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STORI BILONG STRET PASIN STOA

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While Napoleon may, with reason and derision, have been correct in referring to the English as 'a nation of shopkeepers', the same could not be said of the indigenous population of Papua New Guinea in the early 1970s. Why was it that these people, with a great tradition of trading in the time before contact with the West, had failed to adopt the new commercialism?

A common feature of the operational guidelines of Development Finance Institutions (DFIs) in the Pacific is a requirement that they actively seek to establish commercial and industrial undertakings which are controlled by the indigenous population. This is an important political objective, particularly in those countries where recent immigrants have been able to gain substantial control over the commercial and industrial sector.

Legislation enacted in 1965 to establish the Papua New Guinea Development Bank* (PNGDB) (now Agricultural Bank of PNG), provided *inter alia* that it might undertake 'the establishment or development of industrial or commercial undertakings'. Initially, this commercial side of Bank operations was viewed circumspectly and investments were restricted to small trade stores, public transport vehicles, and a range of minor semi-manufacturing undertakings.

The years 1973-74 were 'a period of great political and economic significance for Papua New Guinea' (PNGDB Annual Report 1974). Self-government was attained in 1973 and independence seemed to be just over the horizon. An important political manifesto in 1974 was the *Eight Point Improvement Plan* which set as a primary target a rapid increase in the proportion of the economy under the control of Papua New Guinea individuals and groups and in the proportion of personal and property income that goes to Papua New Guineans. In and out of parliament politicians urged the development of schemes that would allow the indigenous community to take over businesses owned by expatriates. The member for Sumkar

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(Bruce Middleton) introduced a motion in parliament which sought to have PNGDB's legislation amended 'to allow the Bank to finance local people into established businesses in the middle sector of the economy' (Hansard 8.3.73). The motion drew some criticism from those who thought it was designed to assist the planter community (mostly expatriates) to emigrate with the assistance of government money, but generally the amendment was regarded as an important step in the localization of the national economy. The Member for Port Moresby (Josephine Abaija) queried 'why rural investments had been particularly singled out in this motion? Town investments are equally important for this type of activity' (Hansard 1973).

Prior to 1973, Papua New Guinea had assisted local entrepreneurs to acquire business enterprises through the purchase of expatriate-owned businesses. This was a cumbersome, protracted and expensive exercise with little progress for a great deal of effort. In late 1973, at the request of the Bank, the Minister of Finance (Sir Julius Chan) successfully amended the PNGDB legislation so that the Bank would provide finance 'for the establishment or development of industrial or commercial undertakings' and was able to fund the 'acquisition (in whole or in part)' of such undertakings. These initiatives set the scene for a major thrust into the localization of an important segment of the commercial sector.

Initially, the Bank encouraged expatriate vendors to facilitate purchases through vendor loans or equity worth at least 40 per cent of the value of the property. Vendors were encouraged to remain in the business to train the new owners. There was strong resistance to this concept and it enjoyed little success.

It was not until 1974 that the management of PNGDB was able to identify a new strategy which would bring a totally new concept to the indigenization of commercial activity. The trigger for this initiative came from Malaysia. In its efforts to assist the *bumiputra* enjoy a greater share of economic activity the Urban Development Authority (UDA) in Kuala Lumpur was assisting native Malays to purchase 'shop houses', or in the PNG jargon 'trade stores', from the Chinese community. This the UDA did by purchasing the 'shop house' from Chinese traders and then selling it through long-term loans to the new *bumiputra* owners.

Hitherto, the two principal constraints to indigenization of commercial activities in Papua New Guinea had been the small size of the trading operations funded by the bank (assets often being worth a few hundred dollars) and the lack of appropriate skills on the part of the indigenous entrepreneurs. These were overcome with the introduction of the '*Stret Pasin Stoa*' concept. Drawing on the Malaysian experience the Bank established Papua New Guineans as trade store operators in businesses which could justify a substantial amount of supervision and which could provide sufficiently attractive returns to the owner. With the backing of the Bank's Board of Directors the first step in the new initiative was to acquire a successful wholesale business, Ocean Trading Company, from a Chinese entrepreneur who willingly agreed to join the Bank's technical staff, using this business as a base to introduce an intensive training scheme for potential trade store owners. In 1974 Ocean Trading advertised for twelve trainee managers to become owner/operators of businesses funded to a value of approximately K40,000 each. Training, over a 12-month period, involved every aspect of trade store operation from clearing stock through customs, to window dressing, mark-ups, staff control, cleanliness and, above all, a careful monitoring of sales, turnover, and stock control. While the training proceeded the Bank was able to negotiate to purchase an appropriate number of Chinese-owned trade stores in good locations with proven turnover records. This task was facilitated by the impending political independence of Papua New Guinea and store owners' apprehension on the part of some store owners as to their future status in the country.

After the formal training period the trainees, with their families to support, were established in individual stores as manager and worked for a year as a member of PNGDB staff operating in the business under the close supervision and control of the Bank's Technical Division. If, at the end of the period, it was demonstrated that the manager had shown an aptitude for his work, the property was 'sold' to the manager on the basis of an evaluation of assets at the time of his original appointment. To this value was added the cost of training and supervision while profits which the operation had earned during the year were deducted. The loan to the owner/operator, which covered sale costs, was secured by the assets of the business and as part of the transfer agreement the new owner was required to retain his links with Ocean Trading as a wholesaler for a majority of his needs and to submit himself to general direction and supervision by Bank staff. Once the loan had been paid, the new entrepreneur was considered to be sufficiently well trained to be able to operate independently.

In order to relieve those responsible for the implementation of the Stret Pasin Stoa project from the constraints imposed by the Bank's normal rules and regulations, a wholly owned subsidiary - Retail Management Services Pty Ltd - has been established. It is the responsibility of this company to negotiate for the acquisition of existing trade store businesses to be sold to Stret Pasin operators or, alternatively, to identify and purchase sites for the establishment of new stores. The normal procedure is for a newly established 'stoa' to be incorporated with its share capital registered in the name of the Bank and RMS Pty Ltd. Loan applications associated with the new corporation are submitted to the Bank on behalf of individual companies for the financing of trade store activities, and loans are at normal commercial rates of interest over a five-year period. In the initial period, store managers are not required to contribute any equity, with loan finance covering the cost of land, buildings, equipment, fixtures and fittings, and working capital. When the trainees are ready to take over the direct operations of an enterprise, that is, after passing the initial test of competence by acting as a manager on the Bank's payroll, one of the two shares initially issued is transferred to the trainee manager. When the whole of the outstanding loan has been repaid the second share is transferred to the manager thereby giving him total ownership of the enterprise. This usually takes place within a five-year period.

The success of the Stret Pasin concept may be judged by the fact that in the middle of 1987 there were sixty-one *stoas* which had been transferred to the sole ownership of Papua New Guineans. At the same time there were thirty-five *stoas* which were classified as under the control of probationary managers. These businesses are to be found throughout Papua New Guinea, perhaps not unexpectedly with Port Moresby having the greatest number. Others are located in New Britain, Madang, Morobe and the Highlands provinces, as well as Milne Bay and East Sepik.

The total capital value of the stoas, both wholly owned by individuals and by the Bank and RMS, is estimated at K25 million. Total turnover for the *stoas* owned by the Bank in 1986 was K14 million: turnover in the case of those *stoas* wholly owned by Papua New Guineans was estimated at K25 million in 1986.

The problems now being faced by the Agricultural Bank of PNG in the expansion of this concept are not so much in the ability to identify entrepreneurs, but in the expansion of foreign-owned trading corporations and the difficulty in finding appropriate sites for the establishment of new enterprises. In a speech to parliament on 29 September 1987 the Minister for Trade and Industry (Sir Julius Chan), referring to policies of his ministry said: 'Another recent initiative concerning the National Investment and Development Authority has been the move to increase localization in business by making all wholesaling operations activities reserved only for citizens or national companies as of 1 August, 1987. That is, only nationals will be able to establish new wholesaling operations, and all such applications by foreign companies will no longer be considered. Retailing is already a reserved activity.'

It is expected that in the expansion of indigenous business activities into the wholesale area, the Stret Pasin concept will be applied with the same levels of success achieved in the retail experiment.