



# The land tenure dilemma in Fiji—can Fijian landowners and Indo-Fijian tenants have their cake and eat it too?

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This paper explores the land tenure dilemma facing Fiji today. It discusses the land lease system recently proposed by the Native Lands Trust Board (NLTB) and the then Interim Government. This analysis is carried out in terms of efficiency, equity and risk-sharing implications of the land tenure system under the Agricultural and Landlord Tenants Act and the alternative two-part rental system proposed under the Native Lands Trust Act (NLTA).

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Land has always been a sensitive issue in Fiji. It has taken on a new dimension since agricultural leases on native land issued under the Agricultural and Landlord Tenants Act (ALTA) began to expire in 1997. A large proportion of these leases are used in Fiji's second most important industry, sugar. The sugar industry is the main commodity export earner for Fiji, directly contributing about 22 per cent of GDP and supporting over 25 per cent of the country's active labour force. Fiji exports 80 per cent of its sugar production, earning an average of F\$250–300 million in foreign exchange annually.

Sugarcane production mainly occurs on native land, with 82 per cent of the 97,046 hectares of land under cane production being leased from indigenous Fijians. By law, native land cannot be bought or sold and agricultural lease conditions have been determined through negotiation by the parties concerned and formalised in ALTA legislation (passed in 1976).

Until recently, agricultural leases on all land—native, Crown or freehold—were governed under ALTA. When the majority of leases began expiring, indigenous landowners strongly indicated their desire



for ALTA to be abolished, or for native land to be taken out of the jurisdiction of the ALTA and for all native land to be administered under the Native Lands Trust Act (NLTA). NLTA was in force before leasing of agricultural lands began under ALTA and its predecessor, the Agricultural Landlord and Tenant's Ordinance. In many instances, the landowners want the land to revert to them for their own use, to be placed in reserve, or to be re-leased under better conditions. The post-coup interim administration, too, foreshadowed a decree to abolish ALTA and for agricultural leases on indigenous land to be offered under NLTA. Different models of tenure have been proposed, including a 'market-based' rental system (for example, a proportion of value of production) and, more recently, a two-part rental system of 'fixed market rent and a percentage of production'. The abolition of ALTA, which was entrenched in the 1997 Constitution, is predictably unacceptable to the present tenants.

This paper explores the land tenure dilemma currently facing Fiji. It discusses the land lease system recently proposed by the NLTB and the Interim Government. This analysis is carried out in terms of efficiency, equity and risk-sharing implications of the land tenure system under ALTA and the alternative two-part rental system proposed under NLTA.

## Background

The sugar industry has been the backbone of the Fijian economy for over a century. The Colonial Sugar Refining Company (CSR) developed the sugar industry in Fiji using Indian indentured labour recruited in the late nineteenth century. Because of the unsuitability or unwillingness of the indigenous Fijians (and other Pacific islanders) to work as paid labourers, indentured labour was used on land either bought or leased from the indigenous Fijians

themselves or the Crown. Until the abolition of the indenture system in 1920, some 60,000 men, women and children arrived from different parts of India to work on sugarcane plantations managed by CSR. After indenture was abolished, CSR offered the 'freed' Indians (or Indo-Fijians) 10-acre (four hectare) parcels for sugarcane farming and encouraged indigenous Fijians to lease their land in similar parcels (Moynagh 1981). There are now 23,420 cane growers, 78 per cent of whom are descendants of Indian indentured labourers. Today, only one of the three mill areas, Penang, has proportionately more indigenous Fijians. Sugarcane is processed by the monopoly Fiji Sugar Corporation (FSC), which took over from CSR in 1978. The Fiji government has 68 per cent equity in FSC.

The industry has expanded to its current level with the support of preferential access to the European Union, which has been the main importer of Fiji's sugar since the 1970s. With the United Kingdom's entry into the European Union, Fiji gained access to the wider sugar market of other EU countries under the Lomé Convention (the Cotonou Agreement since 2000). Under this agreement, Fiji has a quota of 197,000 tonnes, and prices received are usually two to three times the world market price.

Currently, around 80–90 per cent of Fiji's production is exported, with the European Union accounting for 42 per cent on average, with the rest exported to Portugal, Finland and France (under the 1995 Special Preferential Sugar Agreement); and under other bilateral agreements (Table 1).

## Production

Small farms are a characteristic feature of the Fiji sugar industry, with each grower holding on average about 7.1 hectares of land during the 1984–96 period. On average only 4.2 hectares are used for cane cultivation and the rest for growing other crops for subsistence or as a homesite. At any one time,

Table 1 **Sugar exports, Fiji, 1994–96** (kilotons, per cent)

	European Union	SPS	Malaysia	United Kingdom	Japan	Others	Total exports	Total sugar production (kt)	Exports (per cent)
1994	169.0	-	113.4	11.2	143.1	36.0	472.7	516.6	92
1995	193.0	55.4	90.0	10.2	31.5	33.8	358.4	454.4	79
1996	137.6	30.2	90.0	20.0	77.3	55.0	379.8	454.0	84

Source: Fiji Sugar Corporation (FSC), 1999. *Annual Report*, FSC, Suva.

only 25 per cent of the cultivated area was planted with cane, and the rest was under ratoon crops of 3–5 years. Although ratoon crops have lower yield than planted cane, it is more profitable, largely because it requires less labour.

A ratoon crop costs almost 54 per cent that of plant cane, resulting in almost twice the net revenues of plant cane. For an average farm, with 24 per cent of the area under plant cane producing 70 tonnes per hectare, and 76 per cent of the area producing ratoon crop yielding 53 tonnes per hectare (or less), the net return per hectare of cane land is F\$842, assuming an average price of F\$53 per tonne received during 1991–98 (see Lal et al. 2001).

## Native land, cane farming and ALTA

Sugarcane farming is largely reliant on land leased from indigenous Fijians, who 'own' 83 per cent of the land. Only 8.2 per cent of the total land area is freehold, and the remaining 9.3 per cent is classed as state land (Crown land before Fiji became a republic following the 1987 coups). Following a decree issued by the Interim Government in August 2000, state land classified as Schedule A and B<sup>1</sup> has been transferred to the NLTB, extending indigenous Fijians' control to over 88 per cent of the land.

Native land is owned by communal landowning units, mainly at the *mataqali*<sup>2</sup> level. It is 'managed' by the NLTB, a monopoly

corporate entity created in 1940 to facilitate dealings between the CSR and the indigenous owners of non-CSR farms encouraging an expansion of the sugar industry. Since the mid 1960s, the NLTB has managed native land under the terms and conditions of the Agricultural Landlord and Tenant Ordinance (ALTO) and its successor ALTA. It has sole power to enter into a tenancy contract without consultation with landowners.

ALTA was introduced to rationalise the leasing of all Crown, native and freehold land for agricultural purposes. Under the ALTA, the primary role of the NLTB as the trustee of Fijian land was recognised, while also protecting landowners' and tenants' interests. Following revisions to ALTA, all leases granted since 1 September 1977 were for a minimum duration of 30 years. The holders of leases granted before this date (the great majority of which were for a term of 10 years under ALTO) were entitled to a single extension of 20 years under ALTA.

At the expiry of the 30-year lease or the 20-year extension, there is no automatic right of renewal. In the event of non-renewal, the Act states that the tenant must be compensated by a sum equivalent to the value of the NLTB-approved improvements carried out. However, the NLTB could, and has on numerous occasions, refused to pay compensation.

Although many Indo-Fijian cane growers may wish to leave agriculture, they have very



few options because agricultural leases are also used for residential purposes. Even if they could find alternative sources of income, finding residential sites is a real problem when rental accommodation outside of urban towns is almost non-existent. Reddy and Naidu in their recent survey (2000) noted that, given the choice, many growers indicated they were more likely not to renew their agricultural leases, provided they had access to alternative residential sites.

ALTA leases began expiring in 1997 and by 2005 over 80 per cent of leases will expire. Initially the NLTB and the landowners were less inclined to renew leases of existing tenants. Between 1997 and 1999, only 26 per cent of leases were renewed to existing tenants, largely motivated by political reasons (see Lal et al. 2001 for the implications of this on sugarcane production). More recently, the

landowners' attitude has softened and the focus of debate has changed to lease renewal, but not under ALTA.

### Issues with ALTA

The NLTB has proposed, and was later supported by the Council of Chiefs and the Interim Government, that all native land be removed from ALTA and be placed under the NLTA, thus giving greater flexibility in determining terms and conditions of agricultural leases (NLTB 2000). At the core of the alternative system proposed by the NLTB and the Interim Government, and the subject of much recent debate, are two of the main provisions of the ALTA. These relate to land rents received by the NLTB and the landowners, and the duration of the lease (Table 2).

Table 2 Differences in institutional arrangements under ALTA and NLTA

	ALTA	Proposed under NLTA
Lease tenure	Minimum 30 years (de facto maximum)	Rolling 5, 10, 15, 20, 30 years
Basis of rent fixation	6 per cent unimproved capital value (UCV)	Market rent and a percentage of production
Renewability	Non-renewable beyond 30-year maximum/minimum	Renewable subject to NLTB consent Recently renewable with additional goodwill payment to NLTB as well as to the landowners
At expiry—compensation	Value of improvements payable by landowners if approved by them	Compensation to be paid for by the government
Choice of land utilisation	Tenant	Stipulated in the Act
Sub-letting/ sharecropping	Illegal, although common	Possible, but with NLTB permission
Settlement of disputes	By the Fiji Sugar Industry Tribunal	By independent arbitration—a land court has recently been proposed

Sources: Agricultural Landlord and Tenant Act, Chapter 270, Native Land Trust Act, Chapter 134, NLTB 2000; and Amendments to the ALTA and NLTA Regulations (7 June 2001)



Table 3 Land classification and 1997 UCV estimates under ALTA

Land classification	Per cent of cane land <sup>a</sup>	Expected cane yield (tonnes per hectare)	Declared UCV F\$/ha	Rental value = 6 per cent UCV, \$/ha
Class I	0.1	>85	8,000	480
Class II	7.5	50–85	5,000	300
Class III	20.1	35–50	2,500	150
Marginal land	72.3	35<	900	54

<sup>a</sup> based on actual cane yield between 1993–99, from FSC data.

Source: Agricultural Landlord and Tenant Act, Subsidiary Legislation Chapter 270 Rev. 1985: S7–8; 1997 UCV estimates provided by Sugarcane Growers Council.

ALTA restricts the rental amount that can be levied by the landlord to 6 per cent of the unimproved capital value (UCV). The UCV is supposed to reflect the potential agricultural productivity of land (see Table 3) and the 'purpose for which the land is issued and not the actual use of the land or any other purpose for which the land could be used' (Agricultural Landlord and Tenant Act S21.3). The government-appointed valuation committee is expected to use recent market sale prices as the basis for the UCV, and subtract from it the value of improvements on the land and an amount equivalent to the value of timber that may have been cleared at the time the land was first put to agricultural use.

However, the land market in Fiji is very thin, particularly as sale of native land is prohibited except to the Crown for limited national purposes. As a result, the UCV has been estimated using past sales of freehold land, Crown leases or native leases, and renewed every five years. The UCV has been revised only three times since the first valuation in 1977 with the most recent revision in 1997. As expected, nominal rent has increased over time. The magnitude of increases has been a cause of concern for the tenants. The period between 1977 and 1987 saw the highest increase in UCV—540 per

cent. In real terms (in 1996 dollar terms), the increase was 240 per cent, but starting from a low base.

In the estimation of UCV, a great deal of discretion was applied by the NLTB, frequently using an incorrect and inappropriate methodology. Such inconsistencies in estimation and the use of formulae not stipulated in ALTA may explain why many rent-dispute cases were brought before the Tribunal, often resulting in the rental value being reduced. Such Tribunal rulings have been used recently by the Fijian landowners and the interim administration to argue that ALTA is not in the landowners' interests, adding to concerns that the rent received by NLTB has been unfairly low (World Bank 1995; Davies 1999).

Further discrepancies become apparent when one considers UCV-based rental value for each class of agricultural land, which ranged from F\$54 per hectare for marginal land to F\$480 per hectare for class I, when the average yield of marginal land was a bit more than one-third of that produced on class I. The 1997 UCV-based rent, expressed as a percentage of gross value of production (GVP), ranges from 3 per cent for marginal land to 11 per cent for class I (Table 4). Taking into account the weighted average of rent payable as a percentage of weighted average



GVP per unit area,<sup>3</sup> the UCV-based rent is only 3.4 per cent of weighted GVP. This is comparable to the 3 per cent figure often quoted by the interim administration and Fijian landowners (Davies 1999). However, they have failed to note that one of the reasons for the low rent is because much of the land (92 per cent) is either marginal or Class III, producing less than 50 tonnes per hectare. Production costs of these farms are higher and gross returns less costs, excluding returns to land and management, are less than half of the Class I and II land (Table 4). UCV-based rent, as a percentage of gross value of returns, varies from 10.6 per cent of Class I land to 2.9 per cent for marginal land. But as a percentage of net returns, households growing cane on Class III and marginal land paid over 45 per cent as rent, whereas Class I and II growers paid about 23–27 per cent. Net return is less than F\$2,000 per household for farms on marginal and Class III land, when Class I growers' annual net income could be over F\$7,000.

#### Fixed UCV plus 'goodwill' payment

In addition to fixed-lease payments made by the tenants to the NLTB under ALTA, tenants have been known to pay a 'premium' or

'goodwill.' Although illegal, it has been reported that about 86 per cent of farmers have provided either one-off or some regular but varying levels of 'goodwill' payments to local landowning units. A standard goodwill payment, prior to about 1997, had been a year's rent and at times other payments were demanded periodically. This was in addition to the land rent deducted at source by the FSC before cane proceeds were paid out to farmers. In the case of non-payment, tenants were threatened with non-renewal of leases, and some cases violent confrontations were reported. Until recently, this payment was often not acknowledged.

More recently, as expired leases were considered for renewal, the NLTB introduced a New Lease Consideration (NLC) fee, variously called 'goodwill' or a premium. According to the NLTB, the NLC is intended to reflect 'the value of improvements on the land at the date of expiry' and 'landowners goodwill to again give up their exclusive possession' of land (NLTB 2000). It has also been argued that it reflects opportunity forgone by landowners, or landowners recouping the 'true value' of their land.

The NLC levied by the NLTB appears to be on an *ad hoc* basis, with estimates of fees

Table 4 Rent payable under ALTA by land class and rent as a percentage of GVP, 2001

Class type	Yield range (t/ha)	Total costs (F\$/ha = F\$37.70)	Gross revenue (F\$53.09/t)	Net revenue (F\$/ha)	UCV-based rent, 1997 (F\$/ha)	Rent (% of GVP)	Rent (% of net returns)
Class I	>85	2,732	4,513	1,781	480	10.6	27.0
Class II	50–85 (70) <sup>a</sup>	2,440	3,716	1,277	300	8.1	23.5
Class III	35–50 (42) <sup>a</sup>	1,894	2,230	336	150	6.7	44.6
Marginal land	<35	1,757	1,858	101	54	2.9	53.5
Arithmetic average	59	2,206	3,079	874	246	8.0	28.1
Weighted average	39	2,726	2,968	243	101	3.4	41.5

<sup>a</sup> average yield used in rent calculation

Source: Lal, P., Lim-Applegate, H. and Reddy, M., 2001. *ALTA or NLTB. What's in the name—land tenure dilemma and the Fiji sugar industry*. Discussion Paper, ALTA Task Force, Lautoka.



ranging from F\$2,000 to F\$22,000 per lease.<sup>4</sup> There is no apparent pattern in the payments paid. For example, the range of goodwill paid for Class I land is between F\$600 and F\$9,900 per hectare (with 50 such renewals noted in 1999), whereas for Class II land the goodwill amount ranged from about F\$300 to F\$10,300 per hectare (30 leases) and for Class III land, it was F\$860 to F\$1,730 (only two leases). The average goodwill paid to the NLTB is F\$7,600 per lease or F\$3,300 per hectare.

Landowners have also directly charged a goodwill fee for consenting to lease their land. This is in addition to the goodwill payment levied by the NLTB. This additional goodwill has been in the order of F\$500–1,500 per hectare. These payments could be seen to reflect a proportion of monopoly rent extracted by the landowners and the custodian, the NLTB. In December 2000, the NLTB agreed that, whereas previously they required a letter of consent, this would no longer be required for renewal of leases. This may perhaps have discouraged some landowners from extracting additional goodwill payments but, despite this, goodwill payments to landowners continue.

A conservative figure of F\$15,000 total goodwill charges levied by the NLTB and the landowners, plus an average UCV-based rent charged under ALTA, gives an average market value of F\$20,916 for a 7.1 per hectare block.<sup>5</sup> This figure gives an average annual rent of F\$174 per hectare or about 7 per cent of the weighted average gross value of product (GVP) of F\$2,401 per hectare. Considering the productivity of different land classes and the additional goodwill payments to the NLTB and the landowners, and leases in perpetuity, annual rent equivalent has been in the vicinity of 14 per cent of gross value of product for Class I, to 10 per cent of GVP for marginal land. Although no consistent pattern can be observed (Lal et al. 2001), in the 2000–01 period, the NLTB and *mataqali* owners would have obtained over F\$21 million in goodwill payments, if all 1,542 leases expiring in that

year were to be renewed with goodwill payments.

Despite such increases in rent, dissatisfaction on the part of landowners is likely to continue, since individual members of each landowning unit see only a small fraction of the rent collected, as well as discontent with the manner in which NLTB carries out its activities.

### **Dissatisfaction with the role of the NLTB**

Discontent with the NLTB is 'widespread and longstanding' (Nayacakalou 1971:209; Ravuvu 1983; Davies 1999, 2000). In the minds of (mainly non-chiefly) members of *mataqalis*, the NLTB has not always been seen to act in the interests of indigenous Fijians. Recently, one landowner articulated that '[the] NLTB were not owners of the land' (*Daily Post*, 20 August 2000) and criticised the manner in which it makes decisions about land, arguing that the Board showed insensitivity to Fijian protocol. The NLTB is not legally obliged to consult with landowners on renewal or issuance of leases, as section 4(1) of the NLTA vests control of all native land in the NLTB, and states that individual landowners have no right or capacity to be involved in the leasing of their land.

It seems to be mainly the heads of landowning units who are arguing for the continued role of the NLTB, particularly as they gain disproportionately from the existing system. Heads of landowning units receive 22 per cent of the gross rent collected, whereas the remaining members of landowning units (the actual numbers are not known but could range from hundreds to more than 1,000) divide among themselves 52 per cent of the rent. In some cases, what each landowner receives may not be sufficient even to buy the local newspaper (Davies 2000). Many have also been unhappy with the 25 per cent of the rent taken by the NLTB for its administration. In 2001 this figure has been reduced to 15 per cent (Lal et al. 2001).



Discontent with the NLTB could explain why many landowners have opted to negotiate leases directly with potential tenants and independently of the NLTB, entering into 'tenancy at will' or *vakavanua* tenancy outside of ALTA.

### Vakavanua

*Vakavanua*, or customary arrangement, in the cane belt area was traditionally used by some landowners to allocate land in culturally appropriate ways to Fijian migrants from other areas. Recently, landowners have entered into *vakavanua* or tenancy at will, to bypass the NLTB and/or what is permitted under ALTA. In the cane belt, only 7.7 per cent of all native leases are recorded as *vakavanua*. In terms of actual area cultivated, *vakavanua* leases accounted for only 5 per cent. These figures are likely to be under-reported as such arrangements are illegal under ALTA and thus often not formally reported or recorded. The NLTB, too, discouraged direct negotiations with potential tenants, as any freeing up of the leasing market would directly result in a drop in the income of NLTB and of many chiefs. In a tobacco growing area near the Nadi airport, 72 per cent of growers surveyed reported growing tobacco under *vakavanua* arrangement (Eaton 1988).

Although illegal, both landowners and tenants have indicated that *vakavanua* is in their interest. Fijian landowners retain control. The rents are higher rent, with Eaton (1988) reporting almost ten times the NLTB set lease value for land used for tobacco farming. Landowners do not share the rent with the NLTB, which almost doubles the landowners' returns. Where Fijians with *veimada* (fallow) rights are involved, land rents may not be shared with other members of the *mataqali* (Ward and Kingdon 1995). Moreover, Fijians can also lease their land for periods shorter than the 30 years stipulated under ALTA.

While *vakavanua* entails uncertainty in tenure renewability and in some cases with

much higher rent, Indo-Fijians also see some advantages from this arrangement. They can make arrangements more quickly through private negotiation and can access higher-quality land—land that has been put into reserve and which cannot be leased to non-Fijians. Often land newly released by the NLTB is of poor quality. It is understood that *vakavanua* tenancy may involve fixed lease payments, with or without goodwill payments, or share cropping on terms that could be exploitative.

### Market rent

The NLTB and the landowners have been asking for 'market rent', although what is understood by the term varies. The NLTB and the Interim Government have asked for rent to be based on a percentage of gross value of production so that the landowners can also receive a share of the European Union subsidy. In June 2001, the Interim Government proposed a two-part rental system plus a rolling 5, 10, 15, 20 or 30-year lease, with leases considered for renewal half-way into the lease.

The two-part rent to be levied is market rent and percentage of production. This suggests a system that could extract more than market rent. Ideally, market rent will reflect expected returns net of all costs, including returns to management. The expected net return is equivalent to the net return, after consideration of the probabilities of the various states of the environment and market conditions. Thus, the land price would reflect all the uncertainties in expected annual returns due to uncertainties in prices, input costs and climatic variability. Rental value thus reflects what the tenants are willing to pay, and this would reflect the maximum expected net returns to land (Barlowe 1979; Pagiola 1999).

Therefore, desire of the landowners to obtain market rent cannot be faulted. When land rent charges capture the expected resource rent the tenants' incentive structure



is also optimal. They will invest their labour and capital until the expected marginal benefit just equals marginal cost, thus achieving Marshallian efficiency.

A rental system based on a 'percentage of product' can also reflect market rent, provided rent is based on a gross value net of all returns, including returns to management. However, since cane production in Fiji is based on family farms, returns to management is not observable, and therefore almost impossible to estimate. In such a circumstance, a share of returns to land and management would be a second-best option.

If rent is based on a percentage of gross value of production, landowners and tenants will share risk in yield and price fluctuations between tenants and landowners. Tenants will still bear all the risks associated with changes in other input prices. Under this system, Fijian landowners will be subject to greater risk, compared with the existing system of a fixed per cent of UCV.

Another point of difficulty is determining the most appropriate percentage of production for levying land rent—there is no universally acceptable rate. In the United Kingdom, rent is based on 3 per cent of GVP, although since it joined the European Union, the United Kingdom's agricultural land rental value has increased to 10–15 per cent of GVP (Ravenscroft et al. 1999). In South Africa, tenants paid 10–15 per cent (Lastarria-Cornhiel and Melmed-Sanjak 1999). On the other hand, 13 per cent is charged in Belgium, and 10 per cent received for cane land in Queensland.

In Fiji, land rent has ranged between 3–11 per cent. Taking into account a one-off goodwill payment and assuming that the lease is renewed in perpetuity, rent as a percentage of GVP has been in the range of 10–14 per cent, a figure that is within the range applied in other countries.

If the tenure were for a shorter period, as is being currently being proposed with a 5–15 year term being preferred, and goodwill

was charged each time the lease was to be renewed, the amount of rent extracted in the future will depend on the duration of the tenure. Thus, for example, if the lease is renewed for 15 years, an average tenant will be paying an additional rent equivalent to 15.5 per cent of the weighted average GVP or a rental amount in the range of 16–20 per cent GVP.

Therefore, the proposed rental system based on market rent plus a percentage of production would be equivalent to double dipping, and could be regarded as repressive, inefficient and even feudal. In the case of marginal land, such high rental value would mean that for households on marginal lands, income level could be more than halved, putting many households below the poverty line.

## Options for the future

In an ideal world, by decorporatising the NLTB and removing all bureaucratic control over land and land use, land through market mechanisms will be allocated to its highest use and efficiency will be maximised. As argued by Kasper (2001), each landowner could then make informed decisions weighing benefits and costs of alternatives, and efficiency in resource use can be maximised. However, this assumes that landowners do not collude, no one has unfair 'market power', and there are no rigidities in the system increasing transaction costs of negotiation and market transaction. The reality in Fiji cannot be more different.

As discussed earlier, 88 per cent of all land is owned by the indigenous Fijians and native land cannot be sold. Land is managed by the monopoly body, the NLTB specifically designed to act as custodians on behalf of Fijians. The monopoly control of the NLTB is not likely to be loosened since chiefs who serve on the Board and the Council of Chiefs have vested interests in protecting the *status quo*. Moreover, Fijian landowners through



their Council of Chiefs usually collude when it comes to land matters. Indo-Fijians, although comprising 77 per cent of all cane growers, have little political power as a group and have little say in decision-making processes, as the recent coups have shown. The majority of Indo-Fijians live in rural areas and have access to less than 12 per cent of freehold land, along with other Fijian citizens. Thus, they have little choice other than to enter into some form of lease arrangement for residential and/or agricultural (or other) use. Moreover, with sugar as the backbone of the Fiji economy, and 83 per cent of cane grown on native land, any distortionary decisions made about land tenure will have far-reaching effects throughout the economy.

Recognising that the communal system and the NLTB are here to stay, alternative

institutional arrangements need to be found that encourage efficiency in land use as well as an equitable rental system. To improve efficiency in the use of land, and the potential of landowners to maximise their returns to land, homestead sites should be separated from agricultural leases. When families are not reliant on agricultural leases for residential purposes, they are likely to leave cane farming, particularly when their opportunity cost of staying on the farm is higher than the net returns expected from cane farming and when they have sources of off-farm income. This would encourage tenants whose leases are expiring to leave agricultural farming if they so wished. This would also help alleviate the pressure on agricultural land. Those wishing to continue sugarcane farming may also be able to obtain additional blocks of land. This may encourage

**Table 5 Economic implications of, and incentives for, soil-conservation practices under alternative rental system**

Rent formula	Tenants	Landowners
Per cent UCV—no theoretical basis	Bear all risks. No incentive for soil conservation unless tenure is long term	Secure income and no risks
Per cent GVP—a second-best option	Share output and revenue risks Bear all production costs risks No incentive for soil conservation unless tenure is long term	Share output and revenue risks
Market rent plus a percentage of production (currently proposed)	Pay more than market rent Bears most of production risk No incentive for soil conservation if land tenure is short	Obtain monopoly rent, affecting efficiency and will distort the economy Will bear some risk, depending on what percentage GVP is used Long-run loss in productivity
Per cent of returns to land and management	Equal share in output, revenue and production costs risks No incentive for soil conservation unless tenure is long term	Equal share in output, revenue and production costs risks
Resource rent—ideal system	Share output, revenue and production costs risks No incentive for soil conservation unless tenure is long term	Share output, revenue and production costs risks



growers to adopt new technologies and take advantage of potential economies of scale.

Landowners will also be better off. The residential and agricultural land market will be separated and the supply and demand of land for the two different uses will determine their respective 'market clearing' prices. The lease value of agricultural land is more likely to reflect the expected net returns from the use of that land than is the case under the current system. Landowners are more likely to be able to obtain higher rental value for the residential leases. At the same time, access to residential plots in rural areas could help prevent urban drift and associated problems.

Another important challenge facing Fiji is the negotiation of the most appropriate system of land rent. Each of the two options, to renew land under ALTA or NLTA, has limitations in terms of efficiency, equity, risk sharing and incentives for proper land management and soil conservation (Table 5).

A rental system based on the actual market value of land, which is equivalent to the present value of expected annual net returns to land, encourages the most efficient use of resources, provided the duration of tenure is long term. This assumes that there is no sovereign risk from landowners demanding additional goodwill payments, as has been the case in the past. Since goodwill payments have been formalised by the NLTB, the annual rent plus the annualised goodwill payments should be no more than the expected returns to land. Long-term efficiency can be maximised, provided there is a built-in mechanism for the level of rent charged to be responsive to market conditions and the rent amount is allowed to vary with changes in the profitability of the land use activity.

In the absence of a well-functioning land market, rental value in the short term can be based on the value of gross returns net of all input costs, including management, or the resource rent. For such a system to work in

Fiji, a transparent system would need to be established involving all the stakeholders, landowners, growers, millers and the government. The land tenure system must reflect the true expected return to land possible from the use of the land, be it under sugar production or other crops. In such a system, leases should be sufficiently long to provide adequate economic incentives to farmers to invest in appropriate farm management practices that maintain and improve land quality.

Operationally, the rent payable should be based on freely available real time data. Currently, only the FSC has access to grower data and time series price information. There is, however, no real time cost data regularly collected in Fiji that could be used to estimate the resource rent equivalents for the different classes of land. It is understood that the FSC annually collects input and output data on an annual basis from a limited number of growers in each sector, but these records are reported to have gone missing.

Such data need not be collected for the whole grower population but a well-structured, stratified sampling technique would suffice and SCOF could compile/maintain such as a database that could be shared by the FSC, the Cane Growers Council (representing the growers), and the NLTB (representing the landowners).

A short-term measure, a rental value based on a per cent of GVP, could be used until detailed cost data are obtained. The appropriate percentage of GVP would need to be agreed by landowners and tenants; current land rents on average, as seen above, are equivalent to about 3–14 per cent of GVP. Taking into account the goodwill payments, land rent paid recently has been equivalent to about 16–20 per cent of GVP.

### **Sharecropping as an alternative option**

An alternative land tenure option that has not been explicitly considered is sharecropping. Although many studies have



indicated a loss in efficiency in sharecropping relative to owner-operated farms (Shaban 1987; Binswanger et al. 1993), sharecropping could provide an efficient option if there is equal distribution of risks and rewards by sharing returns as well as costs (Johnson 1950; Heady 1971). In Fiji, sharecropping has been practised under the *vakavanua* arrangements, although the extent of sharecropping is not known. As noted earlier, FSC grower data indicates only 7.7 per cent of cane growers (but 5 per cent in area) are currently farming under this arrangement.

It is not surprising to find sharecropping in Fiji between indigenous landowners and landless Indo-Fijians. Binswanger and Rosenzweig (1984) note that distortions in, or an absence of, markets for land, and the presence of non-tradable inputs and asymmetrical information, may encourage sharecropping. In the case of Fiji, Fijians also lack human capital, management skills and capital to purchase livestock and farm equipment. This also encourages them to enter into sharecropping where Indo-Fijians provide these inputs plus some labour in return for a share in the farm output. The landowners and tenants have generally shared the value of production on an equal basis, similar to what is practised elsewhere in the world (see Otsuka et al. 1992).

At times, Indo-Fijian leaseholders have also entered into a sharecropping arrangement with other Indo-Fijians, particularly when family labour is unavailable for working on sugarcane farms, or when Indo-Fijians establish separate households after marriage where existing leases held by their parents can no longer support another family. In many cases, with the availability of few alternative employment opportunities and residential sites to rent in rural areas, sharecropping is seen as a way to obtain a dwelling and to provide subsistence living for their families.

Such sub-letting of leases is informally carried out with the leaseholder receiving one-third of GVP, with two-thirds accruing to the sub-tenant. In this case, the tenant and sub-tenant share in the risks associated with the output in the ratio of 1:2, whereas the sub-tenant bears all the risks associated with input variability. Other forms of sharecropping in Fiji include where a farmer negotiates to pay a fixed sum annually, after taking out a 'crop lien'. Farmers may also take out a short lease to grow a crop for a fixed rent, and vacate the land once the harvest is completed. There is no security in such arrangements, and the sub-lessee is often not wholly reliant on agriculture for income and/or as a homesite.

Sharecropping has not been considered as a serious option in Fiji, partly because of the bad reputation sharecropping has had in the past. Appropriate protections for the tenants and landowners must be in place and inefficient outcomes can be minimised, provided both share-farming and fixed rent contracts are available (Otsuka et al. 1992).

Regardless of the system of land tenure Fiji adopts, it will not resolve the issue of the sharing of the rental income between the NLTB, the chiefs and the members of the landowning units. This is an issue that only indigenous Fijians can resolve. Moreover, whatever rent-sharing formula they settle on, the Fijian hierarchy must accept that the NLTB has to improve its consultative process and increase its administrative efficiency. The NLTB has to become more accountable to its stakeholders, the indigenous Fijian population, and not expect the Fiji government to bail it out regularly.

It does not matter whether land is leased under ALTA or NLTA, the landowners and the tenants can have their cake and eat it too provided the land tenure system encourages efficiency in resource use and equitable sharing of returns to land and management between the tenants and landowners.



## Notes

- <sup>1</sup> In Fiji's precolonial period, resources were owned by different units of Fijian society; *vanua*, *mataqali* or *itokatokas*. *Vanua*, the largest unit, consisted of 'agnatic descendants of common ancestors or ancestral gods living in the same area.' Each *vanua* would have one or more *yavusa*, the members agnatically related. A *yavusa* comprised several *mataqalis* whose members were in turn related to the descendent of their *yavusa*'s founder. One or more extended families, *itokatoka*, form a *mataqali* (Ward and Kingdon 1995). The British colonial government that formalised land ownership in Fiji recognised communal ownership at the *mataqali* level.
- <sup>2</sup> Schedule A: native land reverted to the Crown after the demise of the *mataqali*. Schedule B: land over which there was no *mataqali* claims at the time of land registration.
- <sup>3</sup> The weighted average is calculated from the GVP for each land class multiplied by the proportion of land in the different classes as in Table 3.
- <sup>4</sup> These estimates have been derived using the loan, equivalent to 90 per cent of the New Lease Consideration fee, approved by the Sugar Cane Growers Fund to growers who have been in cane farming for at least three years, and who could provide a deposit of 10 per cent (Sugar Cane Growers Fund, personal communication, February 2001).
- <sup>5</sup> The weighted average rental payment estimated using a UCV-based rent for each class of land and the distribution of land in each class is F\$50 per hectare. The figure of F\$20,916 is derived by adding F\$15,000 plus the present value of annual rent of F\$50 per hectare or F\$355 per 7.1 hectare farm in perpetuity at 6 per cent interest.

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