bring significant economic benefits to Pacific producers.*⁴²

³⁹ The WFTO Fair Trade standards are verified through self-assessment, mutual reviews and in the case of any complaints or issues, external verification.

⁴⁰ There will still be no externally set minimum prices or premium under the new SFTMS system. However a documented procedure will have to demonstrate how a "fair price and wage" and "social dividend" was agreed upon with relevant parties.

⁴¹ There are currently 12 WFTO members going through the SFTMS pilot process internationally. One of these has successfully completed, and now labels individual products with the WFTO Fair Trade label.

⁴² Community Trade standards are benchmarked against FLO and the Ethical Trade Initiative standards. See Kad, S. & Weir, T. (2008). Virgin Coconut Oil as a Tool for Sustainable Development in Outer Islands. *Pacific Economic Bulletin*, 23(3): 50-62.

Organic certification

Organic certification provides further opportunities to access niche markets internationally. Organisations interviewed noted that their farmers already grow produce using traditional organic methods, and organic certification offers a way for them to capitalise on this practice overseas. There are several natural advantages in the Pacific, including low levels of pests and disease, good climate and traditional growing methods that do not involve pesticides.

The benefits of organic certification

Organic certification allows producers to achieve higher prices that can result in significant economic benefits. Garibay and Jyoti found that the price premium for organic spices could be as much as 30 per cent higher than the conventional price.⁴³ Indeed, organic certification has allowed Pacific Spices to increase the prices its growers receive for cardamom by almost 30 per cent from 6 PNG Kina/kg to 8 PNG Kina/kg. Similarly, by conducting quality surveillance, providing extension services and obtaining organic certification, VOCCA has been able to provide growers with a price of 174 Vatu/kg for their dry coffee beans. This is significantly higher than the 120 Vatu/kg provided by a competing non-organic cooperative in Vanuatu.

Adi Maimalaga Tafuna'i, the Executive Director of WIBDI, notes that organic certification can also assist organisations that typically do not have large production volumes to make the leap to overseas markets. This is important in the Pacific as producers are typically low-volume and unable to compete in high-volume commodity markets mainly supplied by large players with low cost structures.

Additionally, organic certification allows organisations access to entirely new markets. For example, organic certification drove Pacific Spices to produce essential oils, as there was no market for non-organic oils. Similarly, in Samoa there is only a very limited local market for Misiluki bananas and WIBDI has used organic certification to market them to organic food stores in New Zealand.

Women in Business Development Incorporated and organics: *In Samoa, organic certification is well advanced. In 2006 the National Organic Advisory Committee was created, chaired by the Prime Minister in order to support and promote organic farming. Women in Business Development Incorporated (WIBDI) has helped nearly 350 farms become organically certified through the National Association for Sustainable Agriculture and is a key member of the Regional Organics Task Force. WIBDI believes that organic certification allows Pacific producers to utilise traditional methods of growing to achieve higher prices, whilst protecting the environment. To access higher value overseas markets, WIBDI facilitates the sale of organic virgin coconut oil to the Body Shop and is currently trialing the export of organic produce to New Zealand. Domestically, WIBDI runs a fortnightly organics market and provides organic produce to local hotels and restaurants, while simultaneously educating the Samoan people about the health benefits of locally-grown organic produce.*

Difficulties with organic certification in the Pacific

Organic certification does not require producers to have democratic governance, but organically-certified organisations are required to maintain an Internal Control System (ICS). This is a database that allows for easy auditing and tracing of produce.

In the Pacific, the costs of maintaining an ICS are relatively high due to travel costs combined with scattered and small-scale farms. For example, Venui Vanilla works with 300 small producers spread over more than 80 islands in Vanuatu. The costs associated with the inter-island travel between these small farms are considerable. Similarly, Paradise Spices is currently undergoing organic certification but has found organising the growers to be very expensive, due to the necessity of air travel to access remote areas for meeting and training farmers. Furthermore, Pacific Spices and Venui Vanilla have both mentioned that a significant obstacle to involving more growers is the funding required to maintain and expand the ICS.

⁴³ Garibay, S. & Jyoti, K. (2003). *Market opportunities and challenges for Indian organic producers*. Research Institute of Organic Agriculture and AC Nielsen ORG-MARG.

In addition to the cost of the ICS, organisations also pay a certifying body to conduct regular annual audits. For example, WIBDI pays NASAA NZ\$15,000 annually for the certification of 350 organic farmers and five processing sites. Where there is a group certification covering a number of growers, the auditor checks the ICS and then conducts a sample of field visits to verify its accuracy.

Organisations interviewed commented that it was difficult to navigate and understand the complex certification process, which takes on average 2-3 years. It requires understanding and completing large amounts of documentation, mostly in English, making certification inaccessible for most growers without the help of experienced intermediaries. For example, HOAC mentioned that they relied on their exporter, Coffee Connections, to help them understand the certification process. HOAC's chairman Daniel Kinne said that it was necessary to have formally-educated management and board members who could understand the large amounts of information involved with obtaining certifications. He noted that many of the smaller organisations in the Pacific would find it difficult to navigate the certification process without any external support.

Organic price differential: *A crucial difference between organic and Fairtrade Labelling Organisation (FLO) certification is that FLO certification ensures that a significant part of the organic benefits are passed on to growers through the set organic price differential. For organisations that do not have FLO certification, it depends on who owns the organic certification and their social conscience as to how much of the organic price differential is passed on to growers. In the Pacific, and particularly in remote areas, many of the growers are only able to access a single buyer and since they do not have a collective voice, they have little influence over that buyer. This means the buyer is able to dictate how much the growers receive for their produce and is able to enforce organic standards, even if the grower is not receiving a higher price. For example, if the organic certification is funded by an exporter, it is possible only a small amount of the organic price premium will be passed on to growers. Despite this possibility, the organisations we interviewed said they were passing on most of the organic price differential to their growers. In PNG, Pacific Spices told us they give the organically-certified growers a higher price for their organic coconut oil. They said this encourages the growers to produce in greater quantities and provides a platform upon which quality improvements can be made.*

Making the leap to overseas markets: Value-adding

Value-adding is any activity or process that increases the value of a product in terms of the price received for it. Generally this involves a transformation from raw commodity into processed product. An example is processing raw coconuts into coconut oil or coconut-based moisturiser.

Value-adding to agricultural produce can help organisations make the leap into higher-value markets. By implementing value-adding processes, an organisation can transform raw agricultural crops into products that can be differentiated by their characteristics and brand. This allows exporters to target high-value markets and command a higher price. Not only does this result in greater returns, but it also enables diversification away from reliance on raw agricultural exports, which often provide limited income for remote farmers and leave them vulnerable to fluctuations in world commodity prices.

The majority of people in the South Pacific live rurally and are involved in agriculture. While mostly for subsistence purposes or local sales, agricultural products make up a significant percentage of the Pacific's total exports.⁴⁴ However, the use of value-adding is limited in the Pacific and two thirds of PIC agricultural-based exports are commodities – mainly coffee, sugar, coconuts and cocoa.⁴⁵ Within these large international raw commodity markets, small PICs are unable to influence world prices. They compete with the low cost structures of producers in larger countries that do not have the high transportation costs and other constraints that Pacific organisations face. As a result, Pacific producers receive low returns for their labour. It is no surprise that many of the Pacific's remote and rural communities are suffering from a rising incidence of poverty.

⁴⁴ When extractive industry exports from PNG are excluded, agriculture makes up a significant percentage of the Pacific's total exports. See Braxton, N. (2009): 10; Bell, W. F. (2009). *Organic Agriculture and Fair Trade in Pacific Island Countries*. Natural Resource Management and Environment Department, Food and Agriculture Organisation of the United Nations (FAO).

⁴⁵ Nathan Associates Inc. (Dec 2007).

Reliance on the export of agricultural commodities also leaves producers vulnerable to changes in international markets and climatic conditions. This was demonstrated when large numbers of rural communities and a significant portion of Pacific economies depended on what turned out to be temporarily high prices for agricultural products such as squash, vanilla and nonu, and then were severely affected when prices eventually crashed.⁴⁶

Benefits of value-adding

Value-adding in the Pacific leads to diversification away from raw commodity dependency and enables Pacific producers to move up international supply chains, receiving a higher percentage of the final sales price. Furthermore, value-adding can encourage the transfer of technology and skills into the Pacific, which ultimately educates and empowers Pacific communities.

Many of the organisations interviewed are value-adding in order to transform produce into processed or finished goods such as agro-foods or cosmetics. For example, coconuts are a major export for a number of PICs, but raw coconuts bring relatively small returns and, among the organisations studied, generally provide only supplementary incomes for families.⁴⁷ Organisations such as Volcanic Earth, Paradise Spices and WIBDI have increased the value of coconuts by combining value-adding with innovative marketing around the medicinal values unique to pure virgin coconut oil. However, Pacific Spices has taken a different approach. Their strategy is to increase the value of coconuts by creating new additional products out of coconut waste materials. Rather than just selling oil made from coconut flesh they have also developed: *coconut coir* – used for matting, rope and soil erosion; *coco pete* – used as a natural product for nurseries; and *coconut flour* – used as a low fat cooking product or animal feed. The result is a much higher return from each coconut.

Organisations have also used value-adding to access new markets. Pacific Spices has been able to sell varieties of spices that were not previously marketable by processing small quantities into high-value essential oils. Before they developed essential oils, spices that grew naturally in the area, such as petulie, lemongrass, citronella and mint, went to waste. Now that communities can see the value of these commodities and have a stable market to sell to, they have begun to invest in growing these as cash crops and are selling essential oils in larger quantities. Other organisations such as Tinopai Farms, Paradise Spices and Pacific Spices have identified simple value-adding processes to better utilise products abundant in their communities, making things such as chips, frozen sliced taro, calophyllul oil, instant coffee and cocoa butter.

As well as enabling businesses to sell products at higher prices, value-adding can also help to reduce costs. Given the extensive number of constraints that organisations face when doing business in the Pacific, cost reduction is often the main motivating factor for implementing the first value-adding processes.⁴⁸ For example, they might implement drying methods to reduce the weight of produce and cost of transportation, while simultaneously increasing quality and storage life.

Developing value-adding processes

Value-adding requires technical knowledge, expertise and a significant investment of resources to develop processing facilities. Pacific businesses often do not have the capital to invest in product research and development. As a result, knowledge around how to process commodities into higher-value products is often transferred through relationships with downstream processors or other similar businesses. For example, Pacific Spices approached their international buyers to learn about other value-added spice products they could make.

Organisations have found that ongoing engagement with regional and international networks can play an important role in developing relationships that facilitate the necessary knowledge transfer. An example is Origins Pacific, which developed its virgin coconut oil technical expertise during visits to WIBDI in Samoa. Peni Drodrolagi, the owner of Origins Pacific, made this contact through the Regional Organics Task Force. Other organisations noted that they were hindered by the absence of networks in their sector. Flexible

⁴⁶ Nathan Associates Inc. (Dec 2007).

⁴⁷ Nathan Associates Inc. (Dec 2007).

⁴⁸ Coates, B. (2009).

networks in different product categories would facilitate greater communication and sharing of ideas across organisations in the Pacific.

Donor agencies have often been catalysts of value-adding in the Pacific, providing organisations with technical knowledge. For example, the Centre for Development Enterprise employed engineers to assist Pacific Spices in the design and development of their first oil-pressing machine. Since then, Pacific Spices has been able to adapt this design to create a variety of processing machines.

Yet even where organisations possess the necessary expertise and have identified a profitable market for a new value-added product, limited access to capital is a major factor preventing organisations from adopting these processes. Theresa Arek, managing director of Pacific Spices, aptly explains the situation many Pacific organisations face: “Commercial banks are becoming more reluctant to fund agricultural-based development projects, particularly when they are pioneer ventures such as the production of essential oils. Assistance with the purchase of a 50,000 PNG Kina dryer can in fact change the entire marketing and supply potential of a company. The need for private companies to receive assistance from donor organisations in the form of new technology and equipment is becoming more apparent.”⁴⁹

Tinopai Farms: *Tinopai Farms started as an exporter of high-quality raw coconuts from Tonga. The Commonwealth Secretariat approached Tinopai Farms with the idea of producing virgin coconut oil and then provided the technical training and equipment to implement value-adding processes. Subsequently, Tinopai Farms has developed coconut processing facilities that transform bags of raw coconuts, which sell for NZ\$1.84, into liters of virgin coconut oil, which sell for NZ\$8.10 each. They have adopted further value-adding processes that transform a liter of oil into five liters of moisturizer, which fetches a far greater price. Furthermore, the oil is made from coconuts that were previously rejected as too poor in quality for exporting. In this case, value-adding has enabled a high price to be paid for coconuts that were previously worth nothing. However, value-added products make up just ten per cent of Tinopai's revenue because their products are undifferentiated and consequently they are challenged by competition from large international brands such as L'Oreal. In contrast, Volcanic Earth and Pure Fiji have highly-differentiated products and are able to sell large quantities of coconut-based moisturisers in high-value niche markets.*

Making the leap to overseas markets: Key success factors

Organisational strategies to gain a market position and better prices through certification, niche markets or value-adding are important to a number of successful Pacific enterprises. In addition to these strategies, there are also enabling factors that are shared across many successful enterprises. These include the role of exporters and NGOs in helping producers to access overseas markets, the importance of overseas travel to develop long-term relationships with buyers and the importance of the entrepreneur.

The role of exporters & NGOs in linking growers to markets

Agriculture in the Pacific is typified by a large number of geographically-dispersed small growers, generally operating in family or clan-based systems of production. They typically rely on local markets and, in some cases, are able to sell in the larger markets located in towns or cities. Making the leap to overseas markets is impossible because of high transportation costs, along with constraints around language, communication infrastructure, education, delivery times, reliability of supply, limited access to financial services and a host of other factors. Few farmers in remote islands or rural areas are able to find and develop direct relationships with international buyers.

Growers need the support of exporting businesses or NGOs to develop market links on their behalf and communicate market standards back to growers. Where organisations have successfully developed these market links, growers have been able to increase their production and income significantly. Organisations such as Venuei Vanilla and Pacific Spices noted they have been able to revitalise their respective industries by developing strong relationships with buyers and linking growers to these overseas and domestic markets. Without the trusted intermediaries, farmers are forced to accept low prices for their production from opportunistic buyers.

⁴⁹ Arek, T. (2005): 19-21.

Pacific Spices noted that before they were established growers had abandoned their plots and were reverting back to subsistence farming due to a lack of market access. When Pacific Spices first arrived in the Komgi district of PNG, growers told them they needed an intermediary to help them sell to international markets. Theresa Arek from Pacific Spices noted, "For a small private company such as Pacific Spices to maintain the level of development it has achieved to date and so maximise the return to smallholder farmers, it must bridge the growing gap between market standards and the reality at farmer level."⁵⁰ As a result of their strong relationships with international buyers, Pacific Spices have now provided their growers with a stable market and consistent price, which has formed the basis of a growing cash-crop spice industry in the area.

In some cases, NGOs rather than companies have provided the international links. For example, in Samoa, WIBDI has developed an organic, virgin coconut oil industry, significantly increasing the returns to growers through their Community Trade programme with The Body Shop. Whilst there are significant differences in risks and motivation between for-profit exporters and NGOs, both have important and complementary roles to play in the supply chain between growers and commercial markets.

In the Pacific, women often have very limited access to markets because of traditional gender roles. NGOs, as well as some private businesses, have played vital roles in helping women to develop businesses and link into high-value international and domestic markets. This has been particularly successful in handicrafts, where often only women possess traditional craft skills. For example, ACTIV approached several women's craft groups that now make up their network of 300 handicraft producers. They provide training and market information by using wooden stencils to communicate to artisans the sizes, styles and designs that appealed to western consumers and tourists. They assist them to transport their goods to local markets and are looking to begin exporting to New Zealand.

Importance of overseas travel

The relative isolation of the Pacific means there is considerable distance between producers and major markets, which can hinder the flow of information around market expectations such as price, quality, quantity and variety. Studies have noted that accessing market information and developing relationships with buyers requires "trade missions, participation in trade fairs, or the commissioning of market studies or export-feasibility analyses."⁵¹

Pacific Spices, Paradise Spices, ACTIV, Tinopai Farms, Venui Vanilla, Pure Fiji and Volcanic Earth each identified international trade fairs as a crucial place to develop and improve relationships with overseas buyers. Piero Bianchessi from Venui Vanilla notes, "You don't really need the stand, but to be at the fair, and to contact people, that is important." The majority of his buyers are from contacts he established at trade fairs and he believes the only way to find overseas markets is to travel there. Gaetane Austin, a co-owner of Pure Fiji, said that when they first started, her daughter and co-owner Andrée Austin regularly travelled to trade fairs to learn about market trends and what their competitors were working on. She believes that this was crucial to their success in being able to create a product that was unique and tailored to the market.

However, whilst the majority of these organisations have mentioned that it is important to travel to establish stronger relationships with buyers, the cost is considerable and some have found it prohibitive.

The role of the entrepreneur

The owner or manager of an organisation plays a pivotal role in accessing markets. When this research was begun it was expected that successful enterprises would have grown as entirely Pacific initiatives. This was not actually the case, as expatriates appear to have played a crucial role in most of the organisations identified. Out of those examined, more than three-quarters are managed or owned by expatriates. But viewed another way, these enterprises have distinctively Pacific characteristics, at least partly because the entrepreneurs had strong connections with the Pacific and the countries in which they decided to start their businesses. It seems their blend of local understanding and relationships combined with their overseas experiences and networks has been crucial.

⁵⁰ Arek, T. (2005): 19-21.

⁵¹ Nathan Associates Inc. (Dec 2007): 12.

While expatriates lead many of the 14 organisations profiled in the research, the majority of the smaller initiatives identified in the research screening process are run by local men and women, which is encouraging. While the research did not specifically focus on the availability of training in management and entrepreneurship, this is likely to be important in encouraging more internationally-competitive Pacific enterprises.

An organisation's ability to develop strong relationships with buyers is heavily dependent on the communication skills of the owner/manager. An example is Micky Puritau, the owner of Paradise Spices, who travelled to India to observe vanilla and coconut-processing facilities and was able to organise the required equipment to be imported. Somewhat different are the owners of Pacific Spices, who have developed value-adding processes through innovation and trial and error, including building their own equipment.

Similarly, Sandrine Wallez from ACTIV, has been instrumental in using her knowledge of the domestic market in Vanuatu to sell the handicrafts sourced from ACTIV's network of producers. Piero Bianchessi (Venui Vanilla) and Theresa Arek (Pacific Spices) have also played key roles in instigating their organisation's trade linkages and they regularly travel to trade fairs, looking to connect with new buyers. Broadening the base of knowledge and skills is important for ensuring organisations can continue when the founder or entrepreneur is no longer involved.

Women entrepreneurs play a vital role in generating greater involvement of local women within economic enterprises. While almost every organisation identified that targeting women was important, many found it difficult to counter traditional gender structures that limit women's employment. Organisations that were most successful in linking women into higher-value markets were those owned and managed by entrepreneurial women. For example, Aileen Burness, owner of SSO, specifically targeted her enterprise to help women sell floriculture on the local market. This was difficult because women in the community had lower levels of literacy, education, business skills and very limited access to capital.

Pure Fiji: *Pure Fiji realise that the traditions and handicrafts of Fiji can have massive international appeal and they have enjoyed considerable commercial success whilst simultaneously creating livelihoods for over 600 craftswomen and men in rural communities. Pure Fiji specifically works to increase the involvement of women both within handicraft production and factory work. Gaetane and Andrée Austin's understanding of Fijian culture combined with their overseas experiences and networks has enabled them to create a uniquely Pacific success story. This is typical of the majority of the organisations in this research.*

Section 3: Improving producer's incomes

Not all economic development in the Pacific benefits the remote rural communities of disadvantaged people equally.⁵² The standard measures of sales revenues, exports or even the number of jobs are often a poor guide to the contribution that an enterprise makes to creating local or national economic development.

The processes discussed in this report as conducive for Pacific economic development, such as value-adding, marketing, market knowledge and certifications, do not guarantee that the most vulnerable receive the majority of benefits, nor that they play an active role in development (with the exception of fair trade). They also do not ensure that broad-based economic development will happen at all. There remains a need for proactive measures to create the links to, and benefits for, communities.

It is only when there is a sharing of benefits with producers and support for them to enhance productivity, improve quality, or add value to their production that producers are likely to substantially benefit. These are benefits beyond the usual business model of paying a market price to producers. It is exciting that many of the organisations involved in this research have been able to nurture grassroots economic empowerment where producers play an active role in the development of new opportunities and higher incomes.

There are some important lessons from these enterprises about how to foster economic activities in the Pacific that have broad-based benefits for rural communities. Through developing strong relationships with a specific set of producers, implementing extensive training activities and moving value-adding processes into the villages, a number of organisations have been able to create significant opportunities for large numbers of people.

The relationship between exporters and producers

The majority of organisations surveyed have developed strong, trusting relationships with their producers and have operated in the community for a considerable length of time. The strength of the relationship and the frequency of interactions seems to significantly increase the benefits that flow on to producers, such as effective support, services and training, which bring higher yields, better quality, more consistent supply and value-adding at the village level. A strong relationship also builds trust, which can enable communities to invest in larger production and greater varieties. For example, Pacific Spices highlighted that the provision of a constant and stable market has been the foundation of a very strong relationship with their producers and has enabled the community to substantially expand their production of spices and consequently their incomes.

In addition, cultural integration and regular involvement with communities enables organisations to quickly identify and solve issues, avoid problems and disputes, identify new opportunities for expanding business and help producers to be more effective. They are also able to better anticipate when supply of produce is likely to be interrupted, for example when important ceremonies take place. It should be noted that these strong bonds generally take years to develop. Eleven of the organisations interviewed have been working in their communities for more than a decade, seven for over 15 years and five for over 20 years.

A good example is Micky Puritau, the owner of Paradise Spices, who developed a strong network of growers over several years before starting his business. With producers dispersed across PNG, he has to invest substantial time to visit them, but considers this very worthwhile. Similarly, Aileen Burness, the owner of SSO, spent 14 years developing relationships with her producers and continues to spend many hours visiting them weekly to discuss various issues.

Some types of produce lead to weaker relationships with growers. Coconuts, tamanu nuts and nonu grow wild or need little maintenance, and they do not require agricultural training to increase yield or quality. As a result, buyers tend to have weaker relationships with producers and offer fewer extension services. A number of processing enterprises that were surveyed purchase coconuts from a range of communities at the prevailing price or close to it. They deal with a diverse and changing supplier base and have weak relationships with growers. There is little opportunity for increasing producer's incomes through value-adding or agricultural training.

⁵² Coates, B. (2009).

Building structures for regular communication with producers is important for developing strong community relationships. Greater communication means producers and exporters promptly discuss problems and can better coordinate and anticipate activities. For example, Pacific Spices set up satellite stations in each village where they can communicate at any time. In addition, they have a committee system whereby each community chooses a person to represent their interests and discuss issues in regular committee meetings. They believe their deep and personalised relationship with the communities gives them a significant advantage over other businesses.

Involvement of women

Empowering women can have a multiplier effect on economic development. There is a large body of evidence that shows gender inequality not only disadvantages women but can also have a negative impact on economic growth, productivity and the overall performance of the economy.⁵³ Gender inequalities can impose significant costs on societies.

In the Pacific, women play an important role in the private and informal sectors. However Pacific women are less likely to own land, they have limited access to financial and justice systems, and they can be burdened by “prevailing family, marriage, and inheritance laws and practices,” making it more difficult to partake in entrepreneurial activities.⁵⁴ Additionally, there are few opportunities for businesswomen in the Pacific to meet and network with one another.

Despite these difficulties, women make a significant contribution to PIC economies. For example, “in PNG annual food production, largely the responsibility of women, has been estimated at NZ\$79 million and in Samoa 80 per cent of the private sector is composed of micro-businesses, and women are estimated to head over 40 per cent of them.”⁵⁵ It is clear women hold considerable entrepreneurial talent and productive skills that are vital to the future of successful Pacific economic development.

Almost all of the organisations interviewed highlighted that increasing the involvement of women within the enterprise has been beneficial and is one of their specific aims. However, promoting an equal involvement of women within activities and decision-making can conflict with traditional cultural structures. Some organisations felt they had to accept and respect community traditions, meaning that the role of women within enterprises was often limited to jobs that complied with traditional gender roles such as plant nurseries, tamanu nut picking, quality control and making handicrafts.

Several organisations felt that, whilst they would like to see more women involved, they did not have the capacity to address these issues. They voiced that increasing the involvement of women was a difficult and complex challenge. For example, Paradise Spices and Bris Kanda noted that “big men” within grower groups were very resistant to the involvement of women within decision making because it threatened the patriarchal structure of their society. Furthermore, HOAC noted that while women were involved on paper, they often didn’t turn up or contribute to decision making in practice.

Despite these impediments, women in the Pacific have many skills that are currently under-utilised within economic activities and many organisations noted that involving women brought new skills and characteristics that increased success. Pacific women often hold traditional skills and knowledge such as weaving, cooking and handicrafts. Pure Fiji, WIBDI and ACTIV have helped these women turn their skills into income-generating enterprises that have, in the case of Pure Fiji, become the primary earners in the community. Tinopai Farms found women to be more effective team members and better at maintaining the machinery and Origins Pacific found that women were more reliable employees.

Several socially-conscious organisations specifically target the involvement of women because they believe it to have greater beneficial impacts on community development. Paradise Spices and Origins Pacific suggested when women receive cash, more is spent on food, schooling and medicine, which helps to develop a stronger community. Organisations such as SSO, ACTIV and Pure Fiji have emphasised the transformational effect this can have on the status of women within their families and societies.

⁵³ World Bank. (2001). *Engendering Development: Toward Gender Equality in Rights, Resources and Voice*. World Bank Policy Research Report. Washington DC.

⁵⁴ IFC. (2010): 1.

⁵⁵ IFC. (2010): 2.

A key strategy used by organisations to foster greater involvement of women was development of training activities specifically targeted to equip women with the necessary skills that are preconditions for involvement in entrepreneurial activities.

The structure of producer groups

Having decided to develop a strong relationship with their producers, organisations can work with them through a variety of structures. In the Pacific, extended families and clans are typically made up of a number of individual households. Tradition dictates that the head of the extended family or clan is the final decision maker, and therefore producer group structures that diminish the role of the extended family or clan have often been culturally unsustainable. Successful structures have typically developed over a long period and reflect an ongoing process of training and learning between the producers and the exporting organisation about what works best for the culture, community and context.

Working with individual households

Organisations such as Bris Kanda and WIBDI have found working directly with individual households to be better suited to the culture of communities they work with as it does not require a formal change in traditional decision-making processes or clash with extended family hierarchies.

For example, WIBDI has found that working with individual households provides stability, which has enabled a more consistent supply of produce and complements the Samoan cultural context, as there is an established trust within each household. A recent article examining the cultural impact of WIBDI's activities noted that it was an "enterprise that works in harmony with the cultural context of Samoan village life and contributes significantly to fa'a Samoa."⁵⁶

Many organisations have found that whilst working with households individually can be time consuming and paperwork intensive, it provides households with cash immediately and allows them to exactly track their returns, thus providing greater incentive to increase the quality and quantity of output. This structure also ensures an equitable distribution of benefits.

However, a problem with household-based grower groups is that male heads of house often receive payment for the family's produce. Consequently, while FSA noted that women conduct the majority of agricultural labour, they don't necessarily receive a fair return for their work. This problem is also common within cooperative structures.

Another challenge noted by Bris Kanda is that when compared to cooperatives, individual households have fewer resources and often find it more difficult to obtain financial support. This is why the organisation aims to build the capacity of individual households, so they can link with other households to form cooperatives or associations. Other disadvantages of working with individual households include potentially higher costs of production and a more unbalanced power relationship between the exporters and producers.

Cooperatives

The Pacific's experience with cooperatives is mixed. A number of organisations surveyed revealed that they have experienced significant difficulties when working with cooperatives and believe these are poorly suited to the Pacific's cultural structures. Most cooperatives are founded on a democratic decision-making structure, meaning individuals are given equal roles in the decision making process. This can undermine traditional hierarchies within and between clan groups, where elders and clan leaders are given greater say in decision making. As a result, cooperative structures can be difficult to sustain long-term and can stimulate community conflicts.

In PNG, a committee of inquiry established by the House of Assembly found that cooperatives often failed due to "mismanagement and incompetence of managers and directors, corruption and conflicts of interest between managers who had their own private businesses competing with the cooperative, mismanagement by colonial administrators and competition from better organised and financed private companies, who paid

⁵⁶ Cahn, M. (2008). Indigenous Entrepreneurship, Culture and Micro-enterprise in the Pacific Islands: Case Studies from Samoa. *Entrepreneurship & Regional Development*, 20(1): 11.

farmers higher prices for their produce and lower prices for inputs thereby undermining member loyalty.”⁵⁷ Many of the organisations surveyed had similar experiences with cooperative structures.

Building trust in cooperatives is crucial, particularly when the primary allegiance of the participants is to their extended family, clan or, in PNG, their wontok group. It has been difficult for cooperatives to find a chair and board who are able to command the trust of the community, have the required level of economic management and governance skills and are willing to devote sufficient time to the cooperative. Studies have found that when management lacks knowledge and business skills, it can undermine member confidence, trust and support for the cooperative.⁵⁸

Despite these difficulties, it is important to note that the collaboration of producers in some form of association can provide significant benefits through stronger bargaining power, the pooling of resources (including shared transport), easier access to capital and bank loans, joint processing and systems for quality checking. Given the small size and production level of Pacific farmers, it is important they can collaborate effectively with other farmers in order to compete with much larger international suppliers.

Producer associations can also provide longer-term price stability, avoiding the boom-bust cycles that can be destabilising and result in periodic hardship when prices fall. This requires the commitment of growers to the collective over the long term. Several of the organisations surveyed reported opportunistic buyers offering high prices during price booms, but without ongoing support or commitment when international process fell.

A key part of successful cooperatives is the strength of their management. The chairman of HOAC believes it is important to have tertiary-educated board members who are able to analyse large amounts of information and maintain the extensive documentation needed for fair trade and organic certification. Similarly, a large part of VOCCA's success has been attributed to its long-term, high-quality management, which has been quick to recognise and prevent problems from arising.⁵⁹

Vanuatu Organic Cocoa Growers Association (VOCCA): *VOCCA is an umbrella marketing cooperative under which there are ten primary cooperatives that operate centralised fermentaries. The ten processing cooperatives buy wet bean from growers and ferment it centrally. They pay 60 Vanuatu Vatu/kg of wet bean and the price is only allowed to below 55 Vanuatu Vatu if the cooperative has decided to increase retained earnings for investment purposes – this requires approval of the general assembly. The processing cooperatives are able to sell dry fermented beans for 184 Vanuatu Vatu (equivalent to 69 Vanuatu Vatu for wet bean) and use the 9 Vanuatu Vatu difference to maintain and operate the cooperative's facilities. VOCCA has a highly-developed cash management system which allows growers to be paid cash on delivery, which is often more important to them than the price received. They note that establishing local buying points has allowed growers to be rewarded for quality increases. VOCCA found that the initial support and funding from Projet d'Organisation des Producteurs Agricoles pour la Commercialisation Associative was very important in the formation of the cooperative.*

In PNG a portion of the blame for the high rate of cooperative failure has been attributed to the inadequate provision of cooperative education and, in particular, the lack of training for ordinary members.⁶⁰

Governments and external organisations can strengthen cooperatives by providing this kind of support for the cooperative managers and members. For example, Coffee Connections supports HOAC's managers by providing training for the cooperative's leaders. Similarly, Kaoka has funded a CEO for VOCCA, Pierre Watas, who has played an instrumental role in the success of the cooperative, and POPACA has provided extensive training and support to VOCCA members.

To help address the intricacies of cultural systems and increase social stability, cooperatives can be organised at a local level around extended family structures and villages. For example, HOAC, a successful cooperative in PNG, has 2006 members organised into 300-400 extended family groups. These extended family hierarchies are easy to work with as they have established leaders, transparency, trust and systems for dealing with problems. Whilst each individual household still has one vote, HOAC has sought to

⁵⁷ Mugambwa, K. (2005). The Saga of the Cooperative Movement in Papua New Guinea. *Journal of South Pacific La.*, 9: 1-12.

⁵⁸ McSwain, R. (1970). Custom, Kin and Cooperatives. *Journal of Papua and New Guinea Society*, 4: 33-46.

⁵⁹ McGregor, A., Watas, P., & Tora, L. (2009).

⁶⁰ Mugambwa, K. (2005): 1-12.

recognise the importance of the extended family hierarchy by working directly with family clusters. This has appeared to play an important role in their success and stability.

Other organisations have also noted the importance of adapting cooperatives to work within existing cultural structures. Pacific Spices only works with pre-existing cooperatives that are working well within local cultural structures and have proven themselves to be stable. Where there are no pre-existing cooperatives, they will purchase from individual families or farmers. Similarly, Bris Kanda suggested that cooperatives should only form when all members are committed, a natural leader exists and where extended families are too small to form their own group.

Lastly, there is some evidence to suggest that cooperatives are more sustainable when appropriately monitored.⁶¹ For example, the two successful cooperatives in this research undergo extensive monitoring and support. Coffee Connections and the fair trade and organic certification bodies monitor HOAC and Kaoka, while EcoCert, an organic certifier, monitors VOCCA. This helps to demonstrate transparency and reduce mistrust.

Producer training

Organisations that have developed strong relationships with producers have been able to invest for the future and generate increased income for both the organisation and the community through provision of training and support.

Producer training is important in order to improve the quantity, variety and quality of produce and to move value-adding into decentralised village-based locations. This results in significant economic benefits for producers. Remote Pacific communities often lack access to modern agricultural techniques, crop disease prevention, new higher-yielding varieties of seedlings, business training and knowledge about the kinds of goods that final markets demand. While the advent of mobile phones and satellite-based rural email has helped isolated producers receive some market and production information, they are still disadvantaged by the limited connectivity and high costs. Together with a lack of agricultural extension services, this contributes to a lack of understanding of the relationship between good farm management, higher production and income. Agricultural training can help to make these connections.

Training has also been the main tool through which organisations have increased the involvement of women in economic activities. Aileen Burness from SSO noted that Fijian women have less education and are often not privy to business and entrepreneurial lessons given by fathers to sons. Consequently they lack the basic business skills necessary to engage in entrepreneurial activities. Paradise Spices, Origins Pacific, SSO, Bris Kanda, WIBDI and ACTIV have each designed training sessions that target building the agricultural and management skills of women in order to increase their involvement in cash-generating enterprises.

Beyond the direct benefits that training can provide, the increased confidence and personal skills can create longer-term benefits, such as stimulating entrepreneurial activity and building greater community cohesion.

Agricultural extension services

Agricultural extension services can help Pacific producers meet the demands of domestic and overseas markets that generally require a stable supply of produce in relatively large quantities and high quality. Some of the constraints faced by Pacific producers can be overcome by agricultural training that helps to increase the yield, quality and consistency of supply, and enable producers to make the leap into higher-value markets. Agricultural extension services can also help farmers comply with fair trade and organic standards and maintain or achieve certification.

Organisations interviewed here have learned the importance of providing effective training within their respective Pacific cultural contexts. Producers are most receptive to training when it builds on, rather than replaces, traditional methods. Training should also be communicated in a relevant form, with an understanding of local history. Pacific Spices suggests training should try to protect traditional forms of living and farming while integrating local beliefs, customs and values into the new agricultural techniques necessary to meet market standards. Similarly, VOCCA has been able to integrate the complex Internal Control Systems required for organic certification with traditional farming systems.

⁶¹ McSwain, R. (1970): 33-46.

Alternatively, organisations such as Venui Vanilla have found it advantageous to contract an intermediary organisation, such as FSA, that is deeply familiar and highly integrated with grower communities across the islands, to provide ongoing training. FSA highlighted that growers are more receptive to learning about new skills such as vanilla fermentation, compared to basic farming techniques which they already understand. FSA also noted that training is more effective when donors contract local farming experts to administer it.

Effective agricultural training can provide a significant boost to the volume of production. For example, VOCCA has struggled to improve production levels as it has encountered problems with persuading growers to prune cocoa trees. In 2004 Cyclone Ivy caused some “radical pruning” and as a result in 2006 VOCCA achieved its peak production level. However as the farmers did not change their methods, the cocoa trees fell back into their normal state of neglect and production fell in subsequent years. This event shows the substantial benefits that could result if systematic and planned agricultural training was undertaken to improve the pruning of the cocoa trees.

Additionally, agricultural extension is crucial to maintaining mandatory high standards. For example, WIBDI's organics team provides extensive support to its producers to help them comply with organic standards and deliver products of the quality demanded by overseas markets.

Previously in the Pacific, governments provided agricultural extension services rather than NGOs or private sector groups. The organisations interviewed have found that providing agricultural extension services to producers typically requires a significant investment of time and resources, especially when farmers are dispersed across several islands or operating in remote areas. This can limit the expansion of agribusinesses, as they may be unable to provide the necessary producer training to large numbers of growers.

Bris Kanda: *Bris Kanda has identified poor quality and low productivity as major constraints for cocoa farmers in the Huon Region of PNG. Cocoa from farmers in the area is pooled and sold together through licensed cocoa fermentaries to local export buyers, but inconsistent farming methods and the lack of farm management across the region means the quality of cocoa varies hugely. As a result farmers have typically been unable to secure supply contracts with high-value international buyers. The major reason for the poor quality was that farmers lacked information about which techniques resulted in higher-quality cocoa and were unable to conduct quality checks in the field. Bris Kanda has employed local experts and encouraged farmer-to-farmer training to provide growers with techniques to increase the quality and yield of cocoa, along with implementing crop management systems that reduce vulnerability to disease. As a result of this training, average farm production levels have increased and a recent quality test on Huon region cocoa conducted by a European chocolate manufacturer resulted in some very positive feedback, increasing the likelihood that they will be able to access higher-value international markets.*

Handicrafts training

Some organisations have been able to create new livelihood opportunities through handicrafts training. This training often focuses on basic production skills and typically involves the transfer of market information about design, quantity and size. Although handicrafts generally provide only supplementary income to households, they can be empowering for the community and especially for women. Training can also restore and revive old traditions and skills, while giving women a source of independent income from work that can be conducted in the home around their community responsibilities. Creating a high-value market for such goods can increase the social status of those with crafting skills.

A good example comes from WIBDI, which has assisted women's groups from 12 villages to revive traditional Samoan fine mat weaving skills. WIBDI provides pre-financing and extensive training, while linking artisans to domestic markets, where they receive high prices for the mats due to their quality and significant cultural value. Women who traditionally had no source of income can now earn significant amounts of money for each mat, with a transformational effect on their status within families and the community.⁶² WIBDI has even found that in some cases the responsibility of housework has shifted more towards men so that women can spend more time on the fine mat weaving.

⁶² Cahn, M. (2008): 11.

An important component of successful handicrafts development is the provision of pre-financing. WIBDI found that it is very difficult for women to sustain mat weaving when a single mat takes months to create and payments are received in a lump sum on completion. As a result, the organisation now supplies a weekly income to weavers in place of a lump sum.

Another example comes from Pure Fiji, which brought papermaking experts into the community to teach a new form of crafts. Pure Fiji has contracts with local villages to purchase a steady supply of paper for packaging and this provides an alternative source of income for community members. Consequently papermaking has become the major income earner for these communities.

Setting crafters up with adequate material, as well as providing training, can be a labour and resource intensive process. Donor agencies have played an important role helping some of these organisations to provide the necessary elements to make handicrafts training successful. The Centre for Development Enterprise, for example, paid a New Zealand consultant to teach local villagers in Fiji how to make paper, while NZAID supplied the community with a generator and beater for their paper making activities. This enabled them to begin supplying paper to Pure Fiji, displacing the imported paper Pure Fiji previously purchased.

Business training, microfinance & entrepreneurial activity

Community-based business skills and financial literacy training are important activities that are helping cash-poor communities to take up the economic opportunities available in the Pacific. Studies have shown the lack of access to finance and basic business skills, such as bookkeeping, interest payments and saving techniques, prevent members of poor communities from engaging in entrepreneurial activities. A recent Lowy Institute report noted that around 80 per cent of Pacific businesses that are started never reach the establishment phase because of lack of business expertise.⁶³ It is gratifying that many of the organisations interviewed have played a vital role in broad-based development by providing communities with business training.

After identifying a wholesale domestic market for cut flowers, SSO was unable to work with rural women because they lacked access to finance and they did not have the necessary financial literacy, such as how to save for equipment purchases. SSO did not have the capacity to provide the needed skills training and consequently were only able to work with the few women who already had access to credit and entrepreneurial skills. However, SSO later received assistance from several external donors, which enabled them to provide business training and start up capital for approximately 200 women from cash-poor communities. Consequently these women now own and manage small businesses that earn between Fiji\$100-3000 per month.⁶⁴

Financial literacy provides the pre-conditions for developing more advanced business skills. WIBDI has provided microfinance services as a useful way to teach farmers basic financial skills such as saving and lending. This provides a base from which community members can become more involved in economic activities and develop further business skills.

NGOs, as well as private businesses have found providing community-based business training beneficial because skills such as bookkeeping can help to increase the transparency and stability of grower groups and also provide individuals with the skills to effectively manage their own production activities. This shifts the role of planning production from the purchasing organisation to the producers themselves, with benefits for both.

Beyond the immediate production benefits, business training can also contribute to grassroots, community-led development. Equipped with new business management skills, as well as surplus cash from increased agriculture or craft incomes, community members can invest in alternative business ventures in addition to their cash crops. These businesses expand the size of the local and regional markets, facilitating economic development from the ground upwards.

⁶³ Hayward-Jones, J. (2008). Lowy Institute Policy Brief.

⁶⁴ SSO received funding and support from Fiji NZ Business Council, Technical Centre for Agricultural and Rural Cooperation and NZAID at various stages specifically to help them provide training for involved community members. Three communities later received funding from UNDP, Pacific Islands Forum Secretariat (PIFS) and AusAID which provided the necessary finance for women in these communities to start up their floriculture businesses.

Bris Kanda: *Bris Kanda observed that a lack of bookkeeping skills reduced transparency in cocoa cooperatives in the Huon region of PNG and limited their ability to apply for bank loans. They also found that management corruption was a source of cooperative failure. Consequently they implemented management and bookkeeping training as a method to increase the stability of cocoa cooperatives in the area. Accurate bookkeeping increases transparency because it means both group members and bank managers can identify exactly the amount of cash that has come in for produce, on which specific dates, and how it has been spent or who has received the benefits. Effectively managed grower groups are also able to share and finance processing facilities such as cocoa dryers that single farmers could not afford on their own. In this way business training can help to improve producer income.*

Vanuatu Women Development Scheme is a microfinance agency in Vanuatu that assists ni-Vanuatu women to start their own small businesses by providing them with small loans. Microfinance, alongside business training, is particularly important to enable women to be entrepreneurs because they tend to have less access to financial services than men. SSO noted that it was very difficult for women within low income Fijian communities in Suva to access finance from banks to start their business unless their husbands applied on their behalf. Aileen Burness from SSO believes the recent expansion of microfinance services in the area could be beneficial for helping women to access small loans and start floriculture businesses.

Vanuatu Women Development Scheme: *Vanuatu Women Development Scheme (VANWODS) provides a supporting service rather than a tradable product and consequently was not profiled as one of the enterprises in this research survey. However it is a good example of a successful microfinance scheme operating in the Pacific that is providing financial literacy training, in conjunction with finance, which enables cash-poor Pacific communities to engage in entrepreneurial activities. Founded in 1996, it now has 2637 active borrowers. Over time they have tailored their microcredit model to fit the culture and meet the needs of communities in Vanuatu. VANWODS has facilitated the development of local markets through the establishment of micro-businesses such as sewing, fruit and vegetable growing, baking and kava stores. Around 60 per cent of the loans are used for productive purposes (i.e. income generation). Studies have shown that prior to joining VANWODS, only 28 per cent of women had a business whereas 97 per cent now own a business.⁶⁵*

Beyond basic financial literacy and business skills training, there is also need for more advanced entrepreneurial skills development in the Pacific. Expatriates are over-represented in Pacific management positions because they often have the advantage of advanced education, commercial experience and links with business networks. Young men and women in rural Pacific areas have limited access to commercially-oriented entrepreneurial skills because of the limited number of NGOs and businesses operating in these areas. This indicates a need for investment in developing local entrepreneurial and management skills.

Value-adding at the village level

In addition to training, some organisations involved in this research were able to substantially increase income and livelihood opportunities for producers by moving value-adding processes from a centralised factory into the village site. Value-adding on site enables producers to receive a higher price for their produce and provides other benefits such as longer storage life and reduced transportation costs. As a result, community livelihoods are less vulnerable to transportation delays and roadblocks that, in the past, resulted in wasted produce. In addition, through value-adding, producers have been able to cultivate and sell products that previously held no value, allowing them to access new high-value markets.

Paradise Spices has implemented virgin coconut oil processing facilities at the village level. Producers now transform coconuts that would fetch 30 PNG Kina into coconut oil that they can sell for 100 PNG Kina. The costs of producing oil and maintaining the machines are very low, and producers have been able to quickly repay the 2000 PNG Kina cost of purchasing coconut-pressing equipment.

⁶⁵Nichols, S. (July 2007). *VANWODS Social Impact Assessment*.

Furthermore, Paradise Spices helped producers develop drying processes for pepper. The corresponding increase in price has been significant. Where producers once received 2.5 PNG Kina per kilo for black pepper, they now receive 7.5 PNG Kina. Venui Vanilla in Vanuatu has seen a similar transformation in the price paid to producers for black pepper after helping them adopt new drying techniques.

As previously mentioned, transportation costs are high in the Pacific. Dried spices and oils are much lighter and take up less space than the raw produce, making them easier to and cheaper to transport. This can transform the earning capacity of remote farmers, who have to carry produce for days to get it to market. It also significantly reduces business costs for organisations such as Paradise Spices in PNG, where a lack of road access means they have to fly produce from villages to the factory. Another example comes from the remote islands of Fiji, where Origins Pacific has helped implement coconut pressing facilities in three villages. They did this because shipping coconuts from the islands is very expensive and processing coconuts into oil significantly decreased the size and weight of the produce.

Value-adding in the village develops a higher level of knowledge and skills, which empowers the community and allows them to play a greater role in their own development. On the downside, village level value-adding is resource and time-intensive compared to centralised processing and can be difficult to implement. However, the process is usually beneficial for both producers and exporters, and often occurs when farmers operate in remote areas.

Pacific Spices: *Pacific Spices is an innovative organisation that has been a leader in the implementation of village-site value-addition. They have worked with growers to create essential oils and coconut oil, as well as drying facilities for various spices. Each process has increased the price growers receive from Pacific Spices while also reducing the weight of the produce, enabling easier transportation. Drying and processing into oil enables communities to store produce for longer and therefore maintain more consistent incomes over the year. Pacific Spices also notes that many drying processes have increased the quality of the spice. Pacific Spices conducts quality checks and packaging in a centralised facility and sends the products as finished items directly to the export market. Consequently the growers receive a high percentage of the final retail price. In a recent article discussing their five-year plan, the owner of Pacific Spices, Theresa Arek, points out that, "the increase in net gain from value-addition and quality awareness will broaden the farmer's economic base at a time when economic return from agriculture is under increasing pressure." The extra cash from the producer's improved incomes has enabled families to pay for school fees and medical costs and encourages other local entrepreneurial activities.⁶⁶*

Implementing village-level value-adding

Since value-adding at the village site has played such an important role in creating broad-based economic development, it is important that we understand the lessons from successful organisations about how to encourage such developments and the conditions that facilitate village-site value-adding. Of the organisations studied, there tends to be a natural business development progression from the export of raw materials to centralised value-adding and then finally to village-site value-adding, with some important mediating factors at each stage.

In a number of cases, organisations began by dividing processing up into modules that can be conducted independently. Once sufficient finance and equipment was found they progressively moved each module out into the village site. It is important to note that it is often not possible to conduct all of the value-adding processes in the village. There is an interdependent relationship between the processing done by producers and exporters that allows cost-efficient value-adding to be conducted and quality requirements to be met. For example, several organisations encourage producers to process produce into crude oils on site, but they are later refined using more advanced equipment in the centralised factory.

In order to effectively implement village-site value-adding it is important to have a strong relationship with the community and ensure that structures are in place for regular communication. Organisations also need to provide training to producers on how to use machinery or conduct appropriate processes in order to achieve the required quality standards. Furthermore, organisations must communicate to producers the demands of

⁶⁶ Arek, T. (2005): 19-21.

the market in terms of quality, quantity and other standards, and need to be readily available to solve problems when they arise. As a result of these interactions, producers have been able to develop both their skills and a better understanding of markets. This is a source of community empowerment that can encourage entrepreneurial activities and a more active involvement with supply chains.

Community benefits

The organisations interviewed here provide a range of community benefits to their producers. These private sector organisations, cooperatives, associations and NGOs have provided a higher price, consistent market access and extensive agricultural extension services. In addition some have provided a number of community services including; financial literacy training, community development projects and access to financial, transport and communications services.

This research did not focus on a deep understanding of producer impacts but there are a number of powerful case studies that illustrate the degree to which the highlighted benefits translate into tangible improvements in the lives of growers at the local level.

For example, as a result of WIBDI's organic coconut oil project, Faiumu Faimafili's family are now all working on their organic farm and producing coconut oil for sale on domestic markets and for export to The Body Shop. Previously, their two older sons lived away from the family and worked to send cash back home for their daily needs. This would amount to less than 100 Samoan Tala (NZ\$55) per week and was not regular. The two sons have now returned home and with their coconut oil production they earn up to 800 Samoan Tala per week. The increased income has enabled the family to secure a loan to rebuild their house. They regularly sell produce at the monthly organic market and even hire people from the village to help with coconut oil production. There is a growing Samoan belief that agriculture is a legitimate way to earn money – many are now returning home to the villages, as families are able to earn a sustainable income and develop the land.

Faiumu said, "With the limited money we used to earn, we couldn't cover our water bill. After the organic market two weeks ago, we sold a lot of coconut oil and I was able to pay off the 300 Samoan Tala bill."

Faiumu's wife Faiesea added, "The biggest change is that I now know there is regular income coming in. Before, we were totally dependent on our son in American Samoa. He no longer has to send any money."⁶⁷

⁶⁷ Interview conducted by Janna Hamilton, Oxfam New Zealand. November 2007.

Section 4: Supporting broad-based economic development

External assistance has played a major role in supporting organisations in this survey to access higher-value markets and improve producer's incomes. Although there are a large number of resources businesses can use for general assistance, there are few agencies that specifically fund broad-based economic development. The majority of organisations interviewed here have received some form of general assistance. Some also received support that enabled them to access higher-value markets through targeting specific areas such as marketing, certifications and developing market linkages, whilst others received support for providing agricultural training to growers, implementing value-adding processes in villages and forming more cohesive grower's groups.

Whilst these activities can all provide support to the creation of broad-based economic development, the supporting agencies typically do not differentiate based on the degree of development impact that is likely to result from their funding. The organisations interviewed were aware of this and there was a high level of frustration that they did not receive any recognition or support for their positive development impacts.

As we have seen in previous sections, economic development efforts are likely to create broad-based benefits, particularly for the poorest communities, where support is provided for organisations that have strong relationships with growers, provide producer training and are helping communities to add value to natural resources. This has important implications for the design of broad-based economic development schemes.

For example, because of the strong relationship Pacific Spices has with the community, the assistance Pacific Spices has received from the Pacific Islands Trade and Investment Commission (PITIC) to achieve organic certification and access markets has resulted in significant benefits for 1700 growers in the Komgi region of PNG through higher volumes and better prices. Furthermore, the improved access to markets can lead to additional profits that can be spent on agricultural training and the development of further value-adding processes.

In other cases, this research finds that where organisations have weak relationships with the community, the assistance provided by PITIC and other donors has not provided the same benefits to producers. Where commercial enterprises have a solely contractual relationship with their suppliers, the benefits from improved market access may be retained by the enterprise themselves, rather than shared in the form of higher prices, training or opportunities to add value to their production.

A key implication is that the form of an enterprise matters to the achievement of good development outcomes. If supporting organisations operate with funding provided through overseas development assistance programmes, or they have an explicit mandate to support sustainable economic development, they should differentiate between the forms of organisation they support. This research finds that improved community outcomes are likely where there are strong and collaborative relationships with producers, rather than contractual purchase of raw materials at prevailing prices.

Supporting Pacific producers to obtain certifications

As detailed previously, certifications can play an important role in creating broad-based economic development through providing access to higher-value markets and ensuring the benefits are being passed on to producers.

Most of the organisations that have achieved certifications had some kind of external support through funding, help with organising growers or technical assistance. However the support was found to be limited and hard to access. Many of the organisations such as ACTIV and HOAC expressed a desire for an in-country certifying body or at least an organisation that could visit them and provide technical support. In response to these demands, FLO has now provided an in-country liaison in PNG and is looking at expanding this liaison system to the rest of the Pacific once more organisations achieve Fairtrade certification. Organic certifying bodies, such as NASAA, are also trying to develop national organic support services through NGOs and governments.

A number of NGOs play an important intermediary role in coordinating growers and providing technical support to organisations trying to achieve organic certification. In Vanuatu, Venui Vanilla pays FSA a fee to undertake all the compliance work required to maintain the organic certification. WIBDI plays a similar role on a national level in Samoa for organics, helping other organisations put together the required documentation for the Inventory Control System and pre-auditing farms to check for compliance before submitting all the required information to NASAA. There is the potential for this to be replicated in other countries. For instance in Vanuatu, ACTIV has indicated it would like to provide national organics support services.

In a number of cases, the exporting organisation assisted producers to obtain certifications. This was often driven by the need to access higher value markets and was subject to an ongoing cost-benefit analysis. For example, Coffee Connections initially funded HOAC's fair trade and organic certification and Kaoka pays for the costs of maintaining VOCCA's organic and fair trade certification.

Organisations such as the Secretariat for the Pacific Community (SPC), Centre for the Development of Enterprise (CDE) and the PITIC have also been able to help organisations meet the initial cost of certification. For example in PNG, the CDE helped Pacific Spices to navigate the organic certification process. The CDE organised an organic certification program and PITIC paid NZ\$2000 for Pacific Spices to join the program and obtain certification for around 300 producers. Pacific Spices now covers the ongoing costs of the Inventory Control System and annual audits. Similarly, in Vanuatu the POPACA project funded the initial cost of organic certification for VOCCA's 1,205 cocoa growers. These donor and intermediary organisations can play a vital role in helping producers achieve, maintain and understand the organic certification process.

Pacific Organic Standard: *There are a large number of organic certifiers operating in the Pacific and organisations have indicated that they pick the organic certifier based on its reputation in the countries that they are looking to export to. The organisations interviewed were discouraged by the fact that an organic certification may not be recognised by buyers in a different country. In response to these concerns and the opportunities presented by organics, the Regional Organics Task Force developed a Pacific Organic Standard, approved by PIC leaders in September 2008. This standard will help to harmonise certification standards across the organic industry. Furthermore the Pacific Regional Organic Strategic Plan seeks to establish a Pacific organic brand, raise awareness among stakeholders, assist research and development and strengthen national organic associations. It will assist Pacific countries to access a certification process that is common across the region, enabling both the sharing of markets and support for each other in times of natural disasters or other crises.*

Supporting Pacific producers to improve marketing

External organisations can play a significant role in assisting producers to make the leap to overseas markets by helping improve the flow of information from markets to producers.

This assistance has been crucial as many Pacific businesses simply “do not have the market knowledge to produce goods that will be attractive to consumers in Australia and New Zealand” or other overseas markets.⁶⁸ Pure Fiji, Tinopai Farms, PITIC and Volcanic Earth noted the significant amount of resources that are required to have a successful marketing campaign, including an ability to gauge market demand for goods; package and present goods in a manner consistent with consumer expectations; and price competitively. They all indicated that the extensive expertise involved in marketing products in overseas markets is hard to develop and would like to receive more assistance in areas such as packaging and labeling.

Donors and governments have both been instrumental in helping the organisations interviewed to access higher value markets. For example, PITIC has provided support to a number of organisations in this survey, including Pacific Spices and Volcanic Earth, in the form of cost sharing arrangements for overseas travel to trade fairs and to meet buyers, the provision of market information such as prices, quantities and styles, and lastly, marketing and packaging development support. Similarly, the Investment Promotion Agency, a PNG government body, has also provided assistance to Pacific Spices and Paradise Spices by setting up meetings with international buyers, providing translators and even helping explain to buyers on one occasion when Pacific Spices was unable to meet an order.

As previously discussed, these are all important factors that can be instrumental in enabling access to higher-value markets. Furthermore, external assistance with accessing higher-value markets can have significant broad-based economic outcomes if the support is prioritised towards organisations that have a high likelihood of passing the benefits onto their producers.

Supporting Pacific producers to implement village-level value-adding

Donor agencies have been instrumental in enabling businesses and producers to make the leap from value-adding in centralised facilities to village-level value-adding. Training and supporting producers requires a significant investment of time and resources, and most organisations lack sufficient capacity to provide the necessary support. Intermediary organisations and donor agencies have played an important role.

For example, FSA received extensive support from the POPACA program over seven years allowing them to provide and develop agricultural extension services for spice farmers in Vanuatu. This included teaching the farmers to undertake first stage processing of their spices. They are able to continue supporting spice farmers through charging a small fee to organisations such as Venui Vanilla for their services.

In addition to providing funding for training, donors can assist organisations to make the capital purchases necessary to allow their producers to begin value-adding. For example, the equipment Origins Pacific received from the Secretariat of the Pacific Community was pivotal in enabling them to implement coconut oil processing facilities in each of their three villages. Similarly, POPACA purchased the initial infrastructure of driers, fermentaries and storage sheds for each of VOCCA's cocoa processing cooperatives, allowing them to ferment their cocoa beans. This is an important step as the price differential between fermented and under-fermented cocoa beans is around 15 per cent. Currently, less than one-third of PICs cocoa bean production is fermented.

Pacific businesses involved in this study have also found several innovative ways to implement value-adding processes in the face of capital shortages. Often exporters such as Pacific Spices help farmers access capital for purchasing equipment by setting up reliable bank loan repayments that are automatically deducted from their monthly income, as well as by acting as a guarantor for farmer loans. Bris Kanda set a system whereby a percentage of a cooperative's sales of dried cocoa is put into a separate account which will effectively pay the cost of the cocoa fermentary. The credit is then made available for another cooperative to borrow and purchase a similar cocoa fermentary. The system self-perpetuates until all local grower groups have equipment. However, starting this system required a grant from the PNG Ministry of

⁶⁸ Nathan Associates Inc. (Dec 2007).

Agriculture to purchase these cocoa fermentaries. This grant was a catalyst that enabled many others to purchase dryers and implement value-adding processes that increased the quality and price of their cocoa.

Targeted support for broad-based economic development in the private sector

The Enterprise Challenge Fund (ECF) is one of the few organisations that have an explicit mandate to promote broad-based economic development. It has a transparent selection process that will “encourage businesses to develop business projects that will assist in poverty reduction and which would not otherwise be developed.”⁶⁹ ECF has provided support to Volcanic Earth in order to encourage them to develop stronger relationships with their growers. Volcanic Earth mainly buys raw coconuts from a diverse and changing set of growers, which has meant that they have had less of an opportunity to pass on benefits to producers by moving value-adding processes into villages. The ECF has funded Volcanic Earth with NZ\$240,000 to not only expand its processing plant but to “work more closely with village suppliers to increase supply and to provide technical support for first stage processing by these suppliers.”⁷⁰ If this is achieved it should result in stronger relationships with the producers and increase their incomes by enabling value-adding activities to be moved into the village.

Paradise Spices (Puritau Ltd.): *Paradise Spices has a strong relationship with its growers and conducts cultivation, curing and drying courses every year with farmers. The Enterprise Challenge Fund has provided them with NZ\$2 10,000 to establish a solvent extraction facility and obtain international quality standard certification, enabling them to open up new markets for 2000 growers. This is forecast to result in a doubling of the price received for vanilla. It will also fund Paradise Spices to develop a strong relationship with new sets of growers in the Abau and Rigo districts of PNG, which will lead to training programs in growing, grading and selecting beans for the new facility. Through directing funding to exporters with the aim of encouraging smallholder development, significant economic benefits can be passed on to the producers.*

Providing effective support for enterprise development is difficult and few evaluations of the impact from such programmes have been conducted. The Asian Development Bank (ADB) conducted an evaluation in 2007 on their Nucleus Agro-Enterprise Project (NAEP), which provides some insights. NAEP was created with the intention of supporting organisations working with smallholders in PNG. Overall the project cost US\$2.68 million with the PNG government contributing US\$1.13 million. The aim of NAEP was to identify appropriate projects, carry out feasibility studies and fund a large number of pilot projects.⁷¹ A nucleus enterprise was defined as an organisation working with smallholders (such as Pacific Spices), an organisation owned by smallholders (such as HOAC), or an organisation that was operated or owned by an NGO (such as MFROA⁷²). In total, 177 proposals were submitted to the project for assistance and 41 were selected for detailed project studies. Out of these the only project to actually receive any funding was Pacific Spices (approximately NZ\$250,000). They commented that the ADB funding required a substantial amount of investment before they could get the money, stretching their resources. The ADB’s validation report classified the NAEP project as “less effective” and noted there was a “negligible economic impact.”

More evaluations of the longer term impact from donor support would help provide lessons for the future. It is important that such evaluations are published and are widely available, even when the results are not favourable, to help a broader audience understand the ways in which effective support can be designed and delivered.

⁶⁹ The Enterprise Challenge Fund is a NZ\$25.6 million, six year pilot program funded by AusAID that aims to provide grants only to private sector business projects that have significant broad-based benefits and are unable to secure commercial finance.

⁷⁰ The Enterprise Challenge. (2008). *Fresh Change / Volcanic Earth Case Study*. Retrieved 10 Dec, 2009, from www.enterprisechallengefund.org.

⁷¹ ADB Completion Report. (Dec 2007).

⁷² Madang Resource Forest Owners Association (MFROA) is a small NGO working in Papua New Guinea, assisting smallholders to obtain Forest Stewardship Council certification and export their timber.

Funding NGOs to support broad-based economic development

The majority of the support for broad-based economic development initiatives has been directed towards for-profit organisations. However the role of NGOs is less widely recognised. The not-for-profit mandate of NGOs can ensure that economic development benefits are built in from an early stage, whilst reducing the risk that funds will be used for private gain rather than public benefit. ACTIV, WIBDI and FSA are NGOs that promote broad-based economic development and have nurtured strong relationships with producers. They provide agricultural training and value-adding knowledge to help producers link with domestic and overseas markets.

NGOs are often more effective than private enterprises in developing strong links with producers, particularly disadvantaged groups. For example, while businesses directed by women can be successful at involving women, overall the NGOs have greater capacity to address gender issues and give them priority within their work. This reflects the fact that NGOs are primarily focused on community development rather than profit and have greater knowledge and ability to build the capacity of community-based organisations.

Relationships between international and national NGOs are often a means to provide the grassroots support that enables a community to move from agricultural produce for domestic markets to other larger markets. International NGOs are able to use their networks to facilitate the organisation of growers and help them to develop their produce, creating the right conditions for the subsequent establishment of private sector organisations that can access higher-value markets.

For example, Oxfam has partnered with WIBDI to lay the foundations for export and scale-up to meet private sector supply chains internationally. Such long-term support has helped to build WIBDI's capacity and ensure that ongoing training and support for producers is maintained and developed alongside the demands for commercial supply. This connection to community involvement and capacity development is crucial, especially to maintain the trust of customers such as The Body Shop.

Alongside this support, WIBDI is currently part of a consortium led by the Tindall Foundation who are raising matching funding for a new company established to export bananas produced by farmers supported by WIBDI. The creation of this commercial opportunity has been made possible due to WIBDI's ongoing work in obtaining organic certification for the farmers, providing agricultural training and establishing a stable supply chain.

A major challenge for NGOs has been creating financial stability when the majority of donors will not provide funding for core organisational costs. In cases where producers are accessing profitable high-value markets, it is possible for NGOs to become financially sustainable for these specific activities by charging a small fee to cover the organisations costs, enabling them to continue providing support.

FSA for example has been frustrated by donor's insistence on funding specific projects instead of providing core funding for the association, noting that they often lose valuable staff between projects as they are unable to cover their salaries. They now charge a small fee for each development project to cover their ongoing running costs. Similarly, ACTIV has sought to remain economically viable by charging a small fee when they act as trade facilitator for cocoa cooperatives.

However, in most cases it is impossible to cover the costs for long-term support of producer development from charges on communities who have little cash. There is a strong development rationale for governments and donors to support rural livelihoods strengthening, rather than relying on a user pays approach. The benefit is not only in providing higher living standards and opportunities for youth, but also to create the foundations for the agriculturally-based enterprises surveyed in this report. This is an area where NGOs such as Oxfam can play a supportive role, recognising the need for a process of community-led capacity development over the long-term.

An example of supportive funding is an initiative of the Secretariat of the Pacific Community, Facilitating Agricultural Trade in Commodities, which funds FSA to train spice farmers on the southern islands of Vanuatu, enabling them to join the Spice Net and receive the high price paid by Venui Vanilla.⁷³

Government support for broad-based economic development

Whilst communities in the Pacific are concerned about the lack of essential services, such as education, health care and clean water, they have noted that there is also an urgent need to see government and external support for important economic infrastructure. Pacific communities require the development of internal markets, agricultural extension services, improved access to market information, minimising the disadvantages from transport and communications, and technical and business skills development training. Only a small number of organisations interviewed mentioned that they had received any substantial support from their government.

In the Pacific, the role of many governments in promoting economic development has been limited over recent decades, due to structural adjustment programs and other reforms which sought to create more efficient markets by limiting the role of the state in the economy. In some countries, these have resulted in considerably less support for the agricultural sector, the virtual collapse of agricultural extension services, withdrawal of support for agricultural information and the ending of support for smallholder marketing. These impacts are clearly evident in the Pacific, including in Vanuatu as a result of the Comprehensive Reform Program (CRP) in the mid 1990s.⁷⁴ For example, Vanuatu's beef industry saw a collapse in smallholder production from 50 per cent to five per cent as a result of the withdrawal of government support for Santo Abattoir.⁷⁵

The Vanuatu government's role in providing agricultural extension and smallholder support is still constrained by its limited capacity. While Vanuatu's Department of Agriculture and Rural Development (DARD) is continuing to provide limited support to farmers, it is still suffering from the impact of the CRP restructuring and could benefit from significant capacity building.⁷⁶

Although they cannot supplant the vital role of governments, NGOs and donors play an important role in agricultural development. They have been supported through funding programs such as the joint EU and French government program POPACA in Vanuatu, which sought to revitalise agricultural extension services and smallholder support.⁷⁷ POPACA organised producers and provided them with agricultural extension services and value-adding knowledge. It achieved this through supporting NGOs such as FSA and by working through the DARD for seven years. Interestingly, the work done by POPACA provided the long-term development base from which four of the organisations in this research were able to develop into successful enterprises.

Whilst NGOs, donors and private sector organisations have shown themselves as capable supporters, there is significant scope for the expansion of government funded, practical, demand-led extension services. For example, the Alafua campus of the University of the South Pacific has a School of Agriculture and an Institute for Research, Extension and Training in Agriculture that acts as a regional source of advice and innovation. This could be the hub for the development of export-focused and value-added extension services for governments and producer organisations.

⁷³ Facilitating Agricultural Trade in Commodities (FACT) has a budget of approximately NZ\$1.75 million each year, half of which is spent on enterprise development. It aims to "sustainably increase the quality and range of exports of Pacific agriculture and forestry products." Since FACT targets agricultural where most of the Pacific works it is likely to have broad-based development impacts. Also, SPC has just received NZ\$16 million over four years for Improving Agricultural Commodities Trade (I-ACT), the follow-up program to FACT.

⁷⁴ Bazeley, P. & Mullen, B. (2006). *Vanuatu Economic Opportunities Fact Finding Mission: On Behalf of AusAID and NZAID*. Canberra: AusAID.

⁷⁵ Interestingly, the ECF has funded Sarami, a cattle breeder in Vanuatu with A\$1.375 million over three years to create a mutually beneficial arrangement that aims to vastly expand smallholder's participation in Vanuatu's beef industry.

⁷⁶ Bazeley, P. & Mullen, B. (2006): 47.

⁷⁷ Bazeley, P. & Mullen, B. (2006).

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