LEARNING FROM THE ENTERPRISE CHALLENGE FUND: IMPROVING AGRICULTURAL SUPPLY CHAINS IN THE PACIFIC ISLANDS

May 2013

A review of a private sector development initiative funded by the Australian Agency for International Development (AusAID)
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Introduction

Commercial enterprises in Pacific Island countries face similar market challenges to business ventures in other small economies. The business environment is considered high risk with limited local market opportunities and few comparative advantages. This has deterred investment and support from financial institutions and missed opportunities for economic growth and improved livelihoods. Improving local agricultural supply chains is therefore crucial in helping to overcome some inherent challenges and improving pro-poor outcomes for rural communities.

This paper explores agricultural supply chains in four different Enterprise Challenge Fund projects from three Pacific Island countries: a teak nursery and plantation project (Future Forests Fiji) and a small scale poultry producer (Reddy Farms) in Fiji; a cocoa plantation (C-Corp) in the Solomon Islands; and a beef producer (Sarami) in Vanuatu. Attention is given to the practical lessons these projects can tell us about improving supply chains to maximise pro-poor outcomes and improve rural livelihoods.

The ECF has achieved significant successes but many lessons can be learnt from the challenges faced and some of the unanticipated outcomes. The purpose of this review is to inform future programs adopting similar business support mechanisms to stimulate private sector investment and rural development. It can also guide commercial organisations embarking on similar business ventures in the region.

Background

About the Enterprise Challenge Fund

The Enterprise Challenge Fund for South East Asia and the Pacific (ECF) is a A$20.5 million program funded by the Australian Government and managed by AusAID. It provided a competitive opportunity for businesses to obtain grants from A$100,000 to A$1.5 million for commercialising business projects to address local market failures. It is currently funding 21 projects in seven countries.

ECF was a pilot initiative and may reveal significant lessons in developing and managing private sector programs in the region. The key intended impact of ECF grant funding is to reduce poverty through employment and income generation, sustainability of initiatives, and creating wider systemic change. For more information please visit www.enterprisechallengefund.org. The rationale underpinning the ECF was that capable commercial operators could use matching grant funds to overcome local market failures and strengthen supply chains with pro-poor benefits. Such projects would provide a reliable and sustainable market for poor suppliers and, on the basis of commercial self-interest, the businesses would give technical and other support through the supply chain to ensure reliable and consistent inputs for their operations.

Developing a robust private sector improves economic growth and this is a proven and effective means of poverty reduction. ECF-supported business ventures were expected to have positive commercial and development impacts. The majority of ECF projects in the Pacific Islands are directly or indirectly involved in export markets because of limited local markets. Ultimately the program should lead to sustainable improvements in rural incomes.

Policy context and relevance

ECF goals are consistent with AusAID’s sustainable economic development strategy. ECF adopts a number of the direct interventions in AusAID’s Private Sector Development Strategy (June 2012) such as improving access to technology and market information; technical assistance to improve market access; private sector involvement in service delivery and infrastructure maintenance; support for private sector peak bodies; and supporting increased women’s participation.

In 2011, the ECF Independent Progress Review1 concluded that the ECF is highly relevant scoring 5.36/6 on relevance and found ‘ECF is addressing priorities for partner countries and AusAID and does address AusAID’s Private Sector Development objectives. ECF could have been better aligned with other AusAID and donor programmes.’

In many cases, ECF projects included strategies to improve the efficiency of supply chains by increasing opportunities for disadvantaged suppliers, and supporting communities to improve agricultural productivity. Priority was also given to projects with an expected positive gender outcome.

A majority (57% or 12 out of 21 funded projects) of ECF projects focused on improving agricultural techniques and technologies, and enhancing market access for remote communities that would otherwise find it difficult to capitalise on their natural assets and traditional agricultural practices. This is also consistent with a key focus area of the Food Security goal for the Australia Government Aid Program

Approach and limitations of this review

This paper relies on the ECF monitoring and evaluation data, both quantitative and qualitative, collected over the last three years, as well as numerous discussions with Pacific government bodies, NGOs, donors, financial institutions and private sector stakeholders. Commercially sensitive financial information on individual ECF projects has either been excluded or given in broad terms.

The ECF portfolio includes 21 supported projects, of which two-thirds (14/21) are in the Pacific, which is where this paper concentrates its attention. As there was no sector focus, these cover a wide range of business operations and/or supply chain arrangements such as a fisheries project in the Solomon Islands involving supportive arrangements with fishers in a remote area; an integrated coconut processing operation in Papua New Guinea sourcing inputs from rural suppliers; and a quarantine treatment operation in Fiji that provides a crucial link in the export chain for local fruits. The four projects selected as case studies for this review show examples of different approaches and outcomes, and were deemed to provide useful practical lessons.

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Four case studies

The four case studies of ECF funded projects in the Pacific show how private sector companies worked with developing new or existing supply chains for mutual benefit. They compare and contrast, and demonstrate lessons for future programs and private sector companies in the models that worked and those that didn’t.

Each of the four Pacific businesses took slightly different approaches in their ECF supported projects to dealing with suppliers/contractors.

Future Forests Fiji

Future Forests Fiji (Future Forests) is a teak nursery and plantation in the underdeveloped Ra province in Fiji. It received an ECF grant of $A190,000 in 2009 to expand and upgrade its teak seedlings nursery as the first stage of a larger teak plantation and timber processing business. The nursery is a crucial link in the company’s development plan. The seedlings are used for the company’s plantations and also sold to others.

With ECF support the nursery upgrade was completed on schedule. It now operates profitably and exceeds international yield standards. It is now the largest commercial tree nursery in Fiji.

Future Forests works harmoniously with landowners in the Ra province with mostly subsistence farmers benefitting. The operation employs 10 full-time, mainly female, workers but casual and contract workers represent the bulk of the workforce. Cash payments to the men and women involved in planting and maintaining the plantations are around A$118,000 per year, or the equivalent of 250 part time jobs. Other significant benefits from Future Forests are:

• paying landholder lease payments for an increasing number of teak plantations
• developing local skills in nursery operations and plantation management
• establishing a new village based nursery that will provide income for 15 people
• donating 15,000 teak seedlings for planting on community land that will generate incomes of around A$540,000 in six years (when trees are thinned) and over A$800,000 when the mature trees are harvested in 20 years.

Future Forests launched on the Fiji stock exchange in early 2012 and raised $F1.8 million (approximately $A 1 million) of additional investment. The capital will be
used to increase the number of leased plantations and to develop a plantation timber processing operation that will provide a reliable market for thinned and mature trees.

Future Forests has worked closely with Conservation International (CI) which has used carbon offset funds from Fiji Water to purchase teak seedlings and to pay landowners to plant and maintain plantations that incorporate both teak and native timbers. The CI payments to landowners in the planting year are around A$210,000 and A$130,000 in subsequent years for thinning and maintenance. In addition to this annual income, landowners have timber assets that will be worth a great deal in both medium and longer terms.

As it expands, Future Forests will most likely develop into a nucleus estate. It will operate its own plantations and timber processing operation but will also source teak from landowner plantations for processing and export. In the future a voluntary carbon offset mechanism in Fiji would be beneficial to Future Forests and other environmentally positive projects in Fiji. This may encourage greater corporate investment in support for ‘green projects’.

An independent assessment of Future Forests by Four Scenes Pty Ltd indicated that the fundamental supply chain management lesson from the Future Forests project is the importance of a genuinely collaborative and transparent arrangement with involved landowner groups. Future Forests spent considerable time developing close relationships with landowners, ensuring adequate and reasonably predictable incomes in the short and medium term to maintain the landowners’ interest and commitment. Future Forests took care to explain the arrangements with landowners in a manner that they understand and reinforced the message with reliable payments to workers and contractors through pre-agreed processes. Importantly, Future Forests has instituted procedures that have preserved the important relationship between land and the community in the Melanesian culture. They understand that ongoing harmonious relationships with landowners are crucial to their commercial success.

This project represents a good example of a commercially sound and environmentally responsible forestry project. The mutual benefits accruing to both landowners and the company are a good model for others to replicate. The project outcomes demonstrate the value of a timely public contribution to effectively kick start a business operation that is driven by individuals with a clear understanding of the importance of, and a commitment to, a harmonious relationship with traditional landowners.

Based on the experience with Future Forests, future program designs should:

- support longer term growth plans based on shorter term performance indicators or milestones – ECF support to Future Forests was restricted to expansion of the nursery because an assessment criterion required that the company could present a plausible case for commercial sustainability within three years; similar projects should have an option to support longer term plans, provided shorter term milestones are achieved as lead indicators of sustainable growth
- maintain as an assessment criterion, the calibre and experience of the company’s management team, particularly in establishing inclusive and mutually beneficial partnership arrangements with rural communities
- prioritise and support projects with simple and tangible returns to rural suppliers from the outset and ongoing.
Reddy Farms, Fiji

Reddy Farms, a small-scale poultry producer near Lautoka in Fiji, was granted $A149,900 to start a Pekin duck hatchery, feed mill and processing operation to satisfy a local market demand using a large number of disadvantaged households in the surrounding depressed cane belt area as duck growers. Pekin ducks are the most popular commercial breed and chosen because they are fast growers and efficient layers.

Target grower households were those earning F$2000–$4000 per year where incomes had declined significantly due to the demise of the local sugar industry. Preference was also given to reliable women growers. This typical out-grower system is based on providing 50 week-old ducklings to households which would be collected 7 weeks later. Households are paid on the total weight of grown ducks and could earn a net income of over F$200 every 7–8 weeks or approximately F$1400 per year. They could keep two ducks from each batch for their own use.

Reddy Farms provided suitable feed, technical guidance and support to out-growers and was responsible for marketing to hotels, supermarkets and other customers in Fiji. Contractors needed to fund holding pens which could be built from local materials for around F$700 ($A374). The feeding and care of the growing ducks required a few hours’ work each day and the income was either supplementary or the sole income for females.

Some early issues hampered start-up of the operation. Establishing the facilities at Reddy Farms and getting health and environmental approvals took longer than expected and a number of technical issues with the hatchery had to be resolved. By mid-2011 the project was operational and marketing to target customers began in earnest.

While the project delivered immediate benefits with increased incomes for grower households and employment for six new workers in the operation, the venture was not as successful as projected. Firstly, duck sales did not meet targets with hotels, restaurants and supermarkets buying fewer than expected. This was attributed to price resistance from consumers. Secondly, the pro-poor outcomes were lower than anticipated with smaller number of households successfully providing ducks to the required standard.

The initial market research by Reddy Farms appears now to be somewhat optimistic. Resistance to the higher retail price of ducks appears to be the main reason for lower sales. Additional investment would be required to get the economies of scale needed to reduce unit prices to a sustainable price-point to meet market demand. The business’s break-even point of around 2,000 ducks per month has not been achieved. To compensate the business has diversified into other activities such as the sale of live ducklings to farmers and processing of larger chickens to fill a gap in the local market. Through these strategies Reddy Farms increased gross income by 39% in 2012, reduced its outstanding debt and achieved a net operating profit before tax of over 8% in 2012.

The involvement of disadvantaged households as contracted out-growers proved to be more problematic than envisaged. The initial plan advocated the use of many households to spread the risks of poor performance. Despite support and training, many households were not able to meet minimum standards. Poor procedures, lack of hygiene and inadequate feeding resulted in higher mortality rates and underweight ducks.

The reasons for grower failure to perform were similar. Generally they did not follow basic hygiene procedures and some used the feed for their chickens instead of the ducks. In this case, contractors took on the risk in the venture – if the ducks were not to standard, the contractor would not be reimbursed for their costs and would be at a commercial loss for their time and resources invested.

Contracts are now continuing with only 12–15 growers who could meet the standards rather than the expected 50+ growers. In most cases they were the more commercially experienced men and women from households with generally higher income levels.

This project demonstrated that even when a potential income opportunity is offered to disadvantaged households some are not prepared to take up the challenge, despite technical support and guidance from the company. Contractors who were less educated, time poor and not able to invest heavily in resources up front were generally less likely to continue. It appears that if poor people invest in a venture and it fails in the first stage, they will be less likely to continue to invest further.

These potential contractors will be sidelined by a business that needs to primarily consider its commercial objectives and work with the most reliable and entrepreneurial contractors who unfortunately, from a development perspective, tend to be the least disadvantaged.

Based on the lessons learned by Reddy Farms, future program designs should consider:

- risk management strategies particularly when poor communities are expected to invest up front – in this case strategies for minimising potential funding loss in early stages, including funding for building hatcheries, initial investment in feed and seed funding for ducks, could have been ECF funded; requiring independent market research to understand consumer demand so the business enterprise and supply chain is market-driven and scaled accordingly, and validate the business owner’s projections and properly inform business planning
- small-medium enterprises particularly in the Pacific needing additional support for developing a business plan and taking on independent market research, which in this case may have included:
  - extension services, for instance a full-time technical adviser, to support and monitor subcontracted grower performance
  - supporting a more effective marketing program to restaurants, hotels, supermarkets and directly to consumers to generate and sustain demand.

In one case a specific contractor arrangement was organised by ECF to try to support potential growers. A Rotary club in Australia provided an interest free loan to a single mother for the construction of the duck holding pen and she was appointed as a contractor. The first three duck batches handled by this woman worked well and she received over F$600 in cash payments. However, subsequent batches suffered from high mortality rates, despite the extra guidance by Reddy Farms. The high mortality rates, apparently stemming from inadequate attention to simple hygiene standards, represented cash losses for Reddy Farms and the out-grower agreement was terminated. The Rotary club forgave the debt and the woman reverted to hand knitting and other handicrafts for her family’s income.
C-Corp Cocoa Plantation, Solomon Islands

C-Corp, an Australian based business with cocoa and other commodity operations in the Pacific Islands, received an ECF grant of $A1,155,000 for the rehabilitation of cocoa plantations discarded as a result of ethnic tensions in the Solomon Islands and development of new plantations on the main island of Guadalcanal.

This project demonstrates the importance of grant support as a catalyst for a business venture in a very difficult environment. As a result of past social upheavals the infrastructure and security situation in the plantations area presented real challenges for the business. Since receiving the grant, C-Corp has:

- rehabilitated the cocoa plantations and introduced new hybrids - yields have improved and the first drying facility is now operating
- improved transport infrastructure to have a more efficient logistical supply chain
- implemented an integrated disease and pest management scheme with techniques shared with other cocoa growers and Solomon Islands government authorities assisting the fight against cocoa borers
- increased export sales and received accreditation as a reliable organic supplier by Europe's largest chocolate manufacturer supporting the plan to focus on higher grade, branded bean exports; the project's export target of 400 tonnes of beans is expected to be met by the end of 2012
- employed more local people to rehabilitate the plantations, do harvesting and work at the drying facility
- contracted growing nursery plants to local people supplementing their incomes.

However, short-term funding support alone does not necessarily result in an effective and beneficial long-term project. Despite the business gains, underlying local community tensions threaten the long term viability of the operation.

The project involved close collaboration with local communities, including formal joint ventures with two different groups of plantation landowners. ECF assessment panels regarded this joint venture arrangement as an innovative approach that, when coupled with the broader benefits of the project, warranted support. However, these arrangements have not gone smoothly.

Relationships with the landowners have been strained by different perceptions of how a joint venture operates. The landowners expected dividend payments from the outset but the business is yet to generate or accumulate net profits and no dividend payments have been made. Ongoing security issues include theft of equipment and mature beans. These problems have been compounded by internal disagreements between the two landowner groups causing delays and increased costs, particularly in the construction of two cocoa bean drying facilities to separately process the crops from the two plantations.

It could be argued that a complicated joint venture agreement was a mistake and that it would have been better to develop a more transparent arrangement with a straightforward agreement of lease payments or a percentage of the gross sales. The C-Corp owner concedes that it would have been better to have a less sophisticated arrangement. C-Corp assumed that the landowners understood the explanation of how the joint venture operates but, in retrospect, did not allow sufficient time to discuss all of the issues and their implications.

Payments for clearing and rehabilitating the plantations, and the out-sourcing of the nursery seedlings, have provided incomes but not allayed landowner disappointment over the lack of dividend payments.

The C-Corp project is a proven technical model for cocoa rehabilitation and integrated disease and pest management, and C-Corp has allowed other cocoa farmers to inspect these procedures at its operation.

Despite all the benefits and operational and technical gains, the future of the C-Corp project is uncertain. Inadequate support from local police has resulted in ongoing security problems and the government failed to renew the company's export licence promptly, disrupting operations. Conflict between the two landowner groups continues to delay operations and increase costs.

This project has revealed a number of practical lessons. Supply chain arrangements need to be kept simple when dealing with inexperienced landholders and expectations carefully managed from the outset. Commercially, a dividend is paid only once a profit has been made by a company which can take many years despite seeing plantations grow, be harvested and processed in the interim.

Payment procedures need to be transparent and culturally sensitive. This is particularly important in the Pacific Islands where communally owned land has a cultural significance that transcends the western concept of land as a tradable commodity. Having the joint venture arrangements reviewed through a cultural lens may have identified potential risks early.

The project could have benefited from a community liaison specialist who regularly works with the local people, impacted households and clan leaders to represent their concerns and manage relationships. Physical and site security problems can undermine the commercial viability of a project and harmonious relationships with landholders are paramount.

The company owner understands the commercial opportunities and has invested considerably to implement and maintain the operation. Nonetheless, the community and cultural problems encountered have undermined confidence in the future of the project.

The valuable lessons learned by C-Corp generated the following recommendations for future designs:

- Business arrangements with local rural communities and landholders need to be kept simple and examined through a cultural lens by someone who understands the local political economy. This should also be considered during the grant assessment process. Public funds such as challenge funds grants can support this outcome and would have been better used for community outreach and education.
- Projects that do not incorporate worthwhile short-term returns to involved communities should be treated with caution. Community expectations need to be understood and carefully managed. Business agreements with uncertain short or medium term rewards run the risk of project failure.
- Projects involving many community and government stakeholders in the supply chain arrangements would benefit from having a dedicated liaison person to manage relationships and negotiations.
Sarami Plantation, Vanuatu

Sarami Plantation has been breeding cattle in Santo, Vanuatu for over 30 years. It has progressively upgraded its breeding herd and bought and developed a 2000 hectare fattening property. Although the business maintains its own cattle herds, it also purchases young cattle from local small holders for fattening and eventual sale to the abattoirs in Santo, which exports primarily to Japan and Papua New Guinea.

In 2010, an ECF grant of $A1,375,000 funded 30% of the costs of a substantial upgrade of the company’s pastures, site infrastructure, acquisition of equipment, genetic improvements and introduction of the first large scale cattle feed silage operation in the Pacific Islands. Support was provided on the basis of its replication potential and its mutually beneficial supply chain arrangements with small holder cattle suppliers.

By 2012 the project had completed silage and pasture trials with the most cost effective pasture crops chosen and silage stocks increasing. All planned site improvements and equipment purchases were completed and the genetics improvement program finalised. During this period employment increased from 73 to 93 full-time and part-time workers with 15 local village women employed as contractors for weeding.

Cattle purchases from 50–60 small holders paid approximately $A60,000 with direct and indirect benefits to approximately 200 men and women.

After an initial drop in profits due to project implementation costs, both sales and profits have increased. Sales to the Santo abattoir have increased for export with Sarami cattle accounting for over 37% of the throughput of the abattoir, which prefers the better quality Sarami cattle for export to their demanding overseas customers. In addition 800 live cattle have been sold to the Solomon Islands to improve that country’s cattle herds.

In late 2012 an independent assessment of the project verified that:
- Sarami pays small holders an average of 50% more for suitable younger cattle because, with the improved genetics, pastures and silage operation, the business is able to secure higher prices from the abattoirs for fattened cattle
- small holders no longer have to pay for the transport of their cattle, and have a further cost saving benefit because Sarami uses its vehicles to collect cattle
- Sarami provides a free, genetically superior bull to a supplier, or group of suppliers, to improve their stocks when it has sold around 40 cattle to Sarami; to date over 10 such bulls have been supplied
- between 2010 and 2012 Sarami purchased over 2,000 cattle from 241 suppliers at a total value of over $A600,000, earning suppliers an average of around $A150 for each beast and increasing total income by approximately $A300,000 over the two years.

In this classic ‘win-win’ arrangement small holders receive considerably more cash in the hand for their cattle and Sarami has a reliable supply chain that ensures increased turnover and profits. The small holders have no formal supply contracts with Sarami and are free to sell to whomever they wish. Interviews with small holders showed, not surprisingly, that they are happy to deal with Sarami because of the better prices, the transport services and because Sarami is a ‘fair’ customer who also provides useful guidance on cattle management. There is no additional risk for the small holder to partner with Sarami.

The Sarami project has good potential for replication in other Pacific countries and interest has been shown by market players in Fiji. It represents an approach that continues to work well in a Pacific Islands environment but depends on a sizable market for quality beef to justify the required investment. The 2012 independent assessment indicated strong replication opportunities in Fiji and PNG. From a supply chain perspective the Sarami project represents a mixture of an informal arrangement with suppliers and a nucleus estate, with the large Sarami site providing both the grow-out facilities and supplementary supplies of cattle from their own herds. The clear mutual advantages sustain the relationship. Sarami has influence over the abattoir customers which has resulted in higher prices and associated flow on benefits to the rural small holders.

It is also noteworthy that key Sarami staff maintain a close and supportive relationship with the small holders and meet with them frequently. This approach, coupled with reliable increased payments for young cattle, has resulted in a mutually beneficial supply chain arrangement.

The following conclusions may be drawn from this project:
- Projects with a mutually beneficial arrangement with small holders or suppliers, that are clearly market-driven, are more likely to be commercially and developmentally successful. This project had minimal risk for small holders to participate and represented higher returns financially as well as non-financially (through support with transport and improved stock). It is an important relationship building approach.
- An existing business with growing markets is more likely to be successful.
- The drive and commitment of the business owner to implement technical improvements and enable flow on benefits to disadvantaged suppliers is critical from a development perspective.
- The willingness of the project’s management team to work in close collaboration with suppliers to establish a trusted relationship is critical for managing supply chains with rural communities and small holders.
Lessons for private sector development programs

The four case studies clearly highlight a number of important challenges for private sector development in the Pacific Islands. The projects demonstrate that supporting mutually beneficial supply chain arrangements can offer positive economic and social outcomes. The experience from these and other ECF projects demonstrates some important lessons for international donors.

1. Developing a robust private sector by improving market-driven supply chains is an effective means of improving rural incomes.

Worthwhile pro-poor outcomes can be achieved by supporting the private sector to develop supply chains with rural and remote communities. Supply chain development needs to be market-driven and scaled accordingly to be sustainable. Properly planned and structured business ventures will, from a self-interest perspective, improve supply chains and distribution systems, and ultimately result in improved rural livelihoods. However, there are limitations to the level of investment that businesses will fund in the Pacific Island context due to inherent risks. A true partnership approach is required where the risks, as well as the benefits, are shared.

The more successful projects have also enhanced market access for rural and remote communities, and provided that the business venture remains commercially successful, this improved market access is likely to be sustainable.

The goal of the ECF is supporting these ventures and there are lessons on how to do this better in looking at which models have worked well and which have not.

1. Agricultural productivity needs to be improved along the supply chain with benefits and worthwhile returns accruing to suppliers and producers.

The focus on improving agricultural productivity and reducing costs along the supply chain should lead to greater profitability and a more viable business operation. Not surprisingly, examples with worthwhile returns to suppliers and contractors in the short term showed greater likelihood of ongoing success, keeping partners motivated to invest in the ongoing relationship. Those with delayed or uncertain returns suffered from a lack of commitment and poor relationships with suppliers, particularly where suppliers took on more risks than the companies.

Agricultural productivity is best addressed by using the natural assets of the region, and improving the skills and products of rural communities without significant disruption. Most successful projects are based on improvements in established crops, such as cocoa and cattle, and improved use of existing resources and traditional skills.

Returns need to be quick and worthwhile to prevent the investment of time (to undertake contract farming) and resources (such as land or investing in infrastructure for the project) being diverted to other more profitable activities. If the return is not quick or is not returned, then the likelihood of continued investment is low.

2. Technology and skills transfer to rural and remote communities, with a supportive physical infrastructure, underpins the viability, sustainability and ongoing improvement of supply chains.

The more successful case studies transferred skills and technologies to suppliers and other partners in the supply chains. They also invested in infrastructure improvements to build the efficiency of supply chains. Not only does this enhance the capability of suppliers and partners to deliver the required goods and services, it also builds considerable goodwill in the ongoing relationship. Farmers and others are able to apply the access to technologies and skills to other opportunities that improve their lives.

Sarami trained staff on silage production and will continue to help small holders improve the genetics of their cattle. Future Forests trained a number of women in tree nursery operation technology and techniques, and landowners have learnt a great deal about planting and maintaining plantations, a skill that will be useful for the development of individual and community teak plantations.

Improved transport facilities provide communities with benefits beyond the business project. The truck transport services associated with C-Corp and Sarami Plantation projects have improved local communities’ access to local markets.

2. Export-focused market development leads to a more successful and sustainable supply chain arrangement and greater potential for poverty alleviation.

Projects with the greatest potential for significant social and economic impacts, and continued growth, particularly in the Pacific involve export markets. C-Corp and Sarami outputs are almost exclusively destined for overseas markets; the second stage of the Future Forests project will export processed plantation timbers. Reddy Farms supplied products to hotels and restaurants that catered for the tourism industry; the lower than projected demand prompted diversification and a greater dependence on local markets to be profitable.

Local suppliers in the supply chain need access to a reliable local market, which is best provided by a producer that can access stable and reliable export markets for their products. Larger suppliers with reliable supply chains have the confidence and resources to develop export sales, which opens opportunities for local suppliers to take advantage of local markets that they could not otherwise access.

3. Close, mutually beneficial, culturally sensitive arrangements with local suppliers are vital.

Projects that made an effort to develop long-term, strong and trusted relationships with suppliers, and ensured mutually beneficial arrangements, showed the most favourable commercial and social outcomes. Through careful planning and collaborative arrangements, they avoided the social problems associated with some of the larger out-grower projects that did not invest as much in local relationships.

It is critical that business arrangements are compatible with local attitudes and culture to achieve partnership success and this is where public grant funds can play a role. This is particularly important in Pacific Island countries where cultural attitudes to land use can create problems for business operators who view land as a commodity.

Improving future programs

When evaluating options for future private sector investment programs in the Pacific Islands, the following aspects should be part of the due diligence process:

1. Supply chain management arrangements incorporated in proposed projects need to be assessed carefully, in particular the profit and risk sharing arrangements, to ensure they are mutually beneficial. It is important to understand whether local suppliers may become dependent on the support project or indebted to the company leaving them worse off.

2. A rigorous independent market assessment is required to minimise the risk of project failure which might leave suppliers in a worse position if the supported project does not achieve the expected sales volumes. This is particularly important for new or emerging markets.

3. A good understanding of the local political economy is required for projects that rely on many stakeholders, including government, clan leaders and landowners to carefully manage cultural sensitivities and minimise conflict over resources and income disparities.

4. Larger business projects, with the potential to access export markets and implement extensive supply chains, should be given careful consideration for fund support. If supported such projects should, however, be subject to the same level of assessment as smaller projects to ensure the maximum possible pro-poor outcomes.