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**TONGA CO-OPERATIVE
FEDERATION LIMITED**

TUNGI ARCADE BOX 71 Box 110 Nuku'alofa TONGA CABLE ADDRESS	NEIAFU VAVAU TONGA CO-OPFED NUKU'ALOFA CO-OPFED VAVAU CO-OPFED HA'APAI	PANGAI HA'APAI TONGA
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QUARTERLY REPORT NUMBER 2

FOR THE THREE MONTHS ENDED 30 JUNE, 1982

UNDER	:	O.P.G. GRANT NO. AID - 879-0251-6-00-7013-00 TO AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL AND BRITISH OVERSEAS DEVELOPMENT ADMINISTRATION AID TO THE FEDERATION 1982 - 1984
BY	:	JOHN G. KREAG - ACDI - SECRETARY/MANAGER DAVID RUSHTON - ODA - FINANCIAL MANAGER
DISTRIBUTION	:	COOPERATIVE DEPARTMENT 3 USAID 6 BRITISH HIGH COMMISSION 6 ACDI 3 COOPERATIVE FEDERATION <u>18</u> <u>36</u>

INTRODUCTION:

The Tonga Cooperative Federation is now well into its expansion program with assistance from many sources, both local and overseas. For detailed information on this program see the "Introduction, Background and Federation Activities" sections on pages 1 - 3 of the First Quarterly Report. This report will emphasize activities during the quarter ended 30 June 1982. This was a period when the Federation's activities began to pick up. New employees were hired, wholesale, vanilla, and handicraft activities showed significant improvements. This reflected our planned approach to improve former activities of the Federation before pushing development of new programs. Mr. David Rushton, ODA Financial Manager, arrived on 28 May, 1982. He brings strength to the accounts section at a time when new activities require a person with his experience.

The following sections detail activities in their specific areas:

WHOLESALE ACTIVITIES:

The major purpose for which the Federation ^{was} originally established was to serve as an importer and wholesaler of consumer goods sold by primary societies. It is considered essential to re-establish this link as a first step in strengthening both the Federation and primary societies. Marketing of farm produce and farm supply sales can later be developed to flow through the primary's to and from the Federation. Very simply there are three aspects to building the wholesaling business:

1. Buying Goods
2. Selling Goods
3. Making a Profit

Buying of goods was initiated through arrangements with local wholesalers to buy at a discount from normal wholesale prices. These arrangements allowed us quicker re entry into the wholesaling business at minimum stocking levels, but with a reduced gross profit. At the same time we began seeking out overseas suppliers. Extreme care was taken to assure that overseas suppliers selected could provide goods at very competitive prices. All local purchases were made from locally owned businesses. While many of the items first purchased will eventually be purchased from overseas, we expect that many of the smaller volume items will continue to be purchased at a discount from locally owned businesses. This should contribute to their development. In addition we are also buying two locally manufactured products, cabin biscuits and laundry bar soap. Sales began to take off as we had merchandise to sell. Initially we hired a truck to make deliveries to cooperative societies. This also served to let the cooperatives know that we were back in business and customers began to come to the warehouse. The truck donated through the Canadian Aid Program arrived in May and allowed us to expand our deliveries to four days a week. Each cooperative on Tongatapu now receives delivery service twice weekly. Cooperatives from the nearby island of 'Eua also began to patronize the Federation after a trip there by Bernie Lovitky. Vava'u activities increased as more goods were ordered and sent there. It is expected that Vava'u sales will increase substantially when delivery service is initiated in the third quarter. A principle factor in the development of the wholesaling has been the hard work and past experience of Bernie Lovitky, a Peace Corps Volunteer working with the Federation.

Making a profit, "the bottom line" is of course essential for the Federation to be successful. June sales proved we can do the volume of business necessary to be profitable. Initial activities were of necessity expensive in relation to sales. The Gross Profit margin of 6% will increase to around 10% as more high volume items are purchased from overseas. Present indications are that wholesaling activities will be close to break even in the third quarter and profitable thereafter. This will be significantly ahead of project projections.

VANILLA MARKETING:

The vanilla season started almost two months later this year than last. This is a very good indication that the vanilla industry is beginning to mature. We strongly supported efforts by the Ministry of Agriculture Fisheries and Forestry and the Commodities Board to delay the start of the picking season until the beans were mature. With the imposition of a grading system for green beans, which we also rigidly enforced, farmers began to pick the beans one by one as they matured. The cooperatives also adopted the hot water dip method of starting the curing of the vanilla. This method saves about three weeks in the curing process and reduces the number of split beans. The result of these changes will not be known until final sales are completed but we expect that primary societies will achieve much better curing ratios with better quality beans this year. Both of which mean more money to the farmers. We believe that this will result in significant improvements in returns to farmers. While the volume of vanilla beans cured by cooperatives is expected to be only slightly lower than last year our percentage of the total vanilla crop is expected to drop from 70% to about 50%. This is due primarily to the decision of the largest vanilla cooperative to discontinue purchasing non-member beans. This is part of their effort to improve their curing by relieving overcrowded conditions. They expect to significantly improve their curing ratio this year thereby increasing returns to their member farmers. While the Federation hates to lose the business, we believe that higher returns will be achieved and will in the long run attract far more members.

Bank financing for the purchase of green beans by member societies was obtained by the Federation this quarter. In addition, with the probable delay/elimination of the Frim Development Bank loan for the Vanilla Industry, the Tonga Development Bank has stated that it will be able to make loan funds available for Cooperatives to build new curing sheds. As many as 7 - 9 societies will build new curing sheds before the next curing season. In June letters were sent to a number of potential buyers of vanilla seeking markets for this year's crop.

Indications are that while Hurricane Inaa damaged the vanilla crop principally by breaking beans and vines the total crop for the country will be higher than last year. Improved care and new plantings which are beginning to bear are more than offsetting losses to Inaa.

The Federation also imported 500 black blankets which were all sold. These blankets are an important ingredient of proper curing that has not previously been used by the cooperatives. Beans are left in the sun on the blankets during the day. The black color helps to absorb the heat and raise the temperature. At night the beans are wrapped in the blankets to retain the heat so that the curing process can continue.

We believe that this year's vanilla will be much better than in the past. As a result efforts will also be made to market some of the best non-split vanilla as premium beans for the whole bean market. To encourage cooperatives to strive for such quality the Federation has offered to pay \$2.00 per pound extra for up to 220 pounds of such beans to be marketed locally.

The 1982 vanilla export license was obtained by the Federation allowing export of up to 10 tonnes of vanilla grown by members of cooperatives.

FISH MARKETING:

In May the Federation was granted permission to operate the Fisheries Department and Foundation for the People of the South Pacific Freezers and Ice Making Machines in Vava'u. Efforts are underway to recruit persons to manage the facilities. Initially freezer use will be on a rental basis to fishermen continuing the present practice. However, as soon as funds and staff are available the Federation intends to start buying fish, particularly for sale in Nukunono but also for export. Ice making operations will continue as in the past.

The ice making machine destined for 'Eua is still awaiting spare parts. The parts have been ordered by the Fisheries Department who have promised to repair the machine. The Federation will then install and manage the operation on 'Eua.

Fish marketing activities were not given as high a priority during this quarter as vanilla and wholesaling activities. This was because the other activities offer more potential for restoration of the viability of the Federation in the short run. Fish marketing is seen as a very attractive activity over the long run but will require a lot of time and money as it develops.

HANDICRAFT MARKETING:

The "Tonga Chronicle" article which appeared on July 16, 1982 included as Appendix D tells most of the handicraft story for the quarter.

During the third quarter we expect to hire a local person to manage the handicraft operations as Elizabeth Evans, the Peace Corps Volunteer who has been very active in developing this activity will complete her two years in October. We hope to obtain another Peace Corps Volunteer to work for about one year to further establish this section.

In Vava'u the Commonwealth Fund for Technical Cooperation has recruited a person, Mr. Kevin O'Connor, to work for a year to develop the handicraft industry in the outer island groups. The Federation will work very closely with Mr. O'Connor to develop the business through our Vava'u Branch.

In general the Federation is seeking a 25% Gross Profit Margin to cover expenses. Occasionally higher mark-up are tested. When successful higher prices will then be paid to producers on our next purchases from them.

INSTITUTIONAL DEVELOPMENT:

In general, institutional development is progressing satisfactorily. During the quarter 5 additional local employees were hired. (Appendix A) At least as many will be hired during the third quarter.

Sales have now increased to a level that proves that the Federation can be viable. In the August Management Committee meeting the needs for higher level employees at competitive and attractive salaries will be presented. Hopefully they will approve the hiring of a manager for all Vava'u operations. A similar level person for Tongatapu will be requested to work in the development of the wholesaling activities.

The Management Committee met in May, the minutes of that meeting are included as Appendix E. The Vava'u committee held monthly meetings. A meeting called for the Ha'apai Committee was not held due to cancellations of airline and ferry schedules. The Tongatapu sub-committee will hold its first meeting in the third quarter.

Standard operating procedures were pretty well into place by the end of the quarter. However, they, together with job descriptions and organization charts, will not be written until the staffing approaches the required level probably sometime near the end of the third quarter or early fourth quarter. The annual audit was completed by Cooperative Department and the report is expected to be available and included with the third quarter report.

FINANCIAL INDICATORS:

The results for the first six months show a loss of over \$12,000. (Appendix B) We believe that these losses are very reasonable in relation to the development program for the following reasons:

1. Fixed expenses such as:

. Interest on TDB Loan	\$2187
. Meetings	1735
. Rents	1516
. Depreciation	1476
. Licenses	<u>122</u>
	<u>\$7036</u>

will not increase as business volume increases

2. The gross profit margin of 5.6% is expected to increase to around 10% once most purchases are coming from overseas.
3. Total June sales exceeded the total for the first five months indicating that substantially higher sales will be recorded in the future. In addition sales volume is continuing to increase each month. (Appendix C)
4. The Handicraft loss of \$1006 reflects costs of setting up displays, travel, and catalog expenses which are largely the cost of entering the market. This activity is expected to be profitable from the third quarter onward.
5. Vanilla expenses of \$383 were incurred. Income from vanilla sales in the third and fourth quarters will more than cover all vanilla expenses.

We believe that for the third and fourth quarters the Federation will at least break even and may show a profit.

Other financial indicators set out in the project are not meaningful in relation to the first six months' activities. They will be reported upon starting with the third quarter.

CONCLUSION:

The project is very well on target with the revised time frame set up at the beginning of the project (See the first quarter report). The only significant exception being for the construction of the Light Industries Building which is significantly behind schedule. The delays are principally a result of the extremely slow pace of the architect in producing the working drawings which are necessary to obtain approvals and bids for construction. This delay is not expected to have any significant effect on the other aspects of the project.

APPENDIX A

Staffing - 30/6/1982

LOCAL HIRE - 6 FULL TIME - 2 PART TIME

Maunaloa Taufahema	-	Accountant
Anna 'Ofanoa	-	Secretary
Viliami K. 'Akau'ola	-	Driver Wholesale Delivery
Potu'aika Fakalelu	-	Store Manager, Nuku'alofa
Naisa Tau	-	Driver - Delivery Assistant (Part Time)
'Ilisapesi Ma'afu	-	Store Manager, Vava'u
Lupe 'Ealelei	-	Assistant Store Manager, Vava'u
Filimone Moala	-	Vanilla Inspector (Part Time)

VOLUNTEERS - 3 FULL TIME

Gay Rasmel	-	PCV - Wholesaling Activities
Bernie Lovitky	-	PCV - Wholesaling Activities
Elizabeth Evans	-	PCV - Handicrafts (Part time for the Federation)
Kevin Kennett	-	PCV - Vava'u Operations

EXPATRIATE EMPLOYEES 2 FULL TIME

John G. Kreag	-	ACDI - Secretary/Manager
David Rushton	-	OMA - Financial Manager

SUMMARY

	<u>NUMBER OF EMPLOYEES</u>	
	<u>31/3/82</u>	<u>30/6/82</u>
Local Hire	3	8
Volunteers	6	4
Expatriate	<u>1</u>	<u>2</u>
Total	<u>10</u>	<u>14</u>

APPENDIX B

TONGA CO-OPERATIVE FEDERATION LTD.

BALANCE SHEET AS AT 30/6/82

	T\$	T\$	T\$	T\$
<u>Own Capital</u>				
Members' Shares			32,750	
Reserves			2,604	
Funds			4,516	39,870
<u>Borrowed Capital</u>				
Loan - Tonga Development Bank (See Note 1)				54,204
				94,074
<u>Less : Accumulated Loss</u>				81,017
				13,057
Capital Contributions - Aid Grants				70,738
				<u>\$83,795</u>
<u>Represented by:</u>				
<u>Fixed Assets at cost</u>			32,772	
<u>Less : Provisions for Depreciation</u>			5,775	26,997
<u>Current Assets</u>				
Stocks - Wholesale	28,775			
- Handicrafts	1,521			
- Vanilla	1,000	31,296		
Debtors- Vanilla (See Note 3)	47,486			
- Trade and Sundry	9,987	57,473		
Bank - Current	44,389			
Savings Deposit	8,326	58,715		
Cash in Hand		1,108	142,592	
<u>Current Liabilities</u>				
Creditors - Trade	28,602			
- Vanilla (See Note 2)	42,188			
- Sundry	2,069	72,859		
Deposits - Members' Savings	6,514			
- Curing Shed Construction	6,421	12,935	85,794	
Net Current Assets			-	56,798
				<u>\$83,795</u>

NOTE:

1. The original loan was T\$56,217 for a period of 10 years commencing 1st January 1982 repayable at \$700 per month with interest at 8% per annum on the balance outstanding at each month end.
2. This amount includes T\$49,050 loan from the Tonga Development Bank under an agreement made on 24th May 1982 for a maximum sum of T\$120,000 to be utilised by the Federation as intermediary for 12 vanilla buying co-operatives. Interest is chargeable at 8% per annum and the loan is repayable in full in December, 1982.
3. This amount includes T\$49,050 loaned to 12 societies referred to in Note 2 above. The same terms apply to the Federations as apply to the Federation acting as intermediary to the Development Bank.

TONGA CO-OPERATIVE FEDERATION LTD.

TRADING, PROFIT AND LOSS ACCOUNT

FOR HALF YEAR ENDED 30/6/82

	Tongatapu		Vava'u	Total
	W/Sale	H/Craft		
	T\$	T\$	T\$	T\$
<u>Income</u>				
Sales	66,443	429	13,211	80,083
Cost of Sales	62,987	334	12,455	75,776
Gross Profit	3,456	95	756	4,307
Other Income	160	-	411	571
Total Income	\$ 3,616	25	1,167	4,878
<u>Expenses</u>				
Unallocated (inc. Administration)	12,347	-	2,649	14,996
Handicrafts	-	1,101	-	1,101
Vanilla	-	883	-	883
Total Expenses	\$ 12,347	1,984	2,649	16,980
Net Loss for the Period		9,737	2,365	12,102
Accumulated Loss b/fwd.		62,565	6,350	68,915
	\$	72,302	8,715	81,017

NOTE: Tongatapu sales include sales to the Vava'u Branch.

APPENDIX C

SUMMARY OF SALES

1/1/1982 - 30/6/1982

	<u>HIKU'ALOHA</u>	<u>VAVA'U</u>	<u>TOTAL</u>
	<u>BRANCH</u>	<u>BRANCH</u>	
January	\$341	708	1,049
February	878	445	1,323
March	208	434	642
April	6,719	2,142	8,861
May	17,366	3,598	20,964
June	<u>30,430</u>	<u>4,491</u>	<u>34,974</u>
	<u>\$55,992</u>	<u>\$11,821</u>	<u>\$67,813</u>

NOTE:

April sales exceeded the first 3 months
May " " " " 4 "
June " " " " 5 "
July ?



Business is brisk at the new Co-operative Federation craft shop in the Tungi Arcade, Taufa'ahau Road, Nuku'alofa. Handicraft Development Advisor Elizabeth Evans sold this 'Eua made, double weave mat to 'Otusia Simiki.

CO-OPERATIVE FEDERATION MARKETING HANDICRAFTS

Traditional, finely made Tongan handicrafts, many of which are seldom seen in Nuku'alofa, are now being sold locally and abroad through the Co-operative Federation.

Admired throughout the Pacific, these traditional crafts include ta'ovalas', kiekies', kava bowls, tapa-beaten, finely woven, round mats and double weave mats. Together with the more contemporary basketry, these items are being displayed and sold in the Federation's shop on the first floor of the Tungi Arcade.

"Our strategy is to promote the local market as well as expand overseas operations," says Elizabeth Evans, the Handicraft Development Advisor and Peace Corps Volunteer. "We are emphasizing quality work so we are not concerned with the usual tourist trade where many of the items are cheaply made."

Taking advantage of a growing demand overseas, the Federation has received orders for over \$1,000 from the United States and New Zealand. Domestically their newly opened craft store is doing quite well. Unfortunately Ms Evans says that some

of the finest crafts are "by order only." These items are being held for display at the Sydney Trade Fair in September where the Federation hopes to open up another large market.

In order to find the best Tonga has to offer, Ms Evans has inspected crafts from many women's groups throughout the Kingdom. Emphasis is not only on sturdy construction but also artistic expression. Currently working with groups in 'Eua Niutopotapu and Tongatapu, she said it's the Federation's policy to pay the best possible price to producers in order to encourage them and maintain or improve the quality of work.

Not only are the craftswomen paid top dollar, but they are also paid "on the spot", according to John Krag, Manager of the Co-operative Federation. He believes this will help keep hand to get items in stock.

"We are emphasizing the inundation of craft production areas with our

primary co-operatives," he said. "Right now we have a half dozen groups with the potential to expand to 40 or 50. In the future, the items will be purchased from producers who are primary society members."

Women involved with the craft groups are using the money for home improvements or for supplementing the family income, Ms Evans said.

The Federation urges anyone who appreciates traditional crafts or anyone who wants to buy fine Tongan craftwork to stop by the store.

APPENDIX E

TONGA COOPERATIVE FEDERATION

MANAGEMENT COMMITTEE MEETING

Thursday May 27, 1982

The meeting was called to order by 'Apolo Lufe, Chairman and with a prayer led by Saia Vaea.

Present at the meeting were:

'Apolo Lufe	-	Chairman
Sini Nafa	-	Vice Chairman
Hama Na'ati	-	Treasurer
Saia Vaea	-	Member, Tongatapu
Viliami Foketi	-	" Vava'u
Moimoi Fakahua	-	" Ha'apai
Lisiate Hingano	-	" 'Eua
Ronald Vea	-	" Government
John G. Kreag	-	Secretary, Non Voting

Also present were:

Sione Tangi	-	Cooperative Department
Maunaloa Taufahema	-	Accountant

Absent:

'Elenoa 'Amanaki	-	Member, Government
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1. The minutes of the previous meeting held Thursday, February 25, 1982 were read and approved.
 2. The Secretary/Manager presented a report of activities of the Federation since the last meeting this included the following:
 - a. Each member was given a copy of the first quarterly report either prior to the meeting or at the meeting. The quarterly report contains much of the information included in the report of activities by the Secretary/Manager.
 - b. The effect of Hurricane Isaac on Member Cooperatives and the Federation was reported. The Federation Warehouse in Ha'apai received about \$10,000.00 of damage.
 - c. Other matters discussed.
 - . Wholesaling
 - . Vanilla Marketing
 - . Handicrafts
 - . Foreign Assistance
 - . Office Administration
- Details of these activities may be found in the first and second quarter, 1982 reports.
3. The committee approved the Federation's entry into fishing supplies business on Tongatapu subject to approval by the Tongatapu/'Eua Sub-Committee.
 4. The committee approved purchase of a filing cabinet and adding machine for the Vava'u office.
 5. The committee approved for the Hihifo Cooperative Society to sell some of its shares back to the Federation to liquidate its debt to the Federation. The amount of the debt was established in an arbitration award. However, since the society store was destroyed during the hurricane it was not possible to collect the debt except from the shares. The committee noted that requests for foreign assistance to rebuild the society have been made.

TONCA COOPERATIVE FEDERATION

FAKATAHA 'A E KOMITI NGAUE

Tu'apulelulu, Me 27, 1982

Na'e ai ha fakataha pea na'e tataki ia 'e he Sea ko 'Apolo Lufe moha lotu na'e fai 'e Saia Vaea.

Ko kinautolu 'eni na'e 'i he fakataha:

'Apolo Lufe	-	Sea
Sini Nafe	-	Tokoni Sea
Hama Na'ati	-	Tauhi Pa'anga
Saia Vaea	-	Memipa, Tongatapu
Viliami Foketi	-	" Vava'u
Moimoi Fakahua	-	" Ha'apai
Lisiate Hingano	-	" 'Eua
Ronald Vea	-	" Pule'anga
John G. Kreag	-	Sekelitali/Pule

Na'e 'i ai foki mo:

Sione Tangi	-	Cooperative Federation
Maunaloa Taufahema	-	Tauhi Tohi

Li'aki: 'Elenoa 'Amanaki - Memipa, Pule'anga

1. Na'e lau leva e miniti 'o e fakataha kuo 'osi 'a ia na'e fai he 'aho Tu'apulelulu, 25 'o Pepueli, 1982 pea na'e tali ia 'e he fakataha.
2. Na'e fakahoko leva 'e he Sekelitali/Pule 'a e ngaahi lipooti 'o e ngaue 'a e Kautaha meihe fakataha kuo 'osi 'o kau ai e ngaahi me'a ni:
 - a. 'E tufa atu foki ki he memipa kotoa pe 'a e 'uluaki lipooti fakakusta kimu'a pe 'i he lolotonga 'o e fakataha. Ko e lipooti ko ia 'e fakaha ai 'a e ngaahi ngaue kotoa pe 'a e Sekelitali/Pule.
 - b. Ko e ngaahi faingata'a kotoa na'e hoko 'i he afa ko Aisake ki he Va'a kotoa 'o e Sosaieti mo e Federation 'e ha 'i he lipooti. Ko e maunau na'e hoko ki he Pale koloa 'o Ha'apai 'o e Federation na'e fe'unga mo e \$10,000.00.
 - c. Ngaahi tafito'i me'a kehe ke alua'i:
 - Wholesaling
 - Fakamaketi e Vanila
 - Ngaahi ngaue fakamea'a
 - Tokoni mei mui pe Tu'a Pule'anga
 - Ngaahi ngaue faka'ofisi
3. Na'e tali 'e he Komiti ke kau e Federation ki he fakalele 'o e toutai 'i Tongatapu ni ka 'e fakapapau'i ia meihe Komiti Si'i 'a Tongatapu/'Eua.
4. Ne tali foki 'e he Komiti ke kumi ha tuku'anga fale moha misini taraki ke ngaue'aki 'e he 'Ofisi 'i Vava'u.
5. Ne tali foki 'e he Komiti ke to'o 'a e mo'ua 'o e Sosaieti Hihifo 'i he Federation mei he'enua 'isani (Shares).
6. Na'e tali foki 'e he Komiti ke toe langa hake e fale koloa 'a Ha'apai 'o fakatatau ki he ngaahi me'a ko 'eni:
 - Ko e konga lahi 'o e toe langa fo'ou ko 'eni ngalingali na'a fai'aki ia ha tokoni mei mui.

6. The committee approved the rebuilding of the Ha'apai Warehouse subject to the following conditions:
 - Most of the cost of rebuilding was expected to be available from foreign assistance.
 - The access to the land must be clearly established for a minimum of 30 years.

7. The committee set the next meeting for the middle of August in Vava'u. The date to be established by the Vava'u Sub - Committee and the Secretary/Manager.

Cont No. 6

- Ke ma'u ha totonu ki he konga kelekele ko ia 'o 'oua na'a toe si'i hifo he ta'u 'e 20.

7. Na'e tali leva 'e he Komiti ke fai e fakataha hoko ha konga loto 'o 'Akosi 'i Vava'u pea ke toki fakapapau'i e 'aho nei he Komiti Si'i 'a Vava'u pea mo e Pule.

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