THE OUTLOOK FOR A COMMERCIAL ORIENTATION OF COMMODITY ORGANISATIONS IN THE REGION

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Introduction

The problems and inadequate performances of most commodity organisations serving the agricultural sectors of the countries of the Region have been identified and discussed in various fora and in many areas of the literature. This aspect in this presentation therefore, will be brief.

In evaluating any institution or organisation, it is essential that some traces of the development course be mapped out, so that insights identified can assist in determining how current situations emerged, as a starting point for evaluation of performance, and formulation of any corrective action.

Commodity organisations in the Region all started operations during the pre-independent or colonial era. They served as a vehicle to move produce from the territories to the metropolis, and were controlled largely by foreign interests. They were not established with any national development objectives in mind; and it would, therefore, be fair to say that their establishment took place in a national vacuum. Their operations were highly protected because produce moved largely from one hand (the large scale farm, under foreign ownership) to the other hand (the metropolitan market, under similar foreign control). The latter determined market performances of these commodities, particularly pricing.

However, since independence, foreign ownership of the production of raw material has been phasing out rapidly into either the hands of the public sector through land settlement schemes and state farms, and/or nationals and joint ventures of various dimensions. At the same time, the marketing position of these commodities is being eroded continuously through growing international competition (for example Latin American bananas) and more recently, world recession of a relatively prolonged nature.

The Problems

Commodity organisations, by and large, suffer from a number of critical problems. Some are an inherent nature and others are due to origin of establishment. The list could be long. However, the focus here has to be confined to those which are limiting commercial orientation so that functions may be businesslike, that is, involving prompt managerial decisions, establishment and monitoring of sales targets and pursuing surplus motives for reinvestment. All of these become essential if:

(i) farmers are to be paid remunerative prices
(ii) all operations are to bear their full costs to make the organisation self-financing
(iii) reserves must be developed for reinvestment in improvements and/or expansion; and
(iv) some fund must be created to buffer the effects of the cyclical trends in international prices through some price stabilisation mechanism.

Commodity organisations can be either statutory boards or cooperatives. However, cooperatives
operate with greater freedom and membership-involvement so the problems of commercial orientation are not always critical. What they often need are experienced management and financial controls. The problem of commercial orientation applies mainly to those commodity organisations which are governed by special legislation and with ministerial controls. In addition, all commodity organisations are set up to market farmers' produce as their prime activity.

The critical problems affecting the commercial operations of commodity organisations can be identified as follows:

(i) Persistent under-capitalisation, unreasonably high debt/equity ratios and persistent reliance on hard pressed public sector resources to provide finance in moments of crisis when life has become unbearable;

(ii) Absence of initiative-oriented sales promotion programmes with specific targets;

(iii) Undue government intervention in the decision-making process which destroys management accountability, incentives and confidence;

(iv) The absence of quality and experienced management on a continuous basis, a factor influenced both by a persistently under-capitalized situation and a high public sector perception;

(v) The absence of responsibility on the part of the producers, who sell commodities to their organisations, to provide quality products. They tend to see these organisations as arms of Government which is generally considered to be a subsidy (social welfare) institution; and

(vi) The scope of operations tend to be large and generally unmanageable. By default, their activities grow as public sector pressures are applied. Cost centres and prime operations become diffused and unidentifiable.

Why Commercialization?

It must be remembered that the principal role of a commodity organisation is to sell the specific output of the agricultural sector which it can produce to its advantage, given resource and cultural endowments and productivity motivations. This function is necessary to stimulate the growth and development of the agricultural sector whilst enhancing its contribution to overall economic prosperity. They are, therefore, institutional tools for agricultural and rural sector development. However, their effectiveness in achieving this general objective is based on how well they manage their business and survive financially.

This can best be achieved by cost-effective operations, rational pricing of inputs and aggressive marketing. Absence of accounts for analysis of financial performance and the inability to determine cost centres in order to monitor costs, prevent these organisations from taking prompt remedial action to streamline operations.

Many commodity organisations have existed from crisis to crisis and are still in business. They have expanded the output of the agricultural sector, diversified small farm production and have been responsible for the social upliftment of the rural sector. Some have a strong multiplier effect which is demonstrated by the growth of activities in the urban commercial sector. In some cases, a commodity organisation may have a pull-effect on another commodity through such facilities as shipping services. For example, citrus and food crops get transported because of the banana trade. The Banana Industry of the Windward Islands fits all of these. Commodity organisations are therefore, very important to these economies.

It becomes very important therefore, for these organisations to survive financially. Close to
bankruptcy or inadequate cash flow crisis situations bring uncertainty in the farming systems and erode farmer confidence. In addition, breaking points in financial subventions may be inevitable as the state of public sector finance worsens, in the present and foreseeable economic situation.

The Orientation - Some Requirements

The agribusiness firms, such as our commodity organisations, are usually governed within a two segment purpose. The dilemma arises from the decision as to how far we push the perception of private control and action as against the public domination that is so much a reality in many cases; and how this can best be done to bring about a truly commercial orientation where growth of business on a self-reliant basis becomes the practice rather than the exception.

Apart from the many requirements which must be in place to give commodity organisations that orientation, two stand out, from my own practical experience, as essential prerequisites. These are management and capital.

The quality and experience of management and its continuity will depend on how far the public’s point of view is nurtured. Heavy public involvement and control in decision-making usually has far reaching implications on the performance of management, a feature which is well demonstrated when one evaluates commodity organisations within the Region

Good management, on the other hand, attracts capital whether it may be equity from producers, private interests and the public sector; loans from international and commercial sources, and grants from AID donors.

A Proposal

What can be done to direct commodity organisations towards a highly commercial focus? It seems to me that three areas stand out within the number of critical problems.

These are:

(a) the nature of the Capital Structure
(b) The objectives and decision-making process; and
(c) the Management Structure - its objectivity, coordination capability, autonomy of authority and accountability.

These areas mentioned are, to a large extent, interrelated. However, the main weakness seems to be a lack of capital, in particular working capital, to ensure planned, effective and viable operations on a continuous basis and to attract and keep good management. I therefore propose to deal with this aspect in this presentation.

The first proposition therefore, is to provide an adequate equity base, for each commodity organisation, which can contribute both to its start-up or reorganised trading operations, and to meet the initial administrative and overhead costs.

The second proposition, which is additional to the first, is that a trading capital account should be established. This account will handle the buying and selling activities. Dependent on the velocity of trade through sales promotion targets and management aggressiveness, this account should be designed to produce an annual surplus, after meeting all selling costs. This provides the basis for establishment of a reserve/surplus account. It is with this focus that management can adequately decide on how to operate. It is also from this standpoint that accountability can be enforced.

Given an adequate equity base and with Government’s special role (contribution to farmer and rural development) which provides a willingness to support a reasonable guarantee when required, a commodity association can borrow short-term and/or medium/long term money (dependent on the export potential) to establish and operate the trading capital account.
The third proposition is that the development of a reserve/surplus account is essential. This will provide the resources for such activities as market intelligence research, direct trade contact with importing firms and brokers, selective price stabilization programmes, and short to medium term adjustment activities of a development nature which need to be undertaken, but cannot be supported by the public sector.

With increased international competition and the growing difficulties of Caribbean agricultural products to fetch reasonable prices and hold secure markets, market intelligence research and direct trade contact with the importing firms and brokers become essential. Market intelligence research, not from the textbook report point of view, but from actual demand and pricing assessments in the market place, and business contacts and market place negotiations, provide the practical insights into the dynamics of the market place and the information to respond to new and/or expanding trade opportunities. Direct trade contacts facilitate speedy and coordinated implementation because production intelligence can be linked to market intelligence. Direct trade representation in the market place, however, is costly and require the financial resource which can come from internal cash generation.

Simultaneously, side by side, the opportunities for diversification of the end product to improve market performance must be continuously explored. This requires the introduction of adaptive research - pilot projects within the scope of operations of commodity organisations. But this is costly. It needs short to medium term adjustments in scope of operations and product promotion.

With the establishment of a surplus/reserve fund by commodity organisations, and with whatever prospects there are for joint venture activities among existing commodity organisations in the Region, in market intelligence research and direct trade contacts, many of the questions and problems of marketing could be reasonably tackled.

The Adjustment Process

The proposition for a redirection towards greater commercialisation seems fine in presentation. But this is dependent on a reasonable removal of outside interference in management and on decision-making which will establish performance accountability and sale target incentives, thereby ensuring that financial viability is always a matter of priority.

The real difficulty however is to break the accepted view of the nature and scope of operations of commodity organisations in the Region. The idea of scrapping some or most of them does not seem feasible in many countries where they are lead organisations in the agricultural life of the respective communities. Some are high employers of the relatively abundant human resource, some carry out a number of important activities to keep the economy within a certain desirable level of performance. These activities, in many cases, cover the entire spectrum of agribusiness - primary production, input supply, dissemination of information, post-harvest controls, transportation, agro-processing (primary and secondary) and distribution, among others.

To those who produce for commodity organisations - the doers (farmers) system - they are presently seen as public agencies in which there is hardly any means of accountability to the farmers. Yet, these organisations are responsible to the farmers since they handle their produce. In addition, they deal with private enterprises in the purchase of input and sale of output and must therefore engage in business transactions with negotiation skills to obtain market share and reasonable prices.

What then can be done to transform commodity associations? Most important of all, is the willingness of the public sector to
change its philosophy on the purpose and method of operation of commodity organisations. They need also to recognise that these organisations have a very strong role in supporting the development of the economy rather than that the economy should be made to bear their inefficiencies. The latter inevitably breaks Government support when fiscal provisions are tight. On the other hand, the farmers who own these organisations by their contribution to its operations from a share of the market prices received, must take an active role in rolling back the high weighting on public involvement and support. Finally, the will must prevail to make such organisations self-financing over a specified time, with full accountability for performance, and an expanding decision-making autonomy in the areas of selection of activities, pricing and staffing at certain levels. Governments are not expected to release their influence on commodity organisations. They can do so effectively through policy guidelines, procedures for financial control and appointment of management staff within the scope of legislation. This is not interference; this is public responsibility.