



Development of tuna fisheries in the Pacific ACP countries
(DEVFISH) Project

**LESSONS LEARNED –
A REVIEW OF SUCCESSES AND
FAILURES IN TUNA FISHERIES
DEVELOPMENT IN THE PACIFIC ISLANDS**

May, 2008



A report by

Peter W. Philipson

Based on Case Studies by

Peter W. Philipson, Robert Stone and James Movick



FFA

**PACIFIC ISLANDS
FORUM SECRETARIAT**



SPC
Secretariat
of the Pacific
Community

TABLE OF CONTENTS

List of Tables
List of Figures
Appendices
Abbreviations

Executive Summary

1. Introduction

Methodology
Background to the study

2. Findings

Introduction
Case study analysis
 State owned enterprises
 Joint ventures
 Direct foreign investment
 Domestic investment
 Composite analysis
Summary: The two legged stool

3. Conclusion and recommendations: Lessons learned

Conclusions
Recommendations
References

LIST OF TABLES

Table 1	State owned enterprise points analysis
Table 2	Joint venture points analysis
Table 3	Direct foreign investment points analysis
Table 4	Domestic investment points analysis
Table 5	Lowest ranked enterprises by category

LIST OF FIGURES

Figure 1	Overall scores by enterprise category
Figure 2	Enterprise success – corporate governance quality correlation

APPENDICES

Appendix A:	Terms of Reference
Appendix B:	Illustrated brochure
Appendix C:	Worked case study examples

ABBREVIATIONS

DEVFISH	EU-funded Development of tuna fisheries in the Pacific ACP countries project
DFI	Direct foreign investment
SOEs	State Owned Enterprises
m	metre
km	kilometre
kg	kilogram
Kw	kilowatt
l	litre
mt, t	metric tonne

EXECUTIVE SUMMARY

- **Study objective**

The principal objective of this study is to review and document the commercial history of a number of regional tuna fisheries enterprises, in a case study format, with a view to drawing lessons that can be applied to future sector planning.

- **Evaluation methodology**

This report is based on detailed case studies of twenty four fisheries enterprises in eleven regional countries. For analysis purposes, the enterprises were grouped into four ownership types: State Owned Enterprises; Joint Ventures; Direct Foreign Investment; and Domestic Investment.

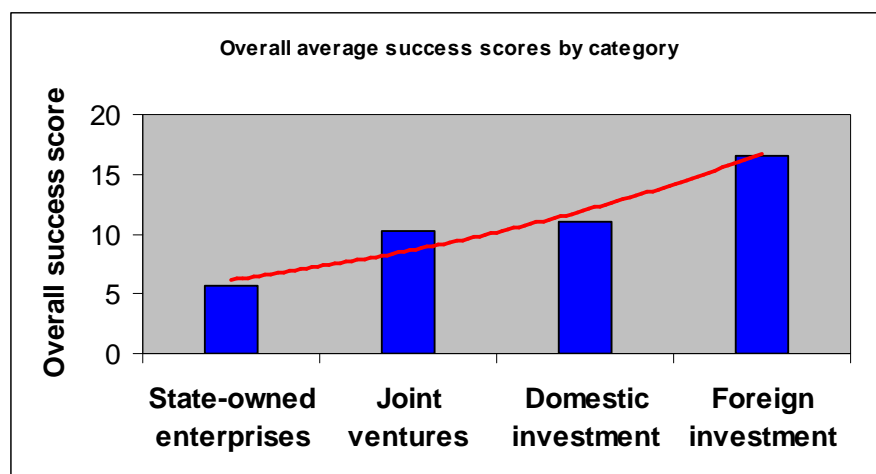
The case studies included eight state-owned commercial fisheries enterprises (in six countries); four fisheries joint-ventures (in four countries); five fisheries enterprises involving direct foreign investment (in four countries); and seven enterprises involving domestic investment (in four countries). The study developed and utilized a scoring template that evaluated each enterprise quantitatively for a range of business success related criteria. For commercial-in-confidence reasons, the case studies are not made available in this report.

The basing of the findings of this study on empirical evidence obtained from specific enterprises is regarded as an important extension of the “evidence based” methodology employed in earlier DEVFISH economic and commercial studies.

The study also attempts to set these evidential findings against a policy and practices framework wider than the fisheries sector, as such, seeking to draw on more general, multi-sector private sector development analysis.

- **Findings**

For any enterprise, using the scoring methodology, the maximum overall score from the three evaluation categories (Development outcome, Investment outcome, Input quality) is 18, and the minimum is 3. Scores for case studies in this report ranged from 4 to 18. The figure below shows the average success scores for the four ownership types:



- **Conclusions** The direct conclusions from the case studies developed in this consultancy are as follows:
 - Enterprise success in any ownership model is directly linked to input quality, particularly corporate governance and management;
 - SOEs were found to have a particularly poor record of corporate governance and management input quality, and this is why SOEs have such a poor overall success record;
 - Government ownership or participation, of itself, need not result in business failure; it has been poor execution, not an intrinsic failing of this operational model that has been the ultimate cause;
 - Some failures, particularly those associated with government intervention, have been compounded by inadequate preliminary studies, resulting in enterprises that could never be commercially viable;
 - Joint ventures have been unsuccessful, and should be replaced by alternative operational models, such as strategic partnerships;
 - Direct foreign investment, which brings pre-existing technical, financial and marketing skills to an enterprise, without the necessity of joint ventures or partnerships, has proved the most effective vehicle to promote commercial fisheries development in the region; and
 - Domestic investment in commercial fisheries, as in other sectors, has been hampered by the prevailing cultural and government environments, and is further compromised by poor business management skills.

1.0 Introduction

1.1 Methodology

This report is based on detailed case studies of twenty four commercial fisheries enterprises in eleven regional countries (Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu. For commercial-in-confidence reasons, the case studies are not made available in this report but have been provided to the DEVFISH project which commissioned this review. The enterprises are grouped for analysis into four ownership categories: State Owned Enterprises; Joint Ventures; Direct Foreign Investment; and Domestic Investment.

The case studies included eight state-owned commercial fisheries enterprises (in six countries); four fisheries joint-ventures (in four countries); five fisheries enterprises involving direct foreign investment (in four countries); and seven enterprises involving domestic investment (in four countries).

The case studies evaluated included thirteen long line companies ranging from a single vessel supplying the domestic market to operations catching up to 4,000 t. per annum and employing over a hundred people on-shore (four with significant associated on-shore value adding operations); five canning / loining plants with throughput ranging from 12,000 to 30,000 t. per annum, and with employment from 500 to 2,500 persons; two purse seining operations (averaging 10,000 t. per annum catch); and two shore-based operations. A number of the case study enterprises engaged in a range of different activities during the course of their corporate lives.

The basing of the findings of this study on empirical evidence obtained from specific enterprises is regarded as an important extension of the “evidence based” methodology employed in earlier DEVFISH economic and commercial studies. A scoring system for use in this consultancy was developed and is explained in Section 2.1 herein.

The study also attempts to set these evidential findings against a policy and practices framework wider than the fisheries sector, as such, and seeks to draw on more general, multi-sector private sector development analysis.

1.2 Background to the study

It has long been noted that the conversion of opportunity to reality in the regional commercial fisheries sector offers a difficult challenge: one that is yet to be successfully met. There is a growing realization, discussed below, that the continued difficulty in addressing this challenge, and achieving an acceptable degree of regional fisheries development, lies to a large degree in reasons outside of the fisheries sector. Indeed, it can be argued that the continued focus of resources earmarked for commercial fisheries development within the fisheries sector, rather than the wider commercial environment, is one of the major reasons why the conversion of opportunity to reality has been relatively unsuccessful to date.

In recognition of this proposition, this study attempts to set the evidence from the concrete examples offered by the twenty four case studies against a broader scenario than the fisheries sector alone.

The broad issues associated with commercial development and the problems, policies and practices in the region have been canvassed by a wide range of studies over an extended period of time, with varying degrees of analytical rigour.

Perhaps the first major study in recent times was conducted in the late 1980s by a team led by Dr. Andrew McGregor for the Pacific Islands Development Program (PIDP), East-West Center, Honolulu (McGregor, A. et al, 1992).

More recently, (Holden, P. et al, 2004) sums up the general conclusions of external observers with regard to regional private sector development;

The countries of the region are relatively poor and growth has been disappointing, especially in relation to the amount of external funds that have been invested.

The report concludes that;

The prime cause of poor private sector development is the extensive state intervention in areas better left to the private sector, coupled with the state's inability to provide the public goods and institutions - in development parlance, the enabling environment - that a flourishing private sector needs. The lack of growth in most countries is related to a massive failure of the state. Erroneous ideas regarding what role government should play have resulted in costly state involvement that exacerbates, rather than ameliorates, problems of geographical isolation and distance.

That is, poor commercial development outcomes, encompassing, of course, poor commercial fisheries development outcomes, is rooted in government action and inaction.

Despite this somewhat negative appraisal of government interventions, one of the findings of this study, discussed in Section 2.0 below, is that government ownership of commercial fisheries enterprises, per se, has not been the cause of failure. There have been some successful enterprises where government has been involved, and conversely, failures in other ownership forms. Identifying the ultimate cause of success or failure at the enterprise level, which as suggested, should not be linked to the ownership category, is a primary objective of this study, and has found to be poor business management capacity.

However, the failure by some governments to optimize the enabling environment, the second reason for poor development outcomes identified in the ADB study, can be directly linked to poor fisheries enterprise outcomes. In 2004 the World Bank began a comparison process on largely government-imposed handicaps to conducting a business in 178 countries (2008) and preparing an index to rank the subject countries. These results are published in the World Bank "Doing Business" series.

Of the ten regional countries for which "ease of doing business" rankings¹ are given, it is surprising to note that every one of these countries recorded a fall in rankings in the period 2004 – 2008. Average ranking for this regional grouping in the same time period fell from 47 in the overall country standings to 73. The World Bank observes:

Investors are taking note. They look for upside potential, and they find it in economies that are reforming - regardless of the starting point. Indeed, equity returns are highest

¹ The World Bank compiles a composite index, based on rankings in: Starting a business; Registering property; Trading across borders; Getting credit; Dealing with licenses; Enforcing contracts; Hiring and firing workers; Protecting investors; Closing a business; and Paying taxes.

in countries that are reforming the most. With emerging markets aggressively improving their business regulations, there has hardly been a better time to invest.

These two themes, that business management skills and an enabling environment are the keys to fishery enterprise business success are the key findings of this study, and are echoed in the most recently completed and comprehensive review – “Capturing wealth from Tuna” (Barclay, K. & I. Cartwright, 2007).

Probably the biggest impediment to domestic tuna industry development in Pacific island countries is that the business environment is largely not conducive. [...] This means that tuna development is, in effect, the same as business development. For domestic tuna development to work, the economic and policy environment has to enable private-sector development.

and

One of the greatest constraints on greater Pacific islander involvement in management and ownership of tuna businesses is a lack of skills and experience in business. One of the tendencies in Pacific island country strategies for tuna business development noted in this study, as well as Gillett’s 2003 study on domestic industry development, is the expectation that small-scale fishers can upscale to medium and larger scale fishing enterprises, because they are skilled at fishing. Gillett noted that there have been ‘very few cases’ of small-scale operators successfully upgrading to become medium or large-scale operators. He explained this by pointing out that fishing was different to managing fishing and medium and larger-scale fisheries businesses, and small-scale fishers were unlikely to have management skills.

Another recent relevant study (Lindley, R., 2006) consisted of a fisheries SME diagnostic which sought to identify barriers to commercial fisheries development. More than 50 fisheries-related interviews were conducted in eight regional countries², and a comprehensive questionnaire was administered to 21 fisheries enterprises. This report identified the major problems encountered by SMEs in fisheries and aquaculture as being related to:

- Government failures, predominantly: -
 - to invest in infrastructure,
 - inefficiencies in administration,
 - licensing issues
- Fuel costs
- Airfreight (costs and availability)
- Staff, obtaining and keeping

In summary:

Many of the companies responding believe that the answers to the problems they face are “external to the company” – they cannot influence them, or that it is the responsibility of the government to sort it out. Given their lack of confidence in government, waiting for the government to do something seems strange, though it may well be that they feel hopeless in that there is no way they can influence the government. This is actually being addressed by the formation of Regional and Country Fishing Industry Associations (FIAs), which are more effective than individuals at lobbying governments. This SME diagnostic notes that FIAs are still regarded by respondents as generally ineffective.

² Solomon Islands, Marshall Islands, Papua New Guinea, Fiji, Samoa, Tonga, the Cook Islands and the Federated States of Micronesia

The diagnostic did not identify management shortcomings as a source of difficulties, but this is to be expected as it was enterprise management themselves who were interview respondents.

This brief review of the wider business development sector in the Pacific Islands indicates that some, perhaps most, of the difficulties experienced by the fisheries sector in establishing successful commercial enterprises to displace the heavy dominance of foreign, off-shore participants may lie in areas outside of the fisheries sector.

This suggests, in turn, that remedies seeking to address the difficulties associated with commercial fisheries development that focus on technical, fisheries-related problems may miss many of the underlying cause of these difficulties.

This apparent need for examining a broader range of issues than the fisheries sector alone in addressing the lessons to be learned from existing enterprise development is pursued later in this report.

2.0 Findings

2.1 Introduction

The analysis of case studies in this report used a scoring system devised to enable the benefits of quantitative analysis to be realized. The scoring system evaluated each enterprise under three categories, and within them, ten sub-categories:

OVERALL DEVELOPMENT OUTCOME

- *Project Business Success*
- *Economic Sustainability*
- *Environmental, Social, Health & Safety Effects*
- *Private Sector Development*

OVERALL INVESTMENT OUTCOME

- *Equity*
- *Loan*

OVERALL ENTERPRISE INPUT QUALITY

- *Corporate governance*³
- *Management*
- *Technical*
- *Marketing*

Each of the sub-categories were awarded a score depending on the findings of the case study appropriate to that sub-category, and the sub-categories totaled to give a composite score for the three categories. The category score ranged from 1 (*Highly Unsuccessful*) to 6 (*Highly Successful*) in the case of development and investment outcomes, and from 1 (*Highly Deficient*) to 6 (*Strong*) for input quality.

Thus, for any enterprise, using this scoring methodology, the maximum overall score from the three categories is 18, and the minimum is 3. Scores for case studies in this report ranged from 4 to 18. Two worked examples of this evaluation and scoring methodology are included in Appendix C.

2.2 Case study analysis

The following sections analyze the results of the twenty four case studies carried out for regional fisheries enterprises as part of this study. Firstly, the results of each case study for each of the four ownership categories is tabulated and considered, then, as one of the findings of this study is that ownership category is not a direct determinant of success or failure, the results are reviewed collectively.

³ "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance." (OECD)

As much of the material utilized to develop the enterprise case studies and scores is commercial-in-confidence, none of the individual enterprises are identified, and the individual case studies, which collectively extend to almost 150 pages, are not made available in this report.

State owned enterprises (SOEs)

Enterprises	Development outcomes	Investment outcomes	Input quality	Total score
A	3	1	1	5
B	2	1	1	4
C	2	1	2	5
D	4	3	2	9
E	1	2	3	6
F	2	1	2	5
G	1	1	3	5
H	3	1	2	6
Average	2.3	1.4	2.0	5.6

Table 1. SOEs points analysis

Table 1. above tabulates the individual and average scores awarded in the eight SOE case studies. The overall average enterprise score for SOEs is 5.6, the lowest of the four categories. Only one SOE scored above the mid-point in the scoring system (8). In terms of the category scores, using the average figure, SOEs rated “unsuccessful” for development outcomes and “highly unsuccessful” for investment outcomes, and “deficient” for input quality.

Joint ventures (JVs)

The individual and average scores for JVs are tabulated below. The four JVs averaged an overall success score of 10.3, well above the results for SOEs (5.6), although still the second lowest of the four categories. In the individual categories, the investment outcome averaged 2.0 (“unsuccessful”) also the second lowest after SOEs, despite scoring 4.0 (“mostly successful”) for development outcomes and 4.4 (“mostly adequate”) for input quality.

quality. This reflects the typical JV outcome, which is adequate operational results, but inadequate direct returns to investors.

It is notable that one of the joint ventures, often advocated as sources of off-shore expertise, scored the lowest overall success score of any of the twenty four case studies, being matched, at the bottom, only by one of the SOEs.

Enterprises	Development outcomes	Investment outcomes	Input quality	Total score
I	4	1	3	8
J	1	1	2	4
K	6	4	6	16
L	5	2	6	13
Average	4.0	2.0	4.3	10.3

Table 2. Joint ventures points analysis

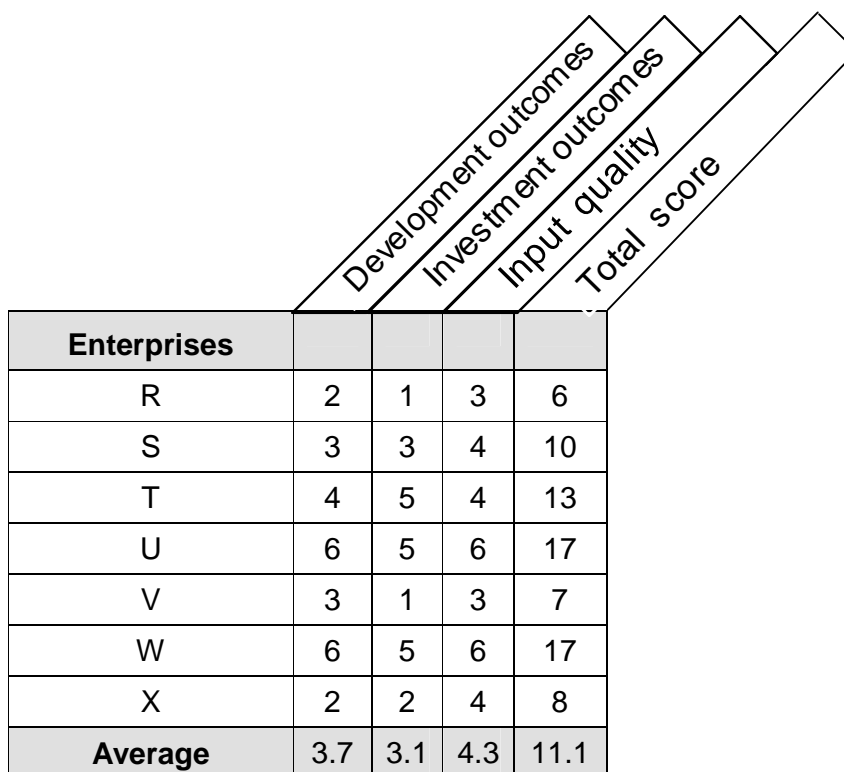
Direct foreign investment (DFI)

Enterprises	Development outcomes	Investment outcomes	Input quality	Total score
M	5	4	6	15
N	5	4	6	15
O	6	6	6	18
P	6	5	6	17
Q	6	6	6	18
Average	5.6	5.0	6.0	16.6

Table 3. Direct foreign investment points analysis

The overall success score of DFI enterprises was the extremely high figure of 16.6, against a possible high score of 18. Particularly notable is that all of the five case studies achieved a “perfect” score of 6 for input quality, and how this correlates to overall successful outcomes. As noted in a subsequent section, there is a close correlation between input quality, and particularly corporate governance and management quality, and overall business success. Development outcome at 5.6 (“highly successful”), and investment outcome at 5.0 (“successful”) are also high and outscore the other three categories.

Domestic investment



Enterprises	Development outcomes	Investment outcomes	Input quality	Total score
R	2	1	3	6
S	3	3	4	10
T	4	5	4	13
U	6	5	6	17
V	3	1	3	7
W	6	5	6	17
X	2	2	4	8
Average	3.7	3.1	4.3	11.1

Table 4. Domestic investment points analysis

The domestic investment success scores present a very mixed picture, with some of the highest and some of the lowest scoring enterprises. Overall, the average scores are unencouraging: 3.7 for development outcomes (“mostly successful”), 3.1 for investment outcomes (“mostly unsuccessful”) and 4.3 for input quality (“mostly adequate”). The correlation between input quality and successful outcomes is again evident in the cases of enterprises “U” and “W”.

Composite analysis

Figure 1 below illustrates graphically the progression of demonstrated success of the twenty four cases studies, grouped by enterprise category. As noted elsewhere, however, while there is an obvious linkage between government involvement and enterprise failure, this results from enterprises in which state entities are involved typically having far lower quality

inputs (particularly corporate governance and management), not the simple fact of ownership.

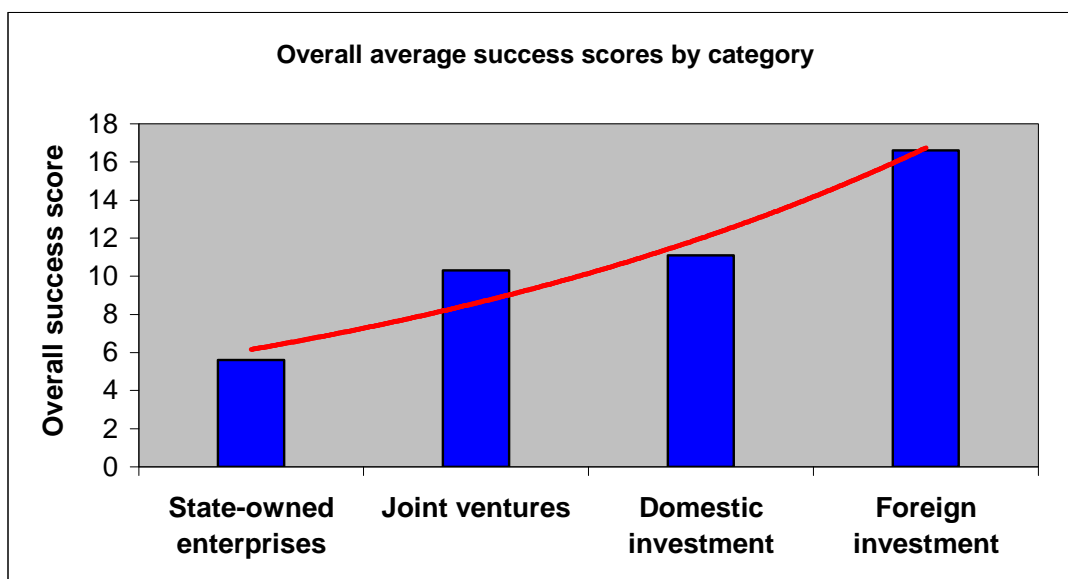


Figure 1. Overall scores by enterprise category

Table 5 shows the bottom twelve enterprises, ranked by overall success scores. While there is a predominance of SOEs, both JVs and domestic investment are also represented.

Enterprises	Ownership category	Score
B	SOE	4
J	Joint venture	4
A	SOE	5
C	SOE	5
G	SOE	4
F	SOE	5
E	SOE	6
R	Domestic investment	6
H	SOE	6
V	Domestic Investment	7
X	Domestic investment	8
J	Joint venture	8

Table 5. Lowest ranked enterprises by category

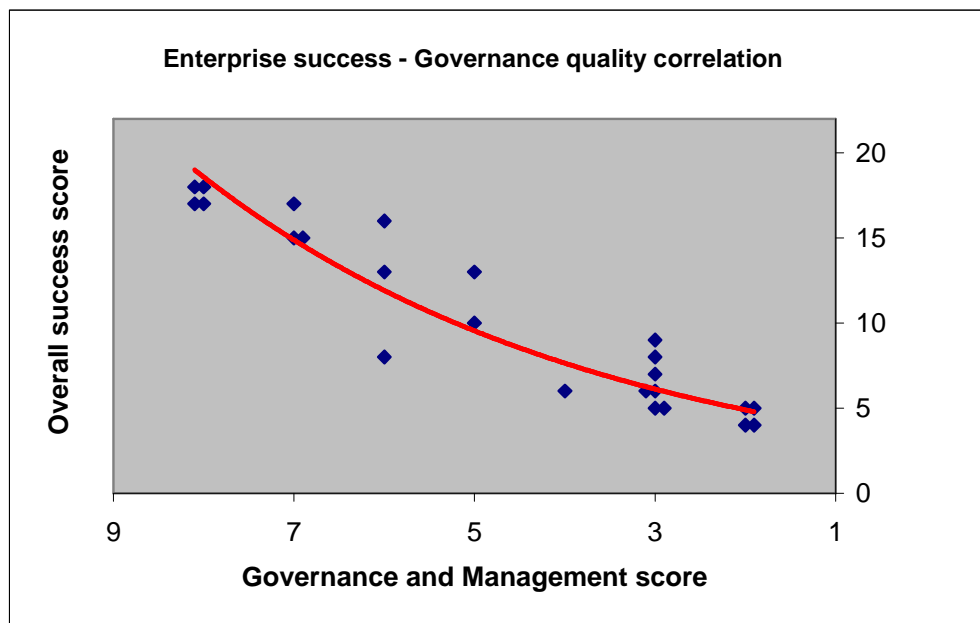


Figure 2. Enterprise success – corporate governance quality correlation

This graph shows the strong correlation between the quality of corporate governance and management and overall outcomes that suggests that whatever the other circumstances of the enterprise, good management and corporate governance is likely to result in good outcomes, whereas poor corporate governance and management is likely to lead to failure.

At this point, it might be useful to recall that this finding is not a conclusion arrived at by the consultant. It is an empirical result of the analysis: well governed and managed fishing enterprises in the region have prospered, and those that are poorly governed and managed have failed, irrespective of the surrounding (and diverse) circumstances, favourable or otherwise, including ownership.

This finding mirrors the findings of a much more comprehensive study carried out by the internal evaluation unit of the World Bank on several hundred projects, in many sectors, in developing countries throughout the world. This study also found that the key element in project outcomes was project leadership. In even the most difficult surrounding circumstances, good project leadership was likely to find a way forward and achieve acceptable project success. Conversely, even when circumstances were favourable, poor leadership was likely to result in project failure.

The clustering evident at each extremity of the graph in Figure 2 also supports this finding. Where corporate governance and management are particularly strong, (or weak), the extent of success (or failure) becomes more certain, whereas in the middle section, where corporate governance and management strengths or weaknesses are less well defined, the spread of outcomes becomes wider, reflecting a range of other factors contributing.

2.3 Summary: The two legged stool

It is suggested that successful commercial fisheries development can be regarded as depending upon three elements: two within the fisheries sector, and one essentially external.

As with a stool, all three components must be present and effective in their function for the overall outcome to be positive.

The three components envisaged are firstly raw material production; secondly product conversion and marketing; and thirdly intangible factors such as managerial skill and the overall business enabling environment.

The first component, raw material production, is centered on resource ownership (resolved by UNCLOS in 1982); resource management, which is now well developed (regional resource management has received central (and ongoing) consideration for many years); while harvesting concerns currently are focused on the fact that harvesting is too successful, not unsuccessful (albeit still foreign-owned).

The second, product conversion and marketing, has also been largely successfully accommodated by enterprises in the region, particularly in those cases where there has been little or no need for processing and the product is a commodity, or close to it (gilled and gutted chilled sashimi tuna, frozen canning material). Even value added production and marketing has progressed well, in the face of dwindling returns on unprocessed product.

However, as noted in the general discussion in Section 1.2 above, and in the findings of this study, it is the third leg of the stool that is causing the problems. Essential aspects of commercial business success, outside the control of individual enterprises, and often, outside the fisheries sector itself, have been the ultimate cause of the absence of the ability of the sector to convert the commercial potential to commercial reality alluded to earlier.

3.0 Conclusion and recommendations: Lessons learned

3.1 Conclusions

The direct conclusions from the case studies developed in this consultancy are as follows:

- Enterprise success in any ownership model is directly linked to input quality, particularly corporate governance and management;
- SOEs were found to have a particularly poor record of corporate governance and management input quality, and this is why SOEs have such a poor overall success record;
- Government ownership or participation, of itself, need not result in business failure; it has been poor execution, not an intrinsic failing of this operational model that has been the ultimate cause;
- Some failures, particularly those associated with government intervention, have been compounded by inadequate preliminary studies, resulting in enterprises that could never be commercially viable;
- Joint ventures have been unsuccessful, and should be replaced by alternative operational models, such as strategic partnerships;
- Direct foreign investment, which brings pre-existing technical, financial and marketing skills to an enterprise, without the necessity of joint ventures or partnerships, has proved the most effective vehicle to promote commercial fisheries development in the region; and
- Domestic investment in commercial fisheries, as in other sectors, has been hampered by the prevailing cultural and government environments, and is further compromised by poor business management skills.

3.2 Recommendations

State Owned Enterprises

In the fisheries sector, commentators are no less critical of government's role, particularly in establishing SOEs, than has been the case generally, as described in Section 1.2 above. Some descriptions could almost be described as pejorative, with terms such "state capitalism" (Pollard, S., 1995) and "resource nationalism" (Schurman, R. 1998) being used.

Frequently sounded criticisms include;

If the countries of the region want to establish viable, sustainable, locally-based tuna industry then their joint experiences to date dictate that this should be led by private sector investment. A fundamental reordering of the complementary roles and operations of government and private sector is required and the region's economies need to be restructured in support of investment. Given the nature of the industry and the status of the region's domestic private sectors, initial direct foreign investment is essential. Again, previous experience suggests that the development of the industry should be gradual and phased, direct foreign investment could be employed to initiate this development but past experiences of joint ventures can be improved upon by more careful planning. (Pollard, 1995)

or,

One of the greatest lessons learned in the development of industrial fishing in the region concerns government-owned tuna fishing companies. It was an extremely

expensive learning process, but now the general consensus in the region is that the government is very poor at running large and complex fishing operations. (Gillett, 2006)

and, sometimes almost despairingly,

The persistence of the Pacific island countries in following poor policies in the exploitation of their tuna resources is very disappointing. The poor policies, which defy the law of comparative advantage and the Tinbergen principle [one objective – one policy instrument], are wasteful uses of the resource rents and are ineffective in achieving any of the countries' stated objectives. (Duncan, 2006)

But

A surprising feature is that ... there appeared to be a remarkable change in attitude by fisheries officers towards government commercial involvement. Learning from past difficulties, most of the fisheries officers encountered expressed the sentiment that the government should refrain from commercial involvement and focus on improving the policy environment. With respect to actual commitment, it appears that in many countries, efforts have largely changed from promoting state enterprises to encouraging domestic private sector fishing and, secondarily, foreign involvement in other aspects of the tuna industry. This evolution in attitudes appears quite healthy and may be one of the major factors responsible for the increasing prominence of domestic tuna industries in the region. (Gillett, 2003).

The case studies evaluated in this consultancy suggest that this aversion to SOEs may be over-stated and may have the unintended effect of undervaluing the important role that government entities must play in generating the enabling environment essential to any successful commercial fisheries enterprise, whatever ownership model it might utilize.

What is required is not the withdrawal of government interventions in commercial enterprise development, but, as suggested by Pollard a "fundamental reordering of the complementary roles and operations of government and private sector". This would address one of the key problems faced by SOEs (and, in fact, all commercial fisheries enterprises) the enabling environment.

The other difficulty, adequate corporate governance and management, has been addressed by at least two regional SOEs. These enterprises have successfully placed themselves on a trajectory towards commercial viability, and ultimately privatization, by the formation of strategic alliances with partners able to remedy shortfalls in this (and other) areas.

The first example is an SOE which has been frequently and fully documented in the public domain⁴ - the Solomon Islands based Soltai Fishing and Processing company, successor to the former joint venture, Solomon Taiyo. After many years of corporate decision making dominated by the Japanese joint venture partner, the conversion of the company to an SOE allowed the appointment of a fully national Board of Directors and largely local management. However, the small pool of qualified nationals, and the crucial role of corporate governance and management in enterprise success, has meant that progress towards sustained commercial viability has been difficult. Soltai's response to this has been to form a strategic alliance with Trimarine, a large international tuna trader and processor, which supplies much of the fish processed by Soltai and also makes marketing arrangements along with providing technical and financial assistance generally.

⁴ Barclay, K. (2005).

The second example of a fisheries SOE publicly documented is the Fiji-based PAFCO, which has formed what is effectively a strategic alliance with the US seafood company Bumblebee. In this case, day to day commercial operating arrangements and overall strategy are largely left to Bumblebee, and the US company is fully responsible for product marketing. This arrangement, where the government retains ownership and limited oversight, but commercial responsibility is assigned to a private sector strategic partner has proven to be a far more effective vehicle than the previous joint venture model.

From these two examples, and from other case studies considered for this report, it can be concluded that the most effective way to address the chronic problems experienced by regional fisheries SOEs is the formation of strategic alliances with partners able to address technical, operational and financial problems. Subject to policy considerations, the enhanced commercial viability that can be expected to result from such alliances should enable successful privatization strategies to be implemented.

2.3 Joint ventures

Formal joint ventures have been rare in the regional fishery. In fact, the few commercial enterprises that are categorized as joint ventures typically fall well short of qualifying as such, using accepted joint venture definitions. For example, Douman 1996, relating to JVs where government are one of the JV partners:

Joint ventures involve active participation by government as an investment partner, along with domestic or foreign private investors.

So-called joint ventures in regional fisheries have, in fact, typically consisted of a normal commercial investment, entirely funded by the non-government partner, who agrees to gift a shareholding (usually proven, subsequently to be worthless) to the government partner. This process by the foreign partner, of setting up a “joint venture” while intending to operate entirely in its own interests and to make minimal recognition of the government joint venture “partner” has characterized regional fisheries joint ventures.

A further criticism of the typical regional joint venture is that the arrangement is unnecessary. Whatever concessions or contributions that a government can make by way of inducement or encouragement can be, and usually are, provided outside of the JV formula. Long term land leases, tax concessions, immigration relaxations, etc. can be made available without the government finding itself locked into a legally binding arrangement with a partner of whom it might know very little and engaged as a “partner” in an industry where it might know even less. Furthermore, having got themselves locked in, government JV partners have often found themselves, perhaps unexpectedly, being pressed for loan guarantees, capital injections, channeling of donor funds to the JV, and other forms of support not contemplated at the time the JV was formed.

In each of the four JV case studies in this report, a less than optimal corporate structure was adopted. This arrangement sees the government and the foreign partner taking more or less equal shares in the company that owns and operates the venture. In effect, this means that the enterprise again falls short of being a true JV, but is a regular commercial company with two more or less equal shareholders, but with very different objectives, a formula for disharmony from the outset. A better arrangement is for the two parties to enter into a JV agreement that sets out the respective obligations, but for a separate operating company to

be formed to actually carry on the business contemplated by the joint venturers. One of JVs that was subject of a case study is in the process of making this change.

Solomon Taiyo, the predecessor to Soltai, again based on documentation publicly available⁵, epitomized many of the inbuilt shortcomings in typical regional fisheries JVs described above. Hughes (note the stress on corporate governance and management):

The crucial reasons for this persistent weakness [in commercial viability] lie in the way Solomon Taiyo (STL) has been managed, which reflects the origins of the joint venture company, and the priority concerns of its shareholders. Taiyo/Maruha, which has been managing STL, has pursued its own strategic goals rather than STL's profitability; while the Solomon Island side has preferred to load social and economic functions onto STL rather than insist on economic efficiency. The Board has been handicapped by lack of continuity and knowledge of the business. Management is remote from operations and communications inside the company are weak.

It can be concluded that the JV operational model has been mis-applied to regional fisheries enterprises, and has been widely unsuccessful. The option of bolstering perceived corporate shortcomings by entering into arms length strategic alliances discussed above, has proved to be a much more successful strategy in achieving commercial sustainability.

2.4 Direct foreign investment

Direct foreign investment (DFI) has been shown by the case studies to be the most successful mode of commercial fisheries development that has been utilized in the region.

Technically skilled and adequately financed enterprises, often subsidiaries of or affiliated with international-scale marketing and trading operations, and with aggressive and experienced corporate governance and management, these operators have the capability to succeed in the establishment of large scale fisheries enterprises in the region, and do so without the handicap of a joint venture with government, or the need for outside strategic alliances.

Enterprises that characterize this model include:

- Luen Thai longline, air freight and value added processing operation in the Marshall Islands which processes 4,000+ tonnes of long line catch per annum, and pays its 100 local staff over \$1 million each year;
- RD Cannery in Papua New Guinea, which employs some 2,500 persons, processes 30,000 tonnes per annum, and has exports of over US\$50 million per annum; and
- SSTC, also in Papua New Guinea, which employs 1,600 persons to process 24,000 tonnes per annum.

2.5 Domestic investment

In comparison to the much-researched SOEs, the private sector fisheries enterprises in the region are much less studied, and reports based on empirical evidence are virtually non-existent, or inaccessible. The DevFish project at FFA has a mandate "of increasing the economic benefits to Pacific Island countries from tuna fisheries" and has instigated recent studies that seek to obtain data that can inform evidence-based decision making on the part of

⁵ Grynberg, R. (1997); Hughes, A. (1995).

fisheries policy-makers (Philipson 2006, 2007). However, for commercial-in-confidence reasons the specific enterprise level data obtained in these studies is not disclosed.

The World Bank Sydney-based Pacific Enterprise Development Facility (PEDF) conducted an SME Business Survey in 2003. The Fiji findings, which most typified small fisheries enterprises, showed;

Fiji firms experience a broad range of problems driven more by individual circumstance than by underlying weaknesses in the macroeconomic environment. The most common problems relate to staff, government, insufficient sales, operational concerns and lack of working capital;

Effective solutions are likely to be those which deliver knowledge and skills to individual businesses, thereby allowing them to solve their own problems (i.e. training and consulting) (PEDF 2003);

The study, which was designed to identify impediments to SME private sector development, and hence to design effective interventions, produced a somewhat inconclusive result, as indicated in the findings quoted above. Certainly, there does not appear to be any “silver bullet” that can be used to cure all the ills of the regional private sector.

While the PEDF and other studies, including this current report, have identified corporate governance and management shortcomings as a root cause of many small business difficulties, an effective solution has yet to be found, other than the one offered by the market, and elucidated in this report, that poorly managed companies are prone to fail and well managed companies to prosper.

References

- Barclay, K. (2005).** *Tuna Dreams Revisited: Economic Contributions from a Tuna Enterprise in Solomon Islands*. Pacific Economic Bulletin. Vol. 20, No 3, pp. 77 – 93.
- Barclay, K & I. Cartwright, (2007).** *Capturing wealth from Tuna: case studies from the Pacific*. Asia Pacific Pres, ANU, Canberra.
- Doulman, D. (1996).** *Joint Ventures in Fisheries Development*. FAO, Rome.
- Duncan, R. (2006).** *Troubled Fishing in Pacific Waters*. Pacific Economic Bulletin. Vol. 21, No 3, pp. 98 – 105.
- Gillett, R., M. McCoy, L. Rodwell, and J. Tamate (2001).** *Tuna: A Key Economic Resource in the Pacific Islands – A Report Prepared for the Asian Development Bank and the Forum Fisheries Agency*. Pacific Studies Series, 95 pages.
- Gillett, R. (2003).** *Domestic Tuna Industry Development in the Pacific Islands: The Current Situation and Considerations for Future Development Assistance*. Report 03/01, FFA, Honiara.
- Gillett, R. (2006).** *A Short History of Industrial Fishing in the Pacific Islands*. Regional Office for Asia and the Pacific, FAO, Bangkok.
- Grynberg, R. (1997);** *Handicapped infants and delinquent parents: Lome convention rules of origin and the Solomon Islands Tuna Industry*. ECDPM Working Paper #37, Maastricht, the Netherlands.
- Holden, P., M. Bale, and S. Holden. (2004).** *Swimming Against the Tide? – An Assessment of the Private Sector in the Pacific*. Asian Development Bank, Manila.
- Hughes, A. (1995).** *Costly Connections : A Performance Appraisal of Solomon Taiyo Ltd*. FFA Report 95/54
- Lindley, R. (2006).** *Report Of The Pacific Regional Fisheries And Marine Culture SMEs Diagnostic*. Contract No. 4.11.1/2006. CDE file No. PAC/ 0605 /01/FI.
- McGregor, A., M. Sturtin, and S. Halapua (1992).** *Private Sector Development: Policies and Programs for the Pacific Islands*. Pacific Islands Development Program, East-West Center, Hawaii.
- Pacific Island Forum Secretariat. (2006).** *The Pacific Plan – For Strengthening Regional Cooperation and Integration*.
- Pacific Enterprise Development Facility – PEDF (2003).** *SME Business Survey – Summary of Findings*. IFC, Sydney.
- Philipson, P. (2005).** *CDE Pacific Regional Fisheries Sector Strategy*. Contract 411/2005 CDE File No PAC/0500/01/FI.
- Philipson, P. (2006).** *An Assessment of Development Options in the [regional] Longline Fishery*. Development of Tuna Fisheries in the Pacific ACP countries (DEVFISH) Project.
- Philipson, P. (2007).** *An Assessment of the Economic Benefits of Tuna Purse Seine Fishing and Onshore Processing of Catches*. Development of Tuna Fisheries in the Pacific ACP countries (DEVFISH) Project.
- Pollard, S. (1995).** *Tuna Industry Development Study – Regional Report*. Report 95/66, FFA, Honiara.
- Schurman, R. (1998).** *Tuna Dreams: Resource Nationalism and the Pacific Islands Tuna Industry*. Development and Change, Vol. 29, pp. 107-136.
- Stone, R. (2005).** *In-depth Study of Polynesian Fisheries*. PAC/0413/01/FI. CDE, Brussels.
- Tiller, S. (2005).** *On or Beyond the Horizon: A Discussion Paper on Options For Improving Economic Outcomes From The Western And Central Pacific Tuna Fishery*. Asian Development Bank, Manila.
- World Bank (2008).** *Doing Business 2008: Comparing Regulation in 178 Economies*. A co-publication of the World Bank and the International Finance Corporation, Washington.

Note: Documents used in this report but not in the public domain relating to specific enterprises have not been cited for confidentiality reasons.

Appendix A. Terms of Reference

DevFish Project – Short-term technical assistance

Lessons Learned – A review of successes and failures in tuna fisheries development in the Pacific Islands

Introduction:

An important activity of the DevFish Project is to evaluate the performance of different strategies for promoting tuna fisheries development. Pacific Island countries have experienced a range of approaches in the type and structure of fishing and processing enterprises.

Performance has been mixed, but the results have often not been well documented. As a result, the lessons learned from such experience have not been shared between countries in the region; and may even be lost to the country concerned as a result of changes in the leadership and officials over time.

Objective:

The objective of this consultancy is therefore to review and document the history and experience of four approaches to tuna industry development – fishing and processing – with reference to specific case studies from various countries. The four approaches are:

- State owned fishing and processing enterprises;
- Joint ventures between a private company and a Pacific Island Government;
- Foreign investment companies which are wholly owned or substantively controlled by the foreign investor; and
- Local companies which are owned and controlled by a citizen of the country.

The consultancy will identify the key elements that have contributed to the success or failure of these approaches, so as to provide clear advice to Governments planning the future development of their tuna industry. The work will aim at documenting not only issues related directly to fisheries policy, but also broader aspects including the quality of governance, political stability, the size and role of the private sector, and cultural attitudes to private sector development.

Issues to be considered:

State owned enterprises

Nearly all of the Pacific Island countries have experience of state owned tuna fishing enterprises; and nearly all have failed – often at great cost to the country concerned. Many of these ventures were established during the 1980s, however, and the new generation of fisheries policy makers and officials are not familiar with the history of their short-lived national fishing companies, let alone those of their neighbours.

As well as reviewing the reasons why Pacific Island Governments should not own tuna fishing companies, the study will examine the experience of privatization of fishing enterprises and the strategic alliances formed between state-owned tuna processing firms and international fish trading corporations.

Joint ventures

In the Pacific Islands tuna sector, joint ventures have almost always been a joint enterprise between the Government and a foreign investor. At first sight this arrangement, combining the expertise of a foreign company with the resources and political support of a national government, would seem the ideal solution to the problems faced in many countries in the region that lack a strong private sector. In practice, however, experience with joint ventures has often been disappointing, with the Government partner in particular feeling that they have not received a fair return.

In view of the continuing interest in JVs, with new agreements in Niue, Marshall Islands and Tuvalu, and several other current proposals, the study will focus on whether these arrangements can be made to work better, covering aspects such as the negotiation of the JV agreement, verification of company accounts and the effectiveness of Government nominees on the board. The study should also examine the options for JVs that involve equity held jointly by national and foreign private investors, which may prove to be a more successful approach.

Foreign investment

Nearly all countries in the region have stated the objective of attracting foreign investment as a means of developing their economies. Direct foreign investment has played a key role in the growth of tuna processing in Papua New Guinea, the operation of longline transshipment bases in Micronesia, and the development of longline fishing in Fiji – three of the success stories in the region. Attitudes towards foreign investment in the fisheries sector are equivocal, however, and most countries reserve at least some fishing business activities for their own citizens.

The study will identify the key elements that are important to foreign investors in persuading them to initiate and maintain a viable tuna industry development in Pacific Island countries; as well as the conditions, checks and balances that the host country can put in place to ensure it receives the expected economic benefits.

Domestic investment

As noted above, a number of countries in the region aspire to having a ‘home-grown’ tuna industry, owned and manned by nationals. This has been particularly true in the tuna longline sector, which was considered the most appropriate option for local investors. Several countries require that tuna longliners are owned by companies with all or a majority national shareholding; while others provide preferences for domestic companies in terms of license allocation. These policies resulted in a steady growth in domestic investment in the fishery through the 1990s to about 2002.

The last 4-5 years have seen a downturn in the tuna longline fishery, at least in terms of the number of locally owned boats. Catches by foreign access vessels have also declined over the same period. The study will analyze the causes of failures, and identify the characteristics of the companies that have survived and continue to operate profitably. Government action and policies that can be effective in continuing to secure national economic benefits from the domestic tuna industry – including greater attention to onshore processing – will also be identified.

Methodology

This is primarily a desk study, which will bring together the results of published work on many of the companies that will be used as case studies. It is expected that 2 or 3 case studies will be provided for each of the four approaches. New data will also be collected from people with first hand experience of the different operations, and this may require some travel by the consultant. Other approaches which will reduce travel costs and provide value for money – such as sub-contracting to consultants with relevant experience or paying industry experts for information – will be considered favourably. The study will require a nominal 30 days of work by the lead consultant, with additional inputs as specified in the bid. The bid document should identify the proposed case studies, the sources of information, and the planned travel and sub-contracting.

The study will be implemented by an international consultant with expertise in fisheries economics, management and development. Preference will be given to applicants who have extensive knowledge of tuna fishing and processing in the Pacific Islands over many years, and who can demonstrate a network of contacts in this industry. Access to relevant documents, including unpublished material, will be important for the desk study. Analytical skills, the ability to draw general conclusions from a number of specific case studies, and the ability to write reports in clear English are essential.

Outputs

Within two weeks of contract signature and before starting to compile the report

An agreed work plan based on the bid document, which identifies the case studies to be used, the sources of information on these studies, the criteria to be used in evaluating them, and an outline of the expected conclusions to be drawn from each case.

Within 3 months of contract signature

- (i) A draft report of not more than 20 pages
- (ii) Draft supporting annexes of 2-3 pages for each case study
- (iii) A draft four page illustrated brochure presenting the main conclusions in a non-technical and easily read format (suitable for wide circulation and/or publication in the regional media)

Within two weeks of receiving comments on these drafts

The final version of these three documents in MS Word.

Timing:

The study will commence in February, and should be completed before the end of June 2006. It is recognized, however, that collecting the necessary information may result in delays, and some flexibility will be allowed if necessary.

Appendix B. Illustrated brochure

Lessons Learned – A Review Of Successes And Failures In Tuna Fisheries Development In The Pacific Islands

***A study carried out by the EU-funded DevFish Project to inform
sector policies***

Why have some commercial fisheries enterprises been successful, and others not?

Pacific Island countries have experienced a range of development approaches in the type and structure of fisheries enterprises. Performance has been mixed, but the results have often not been well documented. As a result, the lessons learned from such experience have not been shared between countries in the region; and may even be lost to the country concerned as a result of changes in the leadership and officials over time.

This review has prepared case studies of twenty four commercial fisheries enterprises in eleven regional countries and evaluated the outcomes to enable lessons to be learned as to why there is often such a wide difference in the relative success of these enterprises. The focus of analysis is the four most common forms of ownership model in the regional fishery.



Different ownership models

State owned enterprises

Nearly all of the Pacific Island countries have experience of state owned tuna fishing enterprises (SOEs); and nearly all have failed – often at great cost to the country concerned. Many of these ventures were established during the 1980s, however, and the new generation of fisheries policy makers and officials are not familiar with the history of their short-lived national fishing companies.



Joint ventures

In the Pacific Islands tuna sector, joint ventures (JVs) have almost always been a joint enterprise between the Government and a foreign investor. At first sight this arrangement, combining the expertise of a foreign company with the resources and political support of a national government, would seem the ideal solution to the problems faced in many countries in the region that lack a strong private sector. In practice, however, experience with joint ventures has often been disappointing, with the Government partner in particular feeling that they have-not received a fair return.

Direct foreign investment

Nearly all countries in the region have stated the objective of attracting foreign investment as a means of developing their economies. Direct foreign investment (DFI) has played a key role in the growth of tuna processing in Papua New Guinea, the operation of longline transshipment bases in Micronesia, and the development of longline fishing in Fiji – three of the success stories in the region. Attitudes towards foreign investment in the fisheries sector are equivocal, however, and most countries reserve at least some fishing business activities for their own citizens.

Domestic investment



As noted above, a number of countries in the region aspire to having a ‘home-grown’ tuna industry, owned and manned by nationals. This has been particularly true in the tuna longline sector, which was considered the most appropriate option for local investors. Several countries require that tuna longliners are owned by companies with all or a majority national shareholding; while others provide preferences for domestic companies in terms of license allocation. These policies resulted in a steady

growth in domestic investment in the fishery through the 1990s to about 2002. The last 4-5 years have seen a downturn in the tuna longline fishery, at least in terms of the number of locally owned boats. Catches by foreign access vessels have also declined over the same period.

Enterprise analysis

The twenty four case studies used in the analysis included eight state-owned commercial fisheries enterprises (in six countries); four fisheries joint-ventures (in four countries); five fisheries enterprises involving direct foreign investment (in four countries); and seven enterprises involving domestic investment (in four countries). The study developed and utilized a scoring template that evaluated each enterprise quantitatively for a range of business success related criteria.

The scoring system evaluated each enterprise under three categories:

- Development Outcome
- Investment Outcome
- Enterprise Input Quality

Using this scoring methodology, the maximum overall score from the three categories is 18, and the minimum is 3. Scores for case studies ranged from 4 to 18.



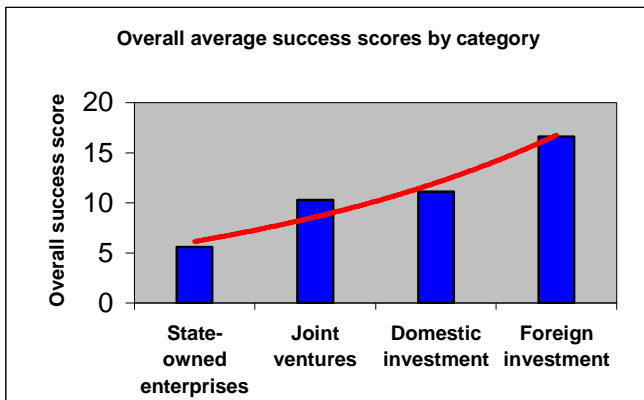
The overall average enterprise score for SOEs was 5.6, the lowest of the four categories. Only one SOE scored above the mid-point in the scoring system (8). In terms of the category scores, using the average figure, SOEs rated “unsuccessful” for development outcomes and “highly unsuccessful” for investment outcomes, and “deficient” for input quality.

The four JVs evaluated averaged an overall success score of 10.3, well above the results for SOEs (5.6), although still the second lowest of the four categories. In the individual categories, the investment outcome averaged 2.0 (“unsuccessful”) also the second lowest after SOEs, despite scoring 4.0 (“mostly successful”) for development outcomes and 4.4 (“mostly adequate”) for input quality. This reflects the typical JV outcome, which is adequate operational results, but inadequate direct returns to investors.



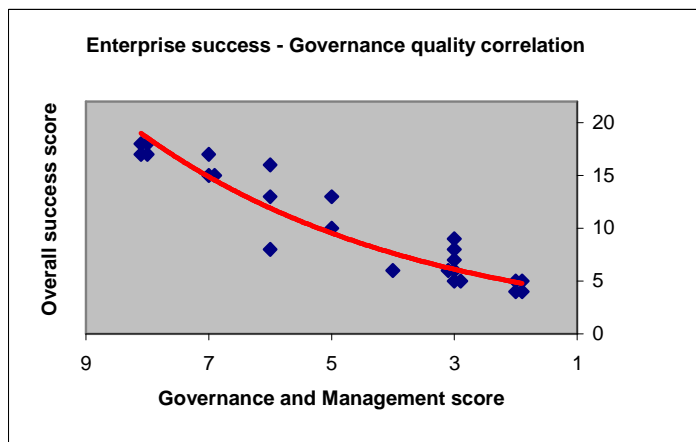
The overall success score of DFI enterprises was the extremely high figure of 16.6, against a possible high score of 18. Particularly notable is that all of the five case studies achieved a “perfect” score of 6 for input quality, and how this correlates to overall successful outcomes. A close correlation was shown between input quality, and particularly corporate governance and management quality, and overall business success. Development outcome at 5.6 (“highly successful”), and investment outcome at 5.0 (“successful”) are also high and outscore the other three categories.

The domestic investment success scores present a very mixed picture, with some of the highest and some of the lowest scoring enterprises. Overall, the average scores are unencouraging: 3.7 for development outcomes (“mostly successful”), 3.1 for investment outcomes (“mostly unsuccessful”) and 4.3 for input quality (“mostly adequate”).



This figure illustrates the progression of success of the case studies, by enterprise category. While there is a linkage between government involvement and enterprise failure, this results from enterprises in which state entities are involved typically having far lower quality inputs (particularly corporate governance and management), not the simple fact of ownership.

This graph shows a correlation between the quality of corporate governance and management and overall outcomes that suggests that whatever the other circumstances of the enterprise, good management and corporate governance is likely to result in good outcomes, whereas poor corporate governance and management is equally likely to lead to failure.



The direct conclusions from the case studies were:

- Enterprise success in any ownership model is directly linked to input quality, particularly corporate governance and management;
- SOEs were found to have a particularly poor record of corporate governance and management input quality, and this is why SOEs have such a poor overall success record;
- Government ownership or participation, of itself, need not result in business failure; it has been poor execution, not an intrinsic failing of this operational model that has been the ultimate cause;
- Some failures, particularly those associated with government intervention, have been compounded by inadequate preliminary studies, resulting in enterprises that could never be commercially viable;
- Joint ventures have been unsuccessful, and should be replaced by alternative operational models, such as strategic partnerships;
- Direct foreign investment, which brings pre-existing technical, financial and marketing skills to an enterprise, without the necessity of joint ventures or partnerships, has proved the most effective vehicle to promote commercial fisheries development in the region; and
- Domestic investment in commercial fisheries, as in other sectors, has been hampered by the prevailing cultural and government environments, and is further compromised by poor business management skills.



Further information

This brochure is based on a report by Peter Philipson, which was commissioned by the DevFish Project. A copy of the detailed report can be downloaded from the internet at www.ffa.int on the DevFish webpage. A printed copy can be requested from: Mr. Jonathan Manieva, DevFish Project, Secretariat for the Pacific Community, P.O. Box D5, 98848-Noumea Cedex, New Caledonia.



FFA



The
Devfish
Project is
funded by
the EU



SPC
Secretariat
of the Pacific
Community

Appendix C. Worked case study examples

Note: In the full case studies, the scoring sheets are preceded by a summary description of the case study enterprise, to provide a background to the scoring process. The extent of this background material varies depending on the nature of the enterprise and its duration, but is usually 2 - 4 pages.

Headings of this summary were:

ENTERPRISE NAME

ENTERPRISE DESCRIPTION AND BRIEF HISTORY

Nature of activities

Ownership

Management

Estimate of external support

ENTERPRISE RATIONALE

WHAT WOULD HAVE HAPPENED WITHOUT THE ENTERPRISE?

Example 1.: A successful enterprise

A: OVERALL DEVELOPMENT OUTCOME

Rating: Select rating, 1 – 6 [6]

1. *Highly Unsuccessful: 5 or less,*
2. *Unsuccessful: 6-7,*
3. *Mostly Unsuccessful: 8-9,*
4. *Mostly Successful: 10-11,*
5. *Successful: 12-13,*
6. *Highly Successful: 14-16*

1. **Project Business Success**

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: 20 years of successful commercial longline fishing operations, with significant profits in the good years and the avoidance of any significant downsizing or retrenchments in the more recent difficult years present a record of outstanding business success in the prevailing difficult [regional country] environment, in any sector.

2. **Economic Sustainability**

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: Underlying economic viability continues to be underpinned by the resource, but with different utilization strategies allowing continued sustainability.

3. **Environmental, Social, Health & Safety Effects**

Rating: Select rating, 1- 4 [3]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: No adverse impacts.

4. **Private Sector Development**

Rating: Select rating, 1- 4 [3]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: Initially, by picking up skilled and experienced crew from failed pre-existing SOE fishing operations and subsequently building on this base to establish a large pool of commercial fishers contributed to significantly to local private sector fisheries development. The high degree of localization is a result of and a benefit from this policy.

The only negative factor, although probably not directly attributable to [the company], is the failure of any of the individuals in this pool to establish their own commercial fishing operations.

B: OVERALL INVESTMENT OUTCOME

Rating: Select rating, 1 – 6 [5]

1. *Highly Unsuccessful: less than 3,*
2. *Unsuccessful: 4,*
3. *Mostly Unsuccessful: 5,*
4. *Mostly Successful: 6,*
5. *Successful: 7,*
6. *Highly Successful: 8*

5. Equity

Rating: Select rating, 1- 4 [3]

1. *Unsatisfactory,* 2. *Partly Unsatisfactory,* 3. *Satisfactory,* 4. *Excellent*

Rationale for rating: Profitable for most of the company's existence.

6. Loan

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory,* 2. *Partly Unsatisfactory,* 3. *Satisfactory,* 4. *Excellent*

Rationale for rating: Originally, it was not possible for [the company] (or any other commercial-scale fishing company) to obtain loan finance from commercial banks in [the regional country]. A first loan was obtained by [the company] through a Development Finance Institution, which was repaid in full. Subsequently, the company has been able to secure local commercial loan finance and has continued to satisfactorily service these borrowings.

C: OVERALL ENTERPRISE INPUT QUALITY

Rating: Select rating, 1 – 6 [6]

1. *Highly Deficient: less than 5,*
2. *Deficient: 6-7,*
3. *Mostly Deficient: 8-9,*
4. *Mostly Adequate: 10-11,*
5. *Adequate: 12-13,*
6. *Strong: 14-16*

7. Overall corporate governance

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory,*
2. *Partly Unsatisfactory,*
3. *Satisfactory,*
4. *Excellent*

Rationale for rating: There has been continuous effective oversight and guidance by the company's Board throughout the course of operations in [the regional country] which has played a crucial role in [the enterprise's] success.

At the same time, Board members have not become involved in day-today issues.

8. Management

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory,*
2. *Partly Unsatisfactory,*
3. *Satisfactory,*
4. *Excellent*

Rationale for rating: Similarly, close, hands-on, day-to-day management by the local Director / General Manager (a person with extensive pre-existing fisheries sector experience) has been essential to effectively implement the policies formulated in conjunction with the Board.

9. Technical

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory,*
2. *Partly Unsatisfactory,*
3. *Satisfactory,*
4. *Excellent*

Rationale for rating: The enterprise has been fortunate that it is located in [a regional country] where a significant range of support services is readily available in-country. In addition, a resident workshop engineer, and the availability (and

funding) to bring in specialist technical people from off-shore when required has been another key factor in operational success.

Company management has also kept meticulous catch records that has enabled the enterprise to adapt and improve fishing efficiency and productivity over the years.

10. Marketing

Rating: Select rating, 1- 4 [4]

1. *Unsatisfactory,*
2. *Partly Unsatisfactory,*
3. *Satisfactory,*
4. *Excellent*

Rationale for rating: Another strong point at [the enterprise] has been the close attention by management to marketing, illustrated by the recent orderly move away from simple air-freight chilled sashimi tuna in a box to Japan, to the much more demanding marketing of value-added products into second and third tier markets (wholesalers and direct to restaurants).

Example 2.: An unsuccessful enterprise

A: OVERALL DEVELOPMENT OUTCOME

Rating: Select rating, 1 – 6 [3]

1. *Highly Unsuccessful: 5 or less,*
2. *Unsuccessful: 6-7,*
3. *Mostly Unsuccessful: 8-9,*
4. *Mostly Successful: 10-11,*
5. *Successful: 12-13,*
6. *Highly Successful: 14-16*

1. Project Business Success

Rating: Select rating, 1- 4 [1]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: The business successfully pursued a growth path over the early years of its life, a path that closely followed the fortunes of the fishery itself. Poor financial management, particularly the failure to consolidate debt against the inevitable downturn in throughput volumes and over-ambitious, unfunded expansion plans left the company vulnerable to a major drop in catches (and the diversion of resources to more prudent competitors), and resulted in failure when that drop in catches occurred.

2. Economic Sustainability

Rating: Select rating, 1- 4 [2]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: Probably a viable business concept, although vulnerable to well managed competitors in times of limited throughput.

3. Environmental, Social, Health & Safety Effects

Rating: Select rating, 1- 4 [3]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: No adverse impact.

4. Private Sector Development

Rating: Select rating, 1- 4 [2]

1. *Unsatisfactory, 2. Partly Unsatisfactory, 3. Satisfactory, 4. Excellent*

Rationale for rating: [The enterprise] played an important role in facilitating the growth of the local fishery, which placed considerable revenues in the hands of the owners and operators over an extended period, although almost all these gains have now been lost, and the credibility of the whole fisheries sector within the local business and banking community has been severely damaged.

B: OVERALL INVESTMENT OUTCOME

Rating: Select rating, 1 – 6 [1]

1. *Highly Unsuccessful: less than 3,*
2. *Unsuccessful: 4,*
3. *Mostly Unsuccessful: 5,*
4. *Mostly Successful: 6,*
5. *Successful: 7,*
6. *Highly Successful: 8*

5. Equity

Rating: Select rating, 1- 4 [1]

1. *Unsatisfactory,* 2. *Partly Unsatisfactory,* 3. *Satisfactory,* 4. *Excellent*

Rationale for rating: All equity lost.

6. Loan

Rating: Select rating, 1- 4 [1]

1. *Unsatisfactory,* 2. *Partly Unsatisfactory,* 3. *Satisfactory,* 4. *Excellent*

Rationale for rating: At the time of cessation of activities [the enterprise] owed significant amounts to local banks and trade creditors, both local and overseas.

Poor lending practices by the local banks, where advances were made far exceeding security held, and in some cases failure to complete legal formalities, compounded the situation.

C: OVERALL ENTERPRISE INPUT QUALITY

Rating: Select rating, 1- 4 [3]

1. *Unsatisfactory*, 2. *Partly Unsatisfactory*, 3. *Satisfactory*, 4. *Excellent*

Rating: Select rating, 1 – 6 [3]

1. *Highly Deficient: less than 5*,
2. *Deficient: 6-7*,
3. *Mostly Deficient: 8-9*,
4. *Mostly Adequate: 10-11*,
5. *Adequate: 12-13*,
6. *Strong: 14-16*

Rationale for rating: One of [the enterprise's] strengths, in terms of having developed a good business relationship with buyers.

7. Overall corporate governance

Rating: Select rating, 1- 4 [1]

1. *Unsatisfactory*, 2. *Partly Unsatisfactory*, 3. *Satisfactory*, 4. *Excellent*

Rationale for rating: Another SME where the same person in both the corporate governance and management roles resulted in ill-advised borrowing and investment decisions being taken without any need for justification to an independent party (the corporate Board) with the power to veto proposals if not justified.

8. Management

Rating: Select rating, 1- 4 [2]

1. *Unsatisfactory*, 2. *Partly Unsatisfactory*, 3. *Satisfactory*, 4. *Excellent*

Rationale for rating: [The manager] was an active and effective manager on a day to day basis, but lacked the experience and business training to direct the company in terms of larger policy and strategy issues, or to recognize the desirability of seeking counsel from those who did have these attributes.

9. Technical

Rating: Select rating, 1- 4 [3]

1. *Unsatisfactory*, 2. *Partly Unsatisfactory*, 3. *Satisfactory*, 4. *Excellent*

Rationale for rating: Good technical back up facilitated by the pool of competent trades persons in [the regional country].

10. Marketing