

SOUTH PACIFIC COMMISSION

TRAINING COURSE

ON

INCENTIVES TO ECONOMIC DEVELOPMENT

L A E

Territory of Papua and New Guinea

6-24 September, 1965

R E P O R T

South Pacific Commission

Noumea, New Caledonia

November, 1965

C O N T E N T S

	<u>Pages</u>
INTRODUCTION	(ii)
OPENING ADDRESS by Mr H.H. Jackman, Chief, Division of Business Training and Management, Territory of Papua and New Guinea.	(iii)
MESSAGE from Mr W.D. Forsyth, O.B.E. Secretary-General of the South Pacific Commission.	(iv)
REPORT OF THE DIRECTOR (R.C. White)	1 - 18
CLOSING ADDRESS by Mr R.C. White, Director of the Course.	19 - 20
CLOSING ADDRESS by Mr H.H. Jackman, Chief, Division of Business Training and Management, Territory of Papua and New Guinea.	21 - 22
APPENDICES	
I. LIST OF PARTICIPANTS	
II. WORKING PAPERS	

I N T R O D U C T I O N

At its Twenty-fifth (1963) Session, the South Pacific Commission agreed to the organisation in 1964 of a training course on incentives to economic development for islanders particularly concerned with economic development. This Course was held at Rarotonga in the Cook Islands from 20th April to 8th May, 1964 and was attended by representatives from seven territories in the eastern part of the South Pacific area.

At its Twenty-sixth (1964) Session, the Commission approved the holding of a second and similar course on incentives for participants from the western part of the area. This Course, which extended over a period of three weeks from 6th September to 24th September, was held at the Lae Technical School in the Territory of Papua and New Guinea and was attended by eleven participants from six territories in Melanesia and Micronesia. The Course was officially opened by Mr. H.H. Jackman, Chief of the Division of Business Training and Management in the host Territory. During the opening ceremony a message to participants from Mr. W.D. Forsyth, Secretary-General of the South Pacific Commission, was read by Mr. R.C. White, the Commission's Economist. The full texts of Mr. Jackman's address and Mr. Forsyth's message are included in this report.

The Course was directed by Mr. R.C. White, the Commission's Economist. Valuable assistance was given by Mr. H.H. Jackman and by Mr. George Oakes, Business Advisory Officer, Lae. A number of guest speakers also made valuable contributions. Working papers prepared by the Commission's Secretariat for the first Course in 1964 were, with some revision, used as a basis for working sessions. These working papers are reproduced in Appendix II to this report. The following report emphasises the main points of discussion which followed presentation of working papers and addresses by guest speakers and in doing so draws attention to many of the problems facing territories in the area represented in this Training Course.

Closing addresses by the Director, Mr. R.C. White and by Mr. H.H. Jackman who officially closed the Course, also appear in the report.

OPENING ADDRESS BY MR. H.H. JACKMAN,
CHIEF, DIVISION OF BUSINESS TRAINING
& MANAGEMENT, DEPARTMENT OF TRADE AND
INDUSTRY, TERRITORY OF PAPUA & NEW GUINEA

It gives me great pleasure to welcome you to our Territory and to officially open this Course.

As this is the second course of its kind, I shall not need to say much about the purpose of this course or to suggest different types of incentives that might profitably be discussed by you. At Rarotonga in April last year, the Resident Commissioner of the Cook Islands explained why he had submitted the topic "Incentives to Economic Development" as a subject for a South Pacific Commission training course and he outlined some of the motives and things which cause Pacific Islanders to work towards a higher material standard of living or which help them to do so. He also mentioned some of the problems facing Cook Islanders. The Resident Commissioner's opening address has been included in the report of the training course held in the Cook Islands. I feel sure that all of us here have read it and agree that what applies to those Islands is of great relevance to other Pacific countries and territories also.

Unlike some of your territories, Papua and New Guinea has ample land resources to allow its growing population to improve its present standard of living. We expect our population to double itself within fifteen years so that there will be about four million people here in 1980. This will not only make much more manpower available but it will also require far more extensive public works such as roads, wharves, aerodromes and power stations, many more schools, technical colleges and higher educational institutions, hospitals, community centre and other social services.

These things can only come about with the provision of the necessary finance. Whilst the Australian people are at present donating over £30 million annually to our Territory's total budget of £51 million, we hope to receive further financial help from them in future years. It is clear that the people of this Territory must step up production in all phases of agricultural, commercial and industrial activity so that overall development will be speeded up and the stage will be reached when the whole of this Territory's budget will be covered by locally-raised revenue. I think you will all agree that a country's political self-determination does not have much meaning or substance unless its people provide the means to make possible all aspects of development.

Throughout the Pacific, people enjoy democratic freedom and, with it, the right to choose what kind of work they wish to do and how they go about doing it. Democratic freedom does, however, bring with it many responsibilities, not only at the ballot box but also in the carrying out of the daily toil.

All of us in the Pacific must work to full capacity to do our share to contribute towards the development of our communities in particular and our countries and territories in general. Just as a chain is only as strong as its weakest link, so is the economic development of a country or territory only as sound as the basic productive unit.

During the first training course at Rarotonga, it was recognised that agricultural development in the Pacific is hampered by traditional land tenure and that Pacific Islanders will have to adopt somewhat different ways of dealing with land if they wish to keep up with economic development in other parts of the world. As you know, the South Pacific Commission has arranged

for an expert to look into this vital aspect of development, and, although this is a vexing and extremely difficult subject, it seems to me that you might give particular attention to it.

Another problem which requires close attention is that of finance. Capital formation should wherever possible come about through savings within a community and technological changes and innovations. It is generally accepted nowadays that an infusion of outside capital is also needed in developing countries.

At the invitation of the Australian Government, a group of experts from the International Bank for Reconstruction and Development, the World Bank, visited our Territory and submitted a report which contains among other things, recommendations concerning finance for development. In consequence, a Bill is being introduced to the House of Assembly of Papua and New Guinea for a local development bank. This new financial institution will confine its operations to our Territory and will be financed through our Territory's budget. It will provide financial assistance for development in cases where such assistance is not available on suitable terms from other sources. The new development bank will augment but not replace existing credit facilities. It will have regard primarily to the prospects of success of a proposed business venture, but will not necessarily have regard to the value of the security available. Our Territory's development bank will be able to make loans, give guarantees and purchase debentures and equity shares in enterprises. In this way, it will be possible for the bank, as a local Territory institution, to acquire an interest in new and existing Territory enterprises in which there might not otherwise be any local participation.

One of the key functions of our development bank will be the provision of small-scale loans to Papuan and New Guinean agriculturalists and business enterprises. To this end, the development bank will have power to provide small-scale finance through intermediary bodies such as co-operative societies or credit unions.

The development bank will be empowered to raise funds from private sources, though it is intended that its capital resources will be predominantly supplied from Government sources. It will also have power to accept loans from overseas institutions, private or inter-governmental. Australian institutional lenders to the development bank will qualify for the taxation concession which applies to lenders who hold 30 per cent of their assets in public securities. Initially, our bank will accept fixed-term deposits offered to it, but it will not compete actively with other institutions for such deposits.

Profit-making will not be the major aim of the Territory's development bank, but the bank will certainly be operating in a thoroughly efficient manner. Its policy will be determined by a Board of Directors which will include representatives of private enterprise, both in the Territory and in Australia, with a majority of Territory residents. Papuans and New Guineans will, of course, be represented on this board.

This Course could perhaps give some thought to the form and extent which investment should take in the Pacific. I would like to mention here that finance by itself will not solve our problems - a sound knowledge of basic economics, adequate technical know-how and experience, and sheer hard work must go hand in hand with the necessary finance if worthwhile development is to come about.

The Division of the local Department of Trade and Industry which I head is primarily concerned with the training in business and management of Papuans and New Guineans, whether through co-operatives, companies, partnerships or in some other form of enterprise. You could best describe us as teachers

of adults in business. The generally low level of basic education among Papuans and New Guineans has been a serious handicap to our endeavours, but I am happy to tell you that great progress has been made in the fields of primary, secondary and technical education during the last few years and that, in consequence, business and management training is coming along very well, too. Not only among the extension officers employed by the Administration that is my staff and officers in such Departments as Agriculture, Stock and Fisheries and Forests, but also among Papuans and New Guineans working for themselves or otherwise employed in private enterprise do we find more and more persons who have had sound basic education, sometimes at secondary level. It is to these people that we look for leadership of adult primary producers and others. I know that the situation is very much the same throughout the Pacific and that great strides are made everywhere to improve the material standard of living, and, with it, the general happiness of peoples throughout the Pacific. In your discussions, you are, therefore, in the happy position of taking into consideration the growing educational level of your people.

I feel I cannot do better than to repeat the closing words of the Cook Islands Resident Commissioner at the first Course in 1964, namely:

"Economic development can only be forthcoming if the people can be made aware of the need to keep up with the modern world, and to want to strive for a better standard of living. With an improved standard of housing, furnishings, home appliances, with the ownerships of modern transport, good clothes, the entry into culture will follow and with the inevitable improvement in pride, people will be morally improved as well as happier in all respects."

In conclusion, I again welcome you most heartily to our Territory and I wish you a most successful and enjoyable Course.

Original Text: English

MESSAGE FROM MR. W.D. FORSYTH, O.B.E.
SECRETARY-GENERAL OF THE SOUTH PACIFIC COMMISSION

TO

PARTICIPANTS IN THE SUB-REGIONAL TRAINING COURSE
ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6 September, 1965)

I regret that I cannot attend this Course as I did briefly the first and similar course held at Rarotonga in 1964. However, I am sending this message to express the hope that the lectures and discussions on which you are about to embark, may prove beneficial to you in your capacity as private citizens and may also assist you in the furtherance of development in your own territories.

Substantial increases in production, both commercial and non-commercial are possible in most territories in the South Pacific area. Indeed, the increases in population which appear inevitable in some areas make these increases essential. If effective increases are to be achieved and the living standards of island inhabitants are to be maintained and improved, it will be necessary to convince producers that these increases are both necessary and possible and show them the advantages of increased production and means of achieving it.

Incentives therefore form the basis for this training course. They have extremely important implications in the improvement of living standards in both developed and developing countries, and there is a greater need for incentives in developing countries where there is a stronger reluctance towards change. In the course of the next three weeks, you will be given examples of possible measures which may be taken to overcome this reluctance and you will have the opportunity of discussing the advantages and disadvantages of such measures and of making your own contributions to the solution of this problem.

The removal of factors which restrict and discourage people from increasing production will also be featured during working sessions and I am confident that thoughtful and conscientious discussion of this aspect of development will result in agreement on practical ways in which the effects of these disincentives can be reduced.

Economic development is characterised by improvements in living standards which rely on increases in production at a rate in excess of population growth, involving also better standards of health and education. The provision of training designed to promote improved agricultural practices, more efficient marketing arrangements and increased industrial activity form one aspect of the South Pacific Commission's programme which has received increasing emphasis in recent years. This Course is one example of such training.

Other courses of a more specialised nature have also been held under Commission auspices and in conjunction with other institutions and governments. Courses in boatbuilding, organised and financed in conjunction with the United Nations Organization, have recently concluded in New Caledonia and in the British Solomon Islands Protectorate. The second one-year Training Course in Home Economics for Community Work commenced in January at the Home Economics Training Centre established in Suva in 1963 by collaboration between South Pacific Commission, the Government of Fiji and the Food and Agriculture Organization of the United Nations. Courses have also been held this year in the preparation of extension materials and in cooperative training and a second training course for indigenous librarians will take place in the latter part of this year.

Opportunities to visit development projects of particular interest will be provided by the host administration during the course.

On behalf of the Commission, I take this opportunity to express to the Administrator of the Territory and to the Officers of the Administration, the Commission's appreciation of their generous cooperation in the establishment of this training course. I trust that this opportunity for mutual discussion and exchange of ideas will make an effective contribution to the solution of problems facing your territories now and in the future.

Original Text: English

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6 to 24 September, 1965)

R E P O R T O F D I R E C T O R

(R.C. White)

1. Nominations for participation in the Course were requested by Savingsgram No. 130 dated 22nd December, 1964. Selection, in accordance with information contained in this and subsequent Savingsgrams, was, as in the first Course held in 1964, made by territories invited to nominate participants in the Course.
2. Documentary material containing preliminary background information and working papers, prepared in advance by the Commission's Secretariat, were distributed to participants some weeks before their departure from home territories to enable them better to prepare themselves for active participation in discussion during working sessions. A procedure similar to that used in the first Course was adopted for this Course namely that presentation of each working paper was followed by contributions and exchange of ideas by participants through the medium of discussion.
3. It was evident from the outset that participants were eager both to contribute and to learn and at no time was there any lack of interest. In fact, many of the working sessions were found to be all too short and later reference was made to many topics during recapitulation sessions.
4. Lae was chosen as the sight for the Course largely because of the variety of developmental activities in the surrounding area which would lend themselves to field visits. The choice proved to be a good one and visits to several projects in and around Lae provoked considerable interest and discussion. Participants were drawn from several fields of activity including co-operatives, agriculture, basic education, local government and private enterprise and it was possible during these field visits to cover activities in all of these fields. Accent was, of course, placed on economic development by the local indigenous population although careful attention was given to the necessity for co-ordination between indigenous and non-indigenous activities.
5. Individual policies and methods in Pacific territories vary considerably. Fundamental problems in most of these territories are, nevertheless, basically similar. Methods of land ownership and use constitute a major problem in development and participants were agreed that in many cases considerable modification of these methods would be necessary to enable development to proceed satisfactorily. The need for adequate facilities for marketing, including processing, handling and storage, arose constantly during discussions as a basic problem as did the difficulties which are encountered in convincing producers of the necessity for change from older traditional ways to more efficient methods. These and other problems were highlighted during presentation and discussion of working papers which were spread over four main categories of instruction:
 - (i) production incentives;
 - (ii) marketing incentives;
 - (iii) provision of credit and promotion of savings and investment;

- (iv) Stimulation of desires for improvement in living standards.

6. This Course has helped to make participants, and through them, the people with whom they have close contact, aware of the problems which exist, of their diversity and their complexity, and of the means available for their solution or partial solution. Successful solution or modification of these problems will, of course, rely on continued attention to these matters at a higher level.

7. The need for continued education and training at all levels, on the one hand, and for increased consultation and co-operation between territories in the region on the other, were among important factors which arose during working sessions. Some indications follow of the direction of discussions during these sessions. These are grouped under headings which largely tie them to the papers presented.

AGRICULTURAL METHODS, TRADITIONAL AND MODERN

8. Changing habits and increasing populations in most territories in the South Pacific area make it clear that continued advances of their economic development and improvements in living standards cannot be achieved without substantial increases in production. To facilitate these increases and to provide for these advances, considerable improvements in production methods and marketing procedures must be effected. While there is scope for this improvement in most areas, changes in both economic and social attitudes are involved and it will be necessary to convince producers of the benefits of these changes.

9. One of the difficulties in demonstrating these benefits is the lack of understanding by growers of the need for these changes and of the differences between old and new. In discussion, it was pointed out that there was often a barrier between the grower and the extension worker and that extension workers should spend more time with indigenous growers actually working with them on their own ground and showing them that more modern methods can be successful. This did not necessarily result from differences between growers and non-indigenous extension workers but depended largely on the personality and willingness of the extension worker whether indigenous or non-indigenous.

10. Difficulties face many territories which are based predominantly on non-agricultural industry. The delegate from New Caledonia pointed out that in that territory for instance, large scale mining operations have been responsible for a continued lack of interest in agriculture. The large nickel-mining works which operate in several centres draw the local people to this industry in search of wage income which is comparatively more remunerative than agriculture. The co-operative movement has been encouraged but faces obstacles of an economic nature. The attraction of high wages makes it difficult to promote interest in agricultural activities. Producers are also discouraged by the lack of organisation in providing assistance to them.

11. American Samoa was quoted as a similar example of this problem where industrialisation was making it difficult to achieve worthwhile results in the agricultural sector. This "drift" to the urban areas in search of wage employment was creating similar problems in many territories, even in towns which are not heavily industrialised. Resultant pools of idle labour have been responsible for some disillusionment on the part of these labourers and it was thought that this could be effectively used in campaigns to promote increased interest in agriculture.

12. Several participants pointed out that in their territories farming was largely in the hands of the older people who were very set in their ways and consequently it was difficult to get them to change. Many of the young people were reluctant to return to the land after finishing their schooling but preferred to remain in the towns in search of wage income. Emphasis was placed on the necessity to provide adequate training in agricultural methods not only for the younger people at school but also for the older people through organised adult education.

13. Most participants gave descriptions of attempts which were being made in their territories to bring about improvements in production methods. Among the obstacles which were encountered, the following were considered to be of importance:

- (a) sources of finance - many growers had a strong demand for loan funds which were not always readily available;
- (b) land - methods of land ownership and use were often responsible for a considerable lack of interest in improving methods of production;
- (c) marketing - careful attention should be given to the extension of existing crops or the introduction of new crops; strong disincentives are created by weaknesses in market conditions;
- (d) returns - producers do not understand large movement in prices for their goods and should be given explanations of these movements; the payment of premiums for improvements in quality has had some success but is not always sufficient to generate the increased effort which is needed for these improvements.
- (e) Change to modern methods - it was often very difficult to convince growers of the necessity to keep plantations cleared, to space trees better and to use better quality planting material; in such cases, resort to the examples of other successful growers should be made at every opportunity.

14. It was noted that different crops require different methods of husbandry which involved varying amounts of time needed to maintain them. When considering increases in production, attention must be given to the additional time which may be required and to the time required for the execution of social as well as economic activities.

15. It was clear from the trend of discussion of this paper that it was very important to be able, in the first place, to convince people in general that increases in production are in fact a necessary pre-requisite to improvements in living standards. Having convinced them of this necessity, it was then, in the second place, essential to provide evidence that the change to modern practices can be responsible for substantial improvements in yield and quality and that such improvements can often be made without resort to large scale increases in physical effort. Participants agreed that effective incentives were often required as a tool in this process but that these were often ineffective when used in isolation. It was extremely important to realise the need for education and instruction at all levels and to provide these at every opportunity, by schools, by adult education classes, by experimental stations and especially by demonstration on the land owned and worked by producers themselves.

LAND TENURE AND RELATED PROBLEMS

16. Participants were aware of the wide differences in land tenure systems, not only between the various territories but also within most territories. The discussion was therefore not directed towards a common approach for all territories, but rather to seek possible ways and means of bringing the various systems into line with modern economic development requirements.
17. It was generally agreed that consideration of and action to put land held by government to optimum use by Pacific islanders are the concern and prerogative of the central government.
18. In respect to indigenous-owned land, it was thought that steps to rationalise its use, arrange exchanges of fragmented holdings, adjudicate claims and commence surveying and registration procedures should be undertaken at grass-roots level in the first instance. Several participants were of the opinion that traditional leaders, village elders and the like need to be given authority to do some of this work where this has not already been done.
19. In several territories, the rapid growth of population is making it imperative that better use be made of land resources. There is a decreasing willingness among the people of the Pacific to sell or lease land, even where the central government wishes to use it for the communal good (communications installations, defence purposes, etc.).
20. Participants referred to the legal machinery dealing with land in their territories. Generally, the final avenue of appeal leads to the highest judicial tribunal of the metropolitan administration, and such tribunal does not include Pacific islanders among its judges. One participant mentioned that an expatriate Lands Commissioner had erred in his determination of the ownership of a very valuable piece of clan land, and that this might have been avoided if the assistance of indigenous assessors had been enlisted.
21. A suggestion was made for the creation of trustees over tribal land where such land might be leased for a limited period but not sold or otherwise completely alienated. The creation of trustees would facilitate leasing where a minority of co-owners were unwilling to sell outright.
22. Several participants referred to the seizure of indigenous lands by early white settlers and governments. There did not appear to be a complete understanding of the inevitability of increase in value of land in localities becoming more settled or where roads, services, etc., have been introduced. It was explained to the participants that parcels of land in Europe, Australia and North America which changed hands for a few pounds in 1900 are now often worth thousands of pounds and that their earlier vendors cannot legally or morally claim to buy them back at the former price.

TECHNICAL ASSISTANCE FOR DEVELOPMENT

23. The territories in the South Pacific region are in the early stages of development and are faced with difficulties which result from a lack of knowledge and technical skills. To a large extent, reliance must be placed on assistance from outside sources in the provision of instruction in technology, in technical and managerial skills and in the application of improved techniques.
24. Participants indicated that it was necessary for leaders in governments and for Pacific islanders to consider the importance of expert knowledge and assistance and to be prepared to benefit from it. Shortages of technical

staff appear to be common and in some territories indigenous officers are assuming positions of responsibility. Care should be taken to avoid any ill-feeling which might arise between expatriate and indigenous officers competing for the same positions. In many cases, the use of experts under technical assistance programmes avoids this situation by providing continuing training of an indigenous counterpart as a part of the execution of a particular project.

25. Examples were given by some participants which might suggest a reluctance on the part of territorial administrations to import expert knowledge and experience even though there was every indication that this knowledge or experience would benefit the territory concerned. It was pointed out that each proposal for assistance had to be considered in terms of overall policy, taking all aspects of development into consideration. It could easily occur that proposals for assistance may involve access to capital funds, manpower, etc., not available to the administration considering these proposals.

26. Doubts were expressed by one participant of the value of sending local people for training overseas where conditions and facilities often differed considerably from those in home territories. It was felt that priority should be given to training by experts in home territories where more people could be trained and where local conditions and facilities must be taken into consideration. Imported experts should also only be used for tasks which could not be handled locally. In this respect, participants were strongly aware of the benefits of training courses established by the South Pacific Commission, in collaboration with territorial and member governments and with international organisations like the United Nations and the Food and Agriculture Organization of the United Nations. S.P.C. Co-operative training courses, boatbuilding courses, home economics courses, etc., were mentioned as making important contributions in this field. Seminars and discussion groups also provided the opportunity for exchanges of knowledge and experience within the region.

27. In territories like New Caledonia, where the economy was greatly influenced by large private companies motivated by profit rates, the problem was considerably different compared with the Territory of Papua and New Guinea, e.g. where the large indigenous population was still more deeply involved in the process of evolution towards the monetary economy. In such a case, the indigenous population has need of a strong social welfare organisation to protect its interests. Local people must have access to training and to the facilities necessary to enable them to provide for their own well-being. In this respect, some examples were given of assistance provided to French territories by FIDES (French Fund for Economic and Social Development) under which proposals for development submitted by territorial administrations are financed.

28. One participant from the New Hebrides said that in that territory, development of fishing and of mining (manganese) was in the hands of European companies. Although these companies employed fairly large numbers of indigenous people, there was a strong reluctance on the part of inhabitants of outer islands to allow further research surveys which would be predominantly for the benefit of European enterprise. These people preferred to wait until they were in a position to do this work on their own behalf. This might take a considerably long time since the knowledge and skills and the administrative ability to carry out this work were practically non-existent.

29. Many territories have not the facilities for on the spot training in technical trades, in managerial skills, etc., and must send their students elsewhere to receive this training. There was not only a need for training of people to carry out various projects relating to development but also to train technicians and training staff who can provide this training on the spot to fill vacancies as they occur.

30. There was an important role being played in the Pacific region by the distribution of documentation which described various activities in the area and from which islanders can learn of experiences in other territories. It was also felt that more opportunities should be made to allow islanders to travel between territories for this purpose. A first hand view of advances being made and techniques being used in other places could be responsible for substantially beneficial incentives to increased development in home territories.

31. Strong emphasis was placed on the importance of a wide distribution of reports of courses and seminars held in the area which were similar to this Course on Incentives to Economic Development. It was felt that this was an excellent means of making known the needs of island territories as they appear to participants in these courses who are in close contact with the people in their own areas.

THE ROLE OF CO-OPERATIVES, CO-OPERATIVE MARKETING AND OTHER MARKETING ORGANISATIONS

32. In initial discussion, participants dealt with the concept of "surplus" in co-operatives vis-a-vis the profit motive in other forms of business organisation. They also took account of differences in control - one man: one vote in co-operatives; one share: one vote in companies. It was pointed out that it was often possible for minority interests to control companies because most of their shareholders have been unable or unwilling to exercise their votes in concert.

33. Participants drew attention to the difficulties in recouping credit extended to Pacific islanders by their own co-operatives. In rural communities in the Pacific, any business owned and operated by one or more local residents must, of necessity, transact a large share of its business with relatives of the owner(s). This causes the owner(s) to be subject to strong social pressures and sanctions in such matters as credit giving, pricing and employment of staff. It is hardly possible to make profits out of business done with relatives, so that companies are rarely suitable organisations at village level. Co-operatives, however, do not operate for profit; they are set up to give service on a non-profit basis, so that they are often a more practicable business organisation in rural areas.

34. Experience throughout the Pacific has shown that co-operatives must be competitive and cannot otherwise justify their existence. Participants' attention was drawn to the need to save part of normal earnings and to invest them in business and durable consumer goods rather than to spend total earnings on non-durable consumer goods, often conspicuously so.

35. Whilst participants had no doubts about the value of co-operative marketing, they pointed out that directors of co-operatives are often less experienced and competent than directors of companies and that members of co-operatives usually need to be trained in basic economics and co-operative principles, so that they will do their share of the work of their co-operative.

36. The question of motivation of directors was also raised, and the general opinion was that company directors have incentives of a material nature (fees, new share issues, etc.) to make them work well whilst directors of co-operatives often have to work on a voluntary basis without remuneration for their services. In addition, directors of many types of businesses in the Pacific frequently do not fully understand their duties and authority. Too often, directors interfere with management whilst having insufficient skill or knowledge to do their proper duties. Courses for directors should be held and co-operatives and companies should incorporate in their rules and articles details concerning their directors' duties and authority.

37. Co-operative marketing usually needs bridging finance as it may take several months from the time produce is bought in villages until proceeds for it arrive from overseas. Market research is needed to plan sound co-operative marketing. Patterns of distribution and consumption have not been looked at in most territories, and this must be done if past errors are not to become self-perpetuating.

38. Discussions were based on an exchange of knowledge about marketing arrangements in the various territories. It was noted that Boards handle copra exports in several territories and that such marketing boards in the Gilbert and Ellice Islands Colony and the Trust Territory of the Pacific Islands use co-operatives as agents, giving them monopolies in this respect. The Trust Territory of the Pacific Islands Copra Marketing Board also uses corporations as agents in various districts, although it should be mentioned that these corporations are 100% Micronesian.

39. Particular attention was paid to price stabilisation schemes and much time was spent on the mechanics of them.

40. The problems of marketing vegetables in urban centres, with concomitant storage and regularity of supply, were also discussed. The suggestion was made that agricultural extension services should investigate the possibilities of introducing varieties of any one crop, to give year-round supply or, at least, supply for more weeks than at present. Also, that diversification of vegetable cropping would ensure constant income for growers and cheaper, regular supplies for consumers.

PROVISION OF PUBLIC SERVICES, AMENITIES AND COMMUNICATIONS

41. The working paper on this subject was designed to show the extent to which governments participated in economic and social development and to give some indication of the costs of government. With growing emphasis on increasing participation in government by local inhabitants, there is an urgent need to make these inhabitants aware of the costs of government and to be prepared to make a larger contribution to them.

42. Much of the discussion was centred around various taxation policies in force in the territories represented. Although it was realised that taxation on income or on commodities (import and export duties) provides perhaps the largest share of government revenue, there appeared to be considerable misunderstanding in territories of the reason for imposition of some indirect taxes, particularly the more obscure types such as licences for radios or for dogs. It was suggested that a programme of education, perhaps similar to that held in Papua and New Guinea for the recent House of Assembly elections, is needed as a means of explaining the reasons for and the uses of various revenues raised by government.

43. Direct taxation could be quite important because of the necessity for documentary evidence to support income assessments. In many cases, however, it would be virtually impossible to assess incomes and indirect forms of taxation had to be used. Participants pointed out that this could often lead to inequities and disincentives were created as a result. Nevertheless, the need to work for a cash income to enable payment of a tax was often a strong incentive to increased effort.

44. Increased incentives were often provided by the establishment or improvement of public services or utilities resulting from external financial aid, either from metropolitan governments or from international institutions. In many cases, governments had to rely heavily on such assistance because of their inability to raise sufficient public revenue locally. There was an alarming tendency in some territories to take this external assistance for

granted and it was emphasised that every effort should be made, through increases in efficiency in production, to lessen the reliance on this type of assistance.

PRICES AND ELEMENTARY ECONOMICS

45. Discussion of this paper revealed that activities in many fields are sharply affected by demands for money and by changes in prices. High prices can be responsible for considerable increases in activity while low prices are often responsible for severe inactivity in many fields. In many cases demands for a cash income to finance a specific purchase often result in additional activity for this purpose. However, it is often the case that this activity will diminish once these demands are satisfied and will not increase again until further demands arise for specific goods.
46. Several instances were given of the reluctance of older people to change their production methods with a view to improvement which will result in increased incomes. These older people do not place the same value on money as do younger people and attempts must be made to encourage them to think of the future. Many growers tend to think of the present only and to produce goods which are necessary for immediate requirements, not for a regular income on which they may place some reliance for the future. When foods are grown easily and needs for housing, etc., can be satisfied without difficulty, there is not much demand for money.
47. Many people in the villages have little or no education and do not appreciate the use of money as a means of exchange. In many cases, their need for money is reduced by their ability to obtain assistance from relatives or friends. In other cases, due to lack of knowledge, they spend what money they earn on unnecessary and sometimes useless things. Although some people do produce goods to earn a cash income, this may be for prestige purposes and is not always used for purposes which will benefit development. Hoarding is also quite common in most territories.
48. It seemed fairly evident to participants that greater efforts must be made to teach the island people the uses and benefits of money. Many people sell their goods for money but don't know that these goods are being sold elsewhere or why. They only think of the money which they need to satisfy their immediate demands and have no sense of savings or investment. In many areas, there may be a need to make known to village dwellers the beneficial goods which can be purchased with money. In some territories where low education levels are common, considerable success has resulted from the use of visual aids such as posters and films relating to the functions and uses of money. A lack of attention to adult education in this field was indicated by some participants.
49. It was suggested by some participants that more attention should be paid to the role of women in social and economic life and to the demands which they make on their communities which might result in increased production. In some activities, women assume more responsibility than men and may be in a position to create demands which must be satisfied and which will result in greater activity. The tendency which has developed for young girls to follow domestic science and home economics courses to prepare themselves for family life is one aspect of this increase in responsibility in the role of women.
50. Island producers do not fully understand wide differences between the prices they receive for their goods from intermediate traders and the prices received by these traders at final markets. Delegates from New Caledonia gave some information about the stabilisation of the price of coffee and copra in that territory, enabling people to grow these products with confidence.

It was explained that, in this territory also, coffee was used as a medium of exchange by "mortgaging" part or all the crop as security for an advance from a European merchant or company, to be liquidated from the proceeds of later sale. While there was no restriction on this type of credit in French territories, indications were given by other participants that the provision of credit to indigenous inhabitants in some territories was illegal or restricted.

51. The need to resort to professional transport operators to carry goods to market often results in quite large differentials between prices at the farm and at the market. In cases where these operators carry out their activities in conditions of monopoly, these differentials can be responsible for considerable disincentives to producers who do not understand them. In some territories, the co-operative movement has effected some improvement in these conditions but again lack of education and organisational ability often act as a limiting factor in this respect. Increasing access to radio receivers enables producers to get first hand information of prices offering at town markets and they are able to compare these prices with those paid at the farm. Participants were agreed that increased efforts should be made to assist growers in these circumstances and to provide explanations of the reasons for these variations in prices.

52. Most indigenous producers in Pacific territories also do not understand changes in prices for goods which are sold on world markets nor do they appreciate their inability to effect these prices by changes in their supply. Some benefits are possible through quality improvements but in many territories premiums payable for better quality products are not sufficient to generate the interest of producers.

INCENTIVES

53. In the promotion of increased activity and in the creation of incentives designed to encourage this activity, careful consideration should be given to the role of advisers who must have a thorough understanding of the task required of them and of the problems which face producers generally. Many of the land use customs in Pacific territories encourage continuation of traditional methods and it is extremely difficult to convince producers of the benefits of change. Change is slow and the adviser must realise this.

54. Practical schooling for young producers acts as a worthwhile stimulant and students learn the use of machinery, labour saving methods, etc., but it is often the case that after extended training under such conditions, these students go back to their lands which are still being worked under traditional conditions and facilities are not available to enable the use of experience gained during schooling. It was suggested that this could act as a strong disincentive and that special consideration must be given to the provision of assistance in such cases.

55. Some information was given about training which is being provided for young and old in the Territory of Papua and New Guinea. In this Territory, farmer training centres have been established which provide short-term field work in practical farming (for periods up to twelve months). These field workers have the opportunity to become agricultural extension officers or agricultural teachers and to spend time working in the villages as full-time agricultural officers. Under another scheme, older men, selected for their interest and ability, are taken to some centres for six months (or more) to learn better methods. On return to their villages they are given the opportunity to buy stock (pigs, poultry, etc.,) to assist them in establishing their own farms. In the course of a field visit to development projects around Lae, participants were able to meet one such farmer who had

received this training in livestock care and control and who was tending a successful cattle project on the outskirts of Lae. In addition to benefiting themselves in the acquisition of additional skills, these men provided an excellent example to other farmers of the benefits to be obtained from this type of training.

56. In most territories, there appears to be a fairly clear distinction developing between the people who still work the land and the people who are employed for a wage. One participant from Papua and New Guinea pointed out that many rural dwellers have considerable cash incomes but do not wish to change to modern ways. He was sure, however, that better standards do not necessarily mean change to European or Western methods. Many improvements were possible from increased efficiency in traditional ways and with some modification of these ways to suit requirements of markets. To promote these modifications, he suggested that many of the subsidies indicated, for example, in the working paper (see SPC/EI2/7A para. 4) could be taken over by local councils and maintained by the revenues received by these councils. It is important that this sort of encouragement should be at village level and that agricultural workers should work in close conjunction with councils in the villages. This would also have the effect of bringing village people in closer contact with their central administration.

57. Delegate from New Caledonia pointed out that it was important for agricultural trainees to be given the opportunity to return to their villages at frequent intervals for periods of practical experience to ensure that they do not lose touch with their own surroundings. Demonstrations on peoples' own land were a very important aspect of training and these trainees could be used to provide such demonstrations. It is also essential, however, that training centres should have adequate facilities for practical application. Food gardens in all schools can also generate considerable interest in the use of practical methods.

58. Some information was given by participants of assistance being given to producers to encourage them to improve their methods and to increase their production. In the British Solomon Islands, local governments give assistance in the establishment of improved copra driers and the government makes field assistance available to assist growers to thin out trees to approved distances. With the tendency which has been noted for wage employees not to return to the village, there is a need for priority in this territory in the education of older people who grow the crops which are of greater importance.

59. In New Caledonia, government assistance is given in the production of coffee; agricultural equipment, tractors, etc., made available by a recently formed organisation enable improved pasturages for cattle; an agricultural insurance fund enables producers to combat the risks of severe climatic conditions - this fund pays damages for climatic disturbances and is available to all producers in New Caledonia, both European and Melanesian, who can take individual or collective policies at premiums within the means of producers. Subsidies are also paid for re-afforestation to ensure provision of timbers which are valuable for building.

60. Community effort is very important as an incentive to increased development. In this respect, co-operatives have advantages and disadvantages. In the New Hebrides, there is a growing desire to form co-operative societies for many purposes, but lack of education and managerial ability make many of these extremely insecure. For this reason, formation of some co-operatives was being deliberately retarded to reduce the possibility of failure. It was noted by participants that the failure of such an enterprise could act as a very severe disincentive to future attempts at formation. Radio broadcasting was also becoming very important as a means of keeping people well informed on prices, markets etc., and in the dissemination of information from agriculture departments.

61. In the discussion of the second part (SPC/EI2/7B) of this paper, there appeared to be no doubt that, before action was taken to promote change there had to be a desire for such change. As a result of contact with the European way of life and of the transition which has been made in most territories towards production for the commercial market, the desire for change was growing in the area generally and ways of life in many cases are becoming closer and closer to those of the European. Very often, however, the desire was out of harmony with the means and producers are faced with the problems of how to increase their incomes to change this condition. One of the main aims should be to provide means to enable people to take full advantage of the money they earn. Here again, the co-operative movement was cited as a strong incentive, having social as well as economic aspects, providing efficiency improvements between producer and consumer which result in increased income for the producer. As well as working in favour of the member in improvements in production, education, savings and spending, etc., it also assists in the development of the personality of members, of their self-expression and responsibility and in the exchange of experiences.

62. Financial assistance provided by metropolitan governments tends to encourage the "do nothing" attitude referred to in the working paper (see SPC/EI2/7B, para. 7 (vii)). This assistance is provided in one form or another by all territories in the area and it is essential to explain that these funds cannot be expected to continue indefinitely. The aspirations of island people to handle their own affairs must be accompanied by the realisation that this also means that they must bear an increasingly higher proportion of the cost of government. Explanations of the operations of governments and of the cost of government should be given at all levels. There are causes, however, when this financial assistance can act as a stimulant to development. In New Caledonia, for example, subsidies by the French Government enable loans to help people in the interior with transport difficulties, with the construction of roads and bridges and to assist in marketing of produce.

63. The general feeling of most participants was that many of the problems which are related to the stimulation of desires for improvement result from lack of education and from lack of knowledge of how to use the resources which are available to island populations. These resources are quite often in plentiful supply - the major difficulty is how to use them to best advantage. While the wish to change to the Western way of life is strong in some members of populations of most territories, emphasis was placed on the point that this change is not essential to improvement in standards. Educational programmes should therefore be designed to take account of the needs and desires of island populations and to assist in the most beneficial use of resources at their disposal.

THE ROLE OF MARKETING AND RELATED PROBLEMS

64. Copra is the predominating crop in most territories in the Pacific area and many territories have regulated the marketing of copra either by the establishment of statutory marketing authorities which are constituted as sole marketing authorities or by the regulation of prices paid by commercial traders in their capacity as marketing agents. Descriptions of activities in several territories in the marketing of copra, whether through recognised marketing authorities or through traders, indicated that problems in most territories were fairly similar and were related closely to the inability of the great numbers of small producers to provide the same efficient marketing organisation as larger professional institutions and to their general lack of understanding of the differences which arise in the prices paid for their products.

65. Discussion on this subject made it clear that difficulties of communications in these territories place indigenous producers in a position of reliance on intermediate buyers to a large extent and that this often resulted in marketing costs which made considerable inroads into returns received by these producers. In addition, they were often not in a position to bargain with the intermediate buyer but were compelled in many instances to accept the prices offered for their goods since no other market was immediately available.

66. In the case of many of the products marketed in this region through marketing boards or co-operatives, the producer is paid a preliminary price for his product and a subsequent distribution is made in accordance with the final price received from sale to a final consumer. Uneducated producers for the most part do not understand this "double payment" system and are consequently tempted to accept a price offered by a private trader, which is higher than the preliminary price but not, however, higher than the total amount credited to the producer, i.e. the sum of the preliminary payment and the final adjustment. They also have difficulty in understanding the charges made by traders or by marketing agencies for handling, storage, transport, etc. It was pointed out that even extension officers in some territories had difficulty in explaining these differences to growers and that it should be an important feature in training both advisers and producers to give a clear explanation for the reasons for these differences. In this regard, the increasing tendency to use radio broadcasts as a means of education received commendation.

67. In New Caledonia, agricultural products accounted for only a very small part of total production and with no large plantations there was not the same scope for marketing boards for agricultural products. There was not a great deal of attention to quality and it was difficult for producers to keep in close contact with markets with the result that they were prone to sell at the price offered without argument. Funds established for the maintenance of prices (e.g. in the case of coffee and copra) were however very beneficial and helped to maintain confidence in these products. In this territory also, difficulties were experienced in explaining differences between prices received by the producer and prices paid by the final consumer. Investigations have been made into the possibility of establishing co-operative shipping which will help to overcome some of the difficulties encountered in bringing goods from outer islands for sale at central markets.

68. In the Territory of Papua and New Guinea, a number of growers associations have been set up which assist in the co-ordination of the activities of producers and in the marketing of several crops. This co-ordination of activities has resulted in the provision of better storage facilities, of assistance in some aspects of processing and in improved marketing. Education in grading and handling to ensure a better quality product is an essential factor in improved marketing - cases were given where poorly processed goods were sold at unfavourable prices to satisfy a demand for money.

69. Participants appreciated the fact that Pacific territories, because of their small share of the total of products offered on world markets, could exert little or no influence on the prices of these goods. For this reason, they also appreciated the benefits of co-operation between producers in some form of marketing association, whether it be in statutory marketing bodies, in producers associations or in some form of co-operative activity. In the early stages of development, the existence of a stable market can be of tremendous importance to the attitude of producers who do not fully appreciate changes in market conditions which result from changes in demand and supply.

THE NEED FOR CREDIT

70. There are two major problems associated with the demand for and the availability of credit in the area represented at the Course. In the first place, there is the considerable lack of understanding of the uses and functions of money which has already been highlighted and consequently of the need for and the benefits to be obtained from the use of credit. In the second place, indigenous producers in these territories are seldom in a position to be able to satisfy the requirements of lenders in respect of security for loans. For the most part, island people have only their land and the crops which they derive from this land which would be acceptable as a form of security for credit funds. While some access has been made to borrowing on the security of the proceeds of a particular crop, there is almost no possibility, due to methods of land ownership and use, of borrowing on the security of land.

71. Some information was given about a New Caledonian Credit Corporation which makes funds available to private individuals and to companies, for all types of goods - cars, houses, building materials, agricultural machinery, etc. It is necessary to provide adequate security or guarantee for such credit. Some lending is made against the security of crops. Loans are on no-interest or low-interest conditions and help to ease the burden on producers; however with increasing costs, interest rates tend to rise and security requirements become more severe making it difficult for indigenous people who have not the assets available to obtain large amounts of this credit. In New Caledonia, the indigenous people are settled on reservations and have the use of this land only. They cannot be dispossessed but they cannot use the land as security. Subsistence co-operatives also have this difficulty of being able to provide necessary security. Productive co-operatives, however, are better placed in this respect.

72. When told of a system of grants to newly established co-operatives (as a means of assisting them over the difficulties of establishment) which has recently been introduced in New Caledonia, it was thought by some participants that this could also act as a disincentive, in that people might think that it was the duty of the government to go on providing this assistance and in so doing reduce the effectiveness of the co-operative which must be established and operated by the efforts of its members. In the territory of Papua and New Guinea, co-operative societies can obtain credit from the Native Loans Board, depending on the type and activities of the co-operative and its ability to provide adequate security. One participant from this territory stated that it was much better for co-operative members to get things going by their own efforts rather than to rely on assistance from the government. Governments could supply information and assistance in organisation and operation but should limit carefully any financial assistance. In this respect, there was a serious lack of understanding of credit and of repayment requirements and there was a need to investigate the use of sureties for people who want credit and have the repayment ability but do not have the necessary security.

73. Some details of the lending of the Native Loans Board were given for the benefit of participants. The Board lends on security which is usually less than would normally be required by a bank or other lending institution. In cases where security is available which would be satisfactory for bank lending, the borrower is referred to the bank, sometimes with the guarantee of the Native Loans Board.

74. It has already been noted in discussions of other working papers that some credit is made available by commercial houses on the security of crops. In the British Solomons, an Agricultural and Industrial Loans Board makes loan funds available for increased development in agriculture and fisheries industries and for other purposes. These loans are made after inspection of property by representatives of the Department of Agriculture

who make recommendations to the Board concerning the purpose for which the loan is required and the ability (or "creditworthiness") of the applicant to carry out the conditions of the loan. In this territory also, government subsidies are provided for assistance in fencing for cattle development.

75. Loans by commercial savings banks from deposits received in territories are very rare and indigenous depositors do not understand the investment policies of these banks who earn their profits on the money which belongs to these depositors but which is invested outside the territory. Some territories are investigating the possibilities of making savings bank funds available for lending purposes within the territory, on terms which can be met by indigenous borrowers.

76. In the territory of Papua and New Guinea, the introduction of Savings and Loans Societies has been responsible for an easing of the credit situation as it applies to indigenous producers. These societies provide a means for pooling the financial resources of producers with the purposes of assisting them to help themselves. In the establishment of any enterprise, it was emphasised that the willingness of the people to help themselves was all important. If assistance is given too freely and at little or no cost, many producers will become lazy usually with disastrous consequences. Some attempts have been made in the New Hebrides in the formation of these societies but are so far limited to civil servants in Vila. New Hebridean people generally do not have any appreciation of the need for credit nor of the requirements of lenders for security and repayment.

77. It was thought that the time may have come to reconsider the provision of credit to indigenous people in Papua and New Guinea where it is illegal to allow credit to a local inhabitant, except through recognised lending institutions. No credit is allowed to Papuans and New Guineans in stores (although it was pointed out that there are some cases where this type of credit is given). The laws governing the provision of this type of credit were no doubt made with a view to protecting the rights of both lenders and borrowers but it was thought that with increasing sophistication of indigenous people it was time to consider allowing local people (and lenders) to make their own decisions in this regard.

SAVINGS AND INVESTMENT

78. Since some emphasis had been placed in earlier sessions on the operations of co-operative societies and on the differences in operation between these societies and other organisations, the opportunity was taken here to provide a rather more detailed explanation of the operations of limited and unlimited liability companies.

79. Participants, who had a good knowledge of co-operatives, were most interested in descriptions of the formation of these companies and of the allocation of shares, of the general accounting and formation and presentation of accounts and of the liability of the shareholders to the company and vice versa. These explanations also provoked many questions concerning eligibility to subscribe for shares, election of directors, voting rights and distribution of profits.

80. The most important avenues for saving and investment by the indigenous people in the territories appear to be by commercial savings banks or by co-operative saving. Although the tendency for commercial banks to invest surplus funds outside the territory continues (for reasons of investment security), indications were given of moves to make some credit funds available locally. This was considered an important phase in development.

81. The Course was fortunate on this occasion to have present a member of the Reserve Bank of Australia which acts as the Registry for Savings and Loans Societies in the Territory of Papua and New Guinea. Participants were thus able to benefit from descriptions of the activities of these societies, of their formation and of their application to the extension of savings habits in this and perhaps in other territories.

CREDIT FACILITIES BY GOVERNMENT ASSISTANCE

82. In the Pacific Territories where financial resources are limited it has been necessary to establish special institutions to provide credit for local people who, in most cases, cannot meet normal commercial security requirements. These many institutions, although somewhat different in name and detailed operation, have the same basic aim: to assist local people to participate in the development of their country.

83. These institutions seek to assist the local people by:

- (a) making loans;
- (b) making grants;
- (c) guaranteeing loans made by commercial lenders.

84. In making credit available these institutions are concerned with the practicability of the project and the capabilities of the borrower rather than the security which can be obtained. Loans are generally made:

- (a) without undue regard to "normal" security requirements;
- (b) at lower than "normal" rates of interest;
- (c) for longer periods than "normal"; and
- (d) with easier than "normal" repayment requirements.

85. In making grants instead of loans an institution will encourage and assist indigenous people to participate in development but may

- (a) lose some work incentives resulting from the obligation to repay the money;
- (b) reduce the amount of money available to the institution in the future.

86. The specialised institution or Government, by guaranteeing loans made by commercial lenders, may increase the financial resources available within the Territory.

87. The operations of these institutions can result in:

- (a) the allocation of resources in a more controlled pattern than would otherwise be the case;
- (b) a higher rate of participation by local people in economic development; and
- (c) greater productivity and improved quality.

88. The institutions may stimulate a demand for credit but cannot create that demand. Unless there are workable projects for which finance can be provided, institutions will be unable to contribute to the developmental programme.

89. The proportion of funds made available to the indigenous smallholder/expatriate plantation etc. will depend on the rate of development which the government hopes to achieve.

90. The provision of credit to indigenous producers permits an "ownership" of industry which might not otherwise exist.

91. In some cases close supervision or expert advice is provided although where possible credit institutions should be able to refer borrowers to other government agencies.

GUEST SPEAKERS

92. A number of guest speakers from the host territory made valuable contributions to the Course in the three weeks. These speakers covered a range of subjects which fitted neatly within the overall curriculum and which generated spirited interest among participants. Mr. William Fugmann, Managing Director of Native Marketing and Supply Service Limited (Namasu Ltd.), presented an interesting address on the history and formation of his Company which has the largest indigenous participation of any other institution in the territory.

93. Before the onset of World War II, when the economy of the territory could perhaps be described as dormant, Christian missions were active in social and spiritual work, and they played a certain rôle in economic development, although this was not always understood. Mr. Fugmann pointed out that missions attempted to provide a service but without any intention of competing with other commercial activities. It was for this reason largely, he said, that, after unsuccessful attempts by the Lutheran Mission, of which he was formerly Business Manager, to hand over trade stores to villages and communities to allow people themselves to learn the rudiments of providing these sorts of goods, the decision was taken by the Mission to form a company. This was the first action of its kind in the territory and early expectations were that it would be a rather modest operation. Surprisingly, the success of the operation was much greater than expected and today there are almost 6,000 indigenous shareholders with a capital of about £80,000. The original subscription to capital by the Mission of £20,000 remains unchanged and now constitutes only 20% of total capital compared with an initial share of about 66%. It is anticipated that the Mission will eventually withdraw and that the Company will be a purely indigenous company.

94. A directorship of twelve, consisting of six Europeans and six New Guineans, enables the company to fulfil the effective rôle of a bridge between the indigenous and non-indigenous races who must, said Mr. Fugmann, continue to work together. After six years of operation, the company has built up a centre in Lae which includes a bulk store and a coffee factory. New premises which will house a large bulk store and office are now also under construction. The company owns and operates six ships, ranging in capacity from 10 to 60 tons, which service numerous branches. In the New Guinea Highlands, it operates bulk stores and trade stores and acts as buyer for all kinds of goods including coffee, copra and handicrafts.

95. A programme of training over the years, including the establishment until recently of a commercial training school, is in keeping with the company's policy of employing New Guinean staff wherever possible. A large number of New Guineans now hold responsible positions and in each position occupied by a European, there is a New Guinean counterpart undergoing training in methods of operation in preparation for eventual assumption of responsibility in these positions.

96. Participants displayed a keen interest and the speaker was kept busy answering their many questions ranging over a variety of aspects including shareholders meetings, voting rights, dividend distribution and transfers of shares.

97. Mr. R.E. Curtis, District Agricultural Officer, Morobe District, spoke on the subject of human engineering and the development of the awareness of needs and their satisfaction. Using an analogy of the

maternal control by a mother over her growing child, Mr. Curtis emphasised that in the process of growth, whether from childhood to adulthood or from economic and social immaturity to self-determination, there is a need to establish a careful balance between needs which are attributed to the "child" in the exercise of this maternal control and needs which are felt by the child itself. In the early stages of development, there is a tendency for these attributed needs to predominate but as development proceeds, it is essential that there should be more and more freedom of decision with an eventual assumption of full responsibility signifying awareness of needs and the ability to satisfy them.

98. It is important, however, that the child should not be allowed to injure itself by a premature withdrawal of supervision and advice. So it is with an emerging country. There should be a gradual withdrawal of this maternal control and the population, through a process of education and supervision, should be prepared to assume responsibility for their own welfare. Most participants were keenly appreciative of the social and psychological aspects of the subject and readily grasped the analogy of mother and child drawn by Mr. Curtis. In many fields of activity, territories represented have experienced the stages of under-supervision and over-supervision exemplified by the speaker and discussion indicated an awareness of the need for a growing country to assume its responsibilities carefully.

99. Mr. Ray Carlaw, Chief of the Division of Extension Services in the Department of Information and Extension Services in Papua and New Guinea, provided a most convincing demonstration of the value and use of audio and visual aids in education and extension in all fields.

100. The Department of Information and Extension Services embraces a number of functions which include the operation of Administration broadcasting stations, and public libraries, the publication of information papers and booklets, the operation of photography and recording units and an extension unit. The Division of Extension Services covers three areas of activity, training courses in extension in all fields, visual aids planning for extension services and research and survey of activities in the field and their effectiveness.

101. Mr. Carlaw's address was extremely well supported by effective practical demonstration of many varieties of audio and visual aids, including films and film strips, flash cards, plastographs, flip charts, glove puppets, booklets, posters and teaching charts. Space does not permit a description of these media nor is this the intention of this report. It is, however, important to emphasise the speaker's opening comment which is considered to be the focal point about which the address revolved. It is extremely important to realise, he said, that "education is not teaching but learning" and that learning cannot be enforced but depends on the successful planting and germination of suggestions and ideas. The reaction of participants to Mr. Carlaw's demonstrations of the various media provided an effective example of the value of these media as teaching aids.

102. Mr. R.C. Stuart, Economist with the Reserve Bank of Australia, Port Moresby, gave an informative and timely address on the growth of the financial system, with some emphasis on the proposed establishment of a Development Bank in the Territory of Papua and New Guinea. Underdevelopment arises from a limitation of real resources (e.g. roads, buildings, crops, goods, manpower) at a particular time and place and he pointed out that money and financial resources are the major means of activating real resources - money, he said, acts as the "oil and petrol" to get development moving and to keep it moving.

103. To use money to the best advantage in an economy, we need properly designed institutions. These make up the "financial system" of a country. Such institutions are banks (including development banks), co-operatives, credit unions, housing and finance institutions, etc. The financial system aims to establish a bridge between "spenders" and "savers".

104. In Papua and New Guinea, a new addition to the financial system is being planned, a Development Bank. It has been created to fill a gap in existing credit facilities. Most of the funds will come from the Government and the Bank will make loans to applicants of all races for industry and agriculture. It will not insist on rigid security requirements, nor will its major aim be to earn profits. It should make it easier for indigenous people to obtain credit to build up their business enterprises and their crops.

105. Mr. Stuart warned that each financial system needs to be designed to suit the local needs. It was important that new institutions should not merely usurp the functions of existing ones - they must do more than this. Their success depends on the soundness of projects to be financed and it was important that careful thought and investigation should precede action in all cases.

Original Text: English

CLOSING ADDRESS BY MR. R.C. WHITE,DIRECTOR OF THE COURSE

24 September 1965

1. This meeting this afternoon sees the conclusion of a Training Course on Incentives to Economic Development which has been in progress here for the last three weeks, and within the next few days we will all be returning to our respective professions in our own countries. I feel that this has been another important stage in the development of the South Pacific Commission's training programme which has enabled us to increase our knowledge of conditions in territories in the area and of particular problems and their possible solution.
2. As the region develops, it is becoming increasingly important that territories should be aware of the activities and experiences in neighbouring areas and of the benefits which can accrue from close association between territories in the solution of problems, many of which are founded on similar premises. Nor should this association be limited to the higher levels of participation in development. We are hopeful that participants from territories represented here have benefited from their participation in the Course and from their association with each other and with people from this territory and that they will spread these benefits in their own countries by a more efficient and more appreciative performance of their appointed tasks.
3. Implementations of suggestions for improvements in territories will, of course, rely on adequate attention to these matters at a higher level. However, the suggestion of one participant deserves merit, namely, that the reports of courses such as this, which contain these suggestions, should receive attention in all areas where there is concern for the solution of problems and for the furtherance of development.
4. Discussion of prepared working papers and of subjects introduced by the participants themselves have indicated that, although there may be considerable variations in individual policies and methods, the fundamental problems in most territories in the South Pacific region are basically similar. Methods of land ownership and use constitute a major problem and participants showed keen appreciation of the effects of these policies in their own and in other territories. They were also interested in the regional survey of land tenure methods in the region being carried out by the South Pacific Commission as part of its programme of promoting regional interest and consultation in the solution of this vexing problem.
5. In many cases, the lack of adequate facilities for effective handling and storage, combined with the enormous distances over which goods have sometimes to be moved, results in unsatisfactory marketing arrangements which constitute a considerable disincentive to increased development. The successful transition to more efficient methods which are essential to increased production and better living standards is severely retarded by an inability to convince producers of the need for this transition. Circumstances instanced by participants whereby increased efforts, resulting in surplus production for commercial sale, have been faced by inadequate market opportunities, indicate the need for effective investigation of the market potentials of any commodities which it is hoped to increase or introduce.
6. Delegates were extremely conscious of the effects of price changes on the supply of commercial products and of the inability of territories, because of their small share of total production, to influence the pattern of prices for products sold on world markets. This realisation strengthens the emphasis on the need for consultation and co-operation between territories in the region as a means of improving their position on world markets.

7. Perhaps the dominating feature of the Course was the awareness of the need for continued education and training in all fields. Lack of skills and know-how and the necessity for resort to external assistance from technical, academic and administrative experts are a common feature in the area. There is a continuing need for extended education and training facilities which will equip the people of these islands better to understand the process of change which is going on around them and to prepare them for the effects of this change. It is essential, I think, that this education and training should be directed at all levels, from the younger generation in school class-rooms where the effects of change are minimal, to the older people in the villages where these effects are sometimes considerable and spectacular.
8. A number of guest speakers have made valuable contributions to the Course and I take this opportunity to thank Mr. William Fugmann, Managing Director of the Native Marketing and Supply Service Limited, (better known perhaps as NAMASU), Mr. Bob Curtis, District Agricultural Officer, Lae, Mr. Ray Carlaw, Chief of the Division of Extension Services, Port Moresby, and Mr. Ron Stuart, Economist with the Reserve Bank of Australia, Port Moresby, for their time and effort in preparing and delivering these addresses.
9. During the course of the last three weeks, we have also made a number of field visits to development projects, both public and private, in and around Lae. This is an area of expanding economic activity and participants have been extremely interested in the effective approach to development which is displayed by the local administration. On behalf of the participants, I would like to express our thanks to those people who were responsible for arranging these visits and to the people directly concerned with these projects who gave willing explanations and answers to the many questions asked of them.
10. On behalf of the South Pacific Commission, I express our gratitude to the Administrator of the Territory of Papua and New Guinea and to the District Commissioner, Lae, whose willing assistance and co-operation have made this Course possible. My task as Director of the Course has been considerably lightened by local participation and in this respect I would like to record my special appreciation of the assistance given by Mr. Harry Jackman, Chief of the Division of Business Training and Management, Port Moresby, and by Mr. George Oakes, Business Advisory Officer, Lae. This task has also been lessened by the contributions of participants themselves who have shown from the first day their willingness to learn from us and from each other. For this reason, we too have learned and are richer for the experience.
11. Finally, for the facilities which have been put at our disposal here at the Lae Technical School and for the assistance in the physical aspects of organisation and operation of the Course, I would like to offer my very sincere thanks to Mr. Ray Oberg, Principal of the School, to his staff and to the students of the School who have impressed us all with their quiet efficiency and discipline. Such a spirit of co-operation and friendliness is a wonderful recipe for efficiency in progress and I commend it to all who are concerned with progress in whatever form.

CLOSING ADDRESS BY MR. H.H. JACKMAN,
CHIEF, DIVISION OF BUSINESS TRAINING
AND MANAGEMENT, DEPARTMENT OF TRADE
& INDUSTRY, TERRITORY OF PAPUA AND
NEW GUINEA

1. Mr. Chairman, Distinguished Visitors and Participants. The summing up just made by the Director of this Course, Mr. White, has covered the most important aspects of our work together during the past three weeks, so that I shall confine myself to a few brief remarks about a need recognised and commented upon by every participant : training in basic economics and commercial law and principles. In this context, I do, of course, merely refer to formal training, as the third leg of Commerce, namely commercial practice, can only be learned on the job.
2. No matter what form of business Pacific islanders adopt to achieve material progress, be it a partnership, joint-stock company, co-operative, sole enterprise or government instrumentality, and whether in agriculture, commerce or industry, sound knowledge of existing economic conditions and of the principles underlying them is essential in order to decide what has to be done to make the business successful.
3. As I mentioned in the opening address, the standard of basic general education is rising rapidly throughout the Pacific. Many boys and girls are already attending or will soon attend secondary and tertiary institutions where commercial subjects and economics are taught, and they will therefore be far better equipped than their parents to take part in the rapid economic changes in the many islands.
4. Because of the desires of the grown-ups and their hopes for the next generation, we cannot, however, wait until those at present at school are ready to take over as captains and crews of the ships of agriculture, commerce and industry. We must help adult Pacific islanders to improve their knowledge and skill so that better use will be made of the resources of the Pacific.
5. Already, excellent work is being done in this respect by agricultural extension services throughout the Pacific, and it is now time to complement it by formal training courses, study groups, seminars and other gatherings at which adults can learn about such subjects as farm bookkeeping, market prices, capital formation and investment. The thoughts of every administrative authority in the Pacific are on these matters, and the necessary action is already being taken in several territories.
6. As you know, a resolution of great relevance was passed at the Fifth South Pacific Conference, and received further backing during the recent Conference here at Lae. The South Pacific Commission is giving particular attention to ways and means of supporting the efforts of territories in bringing knowledge of economics and business to Pacific islanders, and this Training Course will help it to formulate definite plans.
7. It is of the greatest importance that men like yourselves provide the leadership in this field, and I feel sure that this Course has assisted you to be better equipped to do so.
8. In closing this Training Course on behalf of His Honour the Administrator of Papua and New Guinea, I express most sincere appreciation of the work done by the Director of this Course, Mr. Ron White, who is the Commission's Economist, and the capable assistance of Mr. Langford and

Mlle. Houssard. We are greatly indebted to Mr. William Fugmann, Managing Director of Namasu Ltd., Mr. Robert Curtis, District Agricultural Officer, Mr. Ray Carlaw, Chief of Division, Department of Information and Extension Services, and Mr. Ronald Stuart of the Reserve Bank of Australia, for addressing this Course on certain most interesting topics. I thank also the Principal, Staff and Students of the Lae Technical School whose generous hospitality we have enjoyed, and the many kind people in Lae who helped to make our stay a very pleasant one, indeed.

9. Finally, I would like you, the Participants, to know how glad we are that the Commission chose our Territory as the venue for this Course, thereby giving us the pleasure and benefit of your acquaintance. You have made a very worthwhile contribution to this Course and I thank you particularly for what Mr. Oakes and myself have learned from you.

10. With every good wish for your safe and pleasant return to your homes, I now declare the 2nd South Pacific Commission Training Course on Incentives to Economic Development officially closed.

Original Text: English

SOUTH PACIFIC COMMISSIONTRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24 September, 1965)

LIST OF PARTICIPANTS

BRITISH SOLOMON ISLANDS	Francis WALEILIA	Executive Officer District Administration.
	Jesimiel AFIA	Farmer and Pastor of South Seas Evangelical Church.
GILBERT & ELLICE ISLANDS	Ioteba Tamuera URIAM	Senior Copra Inspector Retired Local Govern- ment Magistrate and Co-operative Socie- ties Officer.
NEW CALEDONIA	Gaston BELOUMA	Adviser on Rural Co-operatives New Caledonia Administration.
	Etienne MAPERI	Rural Adviser in Basic Education New Caledonia Administration.
NEW HEBRIDES	Iolu ABBIL	Co-operatives Ins- pector, British Administration, New Hebrides.
	Adrien PALAUD	Co-operatives Inspector, French Administration, New Hebrides.
PAPUA & NEW GUINEA	Arua Udu NOU	Co-operatives Officer Grade 2, Papua & New Guinea Adminis- tration, Goroka.
	Makeu OPA	Business Advisory Officer Grade 1. Papua & New Guinea Administration, Lae.

PAPUA & NEW GUINEA

John TOVUE

Agricultural Officer,
Grade 1. Papua &
New Guinea Adminis-
tration, Bougainville.

TRUST TERRITORY OF
THE PACIFIC ISLANDS

Raphael DABUCHIREN

Assistant General
Manager, Yap Co-
operative.

Original Text: English

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24 September, 1965)

WORKING PAPERS

LIST OF WORKING PAPERS

- SPC/EI2/1 - Agricultural Methods, Traditional and Modern
- SPC/EI2/2 - Land Tenure and Related Problems
- SPC/EI2/3 - Technical Assistance for Development
- SPC/EI2/4 - The Rôle of Co-operatives in Economic Development
- SPC/EI2/5 - Provision of Public Services, Amenities and Communications
- SPC/EI2/6 - Prices and Elementary Economics
- SPC/EI2/7A - Some Notes on Incentives
- SPC/EI2/7B - Notes on Incentives - The Stimulation of Desires for Improvement
- SPC/EI2/8 - The Rôle of Marketing and Related Problems
- SPC/EI2/9 - Co-operative Marketing
- SPC/EI2/10 - Other Marketing Organisations
- SPC/EI2/11 - The Need for Credit
- SPC/EI2/12 - Savings and Investment (Including Co-operatives and Loan Societies)
- SPC/EI2/13 - The Use of Visual Aids
- SPC/EI2/14 - Credit Facilities by Government Assistance

Original Text: English

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT
(6-24th September, 1965)

AGRICULTURAL METHODS, TRADITIONAL AND MODERN

By
R.C. White,
SPC Economist.

1. Most of the territories in the South Pacific area are economically underdeveloped and their economies are to a large extent heavily dependent on the production of a variety of primary products either for home consumption or for export. Industrial development has become an important feature in the economies of many of these territories and has progressed well in many areas. Some territories rely partly and in some cases almost wholly on this type of activity. For example, the fish-canning industry in American Samoa accounts for almost the whole of that territory's export earnings; in New Caledonia, nickel and chrome form the largest share of total exports; while in the Cook Islands manufactured goods (apparel) and canned fruit juices now dominate the Territory's domestic exports.
2. Over a fairly long period of time and especially since the end of World War II, the tendency has developed for a gradual movement from pure subsistence production based on shifting cultivation or bush-fallowing methods of production of staple food requirements, to the production of additional crops for sale, either by increased production and sale of surpluses of subsistence crops such as bananas, taro, etc., or by the further step into plantation production of such crops as coconuts, coffee, cocoa and sugar.
3. The introduction of perennial cash crops, such as coffee and cocoa, provides an excellent means of carrying out this transition. This introduction of cash crops generally results in a considerable change in the original system based on subsistence. In many cases, profits made from sale of cash crops encourage farmers to extend production of these crops and to substantially reduce the level of subsistence cropping which is gradually replaced by the use of imported foods as a major part of the diet. This is not universal, however, and there still remains the necessity for concentration on improved methods of agriculture from the pure subsistence types to the more advanced sedentary types.
4. There are many ways in which production efficiency can be increased. Although the system of bush-fallowing may be wasteful and inefficient and require a major clearing effort for each crop, the regrowth after harvest tends to prevent physical and chemical degradation of the soil. Increased efficiency can result from a reduction in labour requirements for food production by practising rotational cropping instead of taking only one crop from each clearing before allowing it to revert to bush fallow.
5. Nevertheless, the greater part of the indigenous population depends on subsistence farming for its livelihood and any moves towards improvements in living standards, which depend largely on the agricultural sector, should include emphasis on the modernisation of traditional farming practices, which in turn depend so strongly on family labour and are characterised by inefficient methods resulting in limited production and below average yields.
6. In conditions of pure subsistence, practically the whole labour force is used to produce food requirements and to fulfil the customary duties attached to social life in the village. There is usually little in the way of other goods

produced and the general living standard is consequently usually fairly low and is susceptible to hard knocks from unusual conditions such as drought or other climatic hazards. Experience has shown that gradual improvement in methods of cultivation results in an expansion of agricultural production usually with a declining labour force.

7. Under these conditions, where food requirements for the sustenance of a single family might have been supplied by the efforts of that family on their own behalf, with improved methods there exists the possibility that the food requirements of a number of families can be produced by a single family, resulting in a surplus of manpower which can be directed towards increased production of cash crops or of non-agricultural goods. Needless to say, such increased production for the market depends on the existence of a market which can absorb the increase. Again, the necessity for investigation and extension of both internal and external marketing must be emphasised.

8. Problems of economic development planning may easily arise from these improved conditions in the agricultural sector. In most territories, the surplus manpower made available can be economically utilised in the manner indicated, i.e. by an increase in the production of cash crops or non-agricultural goods or by diverting it towards capital works programmes made necessary by the expansion of agricultural production, e.g. irrigation works, roads, bridges, port facilities, etc.. However, an increasing supply of this surplus manpower without some parallel increase in non-agricultural economic activity could present future employment problems for unwary planners. This is a point to be watched by Administrations and their development planners. Without diverging too much on this point, it might be noted that, in developing countries where accent is placed on industrialisation, the tendency arises of selecting the most modern equipment which usually requires a minimum of labour. These same planners, then, should give careful consideration to the relative advantages of simpler and more labour intensive processes which would have the effect of absorbing larger numbers of labour units.

9. Varying types of subsistence cropping can be improved by the introduction of new food crops, by a shortening of the fallow period and a more efficient use of areas cleared for cultivation, by the introduction of the use of fertilisers either by the use of chemical fertilisers or by natural fertilisation methods such as composting, green manures and cover legumes.

10. Rotation of subsistence crops has been tried and proved successful in many areas and further investigation of the likely results from extension of such methods is warranted. Clearance for cultivation by burning should of course always be well controlled and producers should be educated as to the possible damage to soil and vegetation from excessive use of this type of clearing method.

11. While the transition from "stone to steel" has become quite widespread in the area, there are likely to be some remote areas where stone axe and digging stick are still used extensively. Some research in this field in New Guinea (R.F. Salisbury, Ph. D. "From Stone to Steel") has shown that this mere transition to the use of steel bladed axes reduced by as much as 30% the amount of male labour required to maintain a level of production previously attained with more primitive implements. If this labour were directed towards additional production it could be capable of producing substantial increases (with the possibility of surpluses for sale from the subsistence sector).

12. A sufficiently scattered population, owning large areas of arable land, can be assured of an adequate provision of food from a system of bush fallowing, given relative freedom from extreme conditions, but such a system is only suitable for subsistence production. Any move towards modernisation of traditional agricultural methods relies for its success on continued emphasis on the transition to agricultural systems of a more stationary type.

13. Population growth and economic development are usually found to be fairly closely related, accompanied as a rule by a rapid growth in town populations with the accompanying requirement of additional food production. To satisfy these demands for additional food (and to avoid the necessity to resort to extensive and often expensive importations of foodstuffs) not only

is there a need for increased food production by more efficient methods but incentives must also be provided to induce subsistence producers more and more into the money economy, involving also the development and extension of the marketing facilities of assembly, preparation and distribution.

14. On the one hand, low production levels and yields can often be attributed to unsatisfactory land tenure systems which sometimes present obstacles to the use of individual energy and initiative. (This subject will be dealt with more fully in a later session). On the other hand, they may be the result of necessarily small scales of production undertaken on a family basis. It has been pointed out elsewhere that moves are being made to reduce these limitations imposed by customary (and often complicated) land owning practices by the promotion of land reforms which will allow individuals to use land on their own behalf by conferring some form of individual title on the user. Such title to land, of course, facilitates the provision of credit which is so often necessary as an aid to increased production for the market. Methods of consolidation and collective use of small farm areas will also be suggested for discussion in a later session.

15. The move from pure subsistence production to production for the market has already been made in Pacific territories. The acceleration of this move and the resulting increases in production depend not only on the extent of the education and assistance given to indigenous producers in the change to modern agricultural practices, but also on the willingness of these producers to accept the advice and assistance so given and to benefit from them. Lifelong habits are often very difficult to change and doubts as to the value and reliability of so-called modern, efficient methods are of course encountered in all areas. Agricultural extension officers working in close contact with indigenous producers are quite often the victims of severe frustration. At every opportunity, resort must be made to the use of physical demonstration, not only by extension officers on experimental plots but also by bringing to the notice of all producers the successful results of a fellow producer e.g. from the use of a new method of husbandry or by the introduction of fertiliser.

16. Improved agricultural methods embrace many practices untried by large numbers of indigenous producers; the introduction of higher yielding varieties and new crops; better and more timely soil preparation; the controlled use of fertilisers and insecticides; rotational planting and regular farm maintenance; the use of more mechanical equipment; and the introduction of irrigational systems. The use of machinery of various types in the production, harvesting, collection and marketing of many products has become fairly widespread but is so far confined largely to non-indigenous producers who, as a rule, operate on a larger scale than indigenous producers and who consequently have better access to capital funds and borrowing facilities.

17. Nevertheless, the use of mechanised equipment for the processing of cash crops for sale, for the clearing and tilling of the soil in preparation for planting and for the collection and despatch of crops to the market is spreading more and more to indigenous producers who have the necessary resources. Here again, in many areas, the formation of cooperative societies has facilitated this move but again also the major problem is one of a lack of adequate security for the loans which are nearly always the essential requirement to enable purchase or hire of such equipment. Private lending authorities are always very hesitant to lend without adequate security for their loans, usually in the form of a mortgage over land and property but sometimes in other forms, e.g. a charge on the proceeds of a particular crop. Most of the money being lent to individual indigenous producers comes from government funds allocated for this purpose, but this is also usually in limited supply. The possibility of easing this situation by initiating reforms in land holding policies has already been mentioned above.

18. The introduction of these new techniques of course requires careful investigation and consideration and must go hand in hand with investigations of market potentials and extension of existing marketing arrangements. Co-operative producer and marketing organisations have already been established in many areas and governmental extension services and the provision of agricultural credit mentioned above by semi-governmental specialised agencies are becoming more common. Continued action in these directions of course remains a necessity.

19. It is unfortunate that most of the territories in this area rely on a fairly narrow range of primary products for their supply of foreign exchange which is necessary to finance imports of consumption and capital goods, imports which will tend to increase as a result of increased incomes obtained from increased output and improved marketing arrangements. It is also unfortunate that, not only are the prices of these products on world markets subject to quite drastic fluctuations but also that Pacific territories, as comparatively small producers, are not in a position to greatly influence these prices. The levels of production of products which suffer from these fluctuations are not easily adjusted and producers are therefore placed in a most vulnerable position. Differences in rates of return as a result of price movements are not always well understood by the small producer and offer an effective obstacle to increased production which is sometimes difficult to overcome.

20. Although this lack of diversification in export products may apply in many territories, it does not necessarily mean that there is also a narrow range of products grown for subsistence or for sale and/or exchange at local markets. On the contrary, there is usually a fairly extensive range of products which are grown and consumed locally. These, however, are not subject to the same price movements as are those offered on export markets except perhaps in times of extreme climatic conditions. In addition, this diversification in production for local consumption provides a good example of the safeguards which result from having a number of products on which to rely.

21. Of course, it is quite easy for the technical expert or the economist to advocate diversification of production and to advance theories on the benefits to be obtained from it but it is quite a different matter sometimes to produce convincing evidence that such diversification will ensure a lasting economic advantage within a reasonable time. Experimental farms and research stations under the direction of Departments of Agriculture in many territories are undertaking extensive experimentation designed not only for the improvement of existing crops but also for the introduction of new crops. The emphasis placed here on diversification cannot be directed towards a particular crop in a particular territory; the intention at this time is to direct attention to the need to increase the variety of crops and the necessity to co-operate with the authorities in any attempted introduction of alternate products. This is another field where demonstration by example, especially by a fellow producer, can have effective results.

22. The easing of pressures exerted by rapid population growth in many territories will depend on production increases, in the subsistence sector and the non-subsistence sector, at least at the same rate as the increase in population. To assist in the development of this increase and to provide some means of reducing the vulnerability of territories to movements in prices on world markets, increased emphasis has been placed on a greater diversification of crops produced both by establishing new crops for export and by introducing import-replacing products where this is possible. This requires many adjustments to social and economic habits and, as already pointed out, cannot be successful without the interest and cooperation of the population.

23. Exports of agricultural products, either in their natural state or after some form of processing, have proved to be the great provider of foreign exchange for most territories and must continue to do so for some time, with increasing support from the export of non-agricultural products from some areas. In a predominantly agricultural economy, the largest share of the financial resources required for the development of other sectors of the economy and to provide funds to meet the cost of government must come from the agricultural sector. Disincentives to increased production can easily occur in this respect if the burden on agricultural producers is allowed to become out of proportion, although in the early stages of development this is extremely difficult to avoid. The presence of other primary industries e.g. mining, fishing, forestry, of course make it possible to ease the pressure of this burden on the agricultural producer.

24. The ease with which export duties and similar levies can be imposed and collected makes them a favoured method of revenue raising by administrations in developing countries, especially since most countries have some sort of statutory requirement regarding the submission and collection of information

relating to the exports of domestic products thus facilitating this revenue collection. In many territories, income tax has also become an important source of government revenue although the collection of this tax is sometimes quite costly and there are possibilities of an unjust levying of tax on some sectors. In both these cases, it must be emphasised that rates of tax at excessive levels will act as a strong deterrent to increased production and development will suffer accordingly.

25. It is essential, of course, that, in considering the potential uses of funds drawn from the economy, of which the largest share comes from the agricultural sector, attention must be given to the needs of that sector as well as to the development of the non-agricultural sectors.

26. In all aspects of agricultural activity which have been mentioned in this paper, some form of guidance and leadership is essential to the smooth operation of activities connected to the production of goods for local consumption and for the market. In subsistence conditions, leadership is usually demonstrated by chiefs, family heads or other customary authority. In the transition to activities beyond the subsistence level, this guidance becomes more important. In the first instance, because of the lack of knowledge and experience elsewhere, it is usually provided by governments through their education and agricultural extension services. As this activity becomes more firmly based so does it become necessary for this guidance to be more widely distributed. The training of leaders is essential and this is one of the important reasons for your presence at this training course so that you may return to your home territories not only better equipped to carry out your own particular activities but also to be able to pass on to others in your areas any knowledge you have gained to enable this guidance and leadership to be more easily promoted.

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT
(6-24th September, 1965)

LAND TENURE AND RELATED PROBLEMS

By
R.H. Boyan
SPC Co-operatives Specialist

INTRODUCTION

1. Ways in which kind of land tenure affects production -
 - (i) No clear title to land.
 - (ii) Uneven distribution of land.
 - (iii) An individual who plants trees is not sure he and his heirs will continue to get the produce from that land.
 - (iv) Division of land when the holder dies.
 - (v) One person owns several scattered small pieces instead of them being in one block.
 - (vi) Chances of large-scale production.

NO CLEAR TITLE TO LAND

2. Inonda area of Papua - In New Guinea Research Unit Bulletin, "Land, Work and Productivity at Inonda" by Crocombe and Hogbin, it is pointed out that "the overlapping claims of various clans and sub-clans cause uncertainty as to the rights of each, in particular with respect to lands planted with cash crops". They then quote a dispute over land on which some people planted coffee claiming that any previous rights had long since lapsed, and give other instances where planting was inhibited because of uncertainty over land title. Is this common in territories represented?

UNEVEN DISTRIBUTION OF LAND

3. In some places some individuals or families have large areas of land, others have a little. In his Report, "The Fijian People: Economic Problems and Prospects", Professor O.H.K. Spate writes -

"The essential disadvantage of mataqali holding is that there is no rational relation at all between the numbers of cultivators in any one unit and the amount of land available to them. Natural disparities, such as the contrast between mataqali holding thousands of acres in the hills and those with a few tens of acres in the plain are irrelevant or must be accepted as given. Of course, most if not all human societies show great disparities in the availability of economic opportunity, and there are worse things than mataqali holding - large absentee landlordism, for example. The point is this: in a relatively undifferentiated society of small farmers, in single villages with natural homogeneity of opportunity, ownership of land is divided into units in such a way that not only are energetic individuals given little chance of obtaining sufficient land on reasonably secure title, but the size of the units normally does not permit effective collective working. In extreme cases, whole mataqali may be practically denied any

possibility of economic advance, while others in the same village may have more land than they can use."

Crocombe and Hogbin say this also occurs in Inonda.

4. From the point of view of production, uneven distribution of land may not matter if each holder can use all his land. How far is this true, or how far true that some people cannot use all their land and some are short?

NO SECURITY FOR AN INDIVIDUAL

5. Refers to situation where land under control of family or extended family head who can dispossess a man of his right to take produce from trees he has planted.

6. Related aspect is where the man who does the planting is allowed to carry on but the family head demands a very large share of the produce or the money received for it.

DIVISION OF LAND

7. Under some customs a man's land is divided among all his sons or children when he dies. Blocks get smaller and smaller. Maybe too small for a living or too small to use good agricultural methods.

FRAGMENTATION

8. Under some systems a man's land is not in one piece but scattered. This may be combined with division when a holder dies. Result is that one person has a number of very small pieces of land scattered over a wide area. Efficient use is very difficult.

LARGE-SCALE PRODUCTION

9. In many countries of the world land ownership is in the hands of a few people so that most rural dwellers work for wages. Sometimes this leads to more efficient production, e.g., generally in the Pacific the yield of copra per acre from large plantations is greater than that from the small coconut groves.

POSSIBLE CHANGES IN LAND TENURE TO ACHIEVE GREATER PRODUCTION

10. Two aspects -

- (a) More land used for production.
- (b) Greater production per acre.

11. Each possible change should be considered from point of view of -

- (i) Benefits and advantages.
- (ii) Objections.
- (iii) Difficulties in making the changes.

THE SETTLING OF TITLES

12. Benefits. The settling of titles will enable a person to plant in the certain knowledge he or his heirs will reap the benefit.

13. There should be no objections to this procedure except from those who lose the decision when there is a dispute.

14. Difficulties are -

- (i) The large amount of work to be done.
- (ii) The cost - either to Government or to the individual.

THE REDISTRIBUTION OF LAND

15. Enables fuller use of land where some lying idle.

16. Objections.

- (i) Many owners do not like to give up land even though they are not using it all, because it is their traditional land or because ownership gives prestige.
- (ii) Increase of population in a family, clan or tribe may cause a shortage amongst those who lost land.

17. Obstacles.

- (i) Is land to be taken over and transferred without payment to the original holders? If not, how will it be paid for?
- (ii) Will this be associated with right to sell land? If so, will there be some limits so that a person does not act to the harm of his descendants and so that large areas of land do not get into the hands of one person or group of persons?

INDIVIDUAL TENURE

18. Mainly refers to making a change when land held on some form of communal title and an individual has no firm rights as against other members of the family, clan or tribe or the head of the family, clan or tribe.

19. Spate says on page 9, paragraph 51 of his Report -

"It is my firm conviction that for the Fijian countryside the objective should be a community of independent farmers, living or working on holdings heritable, and alienable at least between Fijians, but retaining in each village or Old Tikina area a common centre - church, school, guest-house, parish hall, chiefly residence - where the old dignity which the koro is so rapidly losing may be recaptured, and relying for essential joint services on some equivalent of a Rural District Council; a community less the old frustrations (though doubtless with its own), but not less rich in real satisfaction."

20. Advantages.

- (i) The advantage claimed for individual title is that the holder will be more encouraged to make the best possible use of the land so as to get the highest possible income.
- (ii) Access to loan monies.

21. Objections.

- (i) May lead to a breakdown of the whole social system.
- (ii) Effect on the income of those at present in control of the land and its products.

- (iii) Many individuals will not make good use of the land either because they are lazy, incompetent or not interested in a high income.

22. Obstacles.

- (i) The opposition of those who say the social system will be broken down and those who at present have control.
- (ii) The work and cost involved in settling individual titles.

PLANNED COMMUNAL DEVELOPMENT OF LAND

23. Some claim that land is most efficiently developed by working it in large units by some form of group work with or without state control. This system has been tried extensively in various forms in communist countries.

24. Advantages.

- (i) The main advantage claimed is the opportunity to use machinery on a large scale.
- (ii) Also claimed that this system enables advantage to be taken of large-scale farm or plantation production.
- (iii) Consistent with retention of traditional communal ownership and working.
- (iv) Solution to problems of fragmentation and too great a division of blocks.

25. Objections and difficulties.

- (i) No individual incentive. A few lazy ones encourage others not to do their best. Many attempts in Pacific not successful. Are there instances of success? Available evidence indicates not highly successful in communist countries and in some a change towards individual operation.
- (ii) Needs highly competent leaders - who are not always available.

LEGAL RESTRICTIONS ON DIVISION OF LAND

26. Means law passed preventing division of farming blocks to below a minimum size.

27. Advantages.

- (i) Gives a more workable unit.

28. Objections and difficulties.

- (i) What are younger sons to do? Better chance of success where industrialization going on.
- (ii) Interference with freedom of individual to do what he wishes with his land.
- (iii) Need to pass legislation.

LEGAL RESTRICTIONS ON FRAGMENTATION

29. Advantages, objections and difficulties similar to those of legal restrictions on division of land.

CO-OPERATIVE FARMS.

30. To be dealt with in separate session.

MAORI LAND INCORPORATIONS IN NEW ZEALAND

31. Small blocks joined together and each owner given shares equal to estimated value. Operated as one block with a professional manager. Members of group do work on farm on full- or part-time basis. Insufficient full-time work for all so some find other work nearby. Covered by special legislation.

THE CITRUS REPLANTING SCHEME IN THE COOK ISLANDS

32. See preliminary reading paper "Co-operatives in relation to Capital Formation and Credit", page 6.

WARANGOI 15-ACRE BLOCK SCHEME

33. See preliminary reading paper "Co-operatives in relation to Capital Formation and Credit", page 6.

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

TECHNICAL ASSISTANCE FOR DEVELOPMENT

by

R.C.White,
SPC Economist

Definition

1. Technical assistance can be described as the sharing of skills and knowledge among (and within) nations as a means of providing economic and social development in underdeveloped countries.

Resources and Skills

2. Many difficulties and uncertainties confront developing territories in the early stages of development.

- (a) Low education levels
- (b) Scarcity of skilled labour
- (c) Lack of managerial ability
- (d) Shortage of capital
- (e) Administrative weaknesses
- (f) Institutional limitations (land tenure)
- (g) Balance of payment difficulties

3. The dependence of economically less developed territories on exports of primary products, especially agricultural products, has been stressed already and increased agricultural exports appear as an important requirement for further development.

4. Most underdeveloped countries possess large physical resources which have so far not been tapped. In addition, they also usually have a considerable supply of human resources which could provide potential for economic development. Many Pacific territories fit into this category. However, despite this supply of potential labour, shortage of well trained and skilled personnel severely hampers the rate of development.

Investment - Public and Private

5. Available information suggests that formation of capital in most territories is progressing at a fairly high rate. Public (i.e. government) investment is helping with development plans in the provision of new roads, bridges, harbours, etc... Private investment is also significant in the area and is stimulated by measures designed to attract investment capital, in particular from overseas.

6. Public investment, however, continues to provide the major contribution to development in the area. Until recent years, private investment was confined largely to the non-indigenous sector, but investment in the indigenous sector, mainly in the form of direct application of labour (but also in many cases of the acquisition of vehicles and machinery), has been responsible for some significant changes in this situation in some areas. However, lack of education, skill and capital funds has been the cause of rather slow rates of development in this sector.

7. In developed countries, where the lack of skilled personnel is much less felt, the training of technicians and the acquisition of skills have been a continuing process. Specialised institutions have been developed to provide the training which is necessary, not only of the "trained" but also of the "trainers".

8. The supply of skilled personnel and the quality of their skills are usually very closely related to the level of development and the facilities available for training. "On the job" training may be a necessary first method but extension to other fields of training is an essential.

Aims of Technical Assistance

9. The essential aim of technical assistance is to meet the need which is created by this scarcity of skilled personnel.

10. Accelerated development will require new types of skill and training which cannot always be acquired from existing facilities. Temporary relief may result from the use of foreign technicians and experts in some fields or from extending existing qualifications of local personnel by specialised training elsewhere.

11. Economic development, as it has been defined in the subjects for discussion in this course, implies a more complex productive system which will demand that levels of knowledge and skills at present existing must be adjusted to suit such a system.

12. "... technical assistance policy must aim at national self-sufficiency in training all kinds of skilled personnel for every aspect of the country's economic life: administration, planning and programming, education, pure and applied research, fuel and power, agriculture, industry and handicrafts, internal and external trade, tourism and transport."(1)

13. The principal object of technical assistance, therefore, is to help people help themselves by providing instruction in technology, in the technical and managerial skills and in the application of improved techniques in the means of production, health, education, administration and management.

How Technical Assistance is Given

14. The provision of technical assistance may include advice and assistance by experts or consultants in improvements to or implementation of communications, road works, governmental services, resource surveys and economic planning. It may include the training of local personnel by means of fellowships and scholarships (usually in more developed countries due to lack of facilities in home countries), or by participation in training institutes, seminars, conferences and working groups. Technical assistance can also be provided by distributing information in technical publications.

15. Experts or consultants may work individually or in teams to advise on or to assist in a particular field of activity; to establish a new policy or institution; and to train local staff so that they have the necessary ability to continue with projects which have been established.

(1) "Problems of Development. Technical Assistance. Definitions and Aims, Ways and Means, Conditions and Limits" by Maurice Domergue, Organization for Economic Co-operation and Development, November, 1961. (Page 21)

16. The training of local personnel can be effected by the granting of fellowships and scholarships in subjects which contribute to economic and social development, either in an industrial or administrative capacity or at university level. Group training methods in the form of seminars, short training courses and discussion groups can be successful in providing for common needs by providing instruction for a large number of trainees from one or several areas; this method can also provide solutions to problems in one country by knowledge and experience gained in other countries.

17. Distribution of published information requires little elaboration except to mention that such information can arise from a number of sources. Reports of meetings of experts in a specific field of activity and of the results of scientific and industrial research and pilot and demonstration projects are often rich in information of this nature. In addition, many international organisations act as clearing houses for booklets, bibliographies and other sources of information.

18. In the process of providing technical assistance, it often also becomes necessary to provide limited amounts of equipment and supplies as a part of the programme, e.g. books and other material for training and technical equipment for demonstration and experimental purposes.

Increased Development

19. One of the primary objectives of the underdeveloped territories is increased production by improved methods in agriculture and other primary industries and by the gradual development of industrial activities. We have already seen that improvements in agriculture are made necessary by increased demands for :

- (a) food supplies for both rural and urban populations;
- (b) supplies of raw materials for expanding industrial operations;
- (c) foreign exchange receipts from exports to pay for much needed imports.

20. Other primary industries also play a significant part in the economies of many territories. Large stands of good forest timber are evident in many areas although these are not always worked to their fullest extent; commercial fishing is becoming more and more important; and some possibilities exist in relation to mineral deposits. The lack of knowledge and technical skills required for the most beneficial development of these industries has been the target for technical assistance programmes and some worthwhile improvements have been achieved.

21. The use of modern techniques in the processing of agricultural, fishery and forest products, resulting in increased efficiency and expanded production, can only be extended as far as the available supply of knowledge and skills will allow. The same thing of course applies to non-agricultural development. Extension of transport and power facilities, improved communications (post, telegraph, radio, etc...) and industrial development, all require careful investigation which may need the services of experts to determine the best direction to move in these fields. This is a further activity in which technical assistance can and has been used.

22. In the field of health and education, the application of modern methods has been responsible for raising general standards of health and hygiene and reducing death rates, and for preparing a firmer educational foundation necessary to the acquisition of greater knowledge and skills.

23. Changing social attitudes which accompany the growth to more advanced stages of development quite often produce problems which require the services of experts. The growth of town populations which has been occurring in many territories presents a particular problem to administrators and some have sought the assistance and advice of town-planning experts. Marketing problems which arise as a result of this type of growth may also require investigation. Problems of land ownership are present in almost every field of activity and modification of land-holding policies demand expert knowledge and experience. Instruction and guidance in the establishment and organisation of the cooperative movement also requires specialised qualifications.

Sources of Technical Assistance

24. Where does all this assistance come from? At the beginning of the discussion we said that technical assistance was the sharing of skills and knowledge among (and within) nations. The first source of technical assistance, therefore, exists within a particular nation and results from the sharing of these qualifications by the more advanced sectors of the nation perhaps in the form of farm advisory services, business training seminars, training courses for cooperative organisations. These may be started by private organisations who are anxious to improve the quality of a particular product or to increase the volume of production being offered to the market. They may be initiated by government or semi-government organisations for similar purposes (but not necessarily for the same reasons - profit is usually the governing factor in private organisations).

25. On the international front, this assistance can come from a number of different sources. Many countries offer technical assistance to underdeveloped countries as a means of facilitating their development, on moral grounds as well as on political or economic grounds.

26. Perhaps the most important sources of technical assistance are the large international organisations such as the United Nations Organization (U.N.), the World Health Organization (W.H.O.), the Food and Agriculture Organization of the United Nations (F.A.O.), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Labour Organization (I.L.O.), the International Monetary Fund (I.M.F.) and the International Bank for Reconstruction and Development (IBRD). Other organizations, like the South Pacific Commission for instance, are also very active in this field.

27. Assistance may be given at the request of governments through their metropolitan governments or administering authorities and can usually be initiated by these bodies. Assistance through the United Nations Expanded Programme of Technical Assistance can only be given in response to requests from governments. The assistance under this Programme is financed by the voluntary contributions of more than eighty nations. These contributions are pooled annually into a central fund. The United Nations Technical Assistance Board coordinates the assistance provided by the international organisations under the U.N. Programme which includes projects undertaken by the United Nations Special Fund. The Special Fund programme concentrates more on surveys of resources, the establishment of vocational and advanced technical training institutions and industrial research centres.

Conclusion

28. Technical assistance is not something new. Over a fairly long period of time it has been referred to by different names and there has perhaps been some confusion in the use of terms when referring to it. Nevertheless, the services performed by religious missions involving agricultural and medical education and extension, the work of world-wide institutions in post-war rehabilitation, hunger prevention, etc..., and the extension activities of national governments in dependent or other countries are all forms of technical assistance.

29. Some of these services may involve some form of technical cooperation

(it is not uncommon for a country to give as well as receive technical assistance) and/or financial assistance. Indeed, many countries have not the financial resources to continue projects commenced as part of a technical assistance programme without some sort of financial assistance. A common form of financial assistance in Pacific territories is that of non-repayable grants made by metropolitan governments. The size of these grants has grown substantially in recent years in some territories. Another source for these funds is the International Bank for Reconstruction and Development and other international institutions (the International Finance Corporation provides finance for non-governmental projects and the International Development Association provides developmental loans). Of course, many territories are also resorting to internal loan raising as a means of financing economic development.

30. The assistance provided to underdeveloped countries throughout the world under the United Nations Programme emphasises the valuable contribution which can be made to economic development by the international sharing of skills and knowledge.

31. "Valuable as are the techniques introduced by foreign experts, they must often be adapted to the social and economic structure of the recipient countries. The lasting success of individual projects must ultimately lie in the hands of the leaders, technicians and officials of the country itself."⁽²⁾

(2) "The Expanded Programme of Technical Assistance for Economic Development of Underdeveloped Countries. An Explanatory Booklet." The Technical Assistance Board, United Nations, New York, 1961. (Page vi)

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT
(6-24th September, 1965)

THE ROLE OF CO-OPERATIVES IN ECONOMIC DEVELOPMENT

By

R.H. Boyan,
SPC Co-operatives Specialist.

CO-OPERATIVES AND INCREASED PRODUCTION

1. There are many different kinds of co-operatives but the kinds which have mainly interested those living in villages in the Pacific islands are -
 - (i) A co-operative in which a number of people join together to sell what they produce for the best possible price. This is called a marketing co-operative.
 - (ii) A co-operative in which a number of people join together to help them get store goods at the best possible price. This is called a consumers' co-operative.
 - (iii) A co-operative in which a number of people join together for saving and for lending to one another. This is called a credit co-operative or a credit union.
2. In many places in the Pacific there are co-operatives which are partly marketing co-operatives and partly consumers' co-operatives. These are usually called dual-purpose co-operatives. In some parts of the world there are co-operatives which are partly marketing, partly consumers' and partly credit co-operatives. These are usually called multi-purpose co-operatives. However, most people think that it is best if credit co-operatives are kept separate.
3. Co-operatives are not like fertilizer or better seeds which, if used, can immediately cause an increase in production. Sometimes the starting of a co-operative does not help increase production even though it gives other benefits. At other times, the starting of a co-operative makes better use of land and what comes off and out of land, and better use of people's working time and better use of money so that production is increased. Sometimes co-operatives will encourage people to work harder to get more income so that production is increased.
4. In this course we are not here to learn all about operating a co-operative. The important thing is to study ways in which co-operatives can help in attempts to increase production. In special sessions we shall study how the giving of marketing services, and the giving of credit through co-operatives can help in these attempts. We shall also see in a special session how the existence of a co-operative retail store can often encourage more production. In this session we shall study two things. First, how single-purpose, dual-purpose or multi-purpose co-operatives can be made use of in other ways to help increase production and, second, how some special kinds of co-operatives can help. Most of these special kinds are not yet common in the Pacific. But interest in them is growing and as they become better known, interest in them is sure to grow.

IMPROVED AGRICULTURAL METHODS

5. We have already studied the need for improving agricultural methods if production is to increase. In some countries co-operatives have helped in

this. It is very difficult for agricultural extension officers and others who are trying to persuade farmers to use better agricultural methods, to get in touch with every farmer. It is much easier if extension officers can meet all the farmers in one area at one meeting. This may be a meeting in a hall in a village or it may be a gathering of all the farmers at a farm where a demonstration is going to be given of some new agricultural method, for example, the use of a rotary hoe for cultivation between rows, or the right way to prune a cocoa tree. There is a good chance of getting all or most of the farmers of an area together for such a purpose if all or most are members of a co-operative. They are used to coming together for meetings and the secretary knows, or should know, how to get in touch with each one and get him to the meeting. The secretary should also know what is likely to be the best time and day for each farmer. Knowing this he can make the most suitable arrangements with the extension officer.

6. Farmers in all countries are well-known to be very careful before they adopt a new idea. One good reason for this is that in farming it is often some time before the results of a new method become clear. If it is not successful then the farmer may lose a lot of income and it will be some time before he can make up the loss. For this reason experimentation and demonstration are very useful. Usually, agricultural departments will try out new methods at their own stations before trying to encourage farmers to use them — unless, of course, the method is so well proven that further experimentation is not needed. But even if the experiments at the station are successful there may be conditions in another area which make the method not suitable. If this is likely it is a good idea if experiments can be made also in that other area. A good way of doing this is for all the members of a co-operative to agree to work together with the help of the extension officer on a piece of land made available by one of their number or on a piece of communal land. This piece of land should be just big enough for a proper experiment — I am not suggesting the starting of a collective farm because experience with these in the Pacific has not been very happy. If the demonstration is successful, that is, gives much better production for the same amount of work, or the same production for less work, then the members can see the wisdom of doing the same on their own farms. But it is essential that the improvement must be clear to everyone.

7. In a place called Comilla in East Pakistan a big new scheme is being tried out in an attempt to increase production. One part of the scheme is teaching what are called "model farmers". These are selected for special training once a week in improved methods which they are expected to use on their own farms and encourage the other people of their village to use after the latter have seen the better results from the farm of the "model farmer". This seems to be a good scheme where most of the farmers are not prepared to join in an experiment in their own village and where it is certain that conditions on the farmer's own farm are similar to those where the special training is given so that he is sure he will gain and not possibly lose by trying the new methods. But it does seem that farmers can see the advantages quicker if they join together through their co-operative organization to try out a new method on one piece of ground. Another advantage of working in this way is that the members have plenty of opportunity of talking about the good points and bad points of the new method.

8. Work with agricultural extension services can be done by groups of farmers other than a co-operative. Thus there are Farmers' Clubs, Young Farmers' Clubs, 4H groups, etc.. If there is not already a co-operative in the village it may be easier to form one of such groups instead of becoming involved in the procedures needed to register a co-operative. But if there is already a co-operative in the village it seems silly to form a new group to try out new methods because the existing organization of the co-operative with its president, committee, and secretary and its routine for calling meetings and making all sorts of arrangements makes it easier to try the experiment. Or, if it is clear there is no need to make an experiment at the village, then the co-operative organization makes it easy for the extension officer to pass his knowledge to the members.

9. Sometimes dual-purpose co-operatives grow to the stage where they handle all the copra produced in the village and meet all the members' needs of consumer goods. It seems they cannot grow any further and the members and committee and officers get bored and lose their enthusiasm. One way in which boredom may be banished is to keep in touch with the agricultural department so that new methods can be constantly tried out. In countries like America, England, France, Australia and New Zealand, new methods are being tried all the time and, as a result, production per acre has been rising for years.

CAPITAL

10. Things that can be done to increase production sometimes need money. This may be money for better seed or fertilizer, or for the buying of some kind of agricultural machinery, or for the buying of cattle or fencing wire. Or members of a co-operative may want to buy a truck, ship or processing plant.

11. An individual farmer wanting to buy seed or fertilizer or insecticides or small tools will often be able to buy these things from his income. If not he may be able to get credit through a co-operative or from another source. This subject we will deal with in a later session.

12. Machinery, cattle, fencing wire, ships, trucks and processing plants are more expensive. Sometimes a farmer may wish to buy them for himself alone. This will mean saving, and, perhaps, some borrowing. This again is a matter we will deal with in the session on credit co-operatives. However, it should be mentioned that in Fiji some of the dual-purpose co-operatives allow the members to save by making deposits which they can withdraw at any time.

13. Instead of trying to buy costly things individually, farmers will often agree for their co-operative, or a new co-operative formed for the purpose, to buy and manage the machinery, cattle, processing plant, truck or ship. The money the farmer has to find as his share is much smaller than if he had to make the purchase alone. There are several ways in which the co-operative can get the needed money. First, each member agrees to take out more shares which they pay for gradually. Second, some of the surplus at the end of the year can be kept back. Third, a loan can be obtained for part of the total amount needed. A well-run co-operative has a good chance of getting such a loan in many territories.

CO-OPERATIVE MACHINERY POOLS

14. In many countries there have been co-operative machinery pools. For example, instead of each farmer buying a tractor, they form a co-operative which buys one or more tractors and hires it or them out to members. Sometimes the co-operative employs a driver who always goes with the tractor; sometimes the farmer who hires the tractor has to do the driving himself.

15. The advantages of co-operative machinery pools are -

- (i) One farmer does not have to spend a lot of money on a tractor which he might want to use for only a few weeks of the year.
- (ii) Any surplus of income over the expenses of the co-operative comes back to the farmer.
- (iii) The farmer has no worries about maintenance of the tractor, purchase of spare parts, etc.. Nor has he to build a special shed in which to keep the tractor.
- (iv) The farmer, as a member of the co-operative, has more say in the use of the tractor than if he has to hire one from a private person.

16. Co-operative machinery pools have not always been successful. Some of the reasons are -

- (i) A farmer prefers to own his own machine because of the prestige he gets from ownership. In addition he may be able to hire it out to other farmers. So, a farmer who is doing well may save some of his income, then order a tractor or other piece of machinery on a hire-purchase basis, and drop out of the co-operative.
- (ii) Quite often all the members want the machine at the same time which, of course, is impossible. This leads to arguments and, in addition, some of the members may not get their turn until it is too late to use the machine.
- (iii) The co-operative sometimes has trouble in keeping a good driver and in having the machine properly maintained.
- (iv) There is a lot of waste of time and money moving the machine from farm to farm.
- (v) The planning of the best use of the machine is a difficult job and no-one in the co-operative may have the time and ability to do it.
- (vi) Some farms are so small that the cost of getting the machine to the farm and operating it there is more than the money got for the extra production.
- (vii) Proper accounting and financial methods are not followed.

17. It is clear then that although co-operative machinery pools have played a useful role in some places, any suggestion to start one needs to be carefully studied and very carefully planned. This is what the Registrar of Co-operatives, Fiji, said in his 1962 Annual Report about the machinery co-operatives in Fiji -

"The agricultural machinery societies, which provide their members with the use of tractors, agricultural implements and ricehullers, continue to perform a useful service. Unfortunately, due to the failure of the members to appreciate the economic facts of life and to keen competition, rates charged do not cover depreciation so that when the present equipment is worn out, the societies will be unable to replace it unless they raise fresh capital. As this is unlikely, the societies are all heading for a slow but certain death."

THE SUPPLY OF FARM REQUIREMENTS

18. Throughout the world co-operatives have helped farmers obtain supplies needed on their farms. These include such things as seeds, fertilizers, insecticides, tools, machines, wire, feed for cattle, poultry, pigs and even minks, fish nets, petrol, tyres, and spare parts.

19. In many cases farmers have started supply co-operatives or added that function to marketing, dual-purpose or multi-purpose co-operatives because they have been dissatisfied with the quality of supplies they have been buying from private suppliers. Sometimes a number of co-operatives have joined together to make their supplies. One example is in Queensland where the poultry-farmers have their own feed-making mill. Another example is the oil refineries in the United States and Canada.

20. In some cases farmers have started supply co-operatives so as to be sure of getting those supplies when they want them. In other cases they hoped to get the supplies for a lower price.

21. When farmers start a supplies co-operative merely to get a better price the only result may be increased income for the farmers at the expense of the merchants. However, if that lower price encourages the farmers to make more use of the supplies an increase in production may result.

22. When farmers start a supplies co-operative to be sure of better quality or of regular quantities then an increase in production is quite likely to follow, because of the greater use and better quality of those supplies.

CO-OPERATIVE SERVICES

23. Co-operatives which provide services for farmers largely help them by saving their time or doing a job more efficiently than an individual farmer can. An increase in production can easily result.

24. Examples of such services are -

Pest and disease control.

Stud pigs and cattle.

Seed nurseries.

Cattle for adjacent plantations of members (for grass control).

Irrigation.

Electricity.

25. Much is to be gained by carrying out pest and disease control on a co-operative or some form of group basis. There is a net saving in time and each farmer has less fear that his own crops will be endangered by neglect by his neighbours. One example is spraying programmes. Another is the rabbit clearance co-operatives in Great Britain. Perhaps similar methods could be employed in the reduction of the rat population in some of the Pacific islands. To make best use of co-operative pest and disease control it is best that the farms or plantations of members be close together so that looked at from an aeroplane they would seem to be one big farm or plantation.

26. Co-operative ownership of stud animals can do much to increase the quality of animals. The cost of a good boar or a good bull is more than the average villager in the Pacific can afford. But members of a co-operative could keep several to service their own sows and cows. In countries where horse-racing is popular pedigreed horses are kept at studs and the mares are sent there so that faster and faster horses can be born. Those studs are privately owned and the owners of the mares pay fees to the studmasters, but there is no reason why good-quality boars and bulls should not be owned by co-operatives in the Pacific as in other countries. A special co-operative could be started, or an existing dual- or multi-purpose co-operative could add this to their objects.

27. The starting of co-operative seed nurseries would be similar to the keeping of stud animals. Such nurseries could be looked after by an employee of the co-operative who had received special training and the good plants sold to the co-operative members for a reasonable price.

28. If coconut plantations of a number of people are next to one another there is advantage in putting a fence right around the whole lot and introducing cattle which will keep the grass and some weeds down. This can save a lot of work which enables each man to look after a bigger plantation and may also give better yields. The cattle could be individually owned or be owned by the group as a whole. This can easily be combined with the keeping of stud animals.

29. Co-operative irrigation societies are used in many countries including India and Pakistan. It is usually difficult for one man to provide an irrigation system for his own farm but much is possible if he joins with others. In many parts of the Pacific irrigation is not needed but there are some areas which have dry spells and irrigation there can lead to better crops and a better variety of them.

30. The supply of electricity is often treated as a service for consumers. But in the United States of America co-operative electricity societies have provided farmers with electricity to help them make their farm work more efficient. There may be little scope yet for this in the Pacific islands but the possibilities should not be ignored.

PROCESSING

31. Instead of each grower drying his own copra, fermenting and drying his own cocoa, pulping and drying his own coffee, and milling his own rice, there are some advantages in having this done centrally. The biggest advantage is that there is a better chance of getting better and more even quality. Sometimes this may be necessary to get a good price or even to sell the produce at all. Another advantage is that the farmer can spend more time on actual growing and so be able to look after a bigger area.

32. It will be clear that central processing can, therefore, often lead to more production and to a bigger income because of the better price obtained. However, some people prefer to do their own processing as they can get their children to watch the drying copra or cocoa or coffee so that it does not get wet in the rain and the same children or their wives will bring it in at night and take it out again in the morning. This means the men have just as much time to spend in the garden, or wherever else they wish to go, and they do not have to pay processing costs.

CO-OPERATIVES, LAND TENURE, AND LAND-HOLDING

33. An important way in which the co-operative method can help to increase production is through the starting of a co-operative land-holding society.

34. There are several situations in which people may find it useful to start a co-operative land-holding society. The first is that described in the background paper "A Landholding Co-operative Society", by Shew Prasad. The important point about that society is that a grazing lease was too big for any one person, but it was worthwhile for several to join together to obtain a lease, and as they joined together for mutual help it was appropriate they should form a co-operative for the purpose. The article gives details of the working of the society, and the possibility of following the example in other areas is worth consideration. There are now two other similar societies in Fiji.

35. A similar situation is where a number of persons join together to form a landholding co-operative so they buy a large area of land which they wish to use not for grazing but for farming. One such society was started not long ago in the Sigatoka River Valley in Fiji. The members of this co-operative are Indians. All had been farming but were about to lose their farms because the land was reverting to Native Reserves. They heard of a large block of leasehold land used for grazing but which the owner was prepared to sell. The people considered it would make good farming land. They made enquiries and learned that, by forming a co-operative to buy the leasehold, it was likely they would be able to get a loan from the Agricultural and Industrial Loans Board. The members put together £1,200 in share capital, registered the co-operative and were able to obtain a loan of £7,000 to pay the price asked by the original lessee. It was not intended that the whole area should be farmed communally, so the next problem was to divide up the whole property into individual blocks. To do this

they obtained a lot of help from the Indian co-operative inspector who had encouraged them in the scheme. The dividing up was not easy because there were different kinds of land and soil in the whole 453 acres. Some was hilly and some was flat. A little was swampy. To overcome this the 453 acres were divided into 38 blocks unequal in size. When this had been done it was considered that each block was of approximately equal economic value. When the division was complete the individual blocks were balloted for, i.e., names and blocks were drawn out of a hat. This was done by the Development Commissioner for Fiji at the request of the members in quite a big ceremony at the lease. Each block is held as a sub-lease from the society.

36. The name of the society we have been talking about is Dubalevu Landholding Co-operative Society Limited. Each member will be responsible for his own block, but they will co-ordinate their planting activities and will make use of all suitable co-operative services. There seems no reason why each member should not make a good living and the land be used to best advantage. In July, 1963, another similar landholding society was registered. The members are intending to buy 546 acres of freehold land on which they have settled as tenants.

37. The next situation where a landholding co-operative can help production is where land tenure rules give little encouragement to an individual, because he does not know if he and his children are going to reap the benefit of hard planting work he is willing to do. The laws of some countries where there is no individual title to land allow a co-operative to get a long lease from the joint owners or family head as the case may be. This done, the co-operative is then in a position to give sub-leases to the members the same as the Dubalevu Society has done. The possibilities of this approach to land development deserve close consideration.

38. Another situation where people can use co-operative landholding to help increased production is where a special farm or plantation is started on which members spend part only of their time, unlike the Dubalevu scheme where the individual blocks will be a full-time job. It is generally agreed that in the Pacific big plantations give better yields than the small plantations owned by villagers. However, co-operative methods can help villagers to get all the advantages of large-scale plantations. One possibility which does not appear to have been used is for a co-operative group to obtain a large block of land on which to grow bananas, using the best proven agricultural methods to get the greatest possible yield. Each member should have his own block within the whole area for which he is mainly responsible on a part-time basis, but a wide range of co-operative services could be used. For example, control of scab moth could be a responsibility of the co-operative, not the individual — the co-operative could employ dusters full time, or members could take it in turns to work all day on dusting. Other matters which could be a co-operative responsibility would be grass and weed control (on suitable land there would be scope for some machinery), packing and transportation (vehicles could perhaps be used to collect the bunches and bring them to the packing point). The exact organization of the co-operative would depend to some extent on local conditions, but the general idea could be applied to many crops.

39. In talking of landholding co-operatives emphasis has been placed on subdivision into individual blocks. In some parts of the world there has not been this subdivision and members work the whole area together. One of the best-known examples are the Kibbutzim in Israel. This is what is usually called co-operative farming and for this reason the Dubalevu and other schemes which have been described in paragraphs 33 to 38 have been called co-operative landholding societies to avoid confusion. There are many types of organization to which the name co-operative farming has been given, but many of these should be called collective farming as the co-operative features are very unimportant. Generally speaking, attempts at collective or communal farming have not been successful in the Pacific and it is interesting to note that even in Israel there

has been a drift towards individual holdings with a wide range of co-operative services. It is suggested therefore that in the Pacific co-operative methods are best suited to agriculture where each farmer owns his land or leases from a co-operative landholding society.

CO-OPERATIVES AND THE PROVISION OF PUBLIC AMENITIES AND COMMUNICATIONS

40. Governments are usually expected to supply such things as roads, bridges, wharves, radio stations, postal facilities, etc.. But resources of all governments are limited, because they depend mostly on taxes for their revenue.

41. In some places villages have shared with government the making of new roads, bridges etc., particularly access roads to villages and plantations as contrasted with main roads, though sometimes main roads have been built on this basis. Co-operatives can help in this either by members agreeing to work free or by the co-operative undertaking construction from their own funds. The construction of wharves is one suitable undertaking in some circumstances. This has been done by a large co-operative in the Finschhafen area of New Guinea; the main purpose of the wharf is to provide facilities for the society's own vessel.

Original Text: English

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

PROVISION OF PUBLIC SERVICES, AMENITIES AND COMMUNICATIONS

by

R.C. White,
SPC Economist.

Functions of Government

1. The governments of all countries should be vitally concerned with the progress of economic development. It is part of their duty to find money for and to perform the tasks which, it is usually agreed, should be carried out by governments.
2. The primary functions of governments are the maintenance of law and order and the defence of the country. In the exercise of this function over a very long period of time, many more activities have been added to the list which it is usual for governments to perform. The provision of roads, bridges, harbours, education and public health are only a few.

Government Sector and Private Sector

3. Of course, many of the activities carried out by governments in some countries may be carried out by private individuals or institutions in other countries and vice versa. The extent to which certain activities are carried out by governments and others by the private sector as a rule reflects the wishes and the beliefs of the people and each country must decide for itself the way in which these tasks are to be divided between the government and the private sector.
4. Efficient government is sometimes hard to achieve and governments of underdeveloped countries, usually representing the authority of an administering metropolitan government, must rely in the early stages of progress on a large proportion of imported officers. It has become the practice, however, that these imported officers should more and more act as trainers of local inhabitants, with greater emphasis on the ultimate transfer of administrative authority into the hands of these local inhabitants.
5. Economic progress depends quite strongly upon the activities of governments and of their administrative and legislative action. This is especially important in underdeveloped territories where there tend to be more activities which can usually be carried out more easily and more efficiently by governments.

Government Activities

6. The fields of activity in which governments are most active are somewhat varied. Some of them are:
 - (i) the control and maintenance of public services;
 - (ii) influencing the proper use of resources;

- (iii) influencing and encouraging the direction and growth of economic institutions;
- (iv) controlling the quantity of money and economic fluctuations;
- (v) ensuring adequate measures for employment;
- (vi) influencing the distribution of income and the level of investment;
- (vii) influencing both social and economic attitudes.

7. Many of the goods and services that are used every day by some or all of the population and which are of great benefit to the public generally, cannot be paid for every time they are used in the same way as one would pay for a loaf of bread or a packet of cigarettes; e.g. roads, schools, water, electricity. The provision of these services is as a rule undertaken by the government (sometimes through a government-owned organisation which operates independently). There are cases, of course, where these services are provided by private interests, but if there is any possibility of a "monopoly" control, they are, or should be, kept under close scrutiny to prevent them from taking unfair advantage of their position.

Public Utilities

8. Public utilities (water supply, gas or electricity, public transport, etc...) are mostly provided by governments because it is usually not an economic proposition for private institutions to provide them. There are also sometimes special controls which are necessary and cannot be properly exercised unless in the hands of the government; the costs of establishment and of running them do not always permit a large enough profit (many of these utilities are run at a loss); there is sometimes not a sufficient market for more than one enterprise and this "monopoly" control is often better centred in government hands. Of course, there are other reasons why it can be more beneficial for some activities to be under one control, e.g. it would not be very good practice for water supply to be handled by more than one supplier - it would create great difficulties if a number of competing organisations all began digging up roads for pipe-laying and maintenance.

9. Overall, then, it becomes the duty of governments in the exercise of these various activities to ensure that an adequate share of their total expenditures is devoted to roads and communications, education, public health and to other public and social services.

Developing Countries

10. These are the activities normally carried out by governments but in developing countries there are a number of other activities which, because they are so important to economic progress, are also carried out by or with the assistance of governments. This may be because there is no attempt by private enterprise to enter these fields or if there is, the available knowledge and experience is not sufficient to ensure satisfactory results.

Marketing

11. Marketing research, the development of new market outlets and the establishment of marketing agencies are important fields in which governments of developing countries can play an important role. We will raise in a later session the possibility of increasing efficiency in marketing by the introduction of governmental marketing agencies and of government assistance in marketing, both on local and overseas markets.

Experimentation and Research

12. In Pacific territories, we all know of the existence of governmental experimental stations where experimenting with existing crops and the introduction

of new crops are continually being carried out. Private organisations as a rule have interests which must be served first and hence the overall benefit of the results of such work might tend to be restricted. There are many instances, however, where private organisations are giving very valuable assistance to governments in this regard.

New Industries

13. There are some territories in which the establishment and operation of new industries are being carried out by governments because there is no attempt (or because of lack of knowledge and experience) by private individuals or institutions to carry out these activities. Sometimes, these industries are transferred to private operation at a later stage. Government-owned sawmills, processing plants and shipping lines are examples of some of these industries.

Savings and Credit

14. The fundamental requirement for continued economic development which has been emphasised throughout is the necessity for increased production. In Pacific territories, this means first of all an improvement in agriculture and other primary industries but industrial expansion must not be neglected. In all of these activities the provision of credit which is so important to the small operator is not always readily available from private commercial institutions. The governments of these territories must therefore look for ways of mobilising the savings of these operators and using them to good advantage. Other forms of potential financing institutions have also been established. This is also the subject of a separate session however, and will be discussed more fully then.

Lack of Facilities.

15. A very large part of the problem in many territories is the shortage of some basic facilities such as transport, communications, water supply and electric power. In many cases, these facilities are necessary before increased activity is possible. The small-scale agricultural producer perhaps suffers most from these shortages. The need to provide an adequate road network, and other facilities in productive areas is of course realised by most governments, but in some instances their provision is delayed by lack of available funds. Local communities can assist to some extent by using their own labour in building roads, dams, schools, etc..., with financial assistance from governments to cover the cost of materials and of technical services.

16. Some administrations have made attempts to overcome the shortage of capital funds and the need for improved methods by establishing a pool of transport and machinery which can be made available, usually at a favourable charge, to interested producers. There are problems of access and maintenance involved here, of course, especially if the area to be served by such a pool is an extensive one.

Cost of Government Services

17. These services cannot be provided by governments unless the financial resources are available to meet their cost. Government financing is a study on its own and is not a subject which can be treated in great detail here. However, it is necessary for the inhabitants of a country to understand that the provision of these services costs money and that they must make some contribution towards this cost.

Local Revenue

18. The revenue which is collected by local administrations in many territories in the Pacific area is much less than the total amount required each year to pay for the cost of these services and to provide for the general cost of government. The difference between these receipts and expenditures is usually made up by non-repayable grants from metropolitan governments (or from

international institutions) and by borrowing both from local residents or from overseas residents or institutions. Servicing charges (interest, etc...) on these loans add to the cost of government.

Direct Taxes

19. Local revenue can be collected by a number of charges on income earned, services received and other activities. Income tax is a common method in many territories but it is often very difficult to impose at a rate which is fair to all members of the population especially where, in the case of a large number of small producers, it is almost impossible to ascertain the earnings of a large number of the population. Collection of the tax in such cases is also extremely difficult.

20. The introduction of a "poll" or "head" tax is often adopted in some territories in an attempt to overcome this situation. This tax is usually levied at a uniform rate on all (male) members of the population over a prescribed age and having the necessary earning capacity to pay the tax. Collection of this tax is always fairly costly and 'net' income received has sometimes been almost negligible. These forms of taxation are referred to as direct taxation because they are borne by the person who actually pays the tax.

Indirect Taxes

21. Indirect taxes, such as import duties and export duties, sales taxes and purchase taxes, are levied in terms of the volume of goods bought and sold. In less developed countries, and in particular in Pacific territories, revenue received from import and export duties is a most important source of government funds. These duties (or taxes) can be imposed with greater ease in many cases since the products on which they are imposed must, by law, pass through the Customs Department of the territory concerned which then is in a position to calculate the amount of tax to be paid.

22. It may be said that some small producers who sell their products to traders or other buyers do not, therefore, pay export tax and that when these producers (or any other customer) buy imported goods from a trade store, they do not pay import tax. In the session on marketing (see SEC/EI2/8) you will see that export duties can be considered as a marketing cost. This is so because the trader or other buyer who buys the products of the small producer, and later markets them himself, pays the export duty but also makes allowance for the amount of this duty in calculating the price he pays to the producer. In the same way, the trade store, which has to pay import duty on the imported goods it sells to its customers, adjusts the prices of these goods to allow for this duty. This is why these duties are referred to as indirect taxes - they are not usually borne by the person who pays them but are "passed on" to someone else.

Other Receipts

23. Governments have, of course, many other means of collection of revenue; payment of various fees for licences for trading, for operating vehicles and machinery, for owning animals, etc...; collection of royalties on some types of land or resource usages; collection of fees and fines for civil and other offences; stamp duties and postal charges; revenue from the operation of public medical facilities; land revenue and mining receipts; and charges for services of public utilities.

Conclusion

24. Collection of sufficient revenue and its allocation between general costs of government and activities designed to promote and assist development are tasks which have presented difficult problems in many areas. In countries with economies similar to those of Pacific territories, investment in research and development, especially of a long-term nature, is often risky and costly. The

lack of experience and imperfect knowledge of existing and prospective "entrepreneurs" and their consequent uncertainty regarding profitability are limiting factors. These and the shortage of capital funds make it unlikely that expenditure on research and development will reach satisfactory levels without encouragement and assistance from governments.

25. Many territories are too small and cannot afford the money necessary for this research and development work. We have already seen how these territories may be assisted by the provision of technical assistance. Governments can assist further by establishing and supervising these activities.

26. A high standard of public services and amenities and continued assistance in crop experimentation, market research, etc..., do not necessarily ensure continued development and increased production. Extension services in agriculture and other primary industries and in other sectors of the economy must be used to convince producers and consumers alike of the potential value of efficient services and more advanced techniques. The assistance and cooperation of all must be enlisted in the provision of these services and in the introduction of these techniques.

Original Text: English

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

PRICES AND ELEMENTARY ECONOMICS

by

R.C. White
SPC Economist

1. The time available for this session does not permit a detailed study of the functioning of all price systems and of the complex subject of economics. However, there are certain aspects of economics and economic activity in which we are more interested and about which there are some misunderstandings in the territories in the Pacific area. For this reason we will concentrate on two topics which are considered to be important in relation to development in the area. These are:

(a) The functions and uses of money.

(b) The pricing mechanism and how it works.

(a) The functions and uses of money.

2. Although the economies of the Pacific territories cannot be described accurately as money economies, all territories have become accustomed to using modern money as a means of paying for goods and services, of paying wages and of selling goods and services in return for money. There are, of course, many areas where goods are exchanged for other goods, where work is exchanged for work or where traditional forms of money such as shells, special stones, dogs' teeth, etc., are used to obtain these things. However, the economies of most territories are moving more and more towards becoming money economies in the modern sense and it is necessary to understand where the money comes from and what are its characteristics and functions.

3. Most of the payments made by one person to another are related to the exchange of goods and services. Exchange of these goods and services without the use of money is called barter and can often become quite difficult and complicated. For example, for a successful transaction you must find someone who has what you want and is willing to part with it and who wants what you have and are ready to exchange. This is not the only difficulty to be overcome. How are comparative values of various goods established and do they always remain the same? It is often very hard to decide these values, e.g. how much taro must be exchanged for a pig or what is the value of a bush knife in terms of tobacco? It is quite possible that several exchanges would be necessary to obtain the desired article.

4. As you know, in most places where goods and services are freely sold, money is now accepted and this is why we say that money is a means of payment or a medium of exchange. Most territories have their own paper money and coins (issued by or on behalf of the government) which together constitute "legal tender"; that is to say it can be legally offered in payment for goods and services or in settlement of a debt. Some territories use the currency (i.e. notes and coin) of their metropolitan governments which is still, however, regarded as legal tender and has the same uses as a means of payment.

5. Thus we see that by using money as a means of payment, we not only get over the difficulties that arise from barter but we also enable trade to be developed to a greater degree. By reckoning the values of goods and services, payments of wages, etc., in terms of money, each person is able to translate the value he receives into a particular form he may desire. In this way, money acts as a measure of value or a measure of relative (comparative) values.

6. Money is perhaps best described as the most "liquid" form of resources because it can be easily transferred into some other type of good or service. But it can only be regarded as a suitable medium of exchange, a measure of relative values and a liquid form of resources if it is generally acceptable in exchange for goods and services. The general acceptability of the particular form of money in use is therefore an essential characteristic.

7. In different countries over a long period of time, many things have been used at different times as a means of exchange, for instance tobacco, cowrie shells, gold-dust and so on. Because it was easier to carry than most other things and because one piece was as valuable as another piece of the same weight, gold gradually ousted the other things which were used and came to be one of the most recognised forms of money in exchange. However, these days even gold has lost its popularity as a direct means of exchange and the use of paper money and token coins has become customary in most countries. The value of the paper and metals used in making the paper notes and token coins is always much less than the value which can be received in exchange for these notes and coins. In many countries, the issuing authorities (usually a central bank for notes and the government for coins) must hold reserves of gold to cover all or part of the value of notes and coin on issue. However, so long as the issuing authority, either the central bank or the government, undertakes to give value to the amount printed on the face of them and so long as people are confident that other people will accept them as a means of payment, these notes and coins remain as satisfactory means of exchange.

8. So far we have confined ourselves to a description of money in the form of notes and coins. However, there are other forms of money but it has become usual to restrict the term money to mean cash (notes and coin) and bank deposits which can be drawn on by cheque or by notice of withdrawal. Because of the confusion which arises by using various terms such as cash, deposits, bank money, cheques, credit, etc., it is convenient to use the term money to mean cash and deposits only. Bank deposits still constitute part of the money supply whether they be savings bank accounts or trading bank accounts. Of course, the main difference between these two types of accounts is that savings bank accounts are for the (usually small) contributions of cash earners on which a low rate of interest is paid while trading accounts are slightly different in that these accounts are used for drawing cheques for the payment of debts, wages, etc.. In addition, there are such accounts as time deposits accounts in which a certain sum of money is lodged for a certain period for payment of a rate of interest slightly higher than savings bank interest. These are special accounts which do not concern us greatly here and which are slightly less liquid than cash and other bank deposits although they are usually included as part of the money supply.

9. We will see later in this session how we will measure changes in the value of money but it is also necessary to explain why the value of money changes.

10. First of all, where does money come from? We have found so far that notes and coin are issued on behalf of the government. But the government does not just give notes and coin away. We get them by producing and selling goods and services which are exchanged in normal transactions. If we found that the amount of money we each possessed was increased overnight without any equivalent increase in the amount of goods and services, we would

be unable to buy more of these goods and services but would have to pay more for them. This is one of the factors which determines the value of money - the quantity of money in relation to the volume of goods and services available. The more money there is available in terms of a fixed quantity of goods and services the less will the value of each piece of money be, and the smaller the amount of money available in relation to a fixed quantity of goods and services, the more value will each piece of money have.

11. None of us has a fixed sum of money from which we make payments as they are required. We are continually receiving sums of money for goods and services produced and paying out sums of money elsewhere in return for goods and services supplied. In addition, these receipts and payments of money for goods and services are not always made at the same rate. There are times when they are made quite slowly and other times when they are made immediately some money is received. There may be times when conditions do not look favourable and we only buy just what we need, postponing our purchases of other things for the future when conditions may become brighter. Other times, when favourable conditions make the future look bright, we spend our money quickly. This is what we mean when we say that money circulates with a certain speed or velocity. And the value of money is determined not only by the amount of money available in relation to the volume of goods and services but also to the speed with which it circulates. If we spend our money slowly, the effect is the same as if there were a small amount of money available in relation to goods and services and the value of money rises (prices fall). On the other hand, if we spend it quickly, the effect is the same as a large amount of money in circulation and the value falls (prices rise). We say then, that the value of money is determined by the volume of money in relation to the volume of goods and services and by its velocity in circulation.

12. The third function of money is as a store of value. Because of the undertaking given by the issuing authority, money, whether in the form of notes and coin or bank deposits, can be kept indefinitely for future use. (Notes are usually made of good quality paper and coins of some hard-wearing metal to give them the lasting quality or durability which is also an important characteristic). If it is not immediately required it can be kept until some future time when it can be used to buy goods and services to the same value at the prices then being charged. Money which is kept in this way for future use is called savings and we will see in the next session the ways in which these savings can be made and the uses to which they can be put. The important point is that the value contained in these savings can be withdrawn and used at any time.

13. We have seen now that the three functions of money are:

- (a) as a means of payment or a medium of exchange;
- (b) as a measure of value or a measure of relative value;
- (c) as a store of value.

(b) The pricing mechanism and how it works.

14. In a subsistence economy, the things which are produced are confined to such necessities as food, clothing, housing, etc. (and to the means of providing these necessities) for a particular family or group and shortages of these things can usually be made up by barter which has already been described. In a money economy, the goods and services which are produced are those for which other people are willing to pay a price high enough to make it a worthwhile proposition to make them for the market.

15. The amount of money we are prepared to pay for a particular article is an indication of the value we put on it. The price of any article is the amount of money which we must pay to the seller of that article if we wish to buy it. The prices that consumers are prepared to pay for different goods

and services do not remain the same forever. As desires for certain goods change, so do the prices of those goods change. The volume of goods and services offered to consumers also changes. Unfavourable weather conditions, shortages of raw materials, etc., may be responsible for a reduced volume of goods offered. In all markets where goods are bought and sold in competition, the basis of the pricing mechanism is the balancing of the demand for these goods and of their supply.

16. Demand is usually defined as the quantities of a particular commodity which buyers are prepared to buy at various price levels. It is dependent on the amount of money (available income) that the buyers have to spend, the pressure of all their other demands for other goods and services and the attraction, availability and comparative price of alternative items (substitutes). Usually, the lower the price of a commodity, the more of that commodity will be purchased; the higher the price the less will be purchased.

17. Demand of course must be effective demand, i.e., the quantity of a commodity which a buyer is able and willing to buy at a given price. Desires for a particular commodity can of course be greatly in excess of demand and do not affect the price of that commodity until they are exercised in the form of effective demand.

18. Supply is usually defined as the amount of a given commodity which is offered for sale at various price levels. Usually, the higher the price, the more is offered, the lower the price, the less will be offered.

19. Where goods are actually on the market and non-sale may involve further costs of storage, transport, etc., the seller may be compelled to sell at a lower price because the withholding of these supplies from the market might involve further losses. If such a condition continues and there appears to be no prospect of the market price covering expected costs, some producers will ultimately turn to other means of earning an income and the supply will diminish.

20. Neither demand nor supply remain constant for long periods. An increase in the demand for a commodity from buyers trying to satisfy their requirements in the face of a small amount of that commodity in the hands of sellers, will cause a rise in the price because the demand is greater than the supply and buyers are prepared to pay a higher price for what they want. If, following a favourable season for instance, the supply of this commodity again increases, the price will fall again and when the point is reached when supplies are in excess of demand, sellers will most likely be forced to reduce prices further to encourage buyers to buy more.

21. There are many factors which are likely to change the demand for goods and services. These include movements in population resulting in a larger number of people to be fed, clothed, housed, etc., increases or decreases in income earned and thus in purchasing power, changes in tastes or preferences for particular products, changes in the relative costs of products which may be substituted for each other or which may be necessary or essential for correct or efficient use of other goods (complementary goods). Changes in buyers' expectations about the future price of certain items (i.e. in their estimates of the strength of demand in the future) can substantially alter their current demand for these items.

22. Changes in supply may occur in much the same way. Increases in the amount of land being used and in the number of people working the land may be responsible for increasing the supplies of certain goods, not only of the goods produced from the land but of other goods which are necessary to this production. Favourable seasons, the introduction of fertiliser in agriculture, the establishment of new techniques and the introduction of new machines, in both primary and secondary industries, which reduce production costs below their former level, may also affect supply. Inefficient

use of land and a reduction in the number of people working the land can be responsible for reduced supplies of certain goods. Sellers' need for cash for payments of storage costs, sustenance, etc., may also be responsible for a weakening of their bargaining power, followed by alterations in the conditions of supply in the form of lower prices. Views as to the future prices of certain commodities (in other words, estimates of the strength of future demand) may also effect significant changes in the supply position. Changes in the cost of labour and other direct production requirements may result in significant changes in the supply of certain products and some producers of a particular product which is so affected may go out of business and cut off supplies entirely.

23. We shall see later that there are many kinds of markets and many ways of marketing goods and services. However, the two general kinds of market which concern us here are the local market and the world market.

24. Local markets include both market places where goods produced locally are bought and sold and retail stores, trade stores, etc., where imported goods are also sold. In these markets in many territories, price fluctuations (i.e. movements in prices which occur from time to time) are not very great and for many goods, buyers are usually prepared to pay the price which is asked by the seller. These prices are determined in terms of production and marketing costs including transport charges, duties, freight, etc., and the cost of imported goods and only vary when these costs vary. There are often cases, however, when, for one or more of the reasons given above, certain items do not sell very quickly and sellers (traders) are compelled to reduce prices to enable them to sell these goods. This is a good example of the supply being greater than the demand and of the adjustment which is necessary to bring them into balance. Of course, this effect can be reversed and prices can rise as a result. In many cases, especially with goods which deteriorate quickly, it is often better to reduce prices slightly and make a sale rather than to store goods and have them spoil and be unsaleable at a later date.

25. Although the effect is perhaps not as great on local markets as on the world market, the law of supply and demand still operates as an effective determinant of prices of goods and services offered for competitive sale.

26. When we speak of the world market, we are referring to the competition between producing and consuming countries in the world for the sale and purchase of goods and services. This does not mean, of course, that there is a single market place for these goods and services and that all countries must transport them to and display them at this market place for the benefit of buyers. What is meant is that the goods and services from different countries are offered in competition with one another but are handled by agents or distributors who sometimes never see or handle them.

27. The prices paid for goods on the world market are also determined by the law of supply and demand. Although coffee, cocoa, peanuts, etc. grown in Papua & New Guinea are sold in Australia, copra from the Solomons is sold in London and nickel from New Caledonia sold in Japan, the prices received for these commodities depend on the balance which exists between the total supply offered and the demand of buyers in these countries. Where goods are produced at a particular time of the year, (i.e. where there is a seasonal factor) it is usually the case that supplies of these goods are plentiful during the best part of the season. This may mean that the price at this time of year for these commodities may not be as good as for the same commodities which are grown and supplied to the market out of season when the demand for these goods is high in relation to the supply.

28. Of course, Pacific territories in many cases, produce only a small proportion of the total world production and consequently have a small effect

on the prices on the world market. Copra is a good example of this. The price paid for copra in most territories is based on the price of copra sold in London which is affected by much greater supplies from producers in other countries and by the demand from overseas consumers of copra. Unfortunately, because of this, copra producers in the Pacific area must accept the price paid and are not in a position, because of their small contribution to total world production, to be able to affect the total supplies offered and so influence the price paid. In addition to this, adjustments in the supply position of many of the goods produced are usually of a long term nature so that producers are unable to benefit to the fullest extent from sudden large fluctuations in price. The obvious way of overcoming this problem to the maximum degree is to emphasize the importance of quality improvements which can command a premium over the price paid for lower quality.

29. We will also discuss later in the Course, the reasons why the price to the grower differs considerably in some cases from the price paid by the final consumer. Briefly, this difference is comprised of costs of moving the products from the point of production to the final consumer and consists of such things as grading and processing, transport, storage, handling, freight and other charges.

30. International agreements which regulate the supply and marketing of some commodities have been arranged by producing and consuming countries. The International Sugar Agreement, for instance, affects the production and export of sugar from Fiji. However, these agreements do not apply to most of the products which are exported from Pacific territories.

31. Many of you will also be aware of attempts which have been made to stabilise the prices of some goods by the establishment of stabilisation funds. These funds are usually built up from a levy on the export value of goods and are used to make up the differences in prices caused by fluctuations in supply and demand on the world market.

32. Because of the importance of seasonal factors in the supply of and demand for certain goods and of the requirements of consumers for certain standards of quality, it is important that producers be kept well informed of the needs of consumers so that they can organise production to enable them to supply the market at the most suitable time and with the most suitable quality. Increased supplies do not necessarily mean that reduced prices which occur as a result will mean lower returns. Improved production techniques, more efficient handling methods, better storage, etc., can result in a reduction in costs which will more than offset the reduction in price and be responsible for an increased return to producers.

The Need for and the Supply of Foreign Exchange

33. Another distinguishing feature between the local market and the world market is the use of different kinds of currency. On the local market, all transactions are effected in the same currency, while on the world market or international market, the use of the currencies of different countries is necessary. While it is usual in Pacific territories for a large percentage of total exports to be sent to and received from the metropolitan country, there are nevertheless large quantities of imports received in most territories from other overseas countries for which a supply of the currencies of these countries is required.

34. The problem of foreign exchange arises when the buyer and seller live in countries which use different monetary units. Each of these countries has its own monetary system and, although we are unable here to go into the complexities of relative values and other problems which arise in trade between countries, the supply of the correct currency to pay for goods bought from a country with a different monetary unit is an important factor in overseas trade.

35. With the exception of territories which have won their independence, it is usually the case that the supply of this foreign exchange is regulated by the metropolitan government and imports from outside countries are limited to the amount of this foreign exchange which is made available. In territories where the supply and distribution of foreign exchange are managed internally, adequate supplies, of course, depend on the volumes of exports going to countries outside the area of the domestic currency unit.

36. Mention has already been made of assured markets for some goods in metropolitan countries and of the large shares of imports coming from these countries. Nevertheless, to enable greater selection of imported goods (or to avoid deficiencies which often occur in relation to overseas trade) emphasis is again placed on the necessity for increased production for the market as a means of ensuring a greater supply of the funds necessary to pay for these imported goods.

Original Text: English

SOUTH PACIFIC COMMISSIONTRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

SOME NOTES ON INCENTIVES

(PAPER A)

by

R.C. White,
SPC Economist.1. Definition of "Incentive"

Concise Oxford Dictionary - "Incitement (to action, to do, to doing), provocation, motive."

2. Aims of Incentives

- (a) Offer the opportunity for obtaining the maximum rewards.
- (b) In doing so, must stimulate ways of minimising costs.
- (c) Communicate alternate choices of economic activity as a means of promoting the highest levels of satisfaction.
- (d) Reduce or modify the effects of social and economic change.
- (e) Promote improved living standards.

3. Better Standards of Living

- (a) Increased production results in additional food supplies and increased purchasing power (higher incomes).
- (b) Better houses, water and electricity supply, additional consumer goods.
- (c) Leads to ready availability of these goods.
- (d) Increased (industrial) development to produce these goods may further stimulate agricultural development.
- (e) Demand which follows for fertilisers, tools, agricultural machinery, stimulates their production locally.
- (f) Extension services must make producers aware of these benefits.
- (g) Credit requirements must be met as far as possible.

4. Some Forms of Incentives

- (a) Subsidies by Government:
 - (i) for initial clearing and planting of crops;
 - (ii) for clearing and improving existing crops;
 - (iii) for replanting old or damaged crop areas;
 - (iv) sometimes in cash and sometimes in kind (e.g. fertiliser schemes, and use of machinery);
 - (v) under supervision of extension officers.

(b) Price and quality incentives:

- (i) payment of premium for increased quality (reward);
- (ii) price reduction for inferior quality (penalty);
- (iii) premium must be enough to cover additional costs involved and still leave some reward;
- (iv) rewards and penalties must reflect clearly in the income of the producer to be effective.

(c) Quality requirements:

- (i) must meet requirements of consumer;
- (ii) some dealers or traders may buy low quality produce for additional processing and sale at premium rates;
- (iii) subsequent warehousing and other handling may damage product and result in lower price with a resulting disincentive to better quality by producer;
- (iv) efforts of producer must be matched by development in transport, handling, processing, storage, etc...

(d) Industrial development incentives:

- (i) Tax holidays - relaxation of income or other tax;
- (ii) Concessions in payment of import and export duties;
- (iii) Tariff concessions - usually by metropolitan countries;
- (iv) Special facilities for credit.

5. Information to be communicated to Producer

(a) Price uncertainty:

- (i) price fluctuations avoided if possible (stabilisation);
- (ii) sharp fluctuations explained;
- (iii) differences in prices at different stages of marketing misunderstood due to lack of information and defects in marketing system.

(b) Requirements of consumer:

- (i) standards of quality required by consumer;
- (ii) types of goods required and probable prices;
- (iii) volume of goods required and approximate seasonability (if any).

(c) Instruction and demonstration:

- (i) extension services should try to establish suitable standards and quality;
- (ii) consumers' criticisms (good and bad) must be made known to producer.

6. Adequate Land Tenure Systems

(a) Steady occupancy and eventual ownership:

- (i) security of occupancy and of derived profits;
- (ii) stimulates competitive agricultural system.

- (b) Value of communal system:
 - (i) widespread use of labour;
 - (ii) usufructuary rights and property rights in produce;
 - (iii) redistribution of land discourages perennial crops.
- (c) Individual effort and personal gain:
 - (i) disincentives of communal system;
 - (ii) powers of chiefs and leaders;
 - (iii) traditional gift giving and sharing;
 - (iv) social requirements and communal effort.
- (d) Care required in promoting change:
 - (i) education in new ways an essential requirement;
 - (ii) change must be at wishes of people;
 - (iii) usually a slow process.

7. Problems of Obtaining Credit

- (a) For sustenance while awaiting sale of produce;
- (b) For introduction of new crops and use of new techniques;
- (c) To avoid necessity for preharvesting and faulty processing;
- (d) Discussed fully in later session.

8. Market Availability

- (a) Assurance of market for additional production;
- (b) Government assistance in improvement of marketing system:
 - (i) Distribution of market information;
 - (ii) Improved transport and communications;
 - (iii) Location of markets;
- (c) Central selling organisations (marketing boards or similar organisations):
 - (i) control and fix prices (by grades - emphasis on quality;
 - (ii) usually for one product and purchase all produce;
 - (iii) control sale and distribution of proceeds (partial payment on delivery);
 - (iv) stabilise prices.

9. Cooperative Organisations

- (a) Collective discussion and organisation;
- (b) Reduced costs by increased scale of operations;
- (c) Protection from price hazards of small producer;
- (d) Availability of cooperative credit;
- (e) Distribution of market and other information.

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT
(6-24th September, 1965)

NOTES ON INCENTIVES

PAPER B - THE STIMULATION OF DESIRES FOR IMPROVEMENT

(by R.H. Boyan, SPC Co-operatives Specialist)

1. It has been claimed that in some areas an increase in the price for plantation crops will cause a fall in production instead of a rise as might be expected normally. The theory behind this is that the producers have a limited desire for a cash income, associated with a wish for as much leisure as possible; if they can get that limited income by less production, that is by less work, then they will do less work. Many examples can be quoted to prove this theory is not true. But there have been other indications that it is true.
2. The importance of the theory to our discussions is that if the people of an area wish for a limited income only then changes in land tenure systems, improvement of marketing, the availability of credit and other incentives will do little to increase production.
3. How far then does the theory apply to the territories represented? If it is partly true what can be done to stimulate desires for an improvement in living conditions and a willingness to work harder so that incomes are increased?
4. Before going further we should consider if it is right that an attempt should be made to stimulate to greater activity people who wish to stay as they are. Three reasons why it is right to do so are -
 - (i) If people want improved health and education programmes they must eventually pay for them in some way. There seems to be a universal wish for such programmes throughout the Pacific.
 - (ii) If people want their own governments they must be prepared to meet all the essential expenses of government.
 - (iii) The present generation should not hold back from the future generations the opportunity for improvement.
5. Assuming that attempts to stimulate people towards increased production are justified, what can be done where people just do not have the desire, or if they have the desire, can't be bothered doing something about it?
6. The existence of a desire without the willingness to do anything about it is easier to fix. Sometimes it may be due to a feeling that the hurdles in the way of improvement are just too great. This feeling will be made worse if a large-scale experiment with, say, a new crop is a failure. However, the incentives that have been discussed and those listed in paper 7A will do much to encourage people to try to produce more.
7. An increase in production will be more difficult to secure where people just wish to go along in the same old way. Different ways of stimulating such people to more production are -
 - (i) Use of the prestige motive.
 - (ii) Appeal to national pride.
 - (iii) Making it easier to spend money.
 - (iv) Increasing taxes.

- (v) Give publicity to higher standards of living elsewhere.
- (vi) Government orders them to do so.
- (vii) Do nothing, trusting the wish will come of its own accord.

8. The prestige motive. The wish to have prestige amongst one's fellows is sometimes a powerful stimulant to persons to get wealth. In the Pacific this has usually been seen as attempts to own more pigs than anyone else, or put on the biggest feast or own a boat or a truck. Similar is the attitude in some developed countries that "one must keep up with the Jones"; if they have two cars, then we must have two cars; if they have a yacht, we must have one.

9. National pride. This can be an important stimulant. In the sporting field striving to win for one's country is common. By skilful propaganda the same motive can be used in the field of economics.

10. Making it easier to spend money. If people can see bicycles, sewing machines, outboard motors, cars for sale near them, this will often encourage them to earn more money to buy them. Recently the sight of the first motor scooter on a small island in the New Hebrides belonging to a visiting officer led several people to offer to buy it. Stores spread more widely over the islands will help; these can be operated by individuals, companies, co-operatives or governments. More hire-purchase facilities may help, but there are dangers in hire-purchase.

11. Increasing taxes. A crude form of this method was imposing head tax on villagers who had no chance of earning the money at home so that they would accept employment as plantation labourers. The more refined method is to impose new or higher income taxes - or equivalent taxes. However, if taxes are too high they may discourage effort. Currently in the United States it is proposed to reduce income tax to encourage business to grow.

12. Give publicity to higher standards of living elsewhere. This is similar to using the prestige motive.

13. Government orders. This is being practiced to some extent in Eastern Europe and, from indications, on the Chinese mainland. But there is evidence to show this method is not as successful as encouraging people to produce more voluntarily.

14. Do nothing in hope. Historically there are indications that the wish for higher standards of living will come about naturally. Although this may be true it may be too slow a process.

15. There may be many other answers to this problem. A full discussion is desirable, for all incentives may be wasted unless the attitude of the people is right.

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

THE ROLE OF MARKETING AND RELATED PROBLEMS

by

R.C. White,
SPC Economist.

Introduction

1. Under conditions of pure subsistence, it has generally been the practice for each family or village unit to satisfy its own requirements of food, clothing, housing, etc..., with little need for the production of things for exchange. Consequently there would be no need for trade and therefore no need for a market. However, a seasonal failure of a basic food crop can result in substantial lowering of living conditions while, perhaps in other adjacent areas, producers may be providing more than their immediate needs with no available means of disposing of the surplus. With some transport facilities and storage arrangements and better means of moving between different parts of the same country, an improvement in overall conditions could be brought about by the consequent necessity to exchange goods and a market for these and other goods could develop as a result.
2. Under these conditions, the establishment of facilities for the marketing of excess production would also make it possible to concentrate on the easiest and most rewarding products. These might then be exchanged advantageously for goods which could be more easily obtained from outside the area. Such exchange is possible by using methods of barter (exchanging one type of good for another or others of the same value) in simple village markets and by the use of money (modern or traditional) as a means of exchange as markets become more developed.
3. The establishment of improved marketing facilities has become increasingly important in the promotion of economic development in less developed countries. Food shortages resulting from expansion of urban populations and high price levels as a result of these shortages are associated with inefficient marketing arrangements in some areas while in other areas the need to effect some relief from the fluctuating prices of agricultural products on world markets has encouraged governments to make some moves in this direction.
4. The development of new marketing channels and handling methods is an essential requirement and is hastened by the introduction of or the increase in cash incomes in areas which were previously wholly or largely subsistence areas.
5. Marketing costs which account for differences between the price paid by the consumer and the final return received by the producer are often very much misunderstood. These differences are usually explained in terms of selling and pricing procedures, intermediary charges and institutional fees and duties and taxes which are often levied on these products. Storage facilities and methods of packaging are also important features which add to the cost of marketing and the availability of credit often plays an important role in this field. Much of the difference is the result of such services required between the producer stage and the consumer stage but inefficient marketing arrangements

are often responsible for part of it. Removal of wasteful and inefficient handling methods and of excessive charges, etc..., may result in an increased demand from consumers by a reduction of the selling price without a comparable reduction in the return to the producer.

6. Foreign exchange receipts from the export of agricultural products suffer as a result of an inefficient or faulty marketing system. Purchases of capital equipment (machinery, motor vehicles, etc...) and other imports which are essential for development and which rely on these foreign exchange receipts are thus severely restricted resulting in a further set-back to development.

7. Greater appreciation of marketing principles and mechanisms, of consumers' requirements and of the changing nature of their tastes is essential if territories are to avoid producing the wrong type of goods at the wrong place at the wrong time and are to use their resources to best advantage.

What is Marketing?

8. Marketing may be defined as a combination of all the operations involved in the movement of goods and services from the producer to the final consumer. It therefore embraces the handling of the product at the centre of production and any initial grading, processing and packing which may be necessary to prepare it for the consumer. The transportation of agricultural products from the farm to processing centres and to central packing or selling points and the final distribution to consumers involving storage, finance, risk, management etc..., are also important features of marketing.

9. The word "market" has different meanings. We may speak of the local market meaning a particular centre or building where buying and selling of goods is carried out. We may speak of the market for a particular thing (e.g. the market for motor cars) when we are talking about general conditions relating to the sale or purchase of that particular thing. We may also speak about the market as a whole, when we are referring to all buyers and sellers of all goods and services in a particular area or country, (e.g. the American market).

10. "Marketing" also conveys a different meaning to different people or organisations. For instance, the housewife immediately thinks of the local market where she shops for food and other household requirements. The farmer thinks of marketing as a means of disposing of his surplus produce for a favourable return. Professional marketing organisations, including governments, tend to think of marketing in terms of the discovery of additional or more profitable outlets for products passing through their hands. The economist's interpretation of the term "market" usually refers not to a place but to a commodity or a number of commodities and of buyers and sellers competing with one another in the purchase and sale of these commodities.

Growth of a Market

11. The growth and development of a market may be divided into four different stages. In the conditions of subsistence described above, there probably exists a family market where goods may be exchanged within the confines of a family. With some extension of production as described, local markets develop where buying and selling are confined to a particular, usually small, area. As production methods improve and the volume of production increases, these local markets expand so that goods produced are sold at a national level and all the members of the population can be considered as potential buyers. A further extension of production and the introduction of new products may result in an extension to world markets where some commodities are sold (exported) to buyers in other parts of the world. This evolution is common to all the territories in the Pacific although of course there are still areas in some territories where the market is still confined to the earlier stages of development.

Marketing Enterprises (Middlemen)

12. In these earlier stages of development, the relationship between the seller (usually the producer) and the buyer are on a personal level but when it becomes necessary to move goods over long distances to bring them to the buyer, there is also usually a need for specialised attention to marketing and specialised marketing organisations come into existence. These may take the form of professional marketing agencies or institutions, co-operative organisations comprised of producers or other interested persons or of semi-governmental or governmental organisations.

13. Whatever the type of enterprise which undertakes this organisation of marketing, there are certain functions which it must perform which involve the provision of subsidiary services which are required to facilitate the assembling of products at convenient points, to enable preparation and conversion into a convenient form for sale and to arrange for the distribution to the final consumer.

Assembling the Product

14. The purpose of assembling is to bring commodities together where they are required for further processing or for use in production or for consumption and involves where necessary, the collection of small surpluses from a number of individual small producers. This often requires collection from a number of conveniently arranged central buying points so that small purchases in scattered areas can be avoided. This enables a more efficient use of transport equipment and can result in improved packing and processing facilities.

Preparation for Consumption

15. Any operation carried out by the marketing organisation which is required to change a product to suit the requirements of the consumer can be regarded as preparation for consumption. There are many commodities which cannot be used in their original form and require some form of processing before coming to the market. In some instances, (copra, coffee, cocoa,) part of the processing is carried out by the producer himself but often it is necessary for these commodities to go through a further stage of processing before reaching the final consumer. Sometimes this additional processing may be required to conserve the quality of the commodity or to prevent loss by deterioration.

Distribution

16. Distribution to consumers takes place following assembly and preparation. The commodities are dispatched for sale from storage warehouses, central marketing institutes, processing plants or from individual producers (where production is on a large enough scale - in this case the functions of assembly and preparation would be carried out by the producer on his own behalf).

Marketing Services

17. Two of the most important services which are directly connected to this process are transport and storage. Grading and standardisation of products also play an important role.

Communications

18. One of the main reasons for the slow rate of development in many areas and the continued reliance on subsistence conditions is the lack of road networks and the necessary means of transporting products to a central market. In

many territories, new roads where they did not already exist and improvements to existing roads together with improvements in the means of transport have been responsible for an increase in the variety of goods for consumption both at local markets and for export. A large part of the problem is the lack of feeder roads from farm to main roads. It is often necessary to carry agricultural products by hand or by pack animals over long distances to points of collection or sale. As well as being responsible for damage to commodities, this usually restricts the types and volume of crops grown. Many agricultural crops are also quite bulky in comparison to their value, further adding to this problem.

Transport

19. The means of transporting these goods from the source of production to the place of consumption may be provided by the producer himself or by the buyer. In other cases, where they have to be carried over long distances by land, sea or air, specialised transport agencies may provide the necessary facilities. Perishable goods often require special conditions, e.g. copra must be kept dry during storage and transit to prevent deterioration; bananas usually require cool storage conditions to retard ripening if carried over long distances; and other products may require special handling or packing.

Storage

20. The requirements for storage usually arise in the case of products which are awaiting further stages of processing or availability of transport to move them to the consumer. Here again perishable goods require special conditions and refrigerated warehouse space is often a necessity. In any case, storage space is required to protect the accumulated products from unfavourable weather conditions, from pests and often from pilfering. As a rule, these storage facilities are provided by the marketing authority, adding to the cost of services which it is already necessary to provide.

Grading and Standardisation

21. Grading and standardisation of commercial products can be an important element in the marketing of these products. Grading is carried out by sorting a product into different lots according to quality, size, etc..., before being offered to the buyer. Standardisation means the maintenance of a particular quality or grade. Thus, we hear of a commodity being sold in a number of standardised grades.

22. The purpose of grading is to assist buyers in their selection of the most suitable quality for their purpose and for this service buyers are usually prepared to pay a slightly higher price for a commodity which has been divided into particular grades than for one which includes all kinds of quality in the one lot. It also enables the buyer to decide on a particular lot by inspecting only a portion of that lot to ascertain its quality. If there were no grading an inspection of all the commodity would be necessary. This of course is impossible (except by the use of agents) if the potential buyer is situated at a distant centre. Standardisation of grades enables commodities to be bought by sample, again avoiding the necessity for complete inspection.

23. In the case of many commodities, initial grading is carried out by the producer himself, e.g. the banana grower usually grades his bananas as he packs them by knowing which ones to leave out of the case. Later inspection at central collection points and shipping centres confirms the accuracy of the packer's grading. In some instances, grading is effected at the time the commodity is delivered at the point of collection for processing or other purposes, e.g. it is common to grade copra as it is received by the marketing authority.

24. In many cases, additional grading is required before the product reaches the final consumer. This is then carried out by the marketing agency (or middleman as he is sometimes called) and constitutes an additional service adding to the cost of marketing.

Cost of Marketing

25. This expression "cost of marketing" has already been used in this paper. What does it mean? This cost is roughly measured by the difference between the final price paid for a commodity by a consumer and the final return received by the producer of that commodity. As we have seen, this difference can be made up of all (or some of them) of the charges made by marketing agencies (middlemen) for the handling at local centres, assembling, transport, storage, grading and final distribution to consumers.

26. Producers in most territories do not as a rule fully understand why they receive considerably less for their product than is paid for it by the final consumer. The consumer also often feels that he is paying a price too far in excess of the producer's cost.

27. In the case where the producer himself sells direct to the consumer, marketing appears to cost nothing because the functions of the marketing agency are carried out by the producer himself, and the costs of these functions (transporting goods to local market places, setting up selling stands, actually selling goods, etc...) are borne by the producer. This time and transport could easily have been used to increase production if these tasks were carried out by someone else.

28. Organised marketing agencies, however, are usually able to handle larger volumes of commodities and can operate more efficiently and more economically as a result. In addition, where goods have to be carried over long distances to the buyer, the producer rarely has the facilities to do this and must rely on the service provided by the middleman for which he must be prepared to pay. Naturally, the greater the number and variety of services in the form of assembling, transport, storage, processing and distribution, the greater the cost of marketing will be and the greater the difference between the consumer's price and the producer's return.

29. Of course, this does not mean that marketing costs are never higher than they should be. Many producers are in a weak bargaining position, especially where there is only one or very few buyers, and unscrupulous buyers have often taken advantage of this position. Cases have occurred where buyers have made loans to producers and because of this have some hold over the producer and his product. This sometimes leads to unfair pricing practices. Marketing enterprises themselves may be operated inefficiently by using inadequate transport and storage facilities and by faulty handling methods which add to the cost of this service.

30. The imposition of export duties and other taxes which contribute to receipts of governments also add to the cost of marketing and must be taken into account.

What can be done?

(a) By the Producer

31. The action of selling and buying may take place a number of times during the time a product is moved from the point of production to the final consumer, depending on the number of middlemen through whose hands it may pass. As a rule, the producer is only directly concerned with the initial transaction from himself to the first buyer. He is therefore only in a position to directly influence the return he receives from this buyer.

32. This can be done by means of improving the methods of production, the

processing if any, and the handling of the product before it reaches this buyer. The greater the number of marketing functions performed by the producer himself, the greater the scope for improvement in this direction. This ensures that the product reaches the first stages of marketing in its best possible condition so that it can command the best possible price from the consumer.

(b) By the Marketing Enterprise (Middleman)

33. It has already been mentioned that inefficient and inadequate transport and storage facilities, etc..., can be responsible for excessive marketing costs. Competition between marketing enterprises is usually fairly effective in reducing these costs but often a single marketing enterprise operates for a particular product. In such cases, it is difficult for the producer to influence such a buyer unless he is in a strong bargaining position with his product. Withholding the commodity from sale may have the desired effect. However, this generally requires some storage facilities on the one hand and the ability to maintain living standards while waiting for the return from the produce which is being sold on the other. Lack of capital and access to credit means that these requirements are rarely fulfilled and the producer is usually forced to sell regardless of the low return.

34. Effective results have been achieved by group representation either in the actual process of marketing or in attempts to influence governments in their regulation of marketing enterprises. In this respect co-operative organisations can and do play an important role.

35. Financial support is usually required to enable goods to pass through the marketing system. We have just seen that the grower sometimes requires capital or credit to provide for his sustenance from completion of production to time of sale. Marketing agencies must be able to finance processing and storage plants, transport equipment and premises. This involves charges for interest varying with the supply of funds available and the risk involved.

36. One of the most important risks of marketing is that of a fall in price, with the loss resulting from such a fall (or the gain from a rise) falling on the owner of the commodity. We have already seen that there may be a number of sales in the marketing process so that such a loss may occur at some point between producer and final consumer, e.g. where a professional processor buys goods for processing and further distribution to final consumer. Agricultural products, which are subject to drought, rain and sun are perhaps more susceptible to this risk than other products.

(c) By Governments

37. Assistance in this field can be given by governments in the course of their educational and agricultural extension programmes. They may also provide assistance and protection to producers by ensuring adequate legislation designed to promote more efficient marketing organisation.

38. The supply of adequate communications and means of transport depends a lot on the activities of governments in this regard. The lack of good main roads and feeder roads to these main roads has already been stressed. Financial support required by producers and marketing agencies is not always available from non-governmental sources and it falls on the shoulders of governments to assist as much as possible in this direction.

39. In the absence of satisfactory arrangements for the marketing of many products, marketing boards under statutory authority have been set up in many territories for particular products as a means of improving marketing conditions and procedures. These organisations quite often strengthen the bargaining position of producers by their representation of a large number of producers who

account for a large share of the total production of a particular product. They can also present producers' views to governments in attempts to win better conditions.

40. Of course, the operation of these boards requires some financial resources and the usual practice for them is to operate independently of government and to raise their finances by imposing a levy on sales or by making charges for handling, storage, etc.... These levies and charges then become marketing costs to producers in the same manner as the charges of private marketing organisations.

Summary

41. So far we have seen that there are many types of marketing and many types of marketing organisations. In the early stages of growth, many producers do their own marketing and even in some advanced stages producers still carry out some or all of the operations of marketing, from assembling the product and some processing to the actual sale to the final consumer.

42. Private marketing enterprises also provide marketing services and usually consist of private traders or companies operating for profit. These buyers, who assemble produce from farms or local markets, may be farmers, landlords, shopkeepers, traders and processors or their agents. Before the product reaches the final consumer, they may be associated with such people as commission agents who buy or sell on behalf of a principal for a fee and who take no risk usually, except that competition with other agents demands that they must do well to stay in business; brokers, who bring potential buyers and sellers together, again for a fee, without either owning or physically handling the goods; auctioneers, who sell at a public place to the highest bidder; packers and processors who may be required to carry out additional handling of goods to prepare them for the final consumer; professional transport operators who provide the necessary facilities to move goods from one point to another where these facilities are not available to producer or buyer; and wholesale and retail distributors who buy for distribution to the final consumer, the wholesaler selling in bulk to a buyer for use as a raw material in another product or to a retailer, who usually breaks the large lots down into smaller lots for final distribution.

43. One advantage of private marketing enterprises is that competition usually results in cheaper and more effective handling methods. The situation to be avoided arises when a buyer is able to exercise some pressure on a producer and so force him to sell at unfair prices.

44. Group action in marketing can be exercised on a voluntary basis or on a compulsory basis. Corporations or trade associations of interested producers can be formed as a means of promoting interest in marketing or of carrying out some or all of the functions of marketing. Co-operative marketing societies constitute another form of voluntary association in which group action is the central theme.

45. Compulsory group action usually takes the form of the marketing boards just described where all producers of a particular product are compelled by law to sell through the board, which has sole authority over the marketing of that particular product. Copra marketing boards in many territories are good examples of this type of group action.

46. Marketing boards are sometimes claimed to be a useful means of reducing marketing costs by the elimination of double handling and the use of unnecessary transport over long distances. They are most effective where physical control can be exercised over the product at a particular point such as a port of export. They have been criticized on the grounds that they exercise a monopoly control and restrict the possibility of competition and its accompanying cost reductions.

47. The costs of all services involved in this process of marketing can be quite substantial but in many cases they are necessary to enable the product to be moved from the producer to the consumer. Cost reductions are possible by the exercise of greater care in handling, transporting, processing, etc..., and are the responsibility of all concerned from the producer to the consumer. Any reduction in these costs resulting from improvement in marketing procedure which permits an expansion of the volume of trade should result in a higher standard of living for all the people concerned.

Original Text: English

SOUTH PACIFIC COMMISSIONTRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

CO-OPERATIVE MARKETING

By

R.H. Boyan

SPC Co-operatives Specialist

INTRODUCTION

1. In a large number of the countries of the world a big percentage of the products of farmers are sold by those farmers to co-operatives owned by them.
2. Three important reasons why farmers have started co-operatives for marketing their products are -
 - (i) to get a better price;
 - (ii) to get better services;
 - (iii) because they have had trouble in selling their produce.

OTHER BENEFITS FROM STARTING MARKETING CO-OPERATIVES

3. Many co-operatives that have started for one of the reasons given in paragraph 2 have grown, added new objects and given the following benefits to members -
 - (i) Quality has been improved and therefore the price.
 - (ii) Production has been planned so that the produce of all the farmers does not come to the market at the one time.
 - (iii) Increased services.
 - (iv) Control of the fate of their own produce.
 - (v) More lending opportunities.

IMPROVEMENT IN QUALITY

4. Improvement in quality has often taken place because the co-operative not only sold members' produce, but also processed it. Examples are milk-processing plants, cheese factories, fruit and vegetable canneries, fish canneries, copra driers, rice mills, cocoa fermenteries. The improvement in quality has usually meant a better price.
5. In some countries co-operatives have used some of their income to do research in order to improve quality, and to win new markets and higher prices. This has been a feature of marketing co-operatives in Denmark.
6. Producers may decide to have their processing done co-operatively -
 - (i) To save them the trouble of doing the processing themselves.
 - (ii) To have the processing done cheaper than the price they have been paying private processors.

PLANNING OF PRODUCTION

7. Planning of production is most important for crops which are perishable, although restriction of production is sometimes done where there is over-production relative to the world demand. An example of the latter is sugar for which, until recently at least, producing countries were on a quota.

8. Where there is a known market and there is a limited number of producers of fruits and vegetables who, if properly organized, can have the whole market to themselves, planned production can prevent them taking to the market at the same time more than people want to buy and can prevent there being times when no fruit and vegetables come to the market. Consumers will then look for other sources of regular supply or use tins, etc.. This planning can be done with or without a co-operative. But in a co-operative it can be combined with marketing and transport services. But planned production means skilful management and planning and a willingness of the members to stick by the plan. Difficulties also arise if other people want to become farmers.

INCREASED SERVICES

9. In paragraph 2 it is suggested that some co-operatives have been started because the producers want to get better services. That is, the buyers of their produce may not be willing to buy the produce at the days or hours when the producers want to sell it, or do not buy the produce near the farm of the producer, or do not look after the producer in other ways.

10. After the co-operative has started, the members have found other services which the co-operative can give them. Examples are -

- (i) The supply of farm requirements such as seeds, fertilisers, insecticides, tools and machinery.
- (ii) The provision of transport facilities - trucks, ships, etc.
- (iii) The provision of processing facilities as mentioned in paragraphs 4 to 6.
- (iv) Weed control and disease control programmes.
- (v) Electricity, telephones and irrigation.

11. Some of the most successful farmers' co-operatives are those which have gradually increased the services they provide for members.

CONTROL OF THE FATE OF THEIR OWN PRODUCE

12. Sometimes farmers have formed a co-operative to market their produce not only because they want to get a better price or better services, but also because they think it is not right that some outsider should have control of moving their produce towards the consumer. In some cases the farmers' co-operatives move the produce all the way to the consumer or to retailers. Such retailers may or may not be co-operatives. Sweden is an example of a country where there are considerable direct dealings between farmers' marketing co-operatives and consumer co-operatives.

13. If a farmer lives close to consumers he may be able to sell direct to them. The farther away he is from the consumer the more he has to rely on a co-operative or a middleman to sell his produce for him. Sometimes a farmers' co-operative finds it difficult to find a good market and joins with other co-operatives to form an association which does the marketing for the many small co-operatives.

LENDING OPPORTUNITIES

14. Sometimes marketing co-operatives have been started to make it easier for farmers to get loans. This is usually the case where it is wished to use co-operative credit societies for the making of loans to farmers. India is an important example. Credit co-operatives have been going for many years but are not as strong as they should have been. One reason was that farmers had to sell their produce to middlemen because there were very few marketing co-operatives. New programme in India and Pakistan to start strong marketing societies to which farmers can sell their produce at a better price and deductions made for payment to the credit society to pay back loans made to farmers.

SOME DISADVANTAGES OF CO-OPERATIVE MARKETING

15. No profit incentive. A middleman tries to be as efficient as he can so that he can make as much profit as possible. Not the same in a co-operative unless there is a very keen manager, or a very keen committee or members who demand as much efficiency as that shown by any middleman.

16. Lack of good business knowledge. Many co-operatives are small and cannot pay good wages or salary to the manager or other employees. So, very often their managers are not as efficient as middlemen, whether these are big companies or individuals.

17. Shortage of capital. Marketing co-operatives are often short of the capital they need to operate properly or to expand. One reason is the limit on the rate of interest which co-operatives can pay. So a large amount of member loyalty is needed if the capital needs of co-operatives are to be met.

18. Disputes between members and between managers and committees. The one-member, one-vote of co-operatives makes it difficult for a small number of the shareholders to control the affairs as can be done in a company. Disputes between members may put the co-operative at a disadvantage as against a company controlled by a few strong men or an individual entrepreneur who has to answer only to himself or a partnership where all the partners get along well. There may be a similar disadvantage where the manager of a co-operative is often in argument with the committee, which may consist of people with little business or financial knowledge.

EXAMPLES OF CO-OPERATIVE MARKETING

19. Denmark. A pioneer in co-operative marketing. Particularly strong in dairy products and bacon. Earliest co-operatives resulted from study by farmers of their problems at what were called "Folk High Schools".

20. Dairying in Australia and New Zealand. Co-operatives are very strong in the dairying industry. This is so in many countries of the world.

21. United States of America. Farmers' Co-operatives market a large proportion of the production of a wide range of primary products. One of the largest marketing co-operatives is the Sunkist organization based in California.

22. Japan. A large proportion of farm produce is marketed through co-operatives.

23. Cocoa. In Nigeria and in Ghana until at least recent years, a large proportion of the cocoa crop was handled by co-operatives starting from the village-level societies which forwarded the cocoa on to district unions which, in turn, dealt with nation-wide associations which acted as agents of the Cocoa Marketing Boards which were responsible for overseas selling.

24. Territory of Papua and New Guinea. Co-operatives are established in most of the main producing areas. In 1962/63, these societies handled about 9% of territory production of copra of 74,470 tons. Usual pattern is that members sell to dual-purpose co-operatives; from them copra is collected by district or sub-district associations of co-operatives which sell the copra to a depot of the Copra Board and take a commission to cover their expenses. The Copra Board is responsible for the exporting. In some districts co-operatives have marketed shell for members but during the past few years the market has been depressed.
25. Fiji. In 1963 co-operatives handled 4,917 tons out of a total production of 41,244 tons for Fiji. These are usually dual-purpose societies. Most of the copra is sold direct to a mill in Suva where the oil is extracted. One group of societies market small quantities of yagona root.
26. Gilbert and Ellice Islands. All copra except that produced from large plantations in the Line Islands is bought from members by co-operatives. Overseas selling is done by the Copra Board. Between the societies and the Board is the Colony Wholesale Society, a most unusual organization which can best be described as a semi-government corporation. It acts as agent of the Copra Board, collecting most of the copra from the island societies and storing and shipping it. Some of the island societies near Tarawa operate small-craft services to take their copra to the Colony Wholesale Society sheds. The co-operatives are given a monopoly in buying copra from producers as the C.W.S., on behalf of the Board, can only buy from co-operatives.
27. Copra marketing in other Pacific territories. Some copra is marketed through co-operatives in other Pacific territories but, to date, not on the scale in the territories mentioned. But there are indications that increases will take place. The situation in the Cook Islands deserves special attention because of the opportunity to see some of the activity at first hand.
28. Other co-operative marketing in the Pacific. Produce other than copra not important. Developing interest in co-operative marketing of cocoa (usually combined with processing) in some territories. A few fish marketing co-operatives. Some rice-milling in New Guinea and coffee handled by one large society. In Fiji an old-established co-operative dairy - but this is registered under the Companies Ordinance. Mention has been made of yagona in Fiji and shell in New Guinea.
-

1st August, 1965

SOUTH PACIFIC COMMISSIONTRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

OTHER MARKETING ORGANIZATIONS

By
R.H. Boyan
SPC Co-operatives Specialist

INTRODUCTION

1. Classification of other marketing organizations.
 - (i) Marketing services by persons or by companies.
 - (ii) Government and semi-government Boards and Marketing Authorities operating under various names.

MARKETING SERVICES BY PERSONS AND COMPANIES

2. These provide marketing services to make a profit for themselves. It is often said they exploit farmers, but this is sometimes said in ignorance of the costs and skills which require good rewards. One proof of this is the number of co-operatives which have been started and failed because they could not match the individual traders or companies.
3. Can individual traders and companies be encouraged to provide better services to producers and so encourage them to produce more? Possible ways -
 - (i) Subsidies by government where the provision of good services may not pay the trader.
 - (ii) The trader keeps regular supplies of things needed by the farmer.
 - (iii) The trader makes a contract with the farmer in which he agrees to take a named quantity or to pay a named price.
4. Advantages of marketing being in the hands of individuals and companies who are seeking profits for themselves -
 - (i) Many of these have a large accumulation of skill and knowledge which helps them to be efficient, to find available markets and to get the best possible prices.
 - (ii) The wish for more profits will encourage them to be efficient, chase markets and chase the best possible prices.
 - (iii) Many have large capital, which helps them get through bad periods either by carrying losses for a while or storing produce until a better price can be got.
 - (iv) Large capital also helps some to buy expensive processing machinery which improves the quality and so gets a better price.

5. Disadvantages of marketing being in the hands of persons and companies.

- (i) Many want their profits to be as high as possible, so pay the producer as little as possible. Many overlook that in many cases a better price would encourage the producer to grow more so that in the long run the trader would make a greater rate of profit. Power to keep prices low depends on how much competition there is.
- (ii) Many traders are interested in making profits, not giving services to farmers.
- (iii) Sometimes there are many more traders than are necessary in one area. There is a waste of capital and man-power; some should be out producing.

6. After the Second World War the planters of Papua and New Guinea decided that they preferred the Copra Board which was established during the War to be continued instead of abolished.

GOVERNMENT AND SEMI-GOVERNMENT BOARDS AND MARKETING AUTHORITIES

7. The Papua and New Guinea Copra Board. Has monopoly of export of copra. Has depots at main ports and there buys copra from any seller - individual planters, companies and co-operatives. Price paid is based on estimate of future price, less expenses. At end of year surplus is distributed to those who sold to the Board as an extra amount per ton of copra delivered to the Board. The Board has representatives of planters.
8. The Gilbert and Ellice Islands. A completely different set-up which has already been outlined when discussing co-operative marketing. The Board has a more limited function but co-operatives are given a monopoly instead of individual traders, companies and co-operatives being allowed to compete with one another.
9. The Tonga Copra Board. Described in the background paper written by Mr. Stace, page 6. Special points are that the Board's buying activities extend further than those of the Boards in Papua and New Guinea and the Gilbert and Ellice Islands, that there is emphasis on quality and that surpluses are divided up on a co-operative basis after providing for a stabilisation reserve and capital development.
10. Western Samoa Banana Scheme. Described in background paper of Mr. Stace, page 7. Deals direct with growers. A special feature is the allotment of quotas for each shipment.
11. The Tolai Cocoa Scheme of the Territory of Papua and New Guinea. Also described in background paper by Mr. Stace, page 8. Main aim was to ensure good quality cocoa. Fermenteries are owned by local government councils. Government provides technical assistance in overall operation of scheme. Original capital funds from a Bank loan.
12. The Hong Kong Fish and Vegetable Marketing Schemes. Set up after the Second World War. The Fish Marketing Organization is described as a non-government trading organization controlled by a government servant, who has always been the Commissioner for Co-operative Development and Fisheries, advised by a board of six unofficial members, including a representative of the Federation of Fishermen's Co-operative Societies. The Vegetable Marketing Organization is similar. The aim at the foundation was that eventually the functions of the Organizations would be taken over by co-operatives of fishermen and vegetable growers, and as a step towards this, the development of small primary co-operatives has been encouraged. A start was not made with the setting-up of a complete co-operative organization in one step as it was not expected such co-operatives would be able to survive against the old-established middleman system.

13. The Central Wholesale Produce Market of Aden. A Statutory Marketing Authority which appears to be based on that of Hong Kong.

14. Possible disadvantages of Government Authorities.

- (i) Bureaucracy.
- (ii) Possible inefficiency as those in charge have no profit motive. However, despite this many Government Authorities are efficient - much depends on ability and character of the head of the Authority and of his staff. The possibility of inefficiency may be overcome to some extent by having representatives of the producers on the Board.
- (iii) The function of such Authorities is usually confined to one product whereas it may be cheaper overall for several functions to be discharged at the one time. For example, middlemen who run a store and buy copra may be able to economise on staff and transport as compared with a Government Authority buying copra only; in addition they may be able to provide a larger number of buying points than the Government Authority.

PRODUCERS' ASSOCIATIONS

16. Some attention should be given to producers' associations which are not strictly marketing organizations. In some cases they may do actual marketing, but usually this is left to co-operatives formed by the producers, and the associations concentrate on looking after members interests in a number of ways. These range from the provision of various services such as research, advice on technical problems that may arise and the publication of journals, to the protection of members against the making of laws which harm the producers. These activities of the producers' associations will sometimes have considerable effect on the marketing interests of the members.

17. In the Pacific there are several producers' associations, usually under the name Planters' Association or Growers' Association.

18. Sometimes producers who have formed a marketing co-operative will have no separate Association for non-commercial activities and, instead, the co-operative will handle those activities in addition to its strictly marketing work. Where there is both an association and a co-operative with much the same members, there is variation in the actual division of function between them.

1st August 1965

SOUTH PACIFIC COMMISSIONTRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(5-24th September, 1965)

THE NEED FOR CREDIT

by

R.C. White,
SPC Economist.Introduction

1. A substantial share of the capital funds available in Pacific territories passes through the hands of territorial administrations. Receipts from income tax levied on incomes from duties on imports and exports and from the many other forms of government charges for goods and services are included in government funds. In addition, these funds include amounts received by way of public borrowing and inter-governmental loans and grants.
2. While there is an urgent need for public (government) investment in these territories, there is also a danger that too large a share of these funds will be used to finance public undertakings and not enough care taken to ensure that the requirements for credit by private producers is adequately met. Private suppliers of these capital funds have been found reluctant to lend without adequate assurances relating to security and repayment ability.
3. In some territories, this problem has been partially overcome by government financing of institutions for the supply of credit so often required to increase productivity in agriculture and to finance the development of additional industries.

Credit Requirements

4. Many Pacific islanders wish to improve their techniques and increase their production in agriculture, fishing, transport and other kinds of commercial business. In the process, they have an urgent need for loan funds to assist them in the difficult stages of development, to enable the purchase of materials and equipment and to employ labour.
5. The provision of this credit on suitable terms is very often a critical factor in the initial stages of development. Many of the crops produced in the area have considerable periods of waiting between planting and marketing. This places a considerable burden on the producer to provide sustenance for himself and family during this period. It is not always possible (as development and transition to higher standards of living increase) to maintain standards from subsistence production. As a result, producers may be tempted to harvest too early in order to derive income for this purpose.

Increasing Development in Pacific Territories

6. In the sessions already concluded, many requirements have been mentioned as essential conditions for effective development:

- (i) increased production;
- (ii) better marketing facilities;

- (iii) extended education;
- (iv) increased assistance - internal & external;
- (v) improved land tenure to provide additional security;
- (vi) extended credit facilities.

7. The extension of credit facilities has not been placed last on the list because it is the least important. Improvements in all the other fields mentioned at some time or other will most likely rely fairly heavily on the availability of credit. At the same time, however, an available supply of credit and of modern equipment will not ensure economic development by themselves. This development is accompanied by many other economic and social changes; increased population and urbanisation create problems which must be overcome; introduction of advanced techniques must be accompanied by increases in the number of trained and skilled personnel; increased production requires additional transport facilities and improved marketing conditions.

Supply of Credit

8. Most territories have already recognised the need for making available adequate supplies of credit and of its role in the promotion of agricultural development and of increased levels of efficiency in production in primary and secondary industry. You will probably be familiar with some of the forms this assistance has taken:

- (i) subsistence credit in the early stages of development;
- (ii) credit to individual producers for purchase of equipment, materials, livestock, etc...
- (iii) credit to cooperatives and other groups for processing, storage, marketing and transport.

Requirements of Lender

9. The two requirements usually regarded as essential by a lender are:

- (i) adequate security - the essential ingredient is the ability to redeem (sell) the object of the security (land, house, machinery) at a price which will liquidate the balance owing by the borrower including any unpaid charges for interest, etc...
- (ii) ability to repay - a borrower's ability to repay a loan (either by a number of small payments or by a lump sum payment at the end of an agreed period) depends on his ability to earn a regular income large enough to meet these payments and to enable him and his family to live at the same time.

10. Loan money to those who are able to provide this "mortgagable" security and to give assurances as to repayment has so far largely been made to European (or other non-indigenous) settlers who have mortgagable property in the form of land, buildings, insurance policies, etc... Local settlers are usually short of these forms of mortgagable security although some loans have been made. Lack of information relating to producers' credit needs, their "creditworthiness" and their managerial ability are also responsible for this lack of loan funds to local producers.

Saving Habits

11. The ability to save by most Pacific people earning a cash income is known to be fairly widespread. Statistics of savings bank deposits in many

territories are good evidence of this saving. The formation of credit unions and cooperative credit societies has advanced steadily in many territories. Hoarding in private hiding places is also practised fairly extensively in many areas.

12. These saving habits are an important source of funds for credit and there is an urgent need for education in the best use of these funds. In many territories, campaigns have been commenced which are designed to promote the use of banks and other saving methods. Savings clubs and Savings and Loan Societies operating in the Territory of Papua and New Guinea are a good example of this type of saving.

Sources of Credit

13. Store Credit : Most trade stores and retail establishments in urban centres demand cash payment for goods and services supplied. Some credit facilities are available from these stores even in the face of local legislation forbidding this type of credit.

14. Sustenance Credit : Some credit for the sustenance of producer and family may be obtained from the following sources:

- (i) Advance from buyer or marketing agency pending sale to final consumer;
- (ii) Advance from merchant on the security of the proceeds from an existing crop not yet harvested.

15. In the case of (i), where an advance is made by a marketing agency (trader, warehouse, marketing board) pending sale, the needs of the producer before the produce is ready for market are not usually satisfied. In some cases, this results in harvesting too early and in faulty processing.

16. In the case of (ii), there are disadvantages to both borrower and lender. The charge over the crop for the loan funds may involve some "hold" by the lender over the producer, giving him an unfair advantage as to price. On the other hand, this type of lending is usually associated with some supervision of production by the lender to ensure the producer's ability to repay.

17. In the both (i) and (ii), the amount of credit involved is usually considerably less than the final return for the product involving a final distribution to the producer. This double payment is not always well understood and may lead to some discontent about price levels.

18. Credit for Development : The supply of credit for development is limited by the amount of funds available and by the requirements of lenders which have already been mentioned. There are three main sources for loan funds for increased developmental activity:

- (i) Private lending institutions (including banks);
- (ii) Cooperative organisations;
- (iii) Government and semi-government agencies:
 - (a) by specialised lending institutions;
 - (b) by governments via planting schemes, development programmes.

19. The reluctance of private lenders has already been mentioned due to lack of security for loans and doubtful repayment ability. Moves are being made in many areas to overcome this situation by providing some supervision facilities by extension services over the provision of credit for production and marketing. The use of government guarantees in the area is practically unknown and should be more fully investigated in association with these extension services.

20. Cooperative organisations have been successful in many territories in

developing the necessary assets which provide them with the power to borrow funds for further development. This practice is, however, limited to a small proportion of producers. Many producers, for one reason or another, may be unable, or unwilling to join these associations. Lack of knowledge and experience in this field is being overcome by extended facilities for instruction and organisation.

21. Where land is unmortgagable (and crops or livestock do not provide sufficient security) the principal source of credit seems to be through government sponsored organisations supplied with funds by government appropriation. The volume of credit available from this source is often limited by lack of funds or by limited objectives which are allowed for this purpose. The possibilities of additional funds for this type of credit from I.B.R.D., I.F.C., I.D.A. and Export/Import Bank, need to be further explored. The introduction of development banks or corporations to Pacific territories should not be overlooked. These organisations could increase the availability of local currency loans, could act as intermediary agencies for foreign credit institutions and could provide associated technical supervision and advice.

Conclusion

22. Direct application of labour in productive activity and the satisfaction of food requirements by subsistence production can be of tremendous assistance in furthering development. Continued development will increase the demand for additional knowledge, materials and improved equipment for production and processing. These additional requirements cannot always be met from available sources of finance in the hands of producers and the demand for credit will increase as development proceeds. The satisfaction of this demand will depend on the efforts of private institutions and of governments to provide the necessary funds and on the efforts of producers who require this credit by demonstrating their willingness and ability to satisfy the requirements of the lending authorities.

1st August 1965

SOUTH PACIFIC COMMISSIONTRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

SAVINGS AND INVESTMENT (INCLUDING CO-OPERATIVES AND LOAN SOCIETIES)

By

R.H. Boyan

SPC Co-operatives Specialist

INTRODUCTION

1. The need for credit so that progress can take place has been dealt with, and some ways in which credit can be obtained will be covered in subsequent sessions.

2. Often not enough credit is available. Until recently most loan monies have come from outside the territories of the Pacific. There is now more concentration of making use of money that may be available within the territories for two reasons -

(i) to increase the amounts available;

(ii) to increase the financial independence of the territories.

3. The various ways in which local savings can be joined together so that they can be put to use (invested) to help increase production and income can be considered under the following headings -

(i) Limited Liability Companies.

(ii) Savings Banks.

(iii) Co-operative credit societies.

(iv) Other organizations helping savings.

In addition some consideration should be given to what is called direct capital formation.

LIMITED LIABILITY COMPANIES

4. In the developed countries people can invest their savings in a large number of different limited liability companies. To do this they either buy new shares as they are made available for sale or buy old shares through a stock exchange.

5. Company shares earn dividends for their owners provided the companies are successful. The dividends are usually higher than interest that can be obtained from savings banks but there is a risk that the company may fail, that there may be no dividends and that the owner may lose some or all of the money he has invested.

6. Companies (except for special kinds) do not offer shares for sale so that they can lend the money to other people, but use the money themselves for production, particularly manufacturing.

7. Most of the limited liability companies operating in the Pacific are companies from overseas whose shares are mainly held overseas although there is

nothing to stop people living in territories from buying the shares through stock exchanges in overseas countries. Other companies operating in some territories are private ones the shares of which cannot be bought by the general public.

8. The growth of locally-owned limited liability companies in the Pacific is to be expected, but for some time to come the chances of anyone with money saved being able to buy the shares are likely to be very limited.

9. Example of the Ramalmal Trading Co. Ltd. in New Britain.

SAVINGS BANKS

10. The opportunity to place savings in Savings Banks is very wide-spread.

11. Advantages of Savings Banks.

- (i) They pay a fixed rate of interest — usually around three per cent.
- (ii) Some or all money deposited in a Savings Account can be withdrawn at any time.
- (iii) The savings are very safe. As seen, share money can be lost in part or in whole. In addition share prices go up and down, so some of the purchase money may be lost when one wants to sell.

12. Disadvantages of Savings Banks.

- (i) Branches or agencies are not always near to depositors or would-be depositors.
- (ii) Depositors cannot as a rule obtain loans.
- (iii) Interest is low.
- (iv) Funds of the Savings Banks are usually invested outside the Territory and so do not help in increasing production.

CO-OPERATIVE SAVING AND LOAN SOCIETIES

13. These go under various names including credit unions, thrift and credit societies, savings and loan societies, and savings and investment societies.

14. Advantages.

- (i) Members can make deposits near home.
- (ii) If the by-laws permit, withdrawal of some or all of one's deposits is easy and convenient, though not always as easy as if the savings are in a savings bank because the co-operative may not have enough ready cash at the time the member wishes to withdraw.
- (iii) Funds can be used locally for development.
- (iv) Encouragement to people living in villages to place their savings with the co-operative instead of hoarding them.
- (v) Members, particularly office-bearers and committeemen are given practical education in financial matters.

15. Disadvantages.

- (i) Inexperience of members and committeemen may cause losses.
- (ii) If funds are loaned to members some may not be able to repay the loans.
- (iii) In some places there is a preference for giving loans for non-productive instead of productive purposes.
- (iv) Even though loans may be made for productive purposes, these may not be the wisest use of the accumulated funds.

EXAMPLES OF CO-OPERATIVE THRIFT AND LOAN SOCIETIES

16. Credit Unions in Fiji. See Mr. Stace's background paper pages 14-15. These are registered under a Credit Union Ordinance. In addition there are some thrift and credit societies registered under the Co-operative Societies Ordinance. Many credit union loans are given for non-productive purposes.

17. Thrift and Credit societies in Cook Islands. See Mr. Stace's background paper, pages 13-14. Special points are that there is emphasis on regular deposits and that when societies are first formed members agree not to withdraw deposits for a fixed period (usually five or three years).

18. Savings and Loan societies in the Territory of Papua and New Guinea. Special Ordinance passed in 1961. Sponsored by the Reserve Bank of Australia whose present manager at Port Moresby is Registrar of Savings and Loan Societies under the Ordinance. Of a similar nature to the credit unions of Fiji but more emphasis on loans for productive purposes.

19. Savings and Investment societies of the British Solomon Islands Protectorate. In early stages, but main aims are to provide place of saving for members which will give them some interest and, second, to make local unused money available for local development projects such as cocoa fermenteries.

20. There is developing interest in this type of co-operative in the Trust Territory of Papua and New Guinea, New Hebrides (for Government Officers) and Niue (for Government Officers).

OTHER ORGANIZATIONS HELPING SAVINGS

21. Government Securities. In recent years some Governments have invited the general public to subscribe to large Government Loans. This is the opposite of Governments lending to individuals to encourage development but has the advantage of gathering together the spare money of individuals and allowing government to make loans to others or to use the money itself for development projects. A feature of loans that have been floated is that co-operatives have been substantial investors.

22. Fijian Development Fund Board. This is a compulsory savings scheme. The general idea is that £10 per ton of the price for copra is not paid to the Fijian seller in cash but is credited to an account in his name with the Board, and withdrawals can only be made by approval of the Board for certain purposes. Producers may make voluntary deposits to their accounts in addition to the £10 per ton known as a "cess". In the period 1st August, 1962 to 31st July, 1963 approximately 50% of the value of withdrawals was for new houses. The next important approved purposes were the payment of education fees, the buying of launches etc., the building of schools, the buying of furniture, repairs to houses, the buying of outboard motors and the buying and development of land.

23. Stabilisation Funds. These are a form of compulsory saving but are not of direct benefit to the producer, who receives a lower price because of the deduction of the amount for the Stabilisation Fund. The idea behind the Fund is to have money available to keep up the price to the producer when world prices fall. So the people who benefit eventually may not be those who lose in the first place. Although, strictly, a Stabilisation Fund cannot be called a concentration of savings, nevertheless it is a concentration of funds which can be used for developmental purposes. In actual practice, though, it is more usual for the accumulated funds to be invested overseas, for reasons of security.

DIRECT CAPITAL FORMATION

24. When capital is spoken of the accumulation of money is usually thought of. But accumulated money is only useful in helping increase production when it is put to use - that is, used to buy machinery, or ships or to pay people for planting trees and in other similar ways.

25. However, we must not overlook that the energy of man can be used to create capital items without money coming into the picture. When one man plants a coconut or a cocoa seed he is creating capital in the real sense - something which is going to provide him with an income in the future. One tree alone will not produce much, but 10 or 20 acres of coconuts or cocoa or coffee or smaller areas of rice, or sugar or tomatoes will produce a good income. So, if a man, instead of growing only food which he will eat as soon as it is ready, spends part of his time planting trees which will produce for a long time he is, in effect, saving. This type of action is also described as direct capital formation. But the planting of trees is not the only kind of direct capital formation. The words can also be applied to group action to make a road, or a bridge or a wharf, or to build a produce shed or a ship. It can also be applied to the work of one man who makes a bullock-cart with his own hands, or builds a copra drier or even a canoe which he will use to help him produce more or to shift his produce to market.

26. Direct capital formation has been very important in the development of the Pacific islands, and can still do much. But, in some places it has been even more effective when combined with the making of loans. Those loans have been used for the buying of fertilizer, for the purchase of tractors and other farm machinery, for the building of processing plants (as in the Tolai cocoa scheme), for the buying of ships and trucks and in other ways. It should also be noted that direct capital formation activities are sometimes assisted by government subsidies, either financial or in such forms as the provision of trucks to assist villagers making roads as a voluntary effort.

HOARDING

27. Encouragement of saving means discouraging hoarding - the keeping of savings in a wooden box or hidden in a tin in the ground. People will hoard in this way because they think it is safer or because they have no other way of saving available to them. Very few people now have no means of saving available to them and hoarding should be discouraged for the following reasons -

- (i) Because of the cleverness of thieves the hiding of money is no longer as safe as savings banks and other places of saving.
- (ii) It earns no interest.
- (iii) It does nothing to help development.

So, not only should people be given opportunities for saving and investment, they should also be discouraged very strongly from hoarding.

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

THE USE OF VISUAL AIDS

by

R.C. White,
SPC Economist.

1. The use of visual aids as a means of giving emphasis to a particular topic can be of tremendous assistance in fundamental education, especially where education levels are low and the visual aid used is presented in a clear and simple manner and can be followed without great efforts of concentration.
2. There are many types of visual aids, including films and film strips, posters, flip charts and flannelgraphs, printed booklets, etc. In the field of adult education where group instruction can be properly organised, the use of flannelgraphs proves an efficient means of presenting a subject in greater detail and with increased emphasis. Flannelgraphs are a series of 'cut-out' pictures, super-imposed on a plain or selected background, which is used to build up a story around the pictures.
3. However, the use of posters in pictorial form with clear meaning is also an important type of visual aid, especially in areas where it is difficult to make contact with producers in large groups. The positioning of these posters at strategic points where they can be readily seen is an important feature in their use. Repetition is also a very strong ingredient for success, not by the over-extensive use of the same poster, but by the continuous presentation of the same idea in new ways. This medium has been used extensively in schools throughout the area, more particularly in the field of health education. There is ample scope, however, for its extension into other fields, especially in agriculture where attention needs to be drawn to the benefits to be gained from the use of fertilisers, or some other means of increasing production, or to the disadvantages which accrue from inefficient production methods, lack of control of diseases, etc.
4. In areas which have the necessary power facilities to enable the use of projectors, education campaigns with the use of films and film strips have been firmly established in recent years. Although some difficulties arise with language in this method, they are not insurmountable and generally satisfactory results can be achieved. These results depend a good deal on the ability to be able to convene meetings of interested people and to hold their attention for longish periods. Simplicity and topical interest are two important features in this respect. The use of animated series can also help.
5. One of the main problems facing territories in relation to the use of visual aids in education is the production and supply of the visual aids. Because of the great variety in languages, cultural beliefs and practices

and the physical appearance of the inhabitants of the many territories in the Pacific area, the use of many aids is severely restricted, even in cases where these aids relate to products or practices which are common to more than one territory. The cost of production is also a limiting factor.

6. In 1960, the South Pacific Commission, Unesco and the British Solomon Islands Protectorate jointly established a printery and training centre in Honiara, B.S.I.P. Three one-year practical courses in small off-set printing techniques were conducted at this Literature Production Training Centre and each was attended by twelve trainees sponsored by territories in the region. A limited supply of the report on the working of the Literature Production Training Centre is available from the Executive Officer for Social Development, South Pacific Commission, Noumea. Some territories have commenced their own printing establishments and produce material for their own use and for wider distribution. Many of the trainees from the Literature Production Centre have been absorbed in this way.

7. The South Pacific Commission Publications Bureau in Sydney will answer any enquiries about what materials are available, what the various territories are doing and how the Bureau's services operate. Some of these answers are given in its Publications Index which lists all materials produced by the Bureau. Enquiries should be addressed to:

The Officer-in-Charge,
South Pacific Commission Publications Bureau,
Box 5254, G.P.O.,
SYDNEY, N.S.W., Australia.

8. To quote from the Publications Index, "Enquiries for assistance with new publications are always welcome; there is nothing particularly rigid about the Bureau's procedures, and if a new one is necessary to assist a territory the Bureau will gladly try to devise one, provided it remains within the discretion allowed the Bureau by the Commission (which is both sympathetic and generous) and within the capacity of the Bureau's extremely small staff."

Original Text: English

SOUTH PACIFIC COMMISSION

TRAINING COURSE ON INCENTIVES TO ECONOMIC DEVELOPMENT

(6-24th September, 1965)

CREDIT FACILITIES BY GOVERNMENT ASSISTANCE

INTRODUCTION

1. Although all Administrations in the Pacific territories are short of money to do all they would like to do, most have made arrangements so that producers wanting to borrow some money to help them increase production can do so.
2. Different methods are followed in the various territories and the best way of indicating how government can assist with credit is to describe the methods used in a selection of territories. Most of these are described in a background paper (by Mr. V.D. Stace) to the Second Technical Meeting on Co-operatives. Later statistics will be provided during the working session.
3. Attention will also be drawn to the system of government guarantee of loans made by private organisations.

THE CITRUS REPLANTING SCHEME IN THE COOK ISLANDS

4. This is described on page 6 of Mr. Stace's paper.
5. Important points of the scheme are -
 - (i) The aim was to keep up production and improve quality.
 - (ii) Individuals were given temporary rights to use land.
 - (iii) Money was a loan, not a grant, and interest was payable.
 - (iv) The Department of Agriculture managed the Scheme in a special way.

FIJI - AGRICULTURAL AND INDUSTRIAL LOANS BOARD

6. Some information on operations is given in Appendix 1 to Mr. Stace's paper.
7. The Report of the Board for the year ending 30th June, 1962 shows that the finance available to the Board has been increased to £F.550,000 as a result of a second overdraft from the Bank of New South Wales of £100,000.
8. Details of loans approved since the figures given by Mr. Stace show a trend towards more loans to Fijians. Comparative figures for 1961/2 are:-

To Chinese	2	loans, totalling £	2,600
" Europeans	14	"	£ 28,950
" Fijians	123	"	£ 27,290
" Indians	75	"	£ 43,975
" Part-Europeans	8	"	£ 4,872

9. 214 of the 222 loans approved in 1961/2 were taken up and an appendix to the Report shows that 187, for a total amount of £54,661, were for agricultural purposes and 27 for a total amount of £41,310, were for industrial purposes. Under agriculture the following are listed: Cane, beef cattle, cocoa, copra, dairy farming, general farming, poultry, rice, tobacco. Under industrial the following are listed: Bakery, blacksmithing, concrete products, electricity supply, fishing, logging, match manufacturing, shipping, steel manufacturing, tourist industry, woodworking.

10. The Report mentions that the general trend continues to be towards a larger number of smaller loans; particularly within the £1 to £200 bracket. More than 50% of the total number of agricultural loans granted to Fijians were within this group and were for the development of virgin ground. There is a comment that with increasing numbers of Fijians obtaining individual leases and seeking to establish themselves upon their own personal holdings, this trend is likely to continue.

11. Another point of interest is that of the six members of the Board only one, the Chairman, is a government officer.

CREDIT ASSISTANCE FOR ECONOMIC DEVELOPMENT IN THE TERRITORY OF PAPUA AND NEW GUINEA

12. Special credit to help primary and secondary industries, other commercial enterprises and local government or community welfare projects may be given to individuals and groups of indigenous people under the Native Loans Fund Ordinance 1955-60. This scheme is administered by the Native Loans Board which was reconstituted in June 1962, following which the members were the directors of three departments and one indigenous person.

13. A summary of loans granted from the beginning of the Board in 1956/7 to the end of 1962 shows that 296 loans had been granted for a total amount of £A.177,118. The summary shows that a considerable number of loans were granted for the purchase of outboard motors and trucks for fishing and transport ventures. However, in later years there has been a trend towards the granting of loans for land development and, in particular, the development of leasehold blocks. In 1961/2 there was a loan of £3,500 to a co-operative for the purchase of a copra plantation. In the last half of 1962 there was one loan of £200 for the establishment of a piggery.

14. An application for a loan is considered on its merits. Under the Ordinance the Board may take such security as it thinks fit, and it is empowered to grant loans without security. What the Board would look for in considering, say, an application for a loan to purchase a truck for the transport of produce to market, is the character and dependability of the applicant; whether there was a demand for such a service in the community; whether any particular section of the community could be counted on to patronize the business; and what competition would be encountered. Many other conditions peculiar to the area in which it was intended to operate would also be considered — factors which may influence the regular supply of the service, such as the condition of roads in wet weather or the availability of repair services in the event of mechanical breakdown.

15. Loans can be obtained also under the Ex-Servicemen's Credit Ordinance which came into force in 1958. Under this Ordinance loans had been granted up till 30th June, 1962 to 110 Australian ex-servicemen and 107 indigenous ex-servicemen. The total amount of approved loans was £2,387,057.

THE AGRICULTURAL AND INDUSTRIAL LOANS BOARD OF THE BRITISH SOLOMON ISLANDS PROTECTORATE

16. This is a smaller scheme than those already described. As at 1962 the Board operated with capital of £A.115,000 paid by the Government. During 1961 and 1962 loan payments totalling £63,143 were made to 39 borrowers; repayments of capital during the same period were £36,052. The Appendix to Mr. Stace's paper gives information on the purposes for which loans were granted and details of the conditions under which cocoa loans had been made.

NEW CALEDONIA - CREDIT DE LA NOUVELLE CALEDONIE

17. Information on the activities of this organization are given in Appendix 1 to Mr. Stace's paper. It will be seen there that most loans to indigenous people were for house-building.

COFFEE REPLANTING INCENTIVES IN NEW CALEDONIA

18. Incentives to expand coffee production and eliminate over-age trees in New Caledonia take the form of grants rather than loans. Details are given on page 12 of Mr. Stace's paper.

FRENCH POLYNESIA - CREDIT DE L'OCEANIE

19. Loans are given to Tahitians for the building of copra driers, the purchase of trucks and buses, and the purchase of tuna-type fishing vessels. Some details are given in the Appendix to Mr. Stace's paper.

FIJI DEVELOPMENT FUND BOARD

20. Some information on the purpose of the Board was given in the paper on Savings and Investment. Most of the funds of the Board are invested in Government Loans, such investments being valued as at 31st July, 1963 at £F.586,481. But, in addition, the Board makes some loan monies available, these totalling £F.50,195 at the same date.

COOK ISLANDS PACKING SHED FINANCE: COOK ISLANDS FERTILISER SCHEME

21. These two schemes were given assistance in organization rather than financial assistance as funds for the carrying on of them are obtained by a levy on growers for each case of produce exported. However, it is indicated that in the early days of the Packing Shed Finance Scheme the Administration supplied some materials on a loan basis. More details of both schemes are given on page 11 of Mr. Stace's paper.

22. These two schemes have wider importance than examples as loan assistance. The main significance of the Packing Shed Scheme is the improvement in quality and thus the value of, and demand for the fruit, while the importance of the Fertiliser Scheme is the increase in production that resulted.

GOVERNMENT GUARANTEES.

23. In developed countries most loan monies come from non-government sources, mainly banks. But to get such loans the borrower must have substantial security. Quite often in the Pacific such security cannot be given by those who wish to start developmental schemes; so it is common for governments to lend for schemes which are considered worth while but are too risky under normal banking practice. But governments have limited funds. A compromise is for governments to guarantee to banks (and other institutions) that if they will lend money for developmental schemes the government will compensate them for any loss that results through non-repayment of loans or non-payment of interest.

24. In New South Wales, Australia we can see the beneficial result of this policy in the large number of private homes that have been bought from loans from co-operative building societies which have obtained their funds from financial institutions under government guarantee..

25. The policy of government guarantees does not appear to have gained popularity in the Pacific islands so far but the Treasury Ordinance of the Territory of Papua and New Guinea provides that the Administrator may guarantee repayment of a loan made by a bank to any person for a purpose approved by the Minister. Originally under the Ordinance the Administrator was only allowed to give a guarantee where the borrower was able to meet the security requirements of normal commercial practice. But in 1961/62 a further category of loans was approved by the Minister and the Administrator is now empowered to guarantee loans made by banks to indigenous people where the security of the borrower is almost but not quite up to commercial standards. The outstanding example of loans under this policy is of those made to certain native local government councils in the Gazelle Peninsula for the development of central cocoa fermentaries.