OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" and "developing" are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

RESTRICTED

DP/ID/SER.C/17
13 June 1988
ENGLISH

16840

SMALL- AND MEDIUM-SCALE INDUSTRY AND ENTREPRENEURSHIP DEVELOPMENT IN PACIFIC ISLAND COUNTRIES
DP/RAS/86/075

REGIONAL ASIA

Report of the evaluation mission*

Prepared in co-operation with the
United Nations Development Programme and the
United Nations Organization for Industrial Development

4!!

United Nations Industrial Development Organization

Vienna

* This document has been reproduced without formal editing.

V.88-25564

SUMMARY OF IN-DEPTH PROJECT EVALUATION

PART A (completed by evaluation team)

Project Number: DP/RAS/86/075
Project Title: Small and Medium-scale Industry and Entrepreneurship Development in Pacific Island Countries

Executing Agency	UNDP budget ($)	Date project approved	Dates of evaluation
UNIDO	$ 798,200	16 January 1987	5 April- 2 May 1988

Government Implementing Agency	Government budget	Date operations started
Departments of Industry in participating countries	N/A	1 January 1987

I. Summary of project objective and outputs

Immediate objectives

1. Enhance Government capacity to promote and support SMI development;
2. Identify technically and financially feasible opportunities for SMI;
3. Upgrade management production, marketing and other business capabilities of SMI in the Pacific.

Outputs

1. Broad future potential SME development areas identified including resources, markets and technologies;
2. Clearly defined national industrial policies, strategies and development plans;
3. Clearly defined institutional arrangements to assist and support industrial development;
4. A core of national staff trained in policy development and implementation, pre-investment studies, extension and consultancy services;
5. Projects for SSI with feasibility analysis, business development plans and financing submission reports through the services of (3) above;
6. Upgrade marketing, production and management capabilities of SSI through consultancy and on-the-job training through (3) above;
7. Group of small entrepreneurs trained in business administration/ management.

II. Purpose of the evaluation mission

The mission has been organized for two separate reasons:

1. To review and evaluate the results achieved by the project and assess the extent to which the objectives have been achieved. In this process the mission should attempt also to assess the contributions the project has made in promoting SMI development and entrepreneur participation.

The mission is required to generate clear findings and formulate recommendations as to the future of the project;

2. To identify, within the industry sector, areas in which the need for assistance exists and where UNDP may provide assistance. The mission is specifically requested to present suggestions as to any changes UNDP may consider in the modalities it employs in delivering assistance to the industrial sector in the pacific.

III. Findings of the evaluation mission

- The environment in the South Pacific for a number of reasons is very difficult for industrial development. There are a number of opportunities however.

- The project was poorly designed and only general categories of activities and outputs were given. This was partly caused by the lack of a clear strategy. Due to this, the project actually focussed on only one category of activities, project identification and pre-feasibility study-type work.

- These activities have been undertaken generally at the request of governments without entrepreneur involvement. It is highly unlikely the project's work will lead to substantial results in terms of industrial investments realized.

- Given the specific situation in the Pacific Island Countries, institution-building efforts must be considered very long-term.

- Within small/medium industry there are considerable differences between different types. This has caused and is causing considerable confusion and misdirection of assistance efforts. Clearer target groups are proposed by the mission for different types of assistance.

- For the smallest indigenous local entrepreneur, microloans with "hands on" management assistance are needed.

- For larger indigenous enterprises, development banks should develop equity capital investment activities and ensure close contacts with the enterprises involved. Short-term technical assistance is required for the actual investment phase.

IV. Recommendations of the evaluation mission

- The project should as soon as possible change its orientation from studies to investment implementation work with actual entrepreneurs of the larger indigenous type. The project should concentrate on a limited number (20) of specific investments and offer any technical assistance required to ensure successful enterprises.

- For the smallest indigenous industries in countries where there is no national project, the regional project should work through longer-term volunteers and associate experts in conjunction with banks that are willing to set up "microloan" schemes.

- UNDP should attempt to establish with selected development banks a venture capital "window", partly financed by UNDP or other donors. These should, in conjunction with technical assistance from the regional project, be aimed at establishing a limited number of indigenous industries.

- The regional project should also provide assistance to those governments that decide to definitely attempt to improve their regulations and incentive systems, to optimize the "environment" for industrial development ensuring the "right" types of industries are attracted.

- Governments should at this stage not attempt to establish and run their own sophisticated technical and managerial support services. They should focus on the more narrow functions of licensing, regulating, providing the right fiscal climate, etc.

V. Lessons learned

- Projects should be defined in definite terms with the targetted activities and outputs quantified and in line with available resources. This is even more important for regional projects as the danger that such projects get used as a fund for "anything that comes along" is very large.

- The functions of SIDFA and Chief Technical advisor should not be combined in one person. The functions of a SIDFA are more general and include monitoring of projects. This cannot be combined with the role of a CTA.

- Investment projects for small-scale industry should not be developed without direct involvement of an investor.

VI. Evaluation team

Mr. George Millard	UNDP representative and team leader - Consultant
Mr. Adrie de Groot	UNIDO representative, UNIDO, Evaluation Staff

LIST OF ABBREVIATIONS USED

ADB	- Asian Development Bank
CFTC	- Commonwealth Foundation for Technical Cooperation
CTA	- Chief Technical Adviser
DBWS	- Development Bank of Western Samoa
DFI	- Development Finance Institution
INA	- Institute for National Affairs (Papua New Guinea)
IPF	- Indicative Planning Figure, the UNDP total budget available for projects in a country
PIC	- Pacific Island Country(ies)
PIDP	- Pacific Islands Development Programme, see ref. Annex III
PNG	- Papua New Guinea
RSIE	- Rural Small Industrial Enterprises, see ref. Annex III
SIDFA	- Senior Industrial Development Field Adviser
SIS	- Special Industrial Services (a UNIDO fund for urgent short-term assignments)
SMI/SME	- Small/Medium Industries/Enterprises
UNIDF	- United Nations Industrial Development Fund (a UNIDO fund)
USAID	- United States Agency for International Development

CONTENTS

Annexes

INTRODUCTION

Assistance to small-scale industries on a regional basis by UNDP started in April 1985 when project DP/RAS/83/017 started its operations based in Port Vila, Vanuatu. This project was essentially absorbed by project AU/RAS/85/A04 as from the beginning of 1986. This project was, in turn, broken off and superseded by the project being evaluated, DP/RAS/86/075, with a new project document approved by UNDP on 16 January 1987.

The project, in common with most Governments of the region, has as a development objective the expansion and improvement of the industrial sector in the Pacific Island countries in order to diversify the economy, generate additional employment and incomes, reduce dependence on imported goods and services and increase exports.

The project document had foreseen a tripartite in-depth evaluation during the project but the exact timing of this was not foreseen. In view of the fact that budgetary resources for short-term consultants is now expected to be exhausted in mid-1988, earlier than originally planned, and that demand for such services is still increasing, it was decided by UNDP and UNIDO to undertake the evaluation in April 1988.

In view of the specific and unique situation of small-scale industry in the Pacific Island countries and the experience built up through the project, UNDP also requested the evaluation mission to make an assessment of the current status of small-scale industries and their requirements for external assistance and the areas in which UNDP, through their intercountry programme, may most efficiently and effectively contribute.

The complete Terms of Reference of the mission are attached as Annex I.

The mission consisted of:

Mr. George Millard, UNDP consultant and team leader
Mr. Adrie de Groot, UNIDO Evaluation Staff

The mission arrived in Suva on 2 April 1988 and started their work on 3 April with a briefing by the UNDP Resident Representative and his staff, as well as by the UNIDO SIDFA, who is also acting as CTA for the project, as well as the other project staff. The mission then had detailed discussions with officials as well as small-scale entrepreneurs and with various organizations, including other external assistance organizations in Fiji, Western Samoa, Tonga, Vanuatu. Mr. Millard then continued alone to Solomon Islands and Papua New Guinea, Federated States of Micronesia (Pohnpei), the Marshall Islands and Cook Islands. He was debriefed in Suva by the Resident Representative before proceeding to UNIDO Vienna, where the report was finalized by the two mission members. In Suva, another meeting took place with representatives of other donors to discuss the proposals related to venture capital activities.

A full list of places visited and persons consulted is given in Annex II.

As the mission identified in discussions, reports and other documents frequent misunderstandings and misconceptions as to what "industry" or "small-scale industry" in the South Pacific actually means, the first chapter of the report attempts to describe the essential features that make the situation in the South Pacific different from the one in other countries. It also presents a simple typology of different types of small-scale industries, usually grouped together under the generic title. The distinctions between these groups are considered essential by the mission in order to better understand the various needs of the groups and thereby enable the discussion of strategies tailor- made to these sub-groups.

For this chapter, the mission has relied extensively on other sources of information. The main ones are listed in Annex III.

CHAPTER I: INDUSTRY IN THE SOUTH PACIFIC

Introduction

This Chapter attempts to provide the reader with an overview of the situation insofar relevant for industrial development in the South Pacific Island countries. This is of course limited to what is considered important for a proper understanding of the discussion and recommendations presented in this report. The mission considered that, in view of the specific and exceptional characteristics of the region, such an introduction is required, certainly in view of the fact that in the various documents studied and discussions held in relation to the mission, it has become obvious that different perceptions exist as to both the situation in general but, more importantly, as to what actually is small- and medium-scale industry in the South Pacific island context.

This Chapter is far from complete. It is beyond the Terms of Reference of this mission to even attempt to discuss all aspects in detail. Only the most relevant ones are discussed and a rough typology of small/medium industry introduced to facilitate discussions. In Annex III several references are given to more complete studies on the region.

A. Geography, demography and resources

The South Pacific Region consists of over 2,000 islands spread over a region that measures over 5,000 kms. east to west and more than 3,000 kms. north to south. The islands are made up of fully independent states, two self-governing units, seven dependencies of other countries and some trust territories. Some statistics on surface area and population are given in Annex V, Table 1.

The total population of this region is just above 5 million, with three-quarters of these concentrated in Papua New Guinea and Fiji.

Only two urban centres in the whole region have a population of more than 100,000 (Suva and Port Moresby) and, overall, a high percentage of the population lives in rural areas. A large part of the population is still engaged in subsistence agriculture.

The nearest developed country markets, both for obtaining supplies as well as for selling any products, lie far away in Australia and New Zealand with the distance between Suva-Auckland and Suva-Brisbane both about 2000 kms. Shipping lines in the region the major ports with other international destinations only once or a few times per month. Inter-island shipping even within each country is sporadic. A fair number of airports exist but most are used only by small aircraft without adequate freight capacity.

On the larger islands with sufficiently good fertile soil, plantations, concentrating mainly on copra but also bananas, cocoa and coffee, exist. The only exception here is Fiji, which is a sugar producer with importance on a world scale. Outside of these plantations, there are only a few regular agricultural surpluses available for export or processing and these are relatively small. (For more details on resources and foreign trade, see Annex V.)

With the exception of Papua New Guinea and Fiji, where only gold is being exploited, the area does not have considerable mineral resources (apart from Kiribati and Nauru, whose single-mineral resources are all but exhausted)

Several countries have considerable forestry resources. Obviously, the main resources exist in Papua New Guinea but the Solomon Islands, Fiji, Vanuatu and Western Samoa also have reserves of tropical hardwoods. Most of these are, however, at present exported as logs.

A major (potential) resource for almost all countries is the fishery industry. However, in most countries this is an underdeveloped industry with the resources being exploited by foreign fleets that have only relatively recently started paying compensation to the countries concerned. Only part of a catch is processed within the region, although Governments are now often requiring local processing in new licensing agreements.

The exports of the Pacific Island Countries consist mainly of a handful of commodity products. The main one, for all countries except Papua New Guinea and Fiji, is coconut and its by-products (copra, coconut oil, desiccated coconut), but also in these two countries, this is a major export item. Others are wood (predominantly as log and timber), fish, meat, coffee, cocoa, gold (Papua New Guinea and Fiji only) and some other agricultural products such as vanilla, fruit and fruit juices (mainly in individual countries and in relatively small quantities).

It is clear that export earnings from such a commodity mix fluctuates widely, also as there are major competitors in each of the markets that actually dominate the market.

B. Human resources

As already mentioned, a large part of the population of most Pacific Island Countries is still mainly involved in subsistence agriculture. While there is a drift to the urban areas resulting in considerable visible unemployment, these people have hardly any formal education or training. In all countries there is a serious shortage of all types and levels of trained manpower. This is most serious in the technical and managerial areas. And even insofar as formally trained staff is occasionally available, they rarely have any relevant experience with or exposure to international trade and markets.

While the cost of labour in the Pacific Island Countries is certainly much lower than in the developed countries in the region, it is, on the other hand, several times higher than in some of the main competitor countries that produce the same or similar products. In Indonesia and the Philippines, to name but two that are both major exporters of coconut products, fish and handicrafts, labour unit cost is only one-third or one-quarter of the cost in the Pacific Island Countries.

C. Culture

Very few of the indigenous populations have any entrepreneurial background. One report has stated that "business" was seen until recently as a typical expatriate activity. It should probably be added here that before the region was colonized, a thriving entrepreneurial class existed in many Pacific Island Countries. This, however, disappeared rapidly with the advent of foreign domination in the 19th century.

On several occasions, indigenous entrepreneurs and local officials gave as one of the reasons for the poor performance of indigenous businesses the fact that it is a strong element of the local culture that people share what ever they have with their extended families. Many entrepreneurs cannot cope with this pressure and spend the firms' money on these obligations. Only individuals that can successfully separate business from private resources have a chance to make it.

Another frequently mentioned problem is related to the traditional system of land tenure. Most land is commonly owned, making secure ownership or lease very difficult, as well as reducing the chance of using land as a collateral required for obtaining bank loans.

D. Support infrastructure

While most governments in the region have recently attached a higher priority to industrial development than before, industry still only plays a minor role in the economies and it is likely to continue to do so, at least in relative terms compared with sectors like agriculture, tourism and possibly fisheries.

It is, therefore, certainly not surprising that the Governments in general do not make extensive resources available to support industrial development. The relevant units in ministries that usually also cover trade and commerce and sometimes also tourism and other sectors are normally small and lack industrial or commercial experience. In several cases, the quality of staff dedicated to industry is too low for the ministry to be very active. One should keep in mind, however, that this is what can be expected. The size of the economy in most Pacific Island Countries can be compared with a medium-sized town in most countries. One cannot expect Governments of such countries to consist exclusively or mainly of experienced graduates. Projects and reports that keep emphasizing the need for such counterpart staff are largely self-defeating. Projects that aim at strengthening Government departments need to keep this in mind and adjust objectives to this situation.

The same is valid for the lower- and medium-level staff in other organizations with responsibilities relevant for industry such as "Industrial Promotion Units" or Development Banks that, at any rate, have only a very small part of their loans portfolios in industry.

The development banks in the region do not seem to be very "development" oriented. They lend money almost exclusively to larger well-established organizations that can provide full collateral. In several cases, it was even indicated that they insisted on two to three times collateral coverage with personal guarantees on top of this. They are very risk adverse and hardly lend to small-scale industry except when special funds are being provided with the risks underwritten fully by other parties. One reason given by bank management for not lending to small-scale industry is that the small loans cannot carry the overhead required for administering the loans and follow-up where necessary. Normally, it is also bank policy not to take equity shares in new investments or to provide any other type of risk capital. The general attitude seems to be: "We are a bank first of all and have to make money that is why we operate the way we are." This also explains why, while the banks will study a project to assess viability, this rarely in itself leads to a positive decision (the availability of sufficient collateral on the other hand normally will).

E. The situation of industry

When one thinks of industry, or more specifically small- and medium-scale industry, one has to keep the above described situation in mind. In summary, the situation results in the following constraints for the development of industry:

- Very small domestic markets with even smaller purchasing power available;

- Export markets are far away and expensive to reach due to the difficult, expensive and slow transport; very little knowledge of these markets is available locally;

- The Pacific Island Countries have virtually identical commodity-type export products. In these markets they are competing with each other but also with much larger, better-located low cost producers;

- The raw material base is fragmented so that either processing is on a small scale or collection costs are very high;

- There is very little entrepreneurial experience and business culture in the indigenous population; few people have any managerial experience;

- Hardly any indigenous qualified technical or managerial manpower exists in the region;

- Little support can be expected either from Government services or banks.

F. Types of small/medium industries

While the above-mentioned problems are valid for all types of industry, the relevance of any specific problem varies in different types of industry. The sector generally called "small- and medium-scale" industry, however, consists of different clearly separate sub-sectors that each have their own specific characteristics. It is, therefore, very important to specify in any discussion or proposal what group(s) is/are being considered. The mission found two criteria that seem to be essential:

<u>Size of enterprise</u>: This varies greatly. However, what is commonly worldwide considered as "small-scale industry" is partly a relative concept. In this sense, "small" in the Pacific is generally smaller than in other places.

<u>Ownership</u>: As a consequence of the history of the region, the shortage of local know-how and capital as well as other reasons, there are many enterprises partly or fully owned and managed by expatriates, including rather small ones.

These two criteria correlate with each other. If applied simultaneously, they lead to the following four categories:

1. <u>Indigenous "small-scale" industry</u>: The smallest of all. The large majority of all businesses fall in this category. Most employ only the owner and his family and some a few hired labour. Most are active in simple food processing, including bakeries, wood and metal-working, handicrafts. The products are locally marketed. Usually managerial, technical and marketing skills are very limited. Access to capital is restricted by the lack of collateral. Initiative to expand or diversify is limited.

2. <u>Indigenous "medium-scale" industries</u>: Usually the owner/manager has a family background in business and/or is relatively well-educated and trained. He/she employs more than five employees, often in more than

one and up to four or five different and separate business activities. Sometimes one or more are loss-making, the whole operation being supported by farming or other "side lines". In addition, he/she often has several additional ideas concerning further interesting opportunities. The business has bank loans from the development bank but is often under-capitalized. The employees are trained on the job. Most produce for the local market but some export their products either through their own contacts or, in a number of cases, through a joint venture with an overseas company (mainly from Australia or New Zealand) that has put up some of the equity capital. Most countries have only a handful of such enterprises.

3. Small/medium expatriate industries: Virtually all of these are specialized companies producing for the export market, mostly with imported raw materials and technical and managerial expertise. Only few use local raw materials. The main reasons for locating in the Pacific Island Countries are the cost of labour combined with duty-free market access to Australia and New Zealand that these countries have, as well as trouble-free labour and political stability. They often use loans provided by the development banks.

4. Large-scale expatriate industries: In the industry sector, these are virtually non-existent. The only exceptions can be found as joint ventures between foreign companies and local shareholders, often the national governments.

It is evident from the above that the different groups have completely different needs for external assistance in any part of the project or investment cycle. For some it may be useful to identify opportunities in principle, although even for those it is doubtful; for others, this is not necessary or may even be useless. Pre-feasibility or feasibility studies for new activities are required for some but useless or worse for others. Financing needs and access to finance vary tremendously. Technical support is only needed for indigenous enterprises, etc. Therefore, before one offers any type of assistance, one should consider who the target groups are and what types of assistance each of these target groups need. One should also review if the target groups can actually effectively use the assistance against the background of their total situation.

The type of target group(s) chosen also has implications for the cost effectiveness of any assistance provided. It is virtually impossible to directly assist the smallest indigenous entrepreneurs in a cost-effective way.

Political interest in industrial development is certainly present in the countries concerned, but motives vary. Most Governments insist on development of indigenous enterprises for social and political reasons and therefore sometimes is ambiguous on the priorities for development of expatriate-owned enterprises. On the other hand, such larger enterprises with easier market access are seem to provide better scope for creation of jobs and improvement of the balance of payments.

CHAPTER II. PROJECT CONCEPT AND DESIGN

A. Socio-economic and institutional context of the project

The Pacific Island Countries, while spread over an ocean area of some 15-20 million square kilometres and being varied in terms of resources, physical composition, ethnic origin, etc., have a large number of characteristics in common.

The general situation as well as the environment for and types of industry in the region have been discussed in Chapter I above.

The perceived common characteristics of the Pacific Island Countries combined with the low IPFs available to individual countries led to a decision to attempt to provide technical assistance to industrial development in the region through a regional project RAS/83/017. Initially, Papua New Guinea, Solomon Islands, Vanuatu and the Federated States of Micronesia participated in the project which generated a lot of interest in its activities from other countries in the South Pacific. Partly this was due to an increasing awareness of Governments in the region that industry could play a role in developing a more balanced national economy as well as provide opportunities for the indigenous population to develop employment and income generating activities.

In response to this situation and based on the (limited) experience of RAS/83/017 that together with short term consultancies financed by UNIDO had mainly been active in pre-investment studies, UNDP/UNIDO developed the project DP/RAS/86/075. This project quickly attracted a number of other countries as participants. At present formally the following are involved: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Palau, Papua New Guinea, Western Samoa, Solomon Islands, Tonga and Vanuatu and so-called Micro States including Nauru, Niue, Tokelau and Tuvalu.

The project was to have a wider range of activities than its predecessor, including strengthening Government organizations dealing with industry, extension services to enterprises and training of entrepreneurs in addition to the pre-investment studies that were the main activities of RAS/83/017.

It was also decided to locate the project in Suva-Fiji, rather than in Port Vila-Vanuatu in order to improve logistics and reduce cost. The project was located in the UNDP office in Suva and the UNIDO SIDFA assigned also as the project Chief Technical Adviser.

The project would co-ordinate its activities through the Ministry of Industry (or equivalent) in each country that would provide the focal point for all national level activities. The project was to consult and co-operate with any national IPF-financed projects aiming at assisting industry in the countries concerned (Papua New Guinea, Solomon Islands, Vanuatu and Tonga have such projects).

B. Project document

While the project document in a general way describes the situation in the Pacific Island countries in terms of small-scale industry and indicates the problems involved, a closer analysis reveals a number of shortcomings in the project design.

The project document lists the following immediate objectives:

1. Enhance government capacity to promote and support small and medium-scale industry development.

2. Identify technically and financially feasible opportunities for small and medium industry development.

3. Upgrade management, production, marketing and other business capacities of small and medium-scale enterprises in the Pacific.

In relation with these, the following outputs are stipulated:

For objective 1:

1. Broad future potential areas for small and medium-scale industry development in terms of available resources, potential markets and appropriate technologies identified for each of the participating countries.

2. Clearly defined (or revisions to, where appropriate) national industrial policies, strategies and development plans.

3. Clearly defined (or revisions to, where appropriate) government institutional arrangements to provide optimum incentives and support to industrial development.

4. Core of national staff trained in industrial policy formation and implementation, feasibility analysis, project formulation and extension and consultancy services.

For objective 2:

5. Clearly defined projects suitable for small and medium-scale industry complete with feasibility analysis, business development plans and financing submission reports, prepared through the service established in 3 above.

For objective 3:

6. Upgrade marketing, production and management capabilities of small and medium-scale industries through ad hoc consultancy and on-the-job training services, to be provided through such services as will be established in 3 above.

7. Group of small entrepreneurs trained in business administration and management techniques.

While this gives a general orientation of the project, some of the statements are somewhat contradictory and, without exception, all objectives, outputs (and also activities) are not specified or quantified.

The cover page of the project document indicates "Direct Support" as the primary function and "training extension" as the secondary function (this should probably be "direct training"). On the other hand, the first immediate objective states "Enhance Government capacity to promote...", clearly an institution-building objective.

It is not clear what was meant with "through the service established in 3 above" in outputs 5 and 6. Certainly it should have been clear that those national services could never be made fully qualified to do these things during the project. Also, the project, certainly for output 5, prepared the proposals, studies, etc. itself, not with the national services involved to any extent (except "clearing" or "requesting" the studies).

The outputs, however, again indicate for the same objective 1 mainly direct support and training type outputs.

A very important problem with the project document is that in no way priorities or an implementation strategy is given. The activities are virtually a restatement in detail of the outputs but do not indicate who does what, and when.

It is clear from the history of the predecessor project (DP/RAS/83/017 - AU/RAS/85/A04) also that, while the general objective of supporting small-scale industrial development was fully agreed, the approach or strategy to do this on a regional basis was never actually worked out. The CTA of this earlier project repeatedly expressed the need for a reformulation or clarification of the project document and he never actually got the project to start properly during his one year with the project from the admittedly difficult base in Port Vila.

The only lesson apparently learned from the first project was this relocation. The problem of developing an applying a concept for the regional project was not solved. Both projects essentially worked on identifying so-called "sub-projects", individual consultant jobs for one country or for several countries and implementing these.

It must be considered unfortunate that the first CTA decided to leave the project after one year as the project lost the contacts and experience he had built up. It was also unfortunate that there was a lot of friction between the CTA and the SIDFA during this one year, with the SIDFA interfering in the project management, including the work programme and job descriptions and the first portfolio of "sub-projects" developed by the CTA being "decimated" by UNIDO taking a number of these for financing from other sources of funds.

These problems demonstrate another weakness, the fact that it was not clear in what sense the project was, in fact, a separate integrated set of activities/outputs on the regional level rather than, and different from, the general UNIDO programme in the area with mainly country level activities.

This problem was not solved with the new project, on the contrary. By combining the CTA (responsible for the project) and the SIDFA (responsible for the UNIDO programme) posts the project concept was further diluted to just become a part of the programme.

Overall, the most important problem, however, is the wide coverage of the project with strengthening government capacity, project identification, as well as training and upgrading of entrepreneurs in a number of countries covered under a project of this size. Together with the lack of quantitative specification and the lack of priorities and strategy, the project document does not define a project but an area, or areas, of activity without specifying exactly what should be done.

As will be described, this has led to problems in the implementation of the project

Another problem with the project design is that it did not define the target group or groups that were to be approached and assisted by the project. As described in Chapter I, to use "small- and medium-scale industry" as a target group does not sufficiently define the end users and the different needs of these end users, and therefore cannot lead to a clear concept for the project.

CHAPTER III. PROJECT IMPLEMENTATION

A. Delivery of inputs

UNDP/UNIDO inputs

The budget of the project evolved as follows:

Budget Line		Original Budget (A) m/m		Latest Budget (C) m/m	
11.01	Chief Technical Adviser		-		-
11.02	Extension Services Specialist	30	224,400	28.2	178,000
11.50	Consultants	28	208,400	48	359,000
-	Associate experts		-		-
11.99	Sub-total		432,800		537,000
13	Support Personnel		20,000		20,000
14	Volunteers	72	60,000	60	50,000
15	Experts Travel		70,000		40,000
16	mission Cost		30,000		50,000
19	Total Personnel Component		612,800		697,000
32	Study Tours		40,000		40,000
33	In-service Training		20,000		20,000
39	Total Training Component		60,000		60,000
49	Total Equipment Component		10,000		24,000
51	Operations - Maintenance		1,500		-
52	Reports		4,500		3,500
53	Sundries		13,000		13,700
55	Hospitality		900		-
59	Total Miscellaneous Component		17,200		17,200
99	Grand Total		700,000		798,200

It can be seen from the budgets above that the only major change from the original budget has been a large increase ($ 150,600) in the budget line for consultants. A large part of this was added in Revision B in order to cover commitments made by the predecessor project in 1986 but implemented in 1987 when the old project was formally closed.

Government inputs

The project document did not specify Government inputs clearly. The only clear requirement was that Governments were to assign their "Director of industry" or similar as a counterpart, to act as in-country focal point for the project.

Other requirements mainly involved logistical support and generally co-operate with the project. No budget for Government inputs was given.

Of course such vague definition can be expected in the case of such a regional project involving, at the design stage a not yet known number of countries. At the same time, however, it is another demonstration of the fact that the project document is not much more than a general orientation of activities. A preparatory assistance phase could have been useful to prepare a detailed design while working within general guidelines for a year or so.

B. Implementation of project activities

As the "activity" section of the project document only gives open-ended categories of activities without timing or volume, it is not possible to make an assessment to what extent the activities have been completed, or even to what extent progress is being made in comparison with the planned activities.

When revising the actual work done under the project and the design of the project, the following describes, in general, what has been done.

Given the resources available to the project, that is to say a part-time CTA, a full-time expert and an associate expert financed separately (and who is expected to spend at least 25 per cent of his time assisting the SIDFA in non-project activities), it must be clear that the very large activity/output subject area, as indicated in the project document, could never have been expected to be substantially covered in the three-year project.

It seems that this was also a conclusion reached by the CTA. During a very early stage of the project it was decided, with the agreement and support of the Resident Representative, to focus project activities mainly on opportunity identification studies and pre-feasibility studies for specific products and countries and some selected policy advisory services. It was considered that this was an important requirement for industrial development and a logical first step.

Almost entirely based on discussions with only governments concerned, the project identified a number of subjects that would require short-term specialists and rapidly built up a constant stream of such short-term consultancies, up to a peak of five consultants being in the region simultaneously in late 1987.

The project has also identified and developed proposals again mainly for short-term consultancies that were financed by other UNIDO funds such as SIS and UNIDF.

The extension service expert has carried out a series of country visits to make contact with governments and local staff, assess interest and identify potential areas and is planning to work on small industrial development plans (one week each for six states).

The associate expert has done two 2-week "country industrial surveys" and six 1-week surveys are planned for this year. It seems, however, that the central team has been quite busy with identifying and developing ideas and concepts for the short-term consultants, formulating terms of reference or "sub-projects" negotiating, selecting consultants, briefing and debriefing the consultants and finalizing the reports, etc. rather than undertake substantive activities themselves.

To date, no formal training activities have been undertaken under the project (with the exception of a rather furniture training course for a handful of participants in Vanuatu by a short term consultant). Under the Tonga national project a one-week "entrepreneurial motivation" seminar was held in co-operation with other organizations. For this year, training activities are planned on entrepreneurial development and project evaluation and financing.

It seems that all parties, UNDP Suva, UNIDO Vienna and the project staff were satisfied with the way the project was moving. In fact, several written statements, confirmed in meetings orally, demonstrate that the project was used as "a pot of consultancy funds" to be drawn up whenever advice on a subject related to industrial development was required, rather than as a project.

Monitoring activities by parties other than the project staff have been limited to a visit of the UNIDO backstopping officer in October 1987 and contacts between the project and UNDP Suva (the project operates from the UNDP offices). On no occasion after it was approved has the concept or actual orientation of the project been questioned.

It appears co-operation received from the Governments varied as can be expected, but on the whole the functioning of the "focal points" has been good. Consultants on assignment were assisted, the long-term extension services expert has visited them and made contacts, and they have assisted in identifying potential areas for development. In other words, they have co-operated but rather passively with the project as it was implemented to date. This obviously can be expected in the light of the discussion in Chapter I.

The project has not had extensive contacts and interaction with other organizations in the region. There have of course been occasional contacts with the "national" industry development projects in the four countries where such projects are active, but no extensive efforts to integrate or join efforts with these projects, or develop a joint concept, have been made.

It must be said that, certainly since late 1987, the project keeps extensive computerized records of its activities, with each substantive activity being treated as a sub-project. Extensive data-base type records are being kept and various lists produced covering all activities since mid 1986. The data base also includes national projects on small and medium industry development as well as activities implemented under UNIDO funds. Unfortunately the data bank does not (yet?) list any follow-up to the activities in terms of reports used, recommendations and projects implemented, etc.

CHAPTER IV. PROJECT RESULTS AND ACHIEVEMENTS OF OBJECTIVES

A. Outputs

Actual outputs produced by the project to date (April 1988) can be listed by output as defined in the project document and then discussed. The grouping is taken from a listing provided by the project. Where already programmed, activities for the remaining part of 1988 are also mentioned.

Output 1

"Broad future potential areas for small- and medium-scale industry development in terms of available resources, potential markets and appropriate technologies identified for each of the participating countries."

The project lists as results produced two two-week industry surveys (Samoa and Tonga) by the Associate expert. For 1988 six one-week surveys are planned (Kiribati, Pohnpei, Truk, Yap, Tuvalu and Trust Territories).

Comments:

While these surveys may be useful in principle, it is not clear what the project intends to do with them. It is also not clear to what extent they are the first such surveys done on the countries concerned or if they duplicate other work already available somewhere. One could also ask the question if one or two weeks in the country/state are sufficient to make a sufficiently complete study including potential markets and appropriate technologies or at least a well founded indication on these subjects.

Output 2

"Clearly defined (or revised) national industrial policies strategies and development plans."

No activities under this heading were carried out so far. For 1988 six one-week missions of the extension services expert are planned to develop small industry development plans for Marshall Islands, Kosrae, Pohnpei, Truk, Yap and the Trust Territories.

Comments:

As no activities were carried out yet, no comments can be made on the actual work done. Based on what has been stated in Chapter I in terms of capabilities of Governments in the countries concerned, and on general findings worldwide (see RSIE 1988) it would seem that this subject should have a very high priority if one wants to stimulate small/medium-scale industry development in the region. How important the "general environment" can be is demonstrated by the situation in Tonga where a positive environment has indeed managed to attract industry and created exports and jobs (the fact that some of these may be "foot loose" type industries only stay as long as the "conditions are right" even emphasizes the importance of Government policies and strategies). One could very well argue that this subject area should be the first step in any attempt to systematically stimulate industrial development in the region, not project/product level studies.

Output 3

"Clearly defined (or revised) Government institutional arrangements to provide optimum incentives and support to industrial development."

Here the project lists

(a) the proposal on establishment of an industrial estate in Kiribati, and the initial reviews of the same subject in Kosrae, Pohnpei, Truk and Yap,
(b) the preparation of an investment guide for Marshall Islands and the four Micronesian States
(c) the two-month study on a public procurement system for Vanuatu.

For Summer 1988, a workshop on entrepreneurial development, a one-month investment promotion adviser for Vanuatu and a similar assignment for the Solomon Islands are planned.

Comments:

It is not completely clear what the difference is between outputs 2 and 3, at the very least they overlap strongly in the actual activities carried out. The work carried out under output 3 is considered useful provided the Government is genuinely interested in establishing an industrial estate or apply an investment guide.

The project design seemed to suggest output 3 concerned institution-building efforts. At least the references in outputs 5 and 6 in the project document refer to the "established services". The actual activities carried out, however, do not concern the establishment of such services.

While the experience with industrial estates worldwide is at best a mixed experience, there may be specific reasons in the South Pacific to establish estates. The main reason is the fact that in most countries virtually all land is commonly owned and obtaining a secure lease very difficult. Government owned industrial estates may be a good solution for that problem. However, the appropriateness of the reports was seriously questioned, whether the appropriate expert was sent and whether the terms of reference written were applicable. They were stated not to have been fitting in some cases.

Output 4

"Core of national staff trained in industrial policy formation and implementation, feasibility analysis, project formulation and extension and consultancy services."

No activities have taken place until now. For 1988 the project is expected to prepare a manual for industrial extension services for Kiribati and Tuvalu. Also a two-week seminar on "project evaluation and financing" for participants from eight smaller countries and states is planned.

Comments:

No comments can be given on actual activities as none have taken place. We would like to refer to Chapter I, however, as background to the discussion where it is emphasized that one cannot expect a large number of highly qualified Government staff to be available for the industry sector. It would be useful if the project could define the minimum requirements in terms of

Government functions in industry (regulation and some investment promotion?) and target any training and manual activities to these limited areas. The mission considers that "industrial extension services" are not one of these minimum requirements and that it is overoptimistic to expect the countries concerned to be able to run such a service in an effective way.

Output 5

"Clearly defined projects suitable for small- and medium-scale industry complete with feasibility analysis, business development plans and financing submission reports, prepared through the service established in 3 above."

The following are listed:

- Agricultural hand tools/implements Fiji and Tonga with a short mission to Solomon Islands (a report with some prototype designs)
- A report on the rehabilitation of a boat repair yard in Truk
- Opportunity studies on clay bricks and tiles for Pohnpei, the Trust Territories, Yap and Fiji
- Opportunity studies on coconut processing for Yap, Tuvalu, Kiribati, Marshall Islands, Truk, Solomon Islands
- An opportunity study for fibreglass products in Kiribati
- Opportunity/prefeasibility studies on fish processing for Kiribati, Truk and Yap
- Opportunity report on wood processing for Truk, Kosrae and Western Samoa.

Several of the above missions also provided limited ad hoc advisory assistance to industries. For the remaining part of 1988 similar activities are planned for bamboo furniture (6 countries and states), garments (1 country), a follow-up mission for the fibreglass products, coconut processing for 2 countries and wood processing (2 countries).

In addition, the following "generic" report has been prepared:

- A generic opportunity report on non-metallic waste recycling for Papua New Guinea.

Comments:

These opportunity identification and "prefeasibility" activities are considered the main part of the project by both the project staff as well as the UNDP in Suva.

The studies are carried out usually after the subjects are identified by the project (several already by the predecessor projects) and after Government requests are obtained. In hardly any of the cases seen by the mission was definite entrepreneur interest assured before the study was done. Most of the studies also did not attempt to identify such entrepreneurs. Reports of studies are submitted to the Governments concerned, and no follow-up takes place. The mission considers this bureaucratic approach not acceptable. Many persons interviewed repeated that there are more than enough abstract studies done for the South Pacific, abstract because they are not prepared for specific, identified, implementors and are therefore unlikely to be implemented. Certainly, for small- and medium-scale industries no entrepreneur is likely to "pick up a study done by someone else and put his money into it."

The original output statement defines that the studies are to be prepared through national institutional arrangements. This has hardly happened as the national institutions cannot do this. The studies and reports were done by short-term consultants with mainly logistical support from the departments of industry or equivalent. This is what realistically can be expected, see also Chapter I.

Output 6

"Upgrade marketing, production and management capabilities of small- and medium-scale industries through *ad hoc* consultancy and on the job training services, to be provided through such services as will be established in 3 above."

Under this assistance to existing industries the following are listed:

- Trouble-shooting for a pineapple processing plant in Cook Islands
- Assistance and training to rattan processors and furniture makers in Cook Islands, Solomon Islands and Vanuatu
- Assistance to wood processors in Fiji, Marshall Islands, Pohnpei and Vanuatu.

Comments:

These outputs have been produced by specialized consultants partly for existing enterprises. While the assistance to the pineapple processing plant in Cook Islands is considered to have been important and successful (although doubts were expressed to the mission as to the relevance of advice), in some cases the assistance has not had a large impact. For instance, the assistance to the rattan training institute in Vanuatu has not (yet) led to any new enterprises or jobs in the expected new enterprises, apparently because there is no demand for the training from entrepreneurs, most trainees so far were "drop-outs" or school leavers with very little prospects of setting up rattan furniture production.

Output 7

"Group of small entrepreneurs trained in business administration and management techniques."

Only a one-week "entrepreneurial motivation" seminar held for Tonga is listed. This was, however, mainly organized by the national project in Tonga in co-operation with other organizations (CFTC, USAID). Another seminar is planned for June 1988 in Fiji.

Comments:

The seminar in Tonga was well received and a good example of how various aid organizations can work together. Of course, the actual output produced is very limited, more could have been done.

General activities related to the project development and management (not listed in the project document):

Here the project lists the field visits undertaken by the extension services expert. In 1987, 12 countries and states were visited to establish initial contacts. These visits are continuing.

Also the business consulting services of the volunteer that have just started are listed here. He is expected to cover, in addition to Western Samoa, also Tokelau, Niue and Cook Islands.

Comments:

It would seem to the mission that this category of activities is a very important one. Better general knowledge and understanding of the situation in the South Pacific can only be obtained in this way. Making contacts with entrepreneurs and identifying real projects in the sense of not only a preinvestment analysis made but also entrepreneurs and capital ready to realize the project, is probably the most important thing the project can and should do. So far, however, most contacts have been with Government officials, something which is important and a prerequisite for all other activities, but not sufficient! Government officials themselves do not know sufficiently what the problems are for small-scale entrepreneurs, and they certainly are not investors themselves, they therefore are not the best party to identify areas for development in terms of investments by the private sector.

In addition to this, even the Government officials repeatedly stated to the mission that they had serious doubts as to the relevance and quality of the various studies and reports prepared by the project: "nothing gets implemented" and "we have too many reports".

B. Achievement of the immediate objectives

The question of the extent to which the immediate objectives defined by the project document are being achieved is easy to answer.

The first objective - "enhance Government capacity to promote and support small- and medium-scale industry development" - has hardly been addressed at all. The third objective of "upgrade management, production, marketing and other business capabilities of small- and medium-scale enterprises" similarly has hardly been addressed except through a handful of ad hoc activities of short-term consultants. The project has done considerable work on what is given as objective 2: "Identify technically and financially feasible opportunities for small and medium industry development". Indeed a number of opportunities have been identified. This statement, however, is not an objective but an activity/output. A something that has not happened yet at all.

A more important question at the level of objective, however, is: "Were the objectives relevant given the socio-economic situation and the wide coverage of the project?" A second related question is if the approach of the project to achieve the objectives (something that remained largely undefined in the project document) has been effective.

The mission considers that, while it obviously is very important to strengthen Government capacity to deal with the industrial sector, this should limit itself to the essential Governments tasks and not include Government run extension services and other sophisticated activities. To date the project has not yet developed an approach or model that defines what functions should be strengthened or how this should be done.

The identification and development of investment projects for SME can be a relevant activity. The way in which the project has chosen to address this objective is considered to have serious flaws to the extent of being almost useless in terms of helping to create enterprises. This should be done only with entrepreneurs, not for but without them.

Upgrading business skills of SME obviously is important and relevant. The only problem here is that obviously a project like RAS/86/075 cannot cover all sub-sectors throughout the area covered. Sub-sectors should be chosen on which the project and its staff can focus, and a general strategy developed.

In the view of the mission, the main flaw of the project design and implementation so far is that it does not address the main problem of getting from a good project idea (preferably one generated by an entrepreneur) to an operating enterprise, and that in general it does not have a clear concept of how and in what to assist small enterprises.

C. Contribution to the achievement of the development objective

The development objective is: "Expand and improve SMI in Pacific Islands countries to diversify the economy, generate additional employment and income, reduce dependence on imported goods and services and increase exports".

The contribution so far of the project to the expansion of the SMI sector must be considered zero or negligeable. This is not a surprise for a project as young as this one. It should, however, be added here that given the fact that the small- and medium-scale industry sector in the countries concerned is so small that an effective large-scale project could have some impact. One must, however, consider this over a time frame of at least 5-10 years.

The same development objective could lead, however, to a project that tries to establish specific SMI in a more direct and comprehensive way than the project has done so far.

CHAPTER V. SMALL-SCALE INDUSTRY NEEDS ASSESSMENT

A. Introduction

At first glance, the study of communications might not appear to have much relevance to needs for UNDP assistance to the private sector to develop small-scale industry in Pacific Islands (or other)Countries. But, in many ways, exactly what UNDP and other donors are up against is an unfamiliar communication process, with relatively unknown signal originators (the entrepreneurs or target population of UNDP programmes).

Communication theory holds in the simplest form that there is a "sender", a "receiver" and a "medium" through which the signals are transmitted. Then, as in other areas of study, scholars begin to analyze the elements more closely and break them down further. Accordingly, in communications, there is a "coding" and "de-coding" at each end and terms like "static" or "noise" causing interference.

For years, UNDP assistance has worked through governments to provide assistance. As a result, one further link is added in the simple, theoretical communication system: the entrepreneurs express to the government what they need but now the government "translates" those needs to UNDP. And, as one would expect, since the private sector cuts across other sectors, there is likely to be more than one office in the government involved in translating needs to UNDP such as Departments of Commerce or Trade, National Development Banks, Central Planning (which, in some countries, administers rural small industry funds) and possibly even other offices.

B. Analysis of present situation

Government-entrepreneur communications gap

At first glance it would appear that this situation is no different than many others in which UNDP works: agriculture, fisheries or education. Yet in the government/private sector communications channel, both government and the entrepreneurs have consciously distanced themselves from each other over the years. Entrepreneurs on their side are very independent individuals who have learned to stay away from government offices for a variety of reasons, one of the most important of which is that they have learned to expect little assistance but are likely to become involved in "bureaucratic red tape" produced by junior officers, who, in the eyes of the entrepreneurs, do not know anything about business. On the other side, in the Pacific there is often reported to have been substantial distrust of the private sector by governments in the past.1/

At present, there exists according to various reports, a spectrum of attitudes of governments towards the private sector ranging from mistrust and sufferage of the private sector to, in the case of Tonga, active support and encouragement. (Even in Tonga's case, however, it is pointed out in relevant reports that a large segment of the population in Tonga still carries a strong distrust of business and sees it as mainly benefitting foreigners. And in some cases it is true that the foreign business people have taken advantage of Tonga's favourable incentives and then left the country without helping indigenous business people.)

1/ PIDP 1987 (see Annex III).

The mission indeed found that, in some cases, there appeared to be almost a total lack of communication and understanding between the two parties, with each pursuing their own objectives and interests without really having the least idea what the other was doing. And, on top of that, the various UNDP/UNIDO (or other donor programmes) were feeding into and building up the government ministries, with quite questionnable degrees of effectiveness. The entrepreneurs, however, had not received the slightest assistance as the two parties maintained their distance.

Confusion of terms

Where it is stated that various projects are helping the "entrepreneurs", normally it is not clear which type of entrepreneurs and, more often than not, it is the joint venture, export-oriented, large-scale operations while other groups are not reached at all. That is not entirely without reason because they are the easiest to assist and, in many ways, can quickly show the results of some effort.

Based on what this mission found, considerably more care ought to be taken, as described in Chapter I of this report, as to what the target population is. It is not sufficient to say "small industry" because there are too many different perceptions of what that means and, therefore, what should be done to assist that sector. In future programmes, target beneficiaries in small industry should be further defined to permit alignment with government priorities setting reasonable output targets.

Failure of present programmes and the need for re-orientation

As a result of the often nearly complete lack of communication plus a confusion in terms and, therefore, priorities, present efforts are having very poor results indeed, with one or two exceptions (mostly based on the particular individuals involved). The results of most projects are reports, feasibility studies and techno-feasibility studies, which the target business population never sees and, if it does see the reports, finds them to be impractical and irrelevant. Even Governments, for which they were done, find them impractical, academic and complain that none are ever implemented.

Yet, having said that, the mission recognizes that there still may be a need, within limits, to draw up reports of possible potential projects which fit government priorities and actively involve entrepreneurs. The government must exert some direction on the line of development of the economy. It is pointed out in some of the relevant reports that, left to its own entirely, private sector development is likely to be too little too late, and to lead to an excessive degree of duplication of businesses, as is now evident in several countries. Especially small indigenous businesses, are likely to duplicate what they see as a successful business without the knowledge of what else might be possible for them.

Re-orient projects toward implementation

Since these difficulties exist, one certain need is to immediately re-orient assistance projects in order to put them into an "implementation" mode as distinguished from what, at present, might best be described as an "academic" mode, which is often exacerbated by employing academic experts, or those without practical experience in small settings such as the Pacific Islands. That can be accomplished in part by doing no more pre-investment studies unless they are requested by identified entrepreneurs willing to invest in the project and approved by the Government. Or, alternatively, Government-requested studies should involve entrepreneurs right from the start. This criterion must be given the highest priority in any future programmes.

A second need is for UNDP/UNIDO personnel to begin to talk directly with the private sector or target population and understand what they feel the needs are and assist in opening a dialogue between the entrepreneurs and the government offices.

Likelihood of success in strengthening departments is doubtful

In cases where programmes or projects were said to be operating with some success, it was due to the nature of the expert involved who was assisting in implementation of investments, not doing studies. On the other hand, the likelihood that the ability and experience of such an expert can be institutionally transferred is doubtful due to other inherent characteristics of the existing government-business relations as well as the specific situation in the South Pacific (see Chapter I). Some of the explanations for this can also be found in a recent, thorough study, done by the UNDP, UNIDO, ILO and the Government of the Netherlands on rural small industrial enterprises.2/ It states that the overall effectiveness of Small Industry Development Agencies (generic term) is not high for two principal reasons. The agencies are usually hierarchical and urban-based and they are involved in so many types of programmes that their efforts are usually more of a hindrance than a help.

In addition to that, this mission would add the "human nature" factor. Entrepreneurs, as other reports point out,3/ are energetic, impatient to be "doing something" and would feel cooped up were they in a large ministry. The people with whom they would come in contact at those Ministries, are, however, normally of another type, without actual business experience and likely to be junior officers for whom entrepreneurs are likely to have even less respect. This also applies to contacts of entrepreneurs with development banks.

In addition, the more highly-qualified people in Ministries and other Government organizations get better jobs when, especially, there is such a dearth of management skills in the Pacific Islands. If an officer is well trained by an expert, he or she will move on, perhaps to industry, as they see the higher income available there.

Why do Government officials request reports?

Finally, another critical element is a basic characteristic of bureaucracies: the way to advance in a ministry is not to spend time out in rural areas calling on small entrepreneurs. A junior officer is not often seen by superiors; the way to become visible is to write reports that are sent up the line. This last point has a double implication for UNDP/UNIDO and other projects in this sector, as was readily apparent to the mission.

By having an "expert" write reports the officer can show a tangible result of his work. Accordingly, studies and reports are readily and easily requested if such requests are sought out by UNDP/UNIDO but the question of the use or implementation of such reports is not asked often enough. The reality is that many reports were stacked up in various offices and, given the turnover in ministries, after a year or two those feasibilities studies and reports are forgotten.

2/ RSIE 1988 (see Annex III).
3/ PIDP 1987 (see Annex III).

At the same time the Governments themselves have the feeling that the "hit and run" academic or theoretical studies are of little or no value and expensive, due to costs incurred to assist the expert. The same reasoning applies to the often junior development bank officers, that are responsible for large numbers of small rural loans. The way to get ahead is not to spend time and money travelling around to help small clients in rural areas (if there is sufficient transport and per diem). The bank director and senior officers are concerned with the "Bottom Line", meaning profit or loss. That is what they have to report on to their governments or to stockholders. So the reality is that establishing and particularly following up small business loans is not something they are motivated to do. And even if they are, unless the officer is exceptional and can establish a relation of trust with the entrepreneur, there will not be any management support on a regular basis and yet, that is what entrepreneurs said they need. The RSIE 1988 Report observed of the generally ineffective loan-making machinery of banks:

> "Why have formal banks proved so uniformly ineffective in making Rural Small Enterprise loans? Basically because they have high overheads and centralized decision-making. Large loans are cheaper per dollar to develop, appraise, disburse, supervise and collect. They are usually made only to well-known clients who offer good collateral."

C. Small industries needs for assistance

Finance and integrated assistance

Based on the many discussion the mission has held an assessment of what the essential needs of small-scale industries are has been made. To validate the findings the mission has also reviewed a number of relevant reports and studies. The overall assessment is presented here using selected parts of these other studies which particularly illustrate and confirm the mission's findings.

A particularly good, current and relevant study on Small Industry Development reviewed by the mission was published in 1987 by the Institute of National Affairs of Papua New Guinea.[4] The author of this INA Report apparentely recommended and designed the highly successful Stret Pasin Stoa Scheme of the Agricultural Bank of P.N.G. The mission is convinced, from what it has seen and read and from talking with other countries' development bank officers who have seen the scheme in operation, that it (called SENSES) has relevance for other South Pacific countries and could be incorporated on a pilot basis in a regional programme.

The INA Report, corroborating a report on developing finance institutions in the region done in 1987,[5] points out that most programmes theoretically provide financial support including various special grants, guarantee schemes, low interest/long repayment loans etc. as the programmes automatically assume finance to be a problem. In spite of this, the INA Report calls the resulting situation a "finance gap".

> "Most small enterprise policies and programme 'automatically' assume that finance is a 'problem' for small enterprises. For this reason, most countries have a variety of programmes providing financial support ...

4/ INA 1987 (see Annex III).
5/ DFI 1987 (see Annex III).

In most economies, finance is available for small enterprises and potential small enterprises; however, borrowers may face two problems:

- Relatively high cost of finance given the risks associated with small enterprises;
- Unrealistic repayment demands or collateral requirements by the lending authorities in the private sector.

These two factors combined suggest that there is frequently a 'finance gap' between demand for funds by the small enterprise sector and the supply of funds from trading banks or alternatively financial institutions." (p. 111)

An important question to ask is, if given a number of linkages or expansion possibilities of known entrepreneurs exist, why are Development Banks not stimulating this potential?

The PIDP 1987 Report notes that only 35 to 40% of all entrepreneurs interviewed had access to funds from their local banks as excessive bank requirements made it impossible for the others to obtain loans. The majority of existing entrepreneurs were forced to find money through informal, non-institutionalized sources. This is a stark figure in the face of so many statements that "there are plenty of funds". There may be, but not in practice, for the people who need them most or for the target population of all these programmes and projects.

The mission, assuming Development Banks have a strong development oriented mandate, investigated this situation. The main reasons for entrepreneurs not being able to obtain financing are stringent collateral or equity ratio policies by banks, which take precedence to an overwhelming degree, over development objectives. In Cook Islands, in fact, a Management Consulting firm, dealing with smaller clients, told of a case where a known, operating enterprise had to go to four banks to obtain a little from each to expand, and the resulting legal paperwork nearly killed the project. Yet, apparently there the failure rate has been very low, much lower than what one of the principal donors to the region would accept as a risk, if they were to contribute to a fund such as proposed by the DFI 1987 report and this mission.

The IMA Report points out that as a result any rational discussion of finance has to be related to the particular target group and also that integrated programmes have the best results by linking the supply of funds to (a) specific training programmes for potential entrepreneurs, or (b) development and evaluation of feasibility studies, or (c) counselling and consulting (on-going) ensuring targets are achieved.

The key words or concepts stressed throughout the IMA Report are integrated and appropriately oriented. Feasibility studies or training for instance should not be done in isolation.

The IMA Report explains (p. 110) that programmes must be designed to link education, training, counselling, consulting, technical services, finance and, finally, information. Also the DFI 1987 Report advised of the dangers of, for example, training done in the abstract for entrepreneurs, or even prospective entrepreneurs without any opportunity to see the results applied in practice.

The DFI 1987 Report also identified the missing link of implementation, where feasibility studies, training and seminars were given in the abstract. The link to a higher likelihood of implementation was stated to be the integrated provision of the twin and inseparable resources of management and finance.

The IMA Report stresses that actual components of a specific integrated programme must depend on the programme objective and the target audience within the industry sector, but most integrated programmes should include (a) appropriate education and training programmes; (b) counselling and consulting facilities; (c) finance; and (d) information meaning facts, figures and information FOR business or entrepreneurs, not only ABOUT them.

Most Government efforts, provide statistics <u>about</u> small business: numbers, size, geographical location, type, etc. But, no office provides information helpful to small business people on, for example, what a category of retailers spends on rent, salaries, interest, etc. This is the type of management information they need.

Future programmes ought to use some of the resources employed by project and Government administrations to develop these statistics FOR small business, which, it has been demonstrated, are more willing to share this information, <u>if</u> they are provided with results, than might be supposed.

The last key concept for future technical co-operation is found in the RSIE 1988 Report. If the intention of the programme and the Government is to develop <u>rural</u> small industry, then the following applies: Highly centralized organizations are not effective RSIE-promoters. Strong field links, based on local presence and local autonomy of action are essential, but localized operations must be technically competent.

But even if the enterprises are in the capitals of South Pacific countries, project activities as undertaken so far are not appropriate. The project apparently has been unable to secure appropriate experts, and programme management has not been able to write fitting terms of reference for the experts. For the South Pacific, programmes must provide technical assistance of a less academic, less global nature, and more specifically and practically related to implementation of investment projects with existing resources, markets, finance and equipment.

<u>Strategy for a future project</u>

Another reference, an ADB Technical Assistance Report6/, principally refers to Western Samoa but also evaluates and compares small industry development in several other countries of the South Pacific. It presents good insights for a medium and long term strategy which the mission feels to be very relevant for a regional programme. This strategy is under serious consideration in at least three countries (Fiji, Papua New Guinea and Western Samoa).

The report, part of which deals with the role of the Development Bank, Western Samoa (DBWS) in the promotion of industry, concludes that, given all its limitations, DBWS is still the most effective promotion agency for the private sector. Further, it is also likely to remain as the only agency with sufficiently broad experience, access to resources, and broad involvement in and responsibility to "spearhead the stimulation of industrial development". (p. 219)

6/ Tasker 1986 (see Annex III).

The mission concluded in agreement with the DFI 1987 Report that DBWS is the agency to be supported for the promotion of industrial development in Western Samoa, and that even given the serious problem of confusing, conflicting and complicated policies towards industry and the private sector, DBWS could be a strong anchor for assistance activities.

The report recommends concentrating, at first, on consolidating and deepening the existing industrial structure. This would be accomplished by strengthening and expanding horizontal and vertical linkages in production and services and by improving competitiveness through better productivity, quality, design or price.

The second step (which in the opinion of the mission could be done concurrently) would be to bolster the investment promotion and small business extension services of DBWS. This could be done in conjunction with and through the "Risk Capital Window" of the Bank that the DFI 1987 Report proposed.

An important observation concerns the proposed Investment Division. It is recommended that this division needs to control its own resources and not have them used or taken for short term needs of the Bank as a whole. This is one of the reasons that the separate division of the Development Bank in Papua New Guinea is successful, as, according to personnel there, it generates money <u>for</u> the bank.

It is important, even in the short term, for an investment division to be organized as an "independently identifiable and separately budgeted aim of the Bank, even separately housed". (Tasker 1986) The Report states that it would be reasonable and legitimate to expect Government itself or an outside aid source, to provide specific additional funds for that division.

The ADB Report concludes that the division should be expected to provide an independent liaison between other parts of the Western Samoa Government and the investor, and "not to simply send the investor away on his own". The division should also assist the investor with the various approval formalities of relevant Government offices.

That such an approach in general is possible and useful is confirmed by what the country project in Tonga, under the direction of a very capable UNIDO expert appears to be doing, with considerable success. It is also, in effect, what the IMA Report suggests as an integrated approach, and "one stop shopping" for the entrepreneur assuming that the DBWS division would maintain a close, continuous relationship with the enterprises in which they have invested, providing assistance and counselling as required.

This mission recommends, as did the previous DFI 1987 Report, that a Development Bank investment division be established in countries where the Development Bank is willing and able to undertake the strategy, functioning much like the management consulting division of the Agricultural Bank of PNG. A regional project could supply the technical assistance and part of the funds to support this effort, but, there would have to be an expert based in each country where the proposal was to be tried, with a CTA co-ordinating the efforts and providing for short term additional, technical, <u>appropriate</u> inputs (with terms of reference written by <u>country</u> personnel). The existing PNG Bank Division could be used as a basis for and training and advice.

The Risk Capital Division could function with an outside organization or fund at least partly underwriting the investment, so that the Bank knows what its maximum downside exposure is. By making investments in this way, the Bank would "stretch" present capital farther. Expanding the capital base of a company through the injection of equity would improve its ratios and, perhaps, also allow it to qualify for a larger bank loan. The Bank could invest in new as well as existing companies. The latter investments would, presumably, have a much more immediately visible result on a lower risk, something that obviously will be very important for the approach as a whole.

The Tasker 1986 Report also recommends applying some sectoral or investment criteria to assist in directing funds into productive sectors, taking into account comparative advantages and value added. This mission recommends a committee with the Risk Capital Division manager, as well as a private sector representative and a Ministry of Industry or Trade officer (and a donor representative, if desired. The disadvantage of increasing the time and complexity of decisions through Committee approval must be balanced carefully against the criticism of present bank procedures which are subject to unfavourable political pressures and a bias against smaller and, especially, indigenous enterprises.

Inherent risks for pacific Development Banks

The mission agrees with statements by various other reports including the RSIE 1988 Report that there are risks in any agency (including Development Banks) to assume too great or wide a role. The primary role of a Bank is to provide financial support to developmentally beneficial projects, where risk exposure due to market uncertainty, payback period or low commercial return, etc. may preclude commercial banks from undertaking the project. And this role for DBWS and other banks in the region already extends across all sectors of the economy.

At the same time, the bank must report to its board and stockholders on its "bottom line" and the reality is that too great an allocation of resources to risky investment and promotion undermines DBWS and other banks' ability to service other sectors and meet its financial objectives.

Any proposed programme or project has to take into account any Bank President's obligation and obvious practical need to watch his "bottom line" performance. A major danger for adding the risk capital cum consultancy function is that the viability and continuity of the functions of this new investment, management consulting agency or Risk Capital Window are less certain with an organization, such as a bank, whose prime function is of a different type. Any change of management or reorganizations which may come about for a variety or reasons will usually downgrade non-mainstream, marginal activities. This would be especially true during times of financial stress.

A second danger is that absorbing the additional functions can spread management or professional skills too thinly! Already the problem for all the banks is that at present none of them holds sufficient of these skills now. They would, therefore, have to recruit and train the staff required for the venture capital approach. This cannot be done by sending the officer overseas, UNDP technical assistance as described under the DFI 1987 Report should enable on-the-job training.

A third danger is that interim or partial stop-gap solutions that may partly address the problem have the tendency to become permanent and then fail. This should be avoided.

Another inherent risk in DFIs providing investment capital as well as loans to small businesses with donor-provided funds is that the DFIs will utilize the investments to back up or "cover" their loans... There will even be a temptation to secure the loans or pay them off through the venture or risk capital pool provided.

Private venture capitalists stated strongly to the mission that involving an institution in both types of capital provision at the same time causes a serious conflict of interest on the part of the institution. Clear decisions are not made on whether to loan or not, when to make necessary, difficult changes in the investment management, etc. and whether to support the venture with more capital, when results are below plan (which will often be the case as very few ventures ever meet their budgets on which capital provision is based).

Yet, recognizing the dangers and the fact that there is a potential for conflict of interest, the mission believes that the potential for implementation and favourable results in industry, if such a venture capital window would exist, outweigh the negative side. This conclusion is especially true given the political pressures now felt by banks to cut down the "finance gap" and show more response to development-oriented objectives. The result is, as pointed out elsewhere in this report, that 3 DFIs are now either in the process of starting or planning to start a more active Risk Capital Division. UNDP should encourage and assist this effort as soon as possible.

Any project should, however, also recognize the banks' vulnerability and assist them in dealing with this, certainly at the start. This will have to be based on some kind of an agreement with the banks that decide to participate, so that there will be continuity for a period long enough to give the project a chance to succeed.

B. Recommendations

Given the difficulties described above for stimulation of private enterprise by governments and donors, the following are the main recommendations stemming from the needs assessment. But first, there must be a clarification in in terms so that the various parties involved are more certain they are speaking the same language. The needs of small/medium industry vary and needs assessment has to study the different types separately and recommendations have to be adjusted to each sub-group. That classification has been covered in Chapter I of the report.

The main actions needed are:

1. Policy measures to provide an environment conductive to growth

The RSIE 1988 Report, along with others reviewed and corroborated by interviews during the mission, conclude that the single most important factor for industrial development is the provision of an environment conducive to private sector growth. Here a specific quote from the RSIE 1988 Report is warranted:

"Successful rural industrialization presupposes a favourable economic environment in the rural areas engendered by high growth rate of agriculture, development of infrastructural and social services... Country studies and other available research showed that demand-side policies (whether arising from agrarian reforms and more equitable distribution of land and incomes and/or from price and market incentives to farmers) resulting in aggregate increase in rural incomes have been more effective in stimulating Rural Small Industrial Enterprises through increase in demand for consumer goods rather than merely supply-side provision of inputs and technical assistance services to RSIEs themselves. In the absence of increasing demand for rural non-farm products, supply-side measures may fall flat on their face."

The report concludes: "External assistance for macro policies is the ideal level for external assistance to RSIE because it can then be directed towards the creation of an RSIE-friendly economic environment and can reach all RSIE more or less equally".

UNDP in the South Pacific Region has apparently already begun initiatives to assist governments at the policy level and this should be continued for in several of the countries there is a long way to go to create a stimulating environment. These initiatives are in a very early stage, but the mission would strongly recommend both UNDP/UNIDO in general, and the project in specific to develop these activities further.

2. Capital availability and management support

The next most mentioned need is capital, with management extension services running close. The overall observation is that "when you don't need money from the banks, you can get all you want, but when you do need it, you can't get it!" The larger, joint venture, export-oriented companies are able to find capital. On the other end of the scale, the small, indigenous producer for the local market usually does not have a chance of obtaining a loan. The same is valid for management extension services related to the finance.

This mission has concluded that this area might best be the crux of future assistance to Pacific Island entrepreneurs. First, however, it is critical to once again clarify the discussion and specify the target group(s), as there are too many different needs to be handled by one approach.

As the mission is well aware that some of the recommendations included in this report and in the DFI 1987 Report are in a new area for UNDP and will be controversial, or difficult to implement, the mission has taken great pains to support this recommendations with other studies and reports. At the same time care should be taken to ensure full commitment of banks involved. Continuing the RSIE 1988 Report section on the financial services institutions and programmes, their conclusion for action is as follows:

> "Whilst in time something probably can and ought to be done to remedy this - above all and first by permitting interest rates to rise to realistic (i.e. 'high') levels and eliminating policy bias in favour of large industry, thus encouraging the banks to look for new lending markets among small-scale industry - it will be a long and uphill journey to significant rural small industry lending, Even given the right incentives, changing the set ways of institutions is not easy. Only when the institutions want to change is external advice and assistance likely to be effective."

As the DFI 1987 Report pointed out, even though the "development" banks in every Pacific Island have in their charter the authority to invest as well as loan money, they rarely invest, as that is an element of risk they have been able and willing to avoid. Yet there is, of course, a limit to how much businesses can borrow and carry the interest plus, of course, banking judgements on how much debt to equity they will accept from business clients and still make loans to them.

Somehow, therefore, DFIs should be motivated to invest and to follow up the investments with technical and management assistance on a regular and consistent basis as this is frequently needed. A venture capital fund for the banks was proposed by the DFI 1987 Report, to be provided by donors and channelled through a venture capital "window" at the banks that would also provide technical assistance. Donors should also provide assistance to train the venture capital staff at the banks.

The need for provision of capital with appropriate technical and management support has not abated nor decreased in priority since the DFI 1987 Report was released. The subject has become more prominent, due to the discussions that took place since, and some banks and governments have already taken steps to establish funds for investments. The Ministry of Trade in Fiji has decided to institute a second Unit Trust or Mutual Fund and the Development Bank of Western Samoa is negotiating a loan with the European Community to obtain funds to invest in the private sector.

While the Government and Development Bank officials in Western Samoa did not fully agree with the proposal in the DFI 1987 Report in terms of the proportion of technical assistance and investment funds and the proposed high direct involvement of the banks themselves, the overall importance of the DBWS reply is its apparent serious interest and the details of the proposal could be adjusted. What the DFI Report was trying to get at is exactly what is stated above in the RSIE 1988 Report: that it will be a long and uphill journey to cause significant (rural) small industry lending and that "only when the institutions want to change is external advice and assistance likely to be effective." The DFI report was concerned with improving the motivation to invest and to provide a venture or risk capital window. Every effort should be made to begin with DBWS as soon as possible.

At any rate, Development Banks are seen in all countries as the official institution that should be providing funds and on-going assistance to clients. The probability is high that governments will gradually push DFIs into investing more or taking a more liberal stand on loans to small enterprises.

The mission believes that UNDP and other donors have to address the needs of these banks and the small/medium industry in the area, and improve the banks' communications, capital provision and assist them in providing management or technical assistance to clients. There are sufficient pitfalls to make this type of assistance difficult, and the RSIE 1988 Report does not have good results from DFIs to report. But the odds can be increased by strictly limiting the range of services the DFIs provide and confining UNDP/UNIDO technical assistance to the Risk Capital Window of the banks involving both finance and technical assistance in integrated programmes.

CHAPTER VI. CONCLUSIONS

Based on the analysis presented above, the mission has reached the following conclusions:

A. The environment for industrial development

The mission has found that overall environment for industrial development in the region is very difficult. This is mainly due to geographical isolation, size of markets, resource endowments, shortages of qualified manpower, as well as cultural factors. In addition, one has to keep in mind that one cannot expect that junior and middle level government officials are capable and experienced in the small South Pacific Island countries. The same is valid for other organizations such as development banks. For these reasons one should not expect "institution building" activities to be very successful. One can also not expect governments to see industry as one of the main sectors to be developed, or to devote extensive resources to the sector. Industry will always have to accept a secondary or tertiary role after tourism and agriculture/fisheries. However, also the government policies and incentives, fiscal regimes and other government controlled aspects of the all important "environment" still provide serious problems even for limited industrial development. This needs to be reviewed carefully in most of the countries in the region.

B. The project

The project document did not adequately describe the planned outputs and activities but gave these only in terms of general categories. This apparently reflected serious difficulties in developing a clear project strategy by both UNDP and UNIDO for this regional project. Even the earlier almost two-year project did not help to develop such a strategy or concept, on the contrary, the first project also tried to develop a programme of individual, small, country level efforts, mainly involving identification and pre-investment studies.

The project team, supported by UNDP Suva, decided at an early stage to focus the project's activities on project identification and pre-feasibility studies, with the choice of subject being based on Government requests combined with perceived opportunities.

The project has performed a large volume of work but the results to date have not been good. The mission was informed that in most cases the reports produced and the recommendations are not suited to country needs. While it is too early to be sure, the mission does not expect most reports to have a good chance of implementation follow-up for the following reasons:

- Subjects were selected in co-operation with Governments and not, in most cases, with interested entrepreneurs identified;
- Communication between Government departments and entrepreneurs is highly inadequate;
- Not enough publicity is given to the reports in the countries concerned;
- Many reports are not conducive to immediate implementation; and

- The reports, due to the above, are likely to become part of shelves-full of unimplemented reports, as entrepreneurs and officials consider there is no shortage of such reports, only shortages of implementation.

Specific case by case support services to individual entrepreneurs in the Pacific Island Countries is the main need and, due to the small numbers involved, a viable option. General studies and guidelines do not contribute substantially.

While strengthening of Government offices and services as well as development banks is certainly an important objective, efforts in this direction must be considered long-term. It is extremely unlikely that in the next 10-15 years Governments of Pacific Island Countries can deliver the specialized support services to industry that are needed.

In summary, the mission considers that the project should not continue with their present activities as these are not considered useful or effective. There are, however, within the original design of the project areas where assistance is badly needed. The project should refocus on these.

C. The needs of small- and medium-scale industry

It is essential to distinguish different target groups within "small- and medium-scale industry" as their characteristics, needs, requirements, strengths and opportunities vary tremendously. Any programme, project or other assistance should be aimed at one clear target group and it is not sufficient to use the term "small- and medium-scale" to define this.

Broadly speaking, the mission would propose a classification in four different groups.

For the first group, the very small-scale indigenous entrepreneurs, "hand-holding" assistance is needed covering all types of assistance including technical up-grading, continuous training in and monitoring of bookkeeping and finance, "money management", assisting with identifying (local) sales opportunities, etc. As banks will not loan any substantial amounts to this group as they do not have equity and collateral, "easy" microloans with close follow-up and management assistance is the only way to provide finance to this group. As this group has the least knowledge of business methods and is most lacking in resources and information, any loan scheme should provide finance in an integral package of assistance. While this group is normally rather conservative and does not have a lot of ideas on what business to start, it is very risky to push them too hard into activities they do not know. Expanding and improving existing businesses is the best option.

Most Governments consider assisting and developing this group the highest priority for social and political reasons. It is very important to realize that for the reasons mentioned above assisting this group directly is very unlikely to be cost-effective in purely economic terms.

The second group, somewhat larger-scale, often more modern indigenous enterprises, has completely different needs. They have many different ideas for good investments but may, in some cases, need assistance on technical or managerial matters and on the presentation of the project to the banks (however, only for the largest, is a formal feasibility study required). They are unlikely to pick up "ready-made" projects that are not their own ideas. This group is most likely to need technical expert assistance in choice of equipment, installation and start-up and sometimes trouble-shooting later on.

While most of these enterprises produce for the local market that they know very well, some may need expertise to develop export markets, as well as to determine the right products for these markets. A major need of these companies concerns equity capital. They are often already over extended and finance to expand is hard to obtain.

The third group consists of larger and usually partly (joint venture) expatriate-owned and managed companies producing mainly for export markets either from local or imported raw materials. This group rarely needs external assistance as technical and managerial expertise can be brought in from the partners and as markets are often assured through the partners. The banks are willing to lend to these companies as they often have sufficient equity and collateral. The only type of assistance needed by this group is in dealing with the local environment, for instance obtaining land, licenses to operate, etc.

To complete the picture, these is also a fourth group of largest companies which are entirely or nearly entirely owned by foreigners (and perhaps the Government) that are usually producing entirely for export. These relatively large industries are in control of their own resources. UNDP/UNIDO does not need to provide systematic assistance to this group.

In the overall examination of policies, incentives, etc., care has to be taken to ensure a balanced approach to the different groups. For instance, measures adopted to assist the two larger groups can seriously hamper small operations. It is in this area of overall policy review, examining the effects on small and medium industry, recommending changes in policies and incentives, assuring consistency and favourable stimulation, technical assistance may have one of its main tasks, especially when project efforts are combined with the assistance and advice of UNDP offices for the support at the highest levels of governments.

Most direct potential for development lies in the second group, as well as in helping a few selected enterprises from the first group to "graduate". It seems overall that any external assistance should be targeted mainly at the first two groups.

CHAPTER VII. RECOMMENDATIONS

To UNDP/UNIDO:

1. The project should, as soon as possible, change its orientation away from general reports, opportunity and pre-feasibility studies and towards investment implementation activities. "Project"-level work should only be done when a serious investor requests the work and is fully involved. The project should focus its regional activities primarily on developing enterprises in "Group 2".

2. For this to be possible the project should actively seek out indigenous entrepreneurs who do have realistic ideas or potential for expansion or diversification (the mission has met a number of them) and help these to be realized. This is likely to entail short-term technical specialists, export marketing advice, as well as more longer-term support from an extension services expert with a general business background. The mission suggests one to three such "ventures" should be identified per country in the next two-year period and assisted intensively. This ideally should be done in close co-operation with "venture capital" activities of the Development Banks (see recommendation 6(b)).

3. For the smallest indigenous businesses the project should adopt a different approach altogether. Here the project should attempt to provide general, relatively down-to-earth, day-to-day, "hands on" assistance to the smallest indigenous enterpreneurs. This can only be done by having staff long term in-country. It is considered by the mission that the present arrangement in Western Samoa where a volunteer with some relevant experience is available under the regional project is a good model. Care should be taken to ensure that his main responsibility is to provide extension services to the target group rather than perform office services in the Department of Industries where he is located in Western Samoa. Ideally, of course, his counterpart(s) should do the same. In those cases where interested and qualified counterparts are available, on-the-job training should become an important part of the assignment. Such set-ups should be assisted with the provision of good, adapted handouts, video tapes, etc. to enable relatively low qualified staff to assist SSI in a meaningful way. The regional project could, on request, support the locally-based volunteer with specialized support, as well as use the local presence as a way of identifying suitable opportunities. As not all the smallest entrepreneurs can be addressed this way, a selection should be made. One way of doing this is to concentrate on those who request and obtain financial assistance from the banking system, for instance, under a "microloan" scheme (See recommendation 6(a)). The volunteer or associate expert could in this case be based at the bank concerned.

4. Any "institution-building" efforts to strengthen governments should be left to country projects such as the ones existing now in Tonga, Vanuatu, Solomon Islands and Papua New Guinea. A regional project document cannot realistically be expected to do this, except possibly the organization of joint training courses and similar activities.

The mission does not recommend Governments of the Pacific Island countries to set up their own technical and entrepreneurial extension services. Experience in other countries combined with the difficult situation in the countries concerned makes it extremely unlikely an effective service can be set up. Instead Governments should aim at developing the more "narrow" functions of providing the right "climate" for limited industrial development such as licensing, import and export regulation, ensuring land is available where required, etc. And national UNDP/UNIDO projects should assist in establishing these.

5. The regional project should make available direct support to governments on their request in revising policies, incentive schemes, etc. This should be done only when governments have definitely decided to implement changes. The project should probably plan for four countries that may take up this challenge over the next 3-4 years. Expertise should be made available to assist Governments in implementing the changes, not in writing general reports on the subject. It is considered 3 m/m should be sufficient for each country, possibly on a split mission basis.

6. There is a clear need for assistance in the financial support services to industrial development. While the development banks have considerable amounts of money available, they claim they cannot find suitable projects. This apparently is due to their rather extensive and strict requirements for equity, collateral and other guarantees, all at the same time in some cases. From the side of the (potential) entrepreneur, the problem looks different but again one has to distinguish the different types of entrepreneur. The following measures are recommended to deal with the main target groups:

(a) For the smallest indigenous entrepreneurs, a "microloan" scheme should be set up. As experience has proven, this type of loan is most likely to be successful if the bank concerned is as close as possible to the customer. This would exclude the development banks that in most countries have only a head office and in some cases 1-2 branch offices. In most cases, however, a local financial organization exists with a relatively extensive retail presence (usually a commercial bank). A detailed preparatory country-by-country study should be made and, where viable and where a good interested bank exists, a simple microloan scheme should be established with market-related interest rates, rapid reaction of the banks in cases of delays in repayments and, where possible, an active assistance channel for loanees in difficulty. It is indeed fortunate that an apparently well qualified organization, the Government owned Fiji National Bank, is now prepared and anxious to begin such a scheme. This effort could serve as the pilot project and the mission recommends assistance be provided as soon as possible. A specialist should be brought in that has elsewhere established a successful micro-loan system, for a period of 1-2 months followed up by another shorter mission when the scheme is in operation.

The regional project should attempt to provide a volunteer or associate expert to work with the banks that do establish such a micro-loan scheme. Priority should be given to countries that do not have a national project for small industry development.

(b) For the larger indigenous type of enterprise, an equity-type venture capital "window" should be established. This should preferably be done through the better established and successfully operating Development Banks that would, however, themselves carry part of the risks and make available one to two full-time staff members to ensure the vital close links between companies and the bank. While the mission fully agrees with the DFI 1987 Report that technical support to companies involved in the scheme should be available, the mission feels that such support will only be made available by banks which, first, have decided they must alter their attitude and become more "development oriented", and, by banks which can afford to undertake such a programme. (Certain criteria, to address this latter aspect, were laid out in the DFI report.)

The scheme would typically work as follows: through a fund established by UNDP and/or other external donors of say $500,000 equity capital would be made available through selected Development Banks. The fund would typically take a stake of $5,000 to $25,000 representing a maximum of 20 per cent of an investment. This would be made available on the condition that the Development Bank itself makes available the same amount as equity capital. The entrepreneur himself would have to put up a minimum of 10 per cent of the total investment as equity. This would make for 50 per cent of the total investment in equity, the other 50 per cent coming from bank loans.

The equity funds would be available both to new enterprises as well as to existing ones that want to expand or diversify. The most rapid results will come from established Development Banks, working with known clients, to expand and intensify working relations. Where a bank is willing to take an active stand on developing new enterprises the mission is convinced that the best model existing in the Pacific is one now operating successfully in Papua New Guinea at the Agricultural Bank, with a specialized Division, which essentially operates as a separate management consulting/venture capital company. The Division has not only set up a number of new, profitable businesses, but returns money, the mission was told, to the Bank. It is, therefore, possible to have a Development Bank, in the Pacific, operate an efficient, successful risk capital window. In essence, what the Bank is doing is following the model of the integrated "SENSES" programme, referred to elsewhere in this report as outlined in the INA 1987 book on the small enterprises in Papua New Guinea. While the scheme so far has mainly concentrated on retail, catering and lodging businesses, the main principles should be applicable to small-scale industry as well.

(c) The above-described venture capital approach is, however, considered to be a compromise and should be applied mainly for small/medium enterprises. The "ideal solution" from a motivational point of view would be a "private sector" venture capital organization on a regional basis that would only pick a limited number of "winners". Such an organization would have to have the motivation as well as the capabilities and contacts to be able to strongly support these ventures. A more detailed description is given in Annex IV. Both "venture capital" attempts should be tried simultaneously as they basically address a different group of small/medium enterprises.

7. The mission considers that assistance to small- and medium-scale enterprises in the South Pacific should be using a directly applicable integrated approach. Separate projects dealing with pre-investment studies, financial services, technical/managerial extension services and (export) marketing are not likely to contribute to the development of enterprises in an effective way.

8. Small/medium-scale industrial development in the South Pacific and the activities of external assistance should pay more attention to so-calle "niche markets" or "niche products", speciality products for highly specific markets that can command premium prices and do not compete with the commodity products in the wider markets concerned. It seems this approach has not specifically been followed so far. Obviously, this would make for special needs for external assistance, both in technical/product development terms as well as marketing terms.

<u>To the Governments concerned</u>:

9. While superficially it seems the environment for small-scale industries is good in most countries with incentives available as well as duty-free imports of capital goods and materials in most countries, closer inspection shows up many snags and, in reality, the "environment" is not that favourable, with the possible exception of Tonga. It may be worthwhile, if the Governments really want to develop small- and medium-scale industry, to review and simplify the regulations and incentive structures.

10. Governments should at the same time be careful not to attract the wrong types of industries. As the realistic requirements of the Pacific Islands countries for an industrial base are limited, they should attempt to attract only the most suitable industries and not industries that pollute, have extreme energy or water requirements, or may leave as soon as, for instance, the five-year tax holiday has lapsed. Such industries create more problems than they solve.

11. Given the difficult situation and the fact that industry at best is only the third priority (after agriculture/fisheries and tourism) governments should not at this stage try to set up sophisticated technical and managerial industry support services. Governments should focus on establishing efficient "narrow" functions of licensing regulations, etc.

CHAPTER VII. LESSONS LEARNED

The following are the main issues that influenced the project in a negative way and that should be avoided in the future:

a) Poor design. The project document did not provided an approach or strategy. This is even more important than usual due to the fact that the project is a regional one, covering a number of countries with only limited resources. It should have been very evident that not all countries can be seved in a substantial way across the board. Besides, the vague project document included many different outputs/activities but in a categoric way, no quantification whatsoever was given. And this in spite of the fact that a two-year project had had the same problem: a lack of concept.

   Certainly a regional project needs a clear approach and quantified targets tailored to the resources available.

b) For small/medium scale industry assistance, it is of utmost importance that the users (prospective or actual entrepreneurs) are directly involved, certainly in all activities that aim at realizing new enterprises or investments. It is not sufficient to work virtually exclusively with the governments concerned, they are not the entrepreneurs! Work done by "outsiders" is very unlikely to be accepted and used by entrepreneurs.

c) Combining the CTA post with the SIDFA responsible for the same region potentially leads to various problems. Combined with the vague unspecific design in this case it has led to the project being used for general programme-type of mixed activities. In addition, the arrangement effectively meant that the field level monitoring of the project in the sense that there is a second opinion in addition to the CTAs was no longer functioning. The project was too close to the Suva Office/UNDP staff for this "second view" to be effective.

TERMS OF REFERENCE

Evaluation and Needs Assessment of RAS/86/075 - Small and Medium Scale Industries and Entrepreneurship Development, Pacific

I. RATIONALE FOR THE REVIEW

1. This Mission has been organized in two segments to fulfill two separate objectives:

Objective 1:

Evaluation of the results achieved by project RAS/86/075 (see "Background" Section) and to assess the extent to which the objectives have been achieved. The project's immediate objectives are as follows:

(a) Enhance government capacity to promote and support small/ medium-scale industry development.

(b) Identify technically and financially feasible opportunities for small and medium industry development.

(c) Upgrade management, production, marketing and other business capabilities of small and medium-scale enterprises in the Pacific.

In carrying out this function, the mission would also be expected to attempt to assess - to the extent feasible - the contributions the project has made in promoting small and medium sized industries' development and entrepreneurial participation, coupled with improving their competitiveness in terms of higher quality products, increased productivity and lower production costs, and to assess the quality and appropriateness of training so far provided.

Objective 2:

Identification within the industrial sector of areas in which both the need and the opportunity may exist for UNDP to provide assistance in the development of the sector in the future. In so doing, the Mission will present suggestions as to any changes UNDP may consider in the modalities it employs in delivering assistance to the industrial sector in the Pacific.

Each objective will be taken up separately and allotted an entirely separate section in the report.

2. Throughout the exercise, the mission will bear in mind UNDP's policy with regard to intercountry projects in the Asia and the Pacific Region. In this respect, it has been agreed that projects should be of finite duration and that institutions should be encouraged to be self-supporting.

Opportunities for UNDP assistance are identified within the general framework of sectoral needs on the basis of the existence of established machinery for intergovernmental cooperative arrangements, the existence of parallel technical cooperation requirements among countries in the region, and the desire among Governments for genuine cooperation with respect to a specific problem area.

3. Moreover the Mission will also bear in mind the importance of indigenous human resources development in sustaining the transfer process.

II. BACKGROUND

Industrial activity has played a very limited role in the development of the island economies of the South Pacific region (14 countries). The governments of the sub-region have committed themselves to the development of the industrial sector in an effort to diversify their economies. This industrial thrust is considered most effective if aimed specifically at the small and medium scale industries.

UNDP assistance on a sub-regional scale in the industrial sector began in four countries under an earlier project (RAS/83/017), financed by cost-sharing funds from the Australian Development Assistance Bureau (ADAB). Its main purpose was to undertake pre-feasibility and feasibility studies for products identified for indigeneous small and medium sized entrepreneurs. It also identified 34 sub-projects which were taken up by UNIDO's Special Industrial Services (SIS) of which 12 were allocated $500,000. A few of these sub-projects were Assistance in Developing and Industrial Estate in Guada Canal Province, Solomon Islands ($47,500) and Assistance in the Development of a Food Processing Industry, Vanuatu ($29,000).

This project is intended to enlarge and build on the earlier phase by providing an extension services specialist and short-term consultants to carry out in-service training and, study tours which are expected to lead to cross-fertilization of ideas, and sharing of experience. Middle level personnel for which United Nations Volunteers are intended will be a prominent feature of our assistance, especially in areas where sustainability is essential.

The projects outputs are expected to be the following:

(Outputs in relation to Immediate Objective a)

1. Broad future potential areas for small and medium-scale industry development in terms of available resources, potential markets and appropriate technologies identified for each of the participating countries.

2. Clearly defined (or revisions to, where appropriate) national industrial policies, strategies and development plans.

3. Clearly defined (or revisions to, where appropriate) government institutional arrangements to provide optimum incentives and support to industrial development.

4. Core of national staff trained in industrial policy formation and implementation, feasibility analysis, project formulation and extension and consultancy services.

(Outputs in relation to Immediate Objective b)

5. Clearly defined projects suitable for small and medium-scale industry complete with feasibility analysis, business development plans and financing submission reports, prepared through the service established in 3 above.

(Outputs in relation to Immediate Objective c)

6. Upgrade marketing, production and management capabilities of small and medium-scale industries through ad hoc consultancy and on-the-job training services, to be provided through such services as will be established in 3 above.

7. Group of small entrepreneurs trained in business administration and management techniques.

Cost Sharing/Trust Fund from Australia for RAS/83/017:	<u>$208,883</u>
Present budget allocation for RAS/86/075: (IPF)	<u>$798,200</u>

III. <u>REVIEW OF THE PROJECT</u>

A. <u>Purpose and Methodology</u>

The primary purpose of this section of the exercise is to review project RAS/86/075 in order to generate hypotheses upon which the subsequent needs assessment (see Section IV) may be developed.

In particular the Mission should consider:

a) Whether, on the basis of past performance of the project, its objectives, however desirable conceptually, may be judged amenable to implementation and achievement by means of a UNDP-supported regional technical assistance project;

b) If the Mission thinks that the objectives could be attained with the support of UNDP technical assistance, it should identify the factors which have so far either facilitated or hindered the achievement of the project's immediate purposes and ultimate objectives.

In determining the above, the Mission should examine:

1) Project Design and Implementation

What are the modalities utilized for the implementation of the project, and how effective have they been?

- To what extent have each of the objectives been addressed?

- Are the objectives relevant?

- What is the quality of the consultancies provided? Have they been responsive in terms of the "quick action" approach and appropriate for the small/medium scale industrial needs of the SOPAC countries?

- To what extent has the UN Volunteer input been utilized?

- To what extent has in-service training and study tours taken place? Have they been appropriate? Is there a core of national staff trained in industrial policy formation and implementation, feasibility analysis, project formulation and extension and consultancy services? If not, what were the constraints?

- In general, are the outputs of the project realistically achievable?

- What national industrial policies, strategies and development plans have the project generated?

- To what degree has the TCDC/ECDC concept been utilized? How useful is it as a concept in implementing a small/medium scale industrial project?

2) Government Involvement

What provisions - if any - have the member Governments made in their national budgets to take over responsibility for activities upon the termination of UNDP assistance?

With that in mind, the Mission should assess the situation with regard to:

a) what assumptions were made about the readiness of Governments to utilize or follow-up on the project's outputs?

b) what are the attitudes of participating Governments regarding their role and function in providing support to small/medium scale industries for improving management, the use of appropriate production and marketing methods, and other business capabilities?

3) Project Utility

The Mission should consider: (a) the results achieved by the project; (b) how effectively they have been utilized by the participating Governments and the small/medium sized entrepreneurs; (c) to what degree of effectiveness with which training activities are supporting the industrial development goal of the project; and (d) how appropriate and cost-effective individual training activities have been.

IV. NEEDS ASSESSMENT

Purpose and Methodology

The primary purpose of this part of the exercise is not so much to assess the effectiveness of past UN technical assistance in the development of the small/medium scale industrial sector of the sub-region but, rather, to assess areas of need and opportunity where external assistance can be effectively deployed in the form of projects which will produce, to the extent possible, concrete and measurable results. It is recognized that it may not be possible to meet all needs in the sector - either because such needs exceed the amount of assistance UNDP can provide or because such needs may not be amenable to the type of assistance UNDP may be able to offer under the Intercountry Programme. In identifying opportunities for UNDP assistance, the Mission will bear in mind the policies governing the Asia and Pacific region's Intercountry Programme as laid down at the Meeting of Aid Coordinators and outlined in Section 1 above.

In the above context, the Mission will consider:

a) The current status of the small/medium scale industrial sector in the sub-region including an assessment of areas of current need as identified by examining both the policies and wishes expressed by the Governments of the region and the findings generated from the project's review component of this exercise (See Section III).

b) Areas of <u>opportunity</u> in which the UNDP Intercountry Programme may most effectively and efficiently contribute towards enhanced industrial development activities primarily at the small/medium scale level and facilitating with our assistance increased bilateral interest with respect to Government as well as private sector in industrial development.

In determining the above, the Mission should consider:

(i) <u>Modalities</u>

What modalities have in the past been utilized by the UNDP and UNIDO for project identification, formulation, appraisal, implementation and technical and administrative backstopping? What effect has this had upon the results achieved by technical assistance projects in the industrial sector? Are the potential industrial entrepreneurial efforts primarily private sector orientated? If so, then how relevant is UNDP assistance? What role are bilaterals playing in small/medium sized industrial development? Information for the above may be obtained from material provided to the Mission and from consultations with Government, private sector enterprises, UNDP, Executing Agency and project representatives in the countries concerned.

(ii) <u>Government Commitment and the Government's Role</u>

What priority have Governments attached to the promotion and support of small/medium sized industrial development? In considering the commitment of Governments the Mission should look to the relative importance attached to relevant activities in national plans, national budgets and the allocation of funds, personnel and other inputs to past (if available) and current UNDP-assisted projects. Is there any evidence that participation in UNDP-assisted projects has influenced the way in which member Governments currently allocate their available resources to such ventures?

V. ORGANIZATION AND REPORTING PROCEDURES OF THE MISSION

A. Consultations in the Field

In fulfilling its duties, the Mission will take into account the following documents.

- Project document for RAS/83/017 (Phase I)
- Project document for RAS/86/075 (Phase II)
- Note for the File of January 1985 on Chilean TCDC (CHI/84/001)

- Brief on RAS/83/017
- Resident Representative's letter (UNDP, Suva) of 19 September 1985
- Status of Projects identified during Mr. Farinpour's mission to the Pacific, October 1985
- UNIDO's Internal Evaluation of RAS/83/017 (March 1986)
- Progress report for period January - December 1986 (RAS/83/017)
- Second Quarter 1987 activity report (RAS/86/075)
- List of consultancies implemented in 1987 (RAS/86/075)

Most of the findings will be based upon an examination of the project's outputs and discussions with those most closely concerned with the project's implementation. The Mission is required to address all the questions raised above, but should also feel free to assess any further issues which it considers relevant to the fulfillment of its overall objectives.

The Mission will also consult officials of relevant Ministries which may include Industry, Planning, and Finance which play a crucial role in resource allocation to the sector and others of relevance in the region. The Mission will consult as many private institutions, companies and contractors as possible, involved in small/medium scale industrial development efforts/programmes in the sub-region. The Mission will maintain close liaison with the Resident Representatives in all of the countries visited. Although the Mission should feel free to discuss with the authorities concerned anything relevant to its assignment, it is not authorized to make any commitments on behalf of the UNDP or UNIDO.

B. Timetable and Itinerary of the Evaluation Mission

The Mission will visit Fiji, Samoa, Solomon Islands, Papua New Guinea, Kiribati, Vanuatu, FSM, Palau, Tonga and Cook Islands. Because of the number of countries to visit the Mission, will have a six week duration commencing 7 April 1988.

C. Mission Composition

The Mission will be composed of two members: A UNDP representative and team leader who is specialist in small scale business promotion. UNIDO representative and mission member will be an industrial engineer and specialist in project evaluation.

D. Reporting

The Mission report will consist of two distinct sections: one will involve a review of the project RAS/86/075, while the other one to which the Mission will attach particular importance, will constitute an assessment of needs in the region. During its review of the project, the Mission is required to generate clear findings and is requested to formulate recommendations as to the future of the project. The Mission will be debriefed by the UNDP Resident Representative in Suva, Fiji and will prepare and submit its report through the UNDP Suva office to the UNDP and UNIDO headquarters prior to departing the sub-region.

Annex II

List of persons consulted during the mission

UNDP/UNIDO, Suva

Mr. Jerrold Berke	UNDP Resident Representative
Mr. Natsuki Hiratsuka	UNDP Assistant Resident Representative
Mr. Ivan F. Contreras	UNIDO Senior Industrial Development Adviser and CTA of the project
Mr. Ernesto Payoyo	Extension Services Expert DP/RAS/86/075
Mr. Erik de Troyer	Associate Expert

Other Organizations, Suva

Ms. Christine Cornwell	Director, ILO
Mr. Frank Wojtaszak	Development Assistance Officer, Australian International Development Assistance Bureau
Mr. David Taylor	Acting Head, British Development Division in the Pacific
Mr. John Howard	Private sector development officer, US Agency for International Development
Mr. Chen Zongliang	Economic Counsellor, Embassy of the Peoples' Republic of China
Mr. Zhu Darong	Third Secretary, Embassy of the Peoples' Republic of China
Mr. Dennis Miller	
Mr. Samuel W.G. Osifelo	South Pacific Economic Commission

Fiji

Mr. Berenado Vunibobo	Minister for Trade and Commerce
Mr. Navitalai Naisoro	Permanent Secretary for Trade and Industry
Mr. Brian Singh	Director of Economic Planning
Mr. Ratu Isoa Gavidi	Director of Trade
Mr. Frank Ramsey	Manager, Lending Operations, National Bank of Fiji
Mr. Laisenia Qarase	Director, Fiji Development Bank
Mr. Surendra Sharma	Fiji Trade and Development Board
Mr. Bill Ngaroka	Head, Small Scale Enterprise Development
Mr. Ken Roberts	Director, Fiji Employers Consultative Association
Mr. Paul Sloan	Fiji Chamber of Commerce Suva Chamber of Commerce Fiji Manufacturers' Association
Mr. Ikbal Jannif	President of Suva Chamber of Commerce
Mr. Raymond Dunstan	Pacific Islands Association of Chambers of Commerce
Mr. Atunaisa Bani Druavesi	National Bank of Fiji (Suva Chamber)
Mr. Terry Watson	Rena Distributors Ltd.
Mrs. Koto Vakarewakobau	Rena Distributors and Hair Dressing Salon (Suva Chamber of Commerce)

Western Samoa

Mr. Ram T. Batra	Deputy Resident Representative, UNDP
Mr. Yukio Tohge	UNDP JPO
Mr. Don Katabaro	UNV Programme Assistant
Mr. Sili Apelu	UNDP Programme Assistant
Mr. - -	Managing Director, Westen Samoa Development Bank

Mr. Joe Lober	Managing Director, Lober Industries Limited incl. Pacific Aluminium Products and Woodwork Joinery
Mrs. Rankin Mr. Bob Rankin Mr. Robbie Rankin	Manufacturers of silk screen printed textiles, woolen knitwear, handmade coconut soap, fruit drinks, wines, liquers, garments

<u>Tonga</u>

Mr. James W. Harris	Secretary for Labour, Commerce Industries and Tourism; Secretary for Finance
Mr. Mele Tukuaho	Assistant Secretary, Ministry of Foreign Affairs
Mr. S. Matoto	Estate Manager, Ministry of Labour, Commerce and Industries
Mr. Paul Kautuke	Economist, Central Planning Department
Mr. Lisiate 'A' Akolo	Managing Director, Tonga Development Bank
Mr. D.B. Sahae	Chief Technical Adviser, DP/TON/86/002 - Small Industries Promotion and Entrepreneurial Development
Mr. Paul W. Pembroke	South Pacific Leather Co., Ltd., leather garment manufacturer
Mr. Jeff Strange	KW International, fibreglass surfboard manufacturers
Mrs. Diane Hansen	South Seas Yachting Pty. Ltd., fibreglass boats and yachts
Mr. Louis Pagoni	South Pacific Manufacturing Co., Ltd., woolen knitwear manufacturer
Mr. John Boyle	General Manager, South Pacific Investment Corporation Limited and Managing Director, Pacific Corporate Services Ltd.
Mr. Albin Johansson	Executive Secretary, Tonga Chamer of Commerce, Industries and Workers
Mrs. Imua Pacifica	Black coral jewelry manufacturer
Ms. Ana Sanft	O.G. Sanft 810 (Furniture Division)
- - -	Lolohea Furniture
Mr. Tupuo	Cement block-making

<u>Vanuatu</u>

Mr. Japeth Tavoa	Principal Assistant Secretary, Ministry of Foreign Affairs
Mr. Brownie Reuben	First Secretary, Ministry of Trade, Commerce and Industry
Mr. Peter Salemalo	Second Secretary, Ministry of Trade, Commerce and Industry
Mr. Japin Tari	Ministry of Trade, Commerce and Industry - Director of Department of Industry
Mrs. Lolo Rolingas	Acting Director, Social Development Department
Mr. David Boag	Director, Public Works Department
Mr. Milton Soysa	Chief Technical Adviser DP/VAN/85/002 - Small- and medium-scale enterprises promotion and development
Mr. John K. Donnan	Managing Director, Development Bank of Vanuatu
Mr. John Steward	Deputy Director, ESCAP Pacific Operations Centre
Mr. Ulf R. Freiwald	Asian Development Bank, Port Vila
Mr. Frank King	President, Chamber of Commerce
Mr. Robert M. Bohn	Chamber of Commerce and Controller, Elcress Aga Products, Ltd.

Mr. David S. Edson	Managing Director, shipowner and trader - Chairman, Association of Northern Vanuatu Businessmen
Mr. Hollingson Issacher	Vice President, Melanesian Shipowners' Association
Mr. Tevanu Anderson	Construction company owner
Mr. Jean Paul Virelala	Retailer, Chief Accountant, Development Bank of Vanuatu
Mr. Georges Joe	Assistant Manager, Melanesian Shell Products, Ltd.

Solomon Islands

Mr. Edmund Anderson	Permanent Secretary, Ministry of Trade, Commerce and Industry
Mr. Anthony Makabo	Principal Industry Officer, Ministry of Trade, Commerce and Industry
Mr. Moses Kouni	Senior Industry Officer, Ministry of Trade, Commerce and Industry
Mr. George A. Tatan	Ministry of Trade, Commerce and Industry
Mr. Francis R. Ramaifuila	Business Division, Ministry of Trade, Commerce and Industry
Mr. Philip Wong	Managing Director, Development Bank of the Solomon Islands
Mr. Baden Prina	Director, Aruligo Fiberglass Mfg. Co.
Mr. Raymond Saurongo	Director, Aruligo Fiberglass Mfg. Co.
Mr. Roland Timo	General Manager/Director, The Hot Bread Kitchen
Mr. Snyder Rini	General Manager, R+M Industries
Mr. Moffati Misikui	General Manager, Festus Folio and Sons Ltd.
Mr. Edward Hunuehu	Secretary, Solomon Islands Chamber

Papua New Guinea

Mr. Samuel M. Abal	First Assistant Secretary, Policy, Planning and Information Development, Department of Trade and Industry
Mr. Elias Kedek	Acting First Assistant Secretary, Projects and Investment Division, Department of Trade and Industry
Ms. Maryanne Grieg-Grau	Contract Officer, Department of Trade and Industry
Mr. Michael Baitia	Research Officer, Department of Trade and Industry
Mr. Francis Tike	Assistant Secretary, Small Enterprise and Industrial Enterprise Division
Mr. David Edwars	UNIDO, Acting CTA - PNG/86/002
Mr. Dick Snyder	UNIDO, Small Business Expert - PNG/86/002
Mr. Dennis Ellingson	Manager, Development and Appraisals Division, ABPNG
Mr. Les Petit	Manager, Retail Management Services, ABPNG
Mr. John Hardy	AMS Rural and Agricultural Section, ABPNG
Mr. Peter Jennings	Managing Director, Business Advisory, PNG
Mr. Peter McConnel	Sogeri National High School, Head of Science
Mr. Moses Koliwan	Sogeri National High School, Science Department

Federated States of Micronesia

Dan E. Perin	Acting Director, Department for Conservation and Resource Surveillance
Mr. Mani Mori	General Manager, FSM Development Bank
Mr. Sam S.B. Elwela	Adviser, FSM Development Bank
Dr. W. Morrison	Adviser, Office of Planning and Statistics

Dr. Richard White	FSM Congress Economic Advisor
Mr. Nelson Kilafwakun	Deputy Congressional Economist
Dr. Alex Panuelo	Owner/Manager, Panuelo Enterprises
Mr. Pedro Harris	Executive Director, Economic Development Authority, Pohnpei

Marshall Islands

Mr. William Alben	Assistant Secretary of Forign Affairs
Mr. Donald Capelle	Secretary, Ministry of Resources and Development
Dr. Hitihamy Gunasekera	Chief Technical Advisor TTP/86/400, Office of Planning
Mr. Jerry Kramer	Owner/Manager, Pacific International, Inc., President, Majuro Chamber of Commerce
Mr. Mike Case	Treasurer, Majuro Chamber of Commerce
Mr. Neal Skinner	Managing Director, Wahoo Island Mariculture Project
Mr. Phil Cagle	General Manager, Gushi Brothers Co.

Cook Islands

Mr. Brian Bartrum	Advisor, Ministry of Trade, Labour and Transport
Mr. Pomani Teio	General Manager, Cook Island Development Bank
Mr. David F. Wright	Director, Trends Ltd. (Management Consultants)
Mr. John E. Abbott	Governing Director, Aiziki Perfumes and Cosmetics, Ltd.

Annex III

List of references

PIDP 1987, Entrepreneurs and Indigenous Business in the Pacific, Hailey 1987, published by Pacific Islands Development Program (East-West Center, Honolulu).

RSIE Study 1988 "Development of Rural Small Industrial Enterprises - lessons from experience", a Thematic Evaluation of Technical Co-operation in Support of Rural Small Industrial Enterprises, joint study by the Government of the Netherlands, UNDP, ILO and UNIDO, June 1988 (2-year study covering nine countries).

I.N.A. 1987, Development of Small Papua New Guinea Enterprises, by Geoffrey G. Meredith, Professor of Accounting and Financial Management, University of New England, Armidale, N.S.W., published by Institute of National Affairs, Port Moresby, Papua New Guinea, August 1987.

Tasker 1986, ADB Technical Assistance Report on Industrial Sector Promotion, by Peter Tasker, Western Samoa, June 1986.

DFI 1987, The report of a needs assessment mission related to Development Finance Institutions undertaken in 1987 in the South Pacific region by Mr. David Lucock and Mr. George Millard on behalf of UNDP and UNIDO.

Annex IV

A Venture Capital Approach? A proposal

Introduction

The Mission considers that a private sector oriented venture capital fund could fulfill a very useful function in the region. This annex provides an initial idea which is meant to stimulate further discussion.

Background

In the South Pacific there is no shortage of capital available in principle. Several development banks have stated that the main problem is finding fundable ventures. It seems, however, that it is rare for banks to take equity stakes in any type of venture, and credits are only available if extensive collateral and personal guarantees can be provided. For any new investment ideas however viable, well prepared and developed that are not covered by collateral, it is virtually impossible in practice to obtain sufficient credit, let alone equity.

While there are certainly a number of opportunities in the region as well as local entrepreneurs, there are in most cases two major bottlenecks that prevent realization: equity finance and (export) marketing know-how. Related to this, and varying from case to case, technical and management problems play a secondary role.

The above problem may be solved for large investments (over 0.5 - 1 million dollars) as private sector investors from outside the region became involved with their finance, marketing know-how and marketing channels as well as any other know-how needed (for instance, the Tonga brewery, a joint venture between the Government and a Swedish brewery). For smaller projects ($50,000-$500,000) however the overhead cost for developing, managing and assisting investments in the region are just too high for private sector entrepreneurs.

The Mission considers that a possible solution for this problem is to establish a venture capital fund that would have a portfolio of such medium sized investments that together could carry the overhead. In order to obtain the optimum mix of capability and motivation, the fund would be managed by a private sector organization with experience in venture capital operations that preferably would put up at least 15-20 per cent of the fund themselves.

Working principles:

- The fund would take equity stakes in manufacturing enterprises in the South Pacific Region;
- Local partners may be an indigenous entrepreneur, a joint venture between indigenous and expatriate entrepreneurs or a resident expatriate;
- The fund will normally take not less than 25 and not more than 80 per cent equity stakes in enterprises. These stakes will normally not be less than $25,000 and not be more than $500,000 in any enterprise;
- The fund will not be subject to any pressure to invest in any of the countries concerned. Projects will exclusively be selected on the basis of economic viability and fund management related criteria;

- The fund management should be able to bring in marketing know-how, as well as management or technical assistance where required. They will attempt to draw upon available technical assistance.

Initially the fund should have available up to approximately $2 million for investment in some 15-20 ventures.

Management and finance:

For the management and finance of the operation various alternatives can be considered:

a) The ideal structure would be 100 per cent private capital organized and managed by an existing experience venture capital firm. The only UN role here would be to interest such a firm and provide them with contacts and ideas. The above mentioned working principles will then probably be changed by the company. While this option is the best in terms of organization and motivation, it is rather unlikely that such a firm be found. The risks and the operational overhead in the region being higher than in many other locations and the possible ventures fewer and smaller. A number of other options are available, however. For instance:

b) A mix of private capital and aid funds (UNCDF, bilateral donors?). The fund should be run entirely on private sector lines and be managed by the (a) private sector partner. This set up could both reduce risk for the private capital partner and lower the required rate of return. Exact details of such a set up should be worked out carefully.

c) Aid funds as capital, managed at a fee by a venture capital firm (motivation could be brought in by adding some sort of stock options to the management fee).

It is considered very unlikely by the Mission that the development banks in the needs region will be able in the next years to fulfill the larger venture capital needs in the same "involved" way. They certainly will not be able to offer the vital marketing and other know-how required. This means there really is no alternative solution to this critical need than establishment of a venture capital fund.

Annex V

SELECTED STATISTICS

Table 1.1. Area and population characteristics of selected Pacific island States, 1981

Name/size grouping	Land area (sq. km)	Sea area ('000 sq. km)	Number of islands	Population (mid-1981)	Population density (per sq. km)	Urban Population (per cent)	Infant mortality (per 1,000)	Life expectancy
Papua New Guinea	462,840	3,120	4 + 600	3,081,000	6.6	13	125	49
10,000 - 30,000 sq. km								
Solomon Islands	28,330	1,340	6+	236,000	8.4	9	46	54
New Caledonia	19,103	1,740	1+	143,000	7.5	61	25	64
Fiji	18,272	1,290	2 + 300	646,000	36	39	46	62
Vanuatu	11,880	680	78	121,000	10.1	...	...	...
100 - 4,000 sq. km								
French Polynesia	3,265	5,030	130	150,000	37.5	59	68	61
Western Samoa	2,935	120	5	157,000	53	21	36	62
Trust Territories	1,833	6,200	1,152	125,000	68	46	59	61
Kiribati	690	3,550	33	58,700	83	36	87	52
Tonga	699	700	2 + 169	95,000	146	26	60	58
Guam	541	...	1	110,000	203	91	22	76
MICRO ISLAND STATES								
Niue	259	390	1	3,700	14	21	33	62
Wallis and Futuna	255	300	2	11,000	43	...	...	...
Cook Islands	240	1,830	15	17,400	75	27	33	61
American Samoa	197	390	1 + 6	33,000	167	43	20	67
Norfolk Island	36	400	1	1,900	53	100	...	...
Tuvalu	26	900	9	8,000	307	30	42	59
Nauru	21	320	1	7,300	333	100	...	...
Tokelau	10	290	3	2,000	200	...	...	...

Sources: Asian Development Bank, Key Indicators of Developing Member Countries, 1984; Official National Statistics, various publications.

BASIC INDICATORS 1
Inter-country comparison of selected economic indicators

Indicator	Year	Unit	Papua New Guinea	Fiji	Solomon Islands	Western Samoa	Vanuatu	Tonga	Kiribati
Population	Mid-1984	'000 persons	3,400	686	260	159	127	99	64
Population density	Mid-1984	Persons per sq. km	7	38	9	54	11	142	92
GDP	1983	Millions of US$	2,510	1,200	160	100	...	88	29
GNP per head	1983	US$	780	1,790	640	635	357a/	904	478b/
Structure of production	Selected years	Per cent of GDP	(Year 1980)	(Year 1984)		(Year 1984)		(Year 1984/85)	(Year 1977)
Agriculture		Per cent	33.7	24.3	...	51.7	...	40.5	19.7
Mining and quarrying		Per cent	13.2	0.1	...	...	...	...	45.3
Manufacturing		Per cent	9.5	12.3	...	6.5	...	9.1	1.9
Construction		Per cent	3.6	6.0	...	6.7	...	3.9	8.4
Other		Per cent	40.0	57.6	...	35.0	...	46.6	2.7
Labour force	1983	million persons	1.7	0.2	0.098	0.053	0.050	0.034	0.022
Employment by sector	Early 1980s	Per cent							
Agriculture		Per cent	57	44	33	61	75	51	7
Mining		Per cent	1	1	...	...	...	...	5
Manufacturing		Per cent	3	7	25	4	...	2	3
Construction		Per cent	5	6	25	5	...	6	15
Trade		Per cent	3	10	11	6	...	4	14
Transport		Per cent	3	5	...	5	...	4	10
Finance		Per cent	12	2	...	...	...	...	...
Services		Per cent	4	17	31	18	...	22	43
Consumer price inflation	1980	Per cent	12.1	14.5	15.9	33.0	11.2	22.4	17.0
	1981	Per cent	8.0	11.2	14.6	20.5	27.5	14.9	...
	1982	Per cent	5.5	7.0	9.7	18.3	6.1	10.8	...
	1983	Per cent	7.9	6.7	7.4	16.4	1.7	9.3	...
	1984	Per cent	7.5	5.3	12.0	11.9	5.5	...	...
	1985	Per cent	4.0	3.5	...	...	...	...	...
Exchange rate		Local currency equivalents to US$ 1	Kina	F$	SI$	WS$(tala)	Vatu	T$	US$ per Aus$
	1980		0.671	0.791	0.830	0.919	68.29	0.90	1.139
	1981		0.673	0.877	0.870	1.036	87.83	0.88	1.149
	1982		0.738	0.947	0.971	1.205	96.21	0.98	1.017
	1983		0.836	1.046	1.149	1.539	99.37	0.89	0.902
	1984		0.899	1.143	1.274	1.838	99.23	1.20	0.879
	1985		1.007	1.167	1.450	2.267	107.40	1.46	1.42c/

a/ Ni-Vanuatu population only. b/ 1982 data. c/ June 1985.

BASIC INDICATORS 2

Inter-country comparison of resources

	Year	Unit	Papua New Guinea	Fiji	Solomon Islands	Western Samoa	Vanuatu	Tonga	Kiribati
Land area		sq. km	462,840	18,272	28,530	2,935	11,880	699	690
Sea area a/		'000 sq. km	3,120	1,290	1,340	120	680	700	3,550
Number of islands		Main plus small islands	4 + 600	2 + 300	6	5	78	2 + 169	33
Agricultural production	1984	'000 metric tons							
Total cereals			3	23	7				
Root crops			1,157	150	89	42	30	92	13
Total pulses			2	2	2				
Oil crops			217	32	53	26	40	8	11
Total meat			50	9	2	3	6	2	...
Milk			...	21	1	1	2		
Livestock	1984	'000 (number)							
Cattle			134	157	23	26	100	11	...
Sheep			2	...					
Goats			16	56			8	17	...
Pigs			1,460	28	48	61	71	101	10
Fishery production	1983	'000 metric tons							
Marine fish			33 (1975)	25	47	4	2	2	21
Shell fish			1	4	...	...	...		3
Forestry production	1983								
Fuelwood and charcoal		'000 cubic metres	5,533	14	210	70	24		
Industrial roundwood		'000 cubic metres	1,377	210	302	61	14	3	...
Sawnwood and panels		'000 cubic metres	143	104	19	21	4	1	...
Major commodities (production)	1984	'000 metric tons	Bananas (980), coffee, green (57), fruits (138), sweet potatoes (464), coconuts (..7), vegetables (159), green corn (108), palm oil (96)	Sugar cane (3,900), coconuts (234), cassava (96)	Coconuts (255), sweet potatoes (49), taro (20), yams (19), palm oil (18)	Coconuts (200), taro (37), bananas (22), cocoa, copra	Coconuts (306), roots (30), vegetables (7), cocoa beans (3), ground nuts (2)	Coconuts (56), sweet potatoes (17), cassava (11), vegetables (5)	Coconuts (90), copra (7), bananas (4)
Minerals	1984		Copper (164,500 t), gold (13,673 kg), silver (44.4 t)	Gold (1,309 kg), silver (473 kg)	Variety of deposits, discovery of bauxite warrants commercial exploitation	None	Manganese ore (10,100 t) in 1978	Some sand and precious coral coral	Phosphate reserves exhausted in 1979, salt production

a/ Unofficial estimates based on 200-mile exclusive economic zones made by the South Pacific Commission.

BASIC INDICATORS 3

Inter-country comparison of foreign trade, aid and debt indicators

Indicator	Year	Unit	Papua New Guinea	Fiji	Solomon Islands	Western Samoa	Vanuatu	Tonga	Kiribati
Exports	1985	millions	US$ 816	US$ 193	US$ 92a/	US$ 19.4a/	US$ 43.3b/	T$ 6.5c/	Aus$ 13.0
Principal export items	1984	millions of local currency	(Kina) Gold (185.2), copper (134.2), coffee (110.7), coconut products (81.7), cocoa (67.0), palm oil (73.7)	F$ Sugar (110.0), gold (20.5), coconut (18.5), fishery products (14.2)	SI$ Copra (32.2), fishery products (28.8), logs (25.1), palm oil (17.1)	WS$ (tala) Coconut oil (20.8), coconut cream (1.6), taro (4.2), cocoa (7.4)	Vatu Copra (4,300), beef (2,600), cocoa (1,000)	T$ Coconut oil (6.4), vanilla (2.1), desiccated coconut (0.6), manufactures (0.8)	Aus$ Fishery products (2.3), copra (7.0), knitted clothing, sporting equipment and handicrafts (3.7)
Imports	1985	millions	US$ 856	US$ 400	US$ 79a/	US$ 50.8a/	US$ 66.8b/	T$ 41.7	Aus$ 13.0
Major components of merchandise imports	1984	Percentage share							
Food and related products			18	15	16	21d/	21a/	24d/	23
Beverages and tobacco			1	1	4	3d/	5a/	6d/	5
Mineral fuels			18	22	23	18d/	10a/	16d/	9
Manufactures			32	38	30	35d/	38a/	33d/	24
Machinery and transport			28	18	24	21d/	22a/	16d/	37
Balance of payments (current account)	1984	millions	US$ -367	US$ -26.9	US$ 5	US$ 0.5	...	T$ -1.7d/	...
Net overseas aid f/	1983	millions of US$	332.8	32.8	27.5	26.8	27.0	18.0	16.8
Total external debt	1984	millions	US$ 1,000	US$ 317.5	US$ 20.4d/	US$ 60.5d/	US$ 4.9d/	T$ 23.7d/	...
Debt service ratio (debt service/exports)	1983	Per cent	11.0	7.3	0.3	18.3	0.8 (as per cent of GNP)	...	...

a/ 1984. b/ For 1984. Including re-exports. c/ For 1983. Including re-exports. d/ 1983.
e/ Imports cleared for home consumption only. f/ From members of DAC, multilateral organizations, bilateral sources and OPEC.

BASIC INDICATORS 4

Inter-country comparison of manufacturing indicators

Indicator	Year	Unit	Papua New Guinea	Fiji	Solomon Islands	Western Samoa	Vanuatu	Tonga	Kiribati
MVA	Selected years	Millions of local currency	K 223 (1983)	F$ 91 (1984)	...	...	Vatu 612 (1983)	T$ 3.6 (1981)	...
Employment in manufacturing	Selected years	Number of persons	22,186 (1983)	41,040 (1984)	1,832 (1982)	1,060 (1985)	875 (1984)	1,700 (1983)	721 (1984)
Value of manufactured exports[a/]	Selected years	Millions of US$	14.3 (1979)	12.5 (1982)	.	0.2 (1981)	0.1 (1982)	0.5 (1982)	0.007 (1979)
Share of manufactured exports[a/] in total exports	Selected years	Per cent	1.63	8.05	.	2.08	1.05	12.81	0.03
Of which									
Chemical products		Per cent	0.04	1.32	.	0.60	0.00	0.11	0.00
Machinery and equipment		Per cent	0.00	1.92	.	0.22	0.00	0.00	0.00
Other manufactures		Per cent	1.59	4.61	.	1.26	1.05	12.70	0.03
Value of manufactured imports[a/]	Selected years	Millions of US$	244.8 (1976)	219.6 (1982)	48.3 (1980)	39.6 (1981)	25.7 (1982)	19.9 (1982)	7.1 (1979)
Share of manufactured imports[a/] in total imports	Selected years	Per cent	56.2	45.2	68.6	58.1	54.3	48.9	41.2
Of which									
Chemical products		Per cent	5.5	7.3	5.2	5.6	7.6	6.5	5.7
Machinery and equipment		Per cent	31.5	15.2	39.2	34.4	16.2	14.6	16.7
Other manufactures			19.2	22.7	24.2	18.1	30.5	27.8	18.8

a/ SITC 5-8 less (67 + 68).