

## Importance of Agriculture Sector Development in PICs

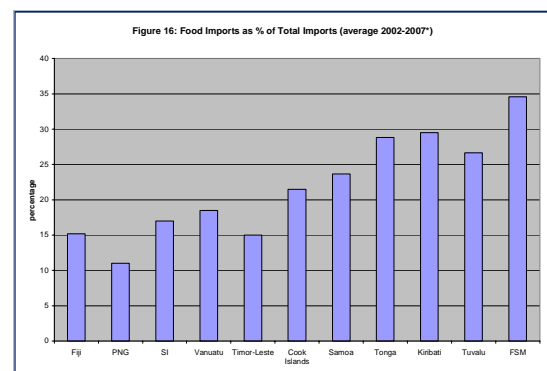
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## Pacific has great agricultural comparative advantages

- agriculturally based economies
- often highly suitable agro-ecological conditions can be found for products
- Adjacent to major food importers in Asia
- Growing, youthful labour force (Melanesia)

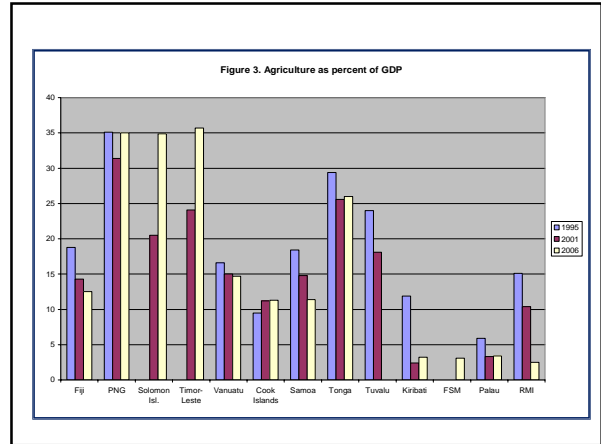
## Yet also faces some exceptional challenges

- High vulnerability to natural disasters (WB assumes annual cost of 2-7 per cent of GDP)
- Transport/freight links for export not so well developed
- High cost of labour (compared to competitors)
- Often insecure land tenure for agribusiness
- Poor access to finance in the agriculture sector
- Rapid urbanisation and changing diets leading to food import dependence
- PACPs net food importers (except Fiji and PNG)



### Agriculture growth has failed to keep pace with other sectors (e.g. tourism)

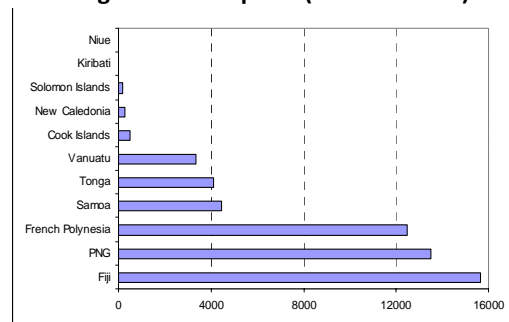
- Value and productivity of agriculture has been in decline in recent decades
- in Vanuatu, Fiji, Samoa and Cook Islands agriculture (including fishing) still contributes in excess of 10% of GDP
- PNG, the Solomon Islands and Tonga it contributes in excess of 25%,
- Micronesian countries, agriculture (including fishing) now contributes only about 3% of GDP.



### Small-holder agriculture sector

- Real contribution of agriculture often understated in formal statistics
- 80% of agricultural production and exchange outside of formal market mechanism
- Outer islands and rural areas, 70% household income derived from agriculture (HIES)
- A key challenge for the region is developing pathways for commercialization of traditional farming systems

### Approximate value of all PIC non-commodity agricultural exports (2005 fob '000)



## Promoting small-holder market integration

- the key stimulus to increase food production and productivity will be improved incentives to produce a marketable surplus stemming from increased and more predictable market demand. **Better Market Information and Market Intelligence required.**
- Farmer associations and other support institutions need to be able to work more closely with farmers to identify critical constraints, and to help co-ordinate production and marketing activities at commodity level, to realise these market opportunities. **Improve Farmer Organisation capacity to assist with marketing**
- Pacific smallholder farmers need to reach the required production quality and service standards imposed by formal markets. **Improve transparency of standards and capacity of farmers to meet these standards, through extension support from private sector and Farmer Organisations**
- Farming needs to be seen as a business and managed accordingly. **Provide select farmers with financial literacy and business management training**

## Low level of access to finance

- Improving productivity and profitability of agriculture requires adoption of new production and post-harvest technologies
- Expensive – often requires access to credit
- Hotels, restaurants and supermarkets often want 90 days credit
- Thus 'business' farmers have to bridge the time gap between sowings and harvests, as well as supplying and being paid
- Low level of access to credit – can't use land as collateral

## Access to finance – contracts and loan guarantees

- Fresh fruits and vegetables are highly perishable
- This creates an incentive to organize and pre-determine key transactions through contracts
- Little use of supply contracts in PACPs; perceived lack of trust in their enforceability
- Farmer associations can help pool risk associated with F and V production; can manage contracts on behalf of small farmers
- Contracts can be used as collateral for loans
- Also 'risk pooling' can be used to reduce default rates and increase access to credit

## Potential measures to address this

- Aggregation: risk pooling schemes that have the function to reduce farmer default risk and ease access to seasonal and short term credit
- Loan guarantees provided by intervening institutions: SPBD example
- Contract farming: nucleus farms work with small-holders, provide guaranteed market
- Supply co-ordination and marketing assistance: PO's improve small-holder access to markets, and finance?

THANKYOU

QUESTIONS?