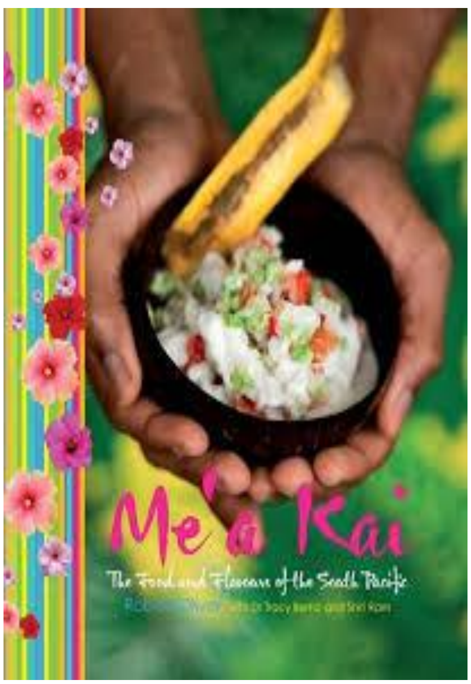
Agriculture and Tourism: Leveraging the synergies for growth in the Pacific Islands



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Abstract

Rising consumer demand for improved cuisine experiences provides an important opportunity for Pacific Island tourism and agriculture authorities to work together add value to both sectors. Forging closer economic linkages between tourism and the primary sector by facilitating increased supply opportunities, will help ensure rural incomes match growth rates in the urban sector, and reduce the rate of foreign exchange leakage; while increasing the variety of local food options available in tourism offerings will enable the Pacific island tourism industry to respond positively to consumer demand. A key challenge for Pacific Island Countries' (PICs), however) is how to provide an enabling policy environment for private sector investment to meet this burgeoning opportunity for more local cuisine in the tourism industry including meeting exacting quality, consistency and food safety standards required by the industry.

This paper showcases examples of good demand and supply side interventions including innovative financing models, examples of new extension and marketing service providers, tax deductions, marketing and branding benefits and models for improved sector co-ordination.

Introduction

Agriculture, forestry and fisheries have traditionally been the most important sources of income for PICs and their rural households, yet tourism related services are now far more importantly economically in many Pacific Island Countries (Figure 1). The tourism sector has established itself as an important engine of economic growth and foreign exchange income for many Pacific countries, with a rapid increase in the growth in tourist arrival numbers in most PICs (Figure 2). Despite the impact of the global financial crisis, tourism arrivals to the region have increased by an average of 3.5 percent per annum for the last five years. The total value of tourism is estimated to reach between US$3.3 billion and US$4.0 billion by 2019 (SPTO, 2014). As a result, policy-makers in the agriculture sector are increasingly recognizing the importance of forging closer linkages between agriculture and tourism (Chapman and Caniogo, 2015).

Figure 1: Pacific Islands: % GDP provided by Agriculture and Tourism

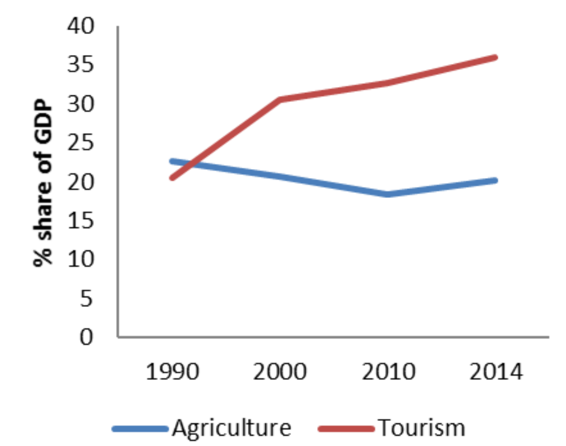
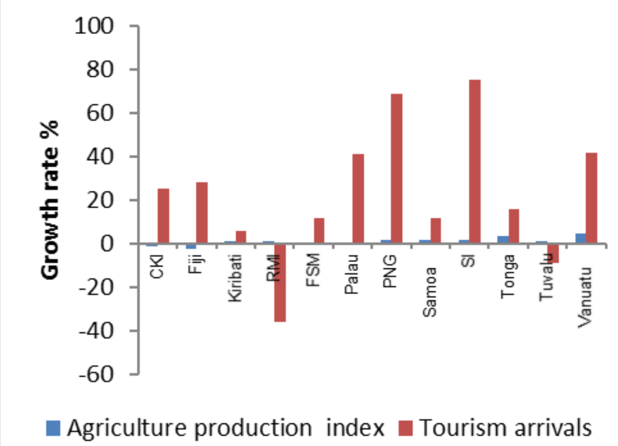


Figure 2: Average growth rate in agriculture production vs tourism arrivals 2007-13



The major sources of tourism in the Pacific are Australia and New Zealand, comprising more than 50 per cent of international tourism arrivals. Over the five-year period 2007–2012, Australia has been the fastest growing market for the region and its growth, combined with that of New Zealand (an additional 228,000 arrivals) more than offsets the decline in long-haul visitors from North America and European nations (52 000) and Japan (36 000). Other Asian markets, including China, have increased tourism by 53 000 over the same period (SPTO, 2014).

In recent years, food tourism[1] has grown considerably and is now one of the most dynamic and creative segments of tourism with approximately 30 percent of tourist revenue now derived from the sale of food and beverages (UNWTO, 2012). Rising consumer demand for improved cuisine experiences provides an important opportunity for local farmers to capture a greater share of the tourism food and beverage market (Ashley et al 2006).

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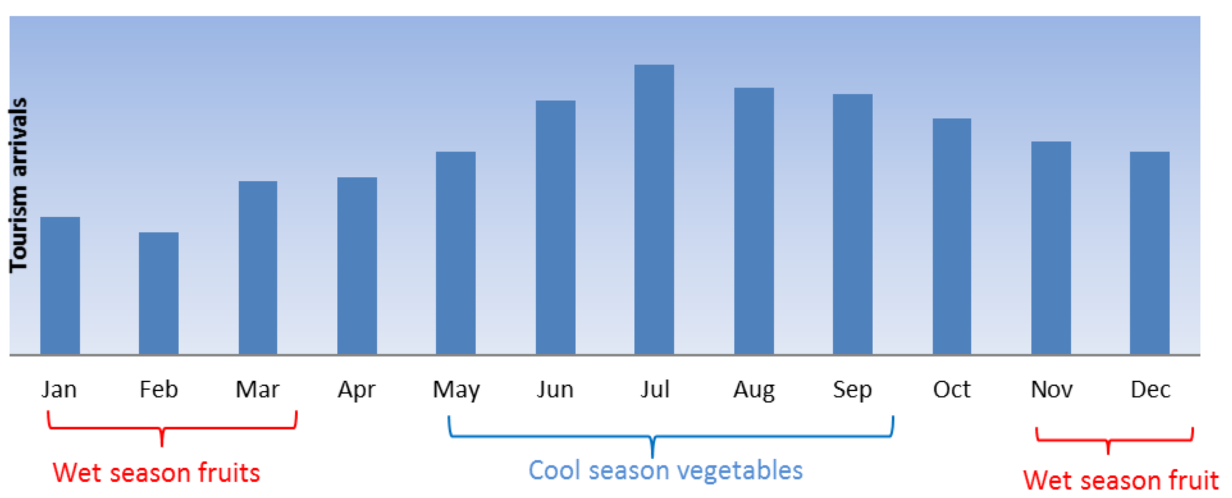
[1] Sometimes referred to as 'gastronomic tourism' or 'culinary tourism'.

The rise in the interest in cuisine and the broadcasting of cooking shows on television in the countries Australia and New Zealand that represent the most tourists to PICs has generated an awareness and appreciation of the ultimate 'cuisine experience', a thematic adventure that is offered in comparable holiday destinations. Food and beverages now represent the second highest category of expenditure by visitors to PICs, following accommodation.

The preference for a greater variety of local food varieties in Pacific tourism offerings provides a specific set of opportunities for local agricultural suppliers (Blakely, 2012). The development of a robust food and hospitality sector and a distinctive local cuisine offering, is also important to ensuring the Pacific Islands continue to be competitive vis a visa other tourism markets. As a result, diversification of PIC tourism brands to respond to emerging consumer trends, such as through the creative use and marketing of local produce and natural attractions, will assist the industry to capture a larger share of higher-spend tourists, and return visitors.

However a decline in the competitiveness of PIC agriculture relative to food imports is a considerable challenge. The superior price and reliability of supply of food imports incentivize many tourism industry participants to continue to rely on food imports at the expense of local suppliers. In particular, the inconsistency in the supply and quality of local fresh produce, compounded by the disconnection between the peak tourist season (e.g. June to September) and the natural growing season for tropical fruit (e.g. November to February), has reduced the tourist industry's capacity to increase consumption of local agricultural content (Figure 3). As a result it is estimated that between 60-80 percent of the food consumed by the tourism industry is imported, and that the largest barriers to local supply are the service and quality requirements of the industry (Schofield and Tamasese 2011; Young and Vinning, 2007). While recent training courses have helped to increase the knowledge of chefs about the range of local food available locally and augment the local ingredients and flavours included in their menus (SPC 2015), bridging the gap between current PIC supply capacity and demand from tourism will require some significant supply-side interventions.

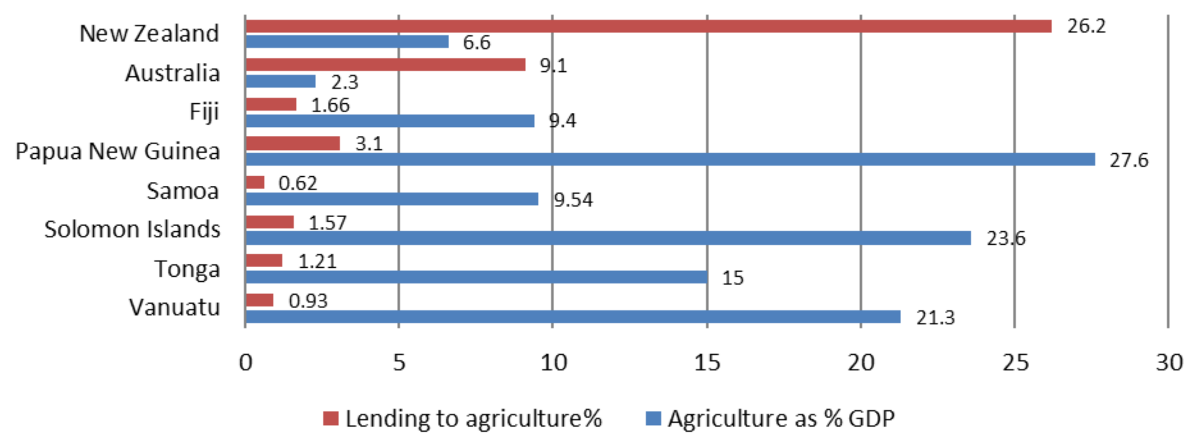
Figure 3: Seasonality of tourism arrivals and domestic agricultural production



Addressing the technology gap through use of value chain finance

Increased investment in modern and off-season production technologies, such as forced flower induction and hydroponic production, as well as in improved methods to move products rapidly from farm to market to meet supply-side challenges, will be required (Martyn and Rogers, 2014). However the high cost of financing the purchase of capital equipment and poor rates of access to appropriately priced finance among agriculture sector participants, is a major barrier to the adoption of these methods (Ibid). As a result the share of lending to agriculture in the PICs is extremely low when compared to the share of agriculture in GDP, and these ratios in our major food import competitors (Figure 4)

Figure 4: Credit to Agriculture share in total lending, compared to share of agriculture value added in GDP



Source: FAOSTAT http://www.fao.org/economic/ess/ess-economic/credit/en/

The cost of accessing domestic and international finance in PICs is high due to a number of factors, including low domestic savings rates, lack of collateral, bank lending controls, restrictions on foreign investment and strong capital account regulations (FAO 2010). In addition, the lack of access to secure, long-term leasehold of land, combined with the legal and traditional restrictions that prevent full transferability of land leases, limit not only the incentives to invest in agricultural land development; it has also reduced the incentives for the banking sector to provide loans with agricultural land as a security (Duncan and Nakagawa, 2006). The key to forging stronger economic linkages with tourism in the Pacific region is to create new and appropriate financial instruments to finance the agribusiness sector as well as creating an enabling environment for business including for farmer organizations.

With important exceptions, the formal financial sector has played a very limited role in the provision of financial services to agriculture in developing countries (Miller and Jones, 2010). Informal sources of finance mainly from agricultural value chain (AVC) actors (i.e. wholesalers, processors, traders, warehouse operators, producer associations, etc.) have enabled a significant share of investments in agriculture. This source of finance is often referred to as value chain finance.

There are two main forms of value chain finance:

1. Internal value chain finance is that which takes place within the value chain such as when an input supplier provides credit to a farmer, or when a lead firm advances funds to a market intermediary.
2. External value chain finance is that which is made possible by value chain relationships and mechanisms: for example, a bank issues a loan to farmers based on a contract with a trusted buyer (including warehouses and collection centers).

Internal value chain finance would therefore refer to the case of input supplier credit in Fiji where payment for agro-inputs such as fertilizer, are deferred until harvest of the sugar cane crop, helping to increase productivity among farmers.

A typical example of external value chain finance small fruit and vegetable growers are able to access bank finance to purchase crop coverings or greenhouses thanks to their supply contract with an exporter.

The critical missing element in both examples is the use of supply contracts. Contract farming can be defined as an agricultural production system carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products. Contract farming provides benefits to both producers and buyers. Typically, the farmer commits to sell agreed quantities of a specific agricultural product to a given buyer at a quality and time standard specified by the buyer. In turn, the buyer agrees to purchase the product at agreed pricing conditions and, in some cases, supports production through, for example, the supply of farm inputs, land preparation and the provision of technical advice (Da Silva, 2005). Contract farming may also allow the transfer of services such as transportation through buyer vehicles or an external transporter, especially when farmers cannot afford them. These arrangements foster the farmers' access to markets. From the buyer prospective, contract farming may entail buyer participation in production process and control on farmers' performance fostering the conformity of the agreed quality and quantity requirements as well as the regularity of supply of the agricultural product set under contract. This model has contributed to lift productivity and profitability in agricultural production in Pacific Island Countries.

Box 1: Crest Chicken, Fiji

Crest, a subsidiary of Australian company Goodman Fielder has become Fiji's most popular chicken brand, supplying about 80 percent of current domestic market demand. Crest's chicken operations are fully integrated with breeder and broiler farms, hatchery, processing plant and stock feed milling facility. Integral in Crest's business model is the inclusion of small holder out-growers, 85 of whom are contracted to grow and supply 25 percent of demand (Crest 2013). The increased profitability of producing chicken has enabled Crest to invest more than FJ$12 million since 2010 in chicken production (Crest 2013). Local farmers have benefited from technology transfer, cheaper feed, assured market access and demand for their products.

As with any other form of contractual relationship, there are also potential disadvantages and risks associated with contract farming. A frequent criticism of contract farming arrangements is the uneven nature of the business relationship between farmers and their buyers that can lead buyers to conclude contracts to their advantage. An example of unfair conduct is when buyers refuse to purchase the product at the agreed price for alleged non-performance of contractual clauses regarding quality.

Another potential disadvantage of contract farming is the risk of farmers' indebtedness, since contracts often require considerable investments to enable farmers to perform their duties. In these cases, the risk of indebtedness may be difficult to face especially when farmers have to borrow to undertake long-term investments but they are only provided with a short term-contract or when the buyer fail to pay the agreed price or remit late payments. Finally, contract farming may create a situation of monopsony where there is only one buyer for farmers' commodity paying low prices.

Contract farming may also present disadvantages for buyers. A common constraint is sideline selling of the contracted product or the diversion of inputs supplied by the buyer to a different crop (Da Silva 2005). Certain crops have a lower threshold of likelihood of side selling. For example, tobacco has been sold under contract in Fiji for 60 years, with a major advantage being a single processor and plant variety that provide no opportunity to "side sell" the product. Therefore the single processor and financial institutions working with their contracts, feel confident to advance all crop costs to farmers in the form of value chain finance/credit.

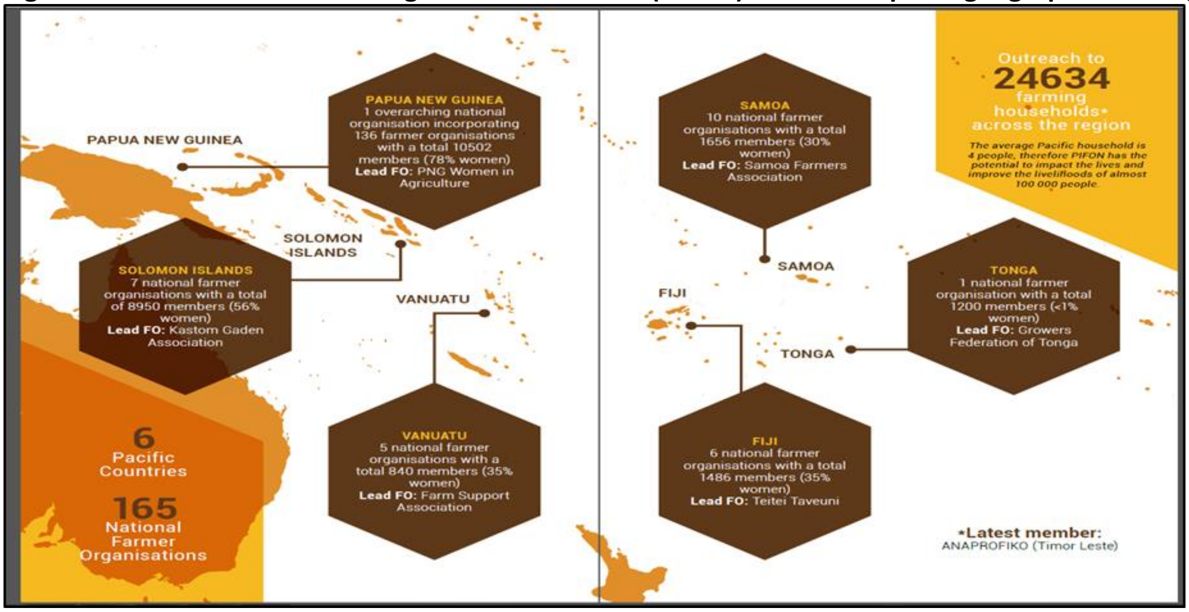
The tourism industry has been less enthusiastic about offering contracts to small farmers. Their preference has been to work with 'middlemen' suppliers and other larger aggregators of produce to reduce the transaction costs/search costs associated with securing produce from multiple small suppliers. In addition, they also lack the technical expertise and transport facilities to provide the extension and marketing support often required by smallholders under contract. In order to address these deficiencies, farmer organizations have a critical role to play here in the Pacific.

Regional or national farmer organizations (NFO) in many parts around the globe are now seen as critical to providing extension and support services for farmers. Their role includes the following:

I. Promoting, exchanging sustainable production practices, field husbandry practical information and tools to enable farmers to adopt more sustainable production practices
II. Provide economies of scale for the purchase of production inputs such as seeds, fertilizers, equipment, financial services etc.
III. Help reduce the marketing costs of reaching domestic and international buyers

The *Pacific Island Farmers Organization Network (PIFON)* spanning 165 national farmer organizations in 6 Pacific countries runs many farmer to farmer exchanges within the region and with other regions. Given the decline in Government extension officers, these organizations are providing a major role in cushioning this gap. However, the management capacity of farmer organizations are still at an early stage, many staffed through limited or voluntary resources.

Figure 5: Pacific Island Farmer Organization Network (PIFON) membership and geographic coverage



Some farmer organizations supply targeted inputs, either as their core business or as a supplementary activity to assist their members and generate income for the organization. The Syndicat Agricol du Vanuatu has supplied agricultural inputs for nearly a century, and now sells farm supplies to its members at a low cost.

While PIC farmer organizations are improving their capacity to provide farm extension support, PIC farmer organizations have traditionally had little experience of providing marketing support, with a few significant exceptions: the Nature's Way Cooperative (NWC) in Fiji, the Friendly Islands Marketing Cooperative in Tonga, and Women in Business Development Inc. (WIBDI). This may have been a result of the traditional involvement of government in commodity marketing, which limited the development of farmer organizations in this capacity. However the direct involvement of farmer organizations in procuring and satisfying supply contracts with the tourism industry may help improve both access to farm inputs (including credit) required to bridge the technology gap required to supply the tourism industry.

Addressing the service sector gap through the use of innovative marketing arrangements

In addition to improved reliability of supply, the tourism industry has identified improved customer service and quality control is critical is PIC farmers are to secure supply contracts (SPC 2015). To date, trading intermediaries have provided a critical link between the market and producers. Traders are successful when they establish supply relationships with the food hospitality sector based upon their proven ability to service the sector's quality, variety and delivery needs; and are able to effectively communicate these preferences to farmers.

Participatory Guarantee Schemes have enabled farmers to improve their direct marketing and service relationship with the tourism industry. These schemes are described as 'participatory' because the farmers themselves guarantee particular standards (which may, for instance, include minimal use of pesticides, as well as volume and timing of deliveries) rather than depending on an expensive, third-party certification system. PARDI has helped set up three PGS groups in Fiji (Box 2).

Box 2: Tourism-Focused Participatory Grower Schemes

The vegetable production season in Pacific Island Countries lasts usually eight to nine months. During the off-season, however, farmers from Qereqere in Fiji's Sigatoka valley have managed to supply out-of-season vegetables (e.g. tomatoes) to the Fijian Shangri-La and Warwick Resorts. This has been possible by coordinating planting and harvesting schedules and using greenhouse coverings and ripening houses.

Three groups of farmers (16 in total) collaborated in the development of a group business plan that required each farmer to plant a quarter of an acre of tomatoes in four rows, collectively totaling one acre of produce each month. Early estimates indicate that this method of combined production by the three Sigatoka farmers' groups has risen to three tonnes of tomatoes a week from 400–500 kg, including 400–800 kg of Grade 1 tomatoes that are sold to resorts. The lower grades are sold at the Suva municipal market.

Source: ACIAR (2015)

A critical element of building value chains is improving information flows between the key actors. However the backwards flow of communication of tourist product quality standards and future supply needs through trading intermediaries to farmers has not always been sufficient.

Using Information Communication Technology (ICT) tools can help facilitate market intelligence and information exchange among stakeholders. Much of the mobile phone and 3G technology is already in use in the Pacific although more support is needed for stronger adoption. The Fiji Crop and Livestock Council for instance has already launched its mobile technology platform to provide market information and exchange information to its 10,000 plus members. This information can be supplemented by extension information.

The absence of pack houses and storage facilities in rural areas also contributes to reduce the quality of produce and increase transportation costs (Veit, 2009). In other regions, such collection centers also play a crucial role in the provision of agro-inputs, information and technical advice. The feasibility of the establishment of publically managed collection centers in Fiji was previously identified to be low (Ibid). However by working with the private sector to adapt existing infrastructure to cater to the needs of the tourism sector, collection centers may play an important role in helping to link farmers to markets (Box 3).

Box 3: Joe's Farm - Providing vegetables & salads to tourism

Joe's Farm is an integrated commercial farm model that supplies farm fresh produce. Present clients include supermarkets, retailers, hotels and resorts, restaurants and fast-food outlets, vessels, aviation industry. While remaining price competitive, Joe's Farm maintains a comparative advantage in the reliability of supply, based on the use of hydroponic technology and the establishment of a large network of farms over a wide geographic area. Joe's Farm undertakes extensive research and development, and staff training, in order to ensure efficient year-round production. Joe's farm has begun to contracts are with smaller farmers who receive training and other support such as transport, storage and distribution. Increasing storage capacity in rural areas may help to reduce post-harvest waste, theft and transport costs, and therefore contribute to more competitive prices and stronger supply relationships with farmers.

Facilitating an increase in demand for agricultural produce through rewarding local content

Whilst many PICs encourage investment in agribusiness through the provision of tax holidays and tax free zones, low-interest loans and reduced import levies on farm machinery, few tax benefits are offered to incentivize increased local content in industry, such as the tourism industry. Tax benefits, such as tax credits, can be offered by national governments to food establishments, based on the value of local produce purchased under contract with local producers during the tax year (Box 4).

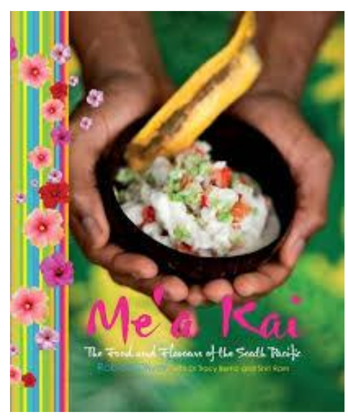
Box 4: Providing tax credits in return for the use of local food and beverages

Iowa State Local Farmer and Food Security Act, 2010 offers a 20 percent tax credit to grocers against the cost of purchasing 'Local Farm Products', defined as "raw fruits, vegetables, grain, and meats that may be minimally processed for sale within the Local Territory". 'Local Territory', in turn, is defined as "the area within 150 miles of the reselling grocer that may include areas outside the State of Iowa".

Source: https://coolice.legis.iowa.gov/legislation/83rdGA/All%20Other/SSB3236.html

The tourism industry has negotiated tax reductions in order for increasing local employment on the cruise ships that stop in Vanuatu. 128 cruise ships visited Vanuatu in 2013, with an average of 2200 passengers on each, with the largest source of local revenue from this industry coming from berthing fees (about USD24,000 per boat per day, though its calculated on tonnage). Government has successfully negotiated legislation with the industry to increase 'local content' by offering incentives to reduce berthing fees for all ships with a minimum number (40) local workers employed on board. Similar opportunities may be explored with the industry to increase local food and beverage content, given the total volume of these goods supplied to the almost 300,000 tourists visiting Port Vila on a cruise ship in 2013, was 300 kilos (mostly of bottled water and beer). (FAO 2014)

The provision of marketing benefits to encourage tourism operators to use a minimum of local produce may be another way to incentivize increased demand from the industry. The recent trend towards the popularization and promotion of menus that contain increased local food and beverage content in Pacific hotels and restaurants has been spearheaded by celebrity chefs, with the support of the SPTO and national tourist authorities. Robert Oliver and Tracey Berno, authors of the cookbook, *Me'a Kai: The Food and Flavours of the South Pacific,* have been at the forefront of encouraging PIC tourist operators to specify the local farm products on their menus as a point of divergence.



As well has branding the food experience as a product for the Pacific tourism potential, it is essential to accredit local food and beverage outlets and service providers (e.g. hotels, restaurants, cafes) that are dedicated to providing fresh and locally sourced produce.

Several PICs are in the process of developing or strengthening their tourist sector certification and accreditation criteria, and may consider extending the rating to the hotel and restaurant industries. In parallel, national tourism authorities, as well as hotel, restaurant and chef associations, have a critical role to play by encouraging greater use of local produce. By working together, strategies can be identified that will promote the benefits of expanding the Pacific region's unique cuisine. By supporting hotels in their marketing efforts, the value of a distinctive local fresh cuisine as a destination selling point and the additional income-generating opportunities for local farmers will likely be realized. The development of a regional tourism branding initiative in the form of the True Pacific certificate (Box 5) should be explored by PICs.

Box 5: Providing marketing benefits to committed uses of local produce

True Pacific is a regional certification programme that globally assures and promotes the quality of Pacific products that represent the Pacific region's exotic flavors and freshness. A variety of food products now bear the True Pacific certification, including coffee from Papua New Guinea, red papayas from Fiji, Hot! Samoan Boys chilli sauce, Lapita manioc products from Vanuatu and Heilala Vanilla products from Tonga.

To earn a True Pacific certificate, producers must register with the programme and meet a set of assessment criteria to confirm that their products have reached a high quality standard and that effective systems are in place to maintain these.

Source: True Pacific www.truepacific.com

This 'trademark' could then be applied to hospitality outlets across the region, providing marketing benefits such as:

a) Use of a True Pacific certificate and window sticker promoting the quality of business (as per Trip advisor)
b) Accredited benefits use True Pacific logo on promotional material and website
c) Opportunity to participate in media events such as Talented Young Chef and Host initiative
d) Listing and promotion of accredited business through guest articles and blogs on national tourism websites
e) Access to additional promotional benefits through regional tourism organization

Conclusions

Pacific countries have already acknowledged the opportunities that tourism can provide for farmer livelihoods. Tourism now provides a far more significant contribution to GDP than the primary sector for many PICs. Increasing the value of tourism earnings captured by PICs, and the value share enjoyed by rural communities in order to increase economic opportunities in those areas, are important development objectives.

Forging closer linkages between agriculture and tourism will rest on the adoption of policy measures required to incentivize increased private sector investment in forging supply relationships between local farmers and the hospitality industry. Achieving this will require greater leadership from regional and national agriculture and tourism authorities, supported by technical agencies.

It's only recently that a more strategic focus is taking shape on culinary linkages to tourism. Encouragingly Pacific business are already thinking and using new, innovative tools and approaches to better organize supply and address quality. However, more needs to be done. More importantly, countries now need to take a more holistic and strategic approach in better linking agriculture and tourism. The recommendations include:

a) support of a more holistic and strategic approach for culinary or agri-tourism including establish a national agriculture/tourism multi-stakeholder mechanism to address issues such as finance, private sector engagement and policy incentives including local food content marketing and tax incentives in an effort to realize the synergies between the two industries

b) Support a regional marketing initiative that highlights tourism operators who offer truly Pacific 'cuisine experiences' through their use of more local ingredients;

c) Consider the use of tax credits in return for the use of local food and beverages to incentivize demand from industry

d) Work with the private sector to adapt existing infrastructure to provide collection centers to help link farmers to markets

e) Support investment in ICT and technology and support the provision of market intelligence and extension information to support the establishment of supply relationships between farmers and tourism;

f) Provide assistance to farmer organizations to help develop their capacity to provide extension and marketing support through the use of supply contracts with the tourism industry

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