

PDARR-137

40546

EVALUATION REPORT:  
TONGA COOPERATIVE FEDERATION  
AID-879-0251-G-00-1013-00

JULY 15, 1985

Agricultural Cooperative Development International  
Suite 600, Continental Building  
1012 Fourteenth Street, N. W.  
Washington, D. C. 2005

## TABLE OF CONTENTS

A	Abbreviations Used	A-1
B	Approach and Background to Evaluation	B-1
S	Executive Summary	S-1
I	Problem	1
IIa	Work To Date	11
IIb	Beneficiary Impact	18
III	Baseline Data	20
IV	Methodology	25
V	Time Frame	26
VI	Assumptions	36
VII	Goals	38
VIII	Post-Project Expectations	42
IX	Evaluation	44
X	Financial Narrative	45
XI	Budget	48
APPENDIX 1	List of Persons Interviewed	
APPENDIX 2	Fish Catch at Vava'u, March, 1984, to May, 1985	
APPENDIX 3	1984 Annual Accounts, Tonga Cooperative Federation Limited	
APPENDIX 4	TCF Three-Year Rolling Plan	

## ABBREVIATIONS

ACDI	Agricultural Cooperative Development International
ADB	Asian Development Bank
AID	Agency for International Development
CFTC	Commonwealth Fund for Technical Cooperation
CLEAR	Cooperative Liaison, Education and Research Unit, Loughborough
GOT	Government of Tonga
MAFF	Ministry of Agriculture, Forestry, and Fisheries
MLCI	Ministry of Labour Commerce, and Industries
ODA	British Overseas Development Administration
SPRDO	South Pacific Regional Development Office, AID
TCF	Tonga Cooperative Federation
T\$	Tongan Pa'anga
USAID	United States Agency for International Development
VOCA	Volunteers in Overseas Cooperative Assistance

APPROACH AND BACKGROUND FOR EVALUATION

Approach

This evaluation has been prepared and conducted by Donald Crane, Director of Technical Services, ACDI. It is primarily a process evaluation directed toward determining to what extent project inputs have been properly applied, whether satisfactory progress has been achieved toward project objectives and toward identifying any required corrective actions to meet end of project expectations. In addition, the evaluator has considered the question whether additional foreign assistance is required. Such an evaluation by ACDI is required annually by the terms of the grant.

Mr. Crane was the individual from ACDI who first investigated the need for assistance to the Tonga Cooperative Federation and who prepared the original grant proposal for consideration by AID. As Project Officer for the Asia/Pacific region he was responsible for overseeing project implementation until November 1983. Since that time he has served ACDI as Director of Technical Services and has had no direct responsibility for the project. Previous evaluations have been conducted for ACDI by outside consultants hired specially for the purpose, but on this occasion it was felt necessary to conduct the evaluation in-house because it has been nearly four years since anyone on staff has made an in-depth review of the project and since only about one year remains for achieving end of project expectations. Furthermore, if ACDI is to be involved in any follow-on activities such a staff review will be of considerable importance.

The evaluation methodology employed herein is that recommended by SPRDO which considers each of the sections of the grant proposal to determine whether information set forth therein remains relevant and to what extent envisioned actions have been carried out, to what degree objectives have been achieved, and what adjustments are required to update the basic grant document. The opinions and findings contained herein are those of the evaluator, but he has attempted to interview as many people with knowledge of the project as time and circumstances would allow. A complete list of persons interviewed is contained at Appendix 1.

The evaluator visited Vava'u and Ha'apai to observe branch operations in those outer island groups as well as the headquarters and operations in Tongatapu. He was fortunate to have the opportunity to sit in on a regularly scheduled management committee meeting in Tongatapu as well as special regional subcommittee meetings in Vava'u and Ha'apai in addition to the personal interviews conducted.

=====

Background

ACDI's involvement was initiated in June 1980 by a letter from Mr. R. Greenslade, cooperative registrar for the Kingdom of Tonga. He briefly outlined the serious difficulties of the Tonga Cooperative Federation (TCF) and asked ACIDI for help. ACIDI received the letter in late 1980, and began discussions and planning leading to the start of a project in Tonga. On January 28, 1982, John Kreag arrived to begin a two-year assignment as Seretary/Manager of the federation.

This evaluator visited Tonga on behalf of ACIDI from October 21 to November 4, 1980, to study the TCF situation and prepare a report. Mr. S. Whittaker of Britain's CLEAR Unit (Cooperative Liaison, Education and Research), examined TCF's financial records and management problems and presented a detailed report in July 1980.

Bruce Gervan from Volunteer Development Corps (now Volunteers in Overseas Cooperative Assistance, VOCA) conducted a preliminary evaluation of TCF and submitted a report in May 1981. These three reports form the basis for the initial OPG proposal and the ensuing program.

Process evaluations were conducted by Bruce Gervan (VOCA consultant) in February 1983 and by Job Savage (ACIDI consultant) in February 1984. A proposal to revise and extend the project to January 1986 was submitted to AID and implemented by amendment to the grant in August 1984.

Ray Lewis and Howard Johnson, both VOCA volunteers, have produced special reports on fish marketing and vanilla marketing, respectively.

EXECUTIVE SUMMARY

=====

The Tonga Cooperative Federation has just completed a very successful business year with sales of T\$ 3.7 million and net income of T\$ 147,000. The major component of this business has been in consumer goods wholesaling and the channels, structures, and procedures for this activity have now been well established. The vanilla and fish marketing aspects of the business are less well developed.

Though some vanilla production has occurred much longer, serious production and marketing has begun only within the last 10 years or so. The industry is still in a developmental stage and marketing channels are unsettled. Cooperatives have played a major part in the development of the industry and American buyers have been the predominant buyers. Recently, however, serious competition for vanilla beans has arisen from the GOT owned and operated Commodities Marketing Board and a handful of sole proprietors. These competitors generally market to non-American buyers, principally in Australia or New Zealand. TCF's competitive position has been damaged because in 1984 the beans offered for sale by cooperatives were of inferior quality, containing high moisture and low vanillin with considerable molding. This year, a GOT program of quality assurance should help to avoid the problems of last year, but it is impossible to say at this point how much lasting damage has been done to TCF's image as a marketer of vanilla, neither with respect to purchasers or producers. What we can say is that, for the first time, producers believe that they could have received more money for their crop by marketing other than through their cooperative.

Domestic fish marketing is a brand new industry for which virtually no market channels have been established. Work which the TCF has begun in this area combined with promotional projects by GOT backed by ADB and Japanese bilateral aid is very exciting from a development point of view. GOT is building small fishing boats which it distributes at subsidized prices in hopes of establishing an artisanal fishing industry. Fishermen selected for the program must undergo a six-month training program in fishing and boating technique and business management. Upon successful completion of the course they become captain of their boat which they pay for from a portion of the proceeds of their catch. In addition to the captain, 3 to 5 crew members are able to draw a comfortable living from the catch. TCF is playing a crucial role in this development effort by providing a ready market for the fish at a fair price. TCF freezes the fish and transports them to Tongatapu where fish are in short supply. There they are a cheap and relatively attractive alternative source of protein to the canned fish, corned beef and fatty mutton flaps which are the standard fare of the Tongan diet. Unfortunately, some other GOT programs are having the effect of destabilizing the market

EXECUTIVE SUMMARY

=====

price of fish and thus cast a shadow on the effort to establish the artisanal fleet. Also GOT indecision on whether to continue arrangements providing freezing and handling equipment to TCF leaves in doubt whether the crucial marketing component of the industry will continue to operate efficiently.

It appears that the TCF membership will accept a recommendation of the Management Committee to split the Federation into two new organizations. One part would keep the TCF name and continue to operate the wholesale goods business as always. The new organization would operate the vanilla and fish marketing activities as well as handicrafts, fisheries supplies and farm produce marketing. The principal reason for splitting the Federation is that management of such a complex organization has become nearly impossible especially considering the daily demands of the large wholesale activity which leaves little time for development of the other activities. Also, the Management Committee is finding it difficult to conduct its business. There is a built-in conflict between the members who principally are consumers and those that are producers plus there is a conservative attitude among the majority faction which represents consumer societies that risk-taking associated with developing new industries for fish, vanilla and other agricultural products should be avoided for fear of endangering the hard-won success of the wholesale goods business. The reasoning is sound, but there is considerable danger that the new organization will be unable to survive without the financial and managerial support of the established TCF. Hopefully, AID or some other development assistance agency will be able to provide technical support during the formative period of the new organization.

Within the period of the current grant the evaluator makes two major recommendations for strengthening vanilla and fish marketing activities: construction of a central vanilla curing shed to be operated by TCF in Vava'u of approximately 3-ton capacity and establishment of a retail fish market in Nuku'alofa. While these are new activities in their particulars, they are clearly within the scope and purpose of the grant and can be achieved with no new resources.

The vanilla curing shed will be useful to allow TCF to gain direct experience in the curing of vanilla and thus become a better representative of the industry. It will also provide an alternative marketing channel for cooperative members who have been marketing outside the cooperative system in order to get higher initial payments for vanilla beans or to hedge their bets. It will also provide TCF with a permanent presence and base of operations in Vava'u, the major producing area for vanilla, which will be useful for quality control and as a site for collecting, grading, and storing beans prior to marketing.

=====

The fish market will provide an outlet for the artisanal fishermen in a high traffic area of Nuku'alofa fully owned or leased by TCF and thus provide full control of equipment and customer access necessary for a successful business venture but lacking at the current government market location. This could be a very important factor in the ultimate success of the artisanal fishing industry.

SECTION 1: PROBLEM

I. PROBLEM

A significant change has occurred in the nature of the problem since it was first defined in 1980. Though this change was acknowledged in the proposal for the Phase II extension of the current grant, it did not receive the attention it deserves, probably because the full implications of the changed situation were not completely understood at that time.

At the time the project was originally designed, the Tonga Cooperative Federation (TCF) was deeply in debt in its consumer goods wholesaling business and did not have sufficient assets to cover. Annual sales were down to practically nil from a previous high of about T\$350,000. Expectations for sales at the end of two years given proper refinancing and good management were set at T\$450,000. However, due to low marketing margins fixed by law this level of sales, though never before achieved, was judged barely adequate to cover overhead costs including, particularly, salaries necessary to obtain and hold professional management. Thus, the most significant problem identified was how the TCF might organize itself to cover overhead so it could survive to provide its member cooperatives and other rural poor with the valuable consumer goods supply services it had been providing prior to its financial difficulties.

Under the circumstances it seemed appropriate for the TCF to attempt to diversify into other more lucrative activities in order to spread the overhead costs of top management over a wider base. At the same time, the Government of Tonga (GOT) was interested in promoting private enterprise involvement in vanilla and domestic fish marketing. These appeared to offer the potential of making a significant contribution to overhead and so were included in the development objectives of the project. However, since both were new activities in Tonga and TCF's level of participation hinged to a considerable degree on future GOT decisions, objectives were not precisely quantified. Nevertheless, these were understood as major development objectives of the project, of secondary priority after rejuvenation of the basic consumer goods business.

The principal change in underlying assumptions which has occurred, however, is the notion that the consumer goods wholesale function would never greatly exceed break-even status. As we now know, sales targets were exceeded by the end of 1982 and sales for 1983 and 1984 exceeded T\$2 million and T\$3 million, respectively. In addition, all targets relating to cost of sales efficiency have been met or exceeded.

\* T\$ (Tongan Pa'anga) = US\$ 0.71 approximately

SECTION 1: PROBLEM

Page 2

=====

A few of the implications of this happy miscalculation are as follows:

a. The wholesale business could have prospered on its own without diversification and, in fact, may have suffered to some extent from the distraction of top management;

b. Keeping up with the rapid expansion of the business has required an expansion of Tongan staff from 3 in 1981 to 30 at the end of 1984, in turn requiring a much greater effort in on-the-job training than initially envisioned;

c. The much larger than expected volume of business and larger staff to supervise have required more time and effort than initially expected with the result that development activities in vanilla and fish marketing could not receive the level of attention they might have deserved.

Another issue known at the time of project design but underrated is the problem of combining consumer and producer oriented cooperatives and individuals in the same federation. There is a natural problem here because consumers are oriented toward low prices for purchases while producers want high prices for their products. This was played down because of the wide differences in the products being handled and because the need for diversification was believed to outweigh the possible disadvantages. At present, there is some potential for direct conflict in the marketing of fish, but so far, the biggest difficulty has been the attitudinal difference among the types of members. This manifests itself primarily in the make-up of the management committee. As a matter of good organizational structure, the size of the committee must be limited, but the result is a feeling among vanilla growers and fishermen that their interests are subserviant to consumer wholesaling and that in total they are not properly represented. Similarly, members representing consumer societies feel that too much time and effort are put into vanilla and fish marketing regarded as secondary to the main business of the Federation.

From a management perspective, the organization has become overly complex as well. The wholesale business is thriving but requires constant attention. Margins are fixed by Government and demand close monitoring of operational efficiency. For prices to remain competitive, goods must be constantly in the pipeline to avoid carrying too much inventory and to avoid the risk of stock on hand being adversely affected by market price changes. Only fast moving

SECTION 1: PROBLEM

Page 3

=====  
stock can be profitable in such circumstances and only if TCF can capture the entire available margin. This latter implies that a substantial proportion of sale items must be directly imported. Staying on top of all this is a full time job which allows little time for developing new enterprises.

It is now the judgement of most of the cooperative leaders in Tonga that the interests of both the TCF and the vanilla producers and fishermen would best be served by a split in the Federation which would spin off the producer marketing activities in a new marketing-oriented federation. Such a proposition will be presented to the TCF annual general meeting in July, 1985, and is expected to pass. Working out the details and actually implementing the separation will take some time, but it is anticipated that a new federation devoted to producer marketing will have been established by January 1, 1986, and that USAID donated capital originally provided to TCF for the development of activities shifted to the new federation would be transferred.

Since the wholesaling activities of TCF are well established and making adequate profits to cover the costs of professional management and since TCF has hired a professional Financial Manager with the additional title of Secretary/Manager Designate, it seems reasonable that ACDI withdraw its management support for TCF in favor of the new federation and this is the view generally supported by the Cooperative Department and TCF's management committee, though final decisions on this matter have been deferred until the Annual General Meeting of TCF members has had an opportunity to vote on the general proposition of the split in the TCF.

The major activities of the new federation, fish and vanilla marketing, are developmental in nature, are risky business operations, and at present are operating at a much lower level of sales volume than the consumer goods business. There appears to be considerable scope for development and expansion in these areas, but there are considerable obstacles as well.

Fish Marketing

Fish marketing in Tonga is nearly an ideal activity from the point of view of economic and social development because it supports the development of a budding artisanal fishing industry and provides a local source of protein which is cheaper and, in some cases, nutritionally better than traditional imports of canned fish, corned beef, and fatty mutton flaps. However, making a business of it is a tricky affair.

SECTION 1: PROBLEM

=====

The principal domestic market for fish is in Nuku'alofa while the principal fishing grounds are in the environs of Vava'u, Ha'apai, and 'Eua. Distances are great, communications poor, transportation intermittent, handling facilities minimal and, for the most part, government controlled. There is a lack of skilled manpower in the technical aspects of fish handling which are very important to insure the delivery of a safe product with minimal spoilage and shrinkage. Current marketing facilities in Nuku'alofa are government owned, shared with numerous other marketing activities, crowded and generally inadequate. Suitable commercial sites are at a premium in Nuku'alofa, so alternative quarters will not be easy to come by.

Still, the artisanal fishing industry continues to grow with considerable GOT support and promotion. This program is providing a good living for the fishermen involved and provides the best hope for development of a domestic source of fish. Three boat yards are producing 20', 28', and 32' boats. These boats are sold to individual fishermen at a subsidized price and with Development Bank financing. Each fisherman selected for the program must undergo a six-month training apprenticeship in fishing technique and business practice. Crew are paid in cash or by share of the catch. The bank loan is repaid by deduction of a portion of the value of the catch after accounting for expenses. Records in Vava'u indicate that, during the 6-month training period, the average apprentice captain managed to save T\$4,800 on a total value of catch of T\$10,000.

An obstacle to further development of TCF's fish marketing activity concerns its relations with the Government. The management committee has refused to approve the portion of TCF's 3-year plan dealing with fish marketing until the issue of control of the fish marketing facilities at Vava'u is settled. Although TCF currently has de facto control of the facilities, no proper lease or management agreement has been worked out. There is discussion in Government circles that it would be unfair to lease only to a single party, but that the facilities ought to be open to all that want to use them. It is the position of TCF, supported by this evaluator, that the facilities are too cramped to be shared by various parties. One could not maintain security of the fish, proper operation of the equipment, good business practices, nor orderly buying of fish. TCF has been providing a valuable service to the fishermen of Vava'u and wants to continue, but a suitable long-term agreement for operation of the facilities in Vava'u is essential.

SECTION 1: PROBLEM

=====  
Also at issue is the price of fish sold by the Government from the catch of its long-line ship, the Lofa, which is well below the minimum profitable price for the artisanal fleet. The effect is that whenever Lofa fish are on hand, four or five times each year, TCF fish are not price competitive and must remain in storage until the Lofa fish are gone. At present this is not a severe problem because the artisanal catch is well below the market demand, but as the Government program of artisanal boat building which is to produce 40 new boats over the next two years continues the problem will become more significant. There is also talk of GOT acquiring up to four more commercial ships. Should this occur, and each of these ships occasionally dump cheap fish on the Nuku'alofa market, the result could be devastating to the infant artisanal fishing industry.

The inadequacy of fish handling and marketing facilities at the Government Market in Nuku'alofa is a continuing problem. The number of people buying and selling in a congested area makes it impossible to properly control the fish inventory. Also, lack of control of the facilities causes a problem. In one instance, over a public holiday, a freezer was left without power for several hours and a large quantity of TCF fish spoiled.

Despite these problems, TCF has been using the Vava'u and Nuku'alofa facilities to make a start at fish market development and turned a small profit in 1984. It is now clear that with increased volume, the activity can be profitable, barring technical failures which could produce unacceptable spoilage.

Vanilla Marketing

Up to now TCF's vanilla marketing program has been operating within a framework of chaos typical of an emerging industry. Going back to 1977, production of cured vanilla reached 10 tons of which 5 tons were produced by 12 cooperative societies. In 1979, however, the industry nearly collapsed. Since then it has been steadily recovering and expanding due to a rejuvenation program instituted by GOT with assistance from the Asian Development Bank. Today there are about 50 vanilla curing sheds, in all, of which 14 are operated by primary cooperative societies. In 1977, cooperative societies' market share was about 50% compared to 33% in 1983 and 1984. Production by cooperatives reached only 3 tons and 4 tons, respectively, in 1983 and 1984, thus not yet returning to 1977 production levels. At the same time, aided by an ADB assisted GOT promotional program, industry total production has reached 12 tons in 1984, an excess of two tons above the previous record year of 1977. This suggests that cooperatives have not participated proportionately in the rejuvenation program with implications for future market share as the expansion continues. It is estimated that about 60% of the

SECTION 1: PROBLEM

Page 6

=====

vanilla is produced by cooperative members, but that they have been induced to market outside the cooperative system to some extent, primarily by competitors offering a one time payment for green beans above the cooperatives first payment rate. This can be attractive to farmers who need immediate cash.

In addition to the Commodities Marketing Board and TCF there are two large private curing operations and several smaller ones. Each organization has its own pricing structure and export clients. Thus, competition for green beans is heating up. Provided the competition is fair, it is probably in the best interest of the economy as a whole. However, from the point of view of the Federation it is a problem to be dealt with.

There are about 50 vanilla curing sheds in Tonga of which 14 are operated by cooperative societies. However, the cooperatives produce upwards of 50% of the total crop. TCF has been marketing only cooperatively produced vanilla, and has handled the majority of the crop produced by that sector.

TCF suffered a major setback in its vanilla marketing program with the 1984 crop. Vanilla beans purchased by the Federation as grade-A beans had not been properly cured and subsequently developed mold problems. Consequently, two-thirds of the crop was initially rejected and had to be sold at discount. This produced an apparent loss of about T\$10,000, but after foreign exchange adjustments obtained in 1985 the final net position is expected to be a gain of about T\$11,000. Still, the perception of the vanilla societies is that they have received a lower final price than others delivering to the Commodities Board or private buyers. They do not appear willing to relate this to the fact that they have produced inferior quality vanilla.

In the past, TCF has arranged loans for the primary societies to purchase green beans from their members for curing. In return it has required a society receiving such a loan to sell the cured vanilla exclusively to TCF. In 1985, terms have been changed to require societies to offer the beans first to TCF, but TCF is not under obligation to buy nor the societies to sell, if they can get a better price elsewhere. The Secretary/Manager of TCF will personally inspect all of the vanilla before purchase this year and expects to procure considerably less than in past years due to higher quality standards necessary to get top price in the export market. As an offset to this rather gloomy outlook, there is considerable opinion that a government sponsored quality assurance campaign is having effect and that the overall quality of the Tongan crop will be much better this year.

SECTION 1: PROBLEM

=====

Thus, a poor income year will be followed by a necessary but not necessarily popular quality assurance program that will result in the rejection of, at least some, cooperatively produced vanilla by the TCF. At about the same time, these same societies will be asked to throw their support to and join a new federation for their benefit. Due to the requirement of loan financing, they will likely do so, but it would be unrealistic to think that the process will be simple or sweet. Still, the scenario outlined above is probably in the long run best interests of the cooperative vanilla sector.

Another issue in vanilla curing and marketing is whether the present structure of 14 small cooperative curing sheds is appropriate, or whether one or a few larger sheds would do the job more efficiently. The most significant factor in favor of reducing the number of curing sheds is the increased ability to monitor and control quality in both green bean grading and curing. A second advantage would be the possibility of introducing driers and other mechanized curing equipment at an efficient scale. McCormick & Company, Baltimore, Maryland, has developed a fully mechanized process which reportedly can produce high quality cured vanilla in four weeks which is a third of the time required for traditional curing methods. The biggest negative to consolidation of curing facilities is the need for established cooperative societies to relinquish their main activity, the curing of vanilla beans, to the new federation and to abandon their current investment in small curing sheds.

There is also some philosophical opposition, particularly from MAFF, to consolidation of curing facilities based on the notion that curing ought to be a small holder's operation to provide useful work throughout the countryside. For the small-shed model to be in the best interest of vanilla growers, however, requires strict quality standards be maintained which in turn requires higher recurring expenses in inspection and procurement. Even with the stricter supervision, the small-shed model will likely produce a higher percentage of inferior beans due to lack of sophisticated control and highly skilled curing technicians.

A compromise position favored by some in MAFF makes a great deal of sense. In this case, TCF or its successor would construct a single large shed on about a three-ton scale. This would allow the Federation to compete for roughly half the cooperative members' vanilla on a single price basis while continuing assistance to primary societies who wish to cure their own. Of course, any surplus earned by the Federation on vanilla curing would be returned to the members as patronage refunds in accordance with cooperative law.

=====

The latter approach would provide TCF with a vehicle to become more involved in the vanilla industry gaining direct knowledge and experience in vanilla curing which would be of considerable value in establishing the TCF as a legitimate leader in the vanilla industry. The facility would also provide TCF with a base of operations in Vava'u useful as a site for collection, grading and storage of cured beans and also useful as a continuous presence for the sake of maintaining relationships between the Federation and the primary societies. Most importantly, however, it would provide cooperative members with two ways to market their vanilla as a hedging strategy without selling outside the cooperative sector.

Previously, a structural problem for vanilla marketing was that vanilla quality inspection and issuance of vanilla export licenses were functions of the Commodities Marketing Board which is also in the vanilla curing and export business and, consequently, a competitor of the Federation. This has caused no significant problem, but the potential for conflict is obvious. However, this year inspections and grading will be conducted by MAFF which TCF regards as a more appropriate authority. The Commodities Board, however, remains the authority for issuance of vanilla export licenses. There has never been any question of TCF's eligibility for for such a license, but the potential for conflict remains.

#### Problems of the New Federation

Despite the many good reasons for splitting the Federation, there are considerable problems facing the new federation. In the first place, the activities of the new federation, fish marketing, vanilla marketing, and handicraft marketing, are all fairly recent activities producing only marginal profits. While there is considerable scope for expansion of volume, one bad year could bring the whole thing down. This is of course one reason the wholesale interests are in favor of splitting the Federation.

Secondly, it will be necessary for the new federation to maintain two major branch offices because the principal procurement activities are in Vava'u while the principal sales activities, including overseas marketing, are in Nuku'alofa. This means that two new top-level management people must be hired and trained within the term of the existing grant. Given the track record in this regard, this cannot be considered a trivial matter.

Finally, in order to leave the new federation with a solid base of operations at the end of the grant requires a great deal of construction, equipment procurement, organizational work, staff

=====  
development, and a great deal of promotional work with both producers and customers. This will stretch existing management and advisory capacity very thin.

In view of the above, this evaluator has two recommendations. In the short run, it would be advisable to have a consultant assist with Vava'u branch operations beginning in January, 1986. This consultant would help establish the Vava'u branch office and work as counterpart to the Vava'u branch manager. He would oversee the construction of the central vanilla curing shed and begin to work with cooperative vanilla producers, both to help improve the quality of vanilla curing by cooperative societies and to begin promotion of the services of the new federation's curing shed. He would also work on improving efficiency and quality of fish handling and promote cooperative membership among the fishermen.

In the longer run, ACDI and AID should give considerable thought to the possibility of a follow-on project of assistance to the new federation. Only if things go absolutely as well as possible will the new federation be prepared to stand on its own feet by the end of the current project. This supposes that fully qualified top-management people can be found whose only training needs concern the operating specifics of the new federation.

#### Cooperative Membership

A separate problem, considered from the beginning, is the need for expanding membership participation in primary cooperative societies. Such expansion might consist of either establishing new cooperatives or increasing membership in existing cooperatives. To date, little progress has been made in either direction.

Existing cooperatives have been loathe to expanding membership. They are often organized along clan lines or among a particular religious group, thus creating barriers to others. Another barrier has only recently been fully appreciated. The successful cooperative societies have accumulated undifferentiated, unallocated capital under existing cooperative policies aimed at forcing cooperative savings. The effect, however, has been to prejudice against new membership which would share equally in accumulated capital with existing members. New policies are now being considered which would permit allocation of accumulated capital to existing members. If enacted, such policies can be expected to encourage expansion of existing cooperatives. This evaluator believes that working out a mechanism for allocating capital to existing members such as issuing capital shares redeemable in five years time accompanied by an aggressive campaign to increase membership is necessary to broaden the cooperative sector base.

SECTION 1: PROBLEM

=====

Until recently, it was cooperative policy in Tonga to limit cooperative registration to a single cooperative in each village. This has had the effect of limiting new cooperative formation. Though the policy has since changed, it has been little publicized or promoted thus far. However, conditions for increased participation seem to be taking shape under the new Registrar and, if the two policy issues discussed above are vigorously pursued, it is not unreasonable to expect a new dynamism in the cooperative sector.

SECTION 2a: WORK TO DATE

IIa. WORK TO DATE

For the most part, quantification of work to date will be given in Section V, Time Frames, where a comparison of results to targets is more natural. However, in this section progress toward goals will be discussed in a more general narrative form of appraisal and the flow of discussion follows the order in which issues are raised in the Goals section of the Phase II proposal.

Consumer Goods Wholesaling

TCF's wholesaling business continues to grow and prosper and has reached a stage of development at which it can afford to pay for professional management from sales revenue. It was a stated objective of the Phase II program to "phase out all direct management and financial support for this [wholesaling] activity, leaving a strong management team capable of sustaining a large and profitable wholesaling business." Only the administrative details of how best to achieve the objective remain because TCF has an appropriate organizational structure, functional operating procedures, a solid capital base, good supplier relations, available banking and loan facilities, and a profit position capable of supporting the professional staff required to properly manage the business. These are the ingredients that were missing at the time of project initiation. They do not insure continued success, but they are the necessary conditions for it and, as such, constitute fulfillment of the initial objective of the project with respect to the wholesaling activity.

It was envisioned that a microcomputer system for sales and inventory control would be installed. Background work surveying available equipment and potential suppliers was completed some time ago, but no further steps have been taken. The complexity of computerizing the sales points has become more apparent while manual systems have been improved, thus decreasing the need for complete point-of-sale computerization. Still, there are aspects of the business that could benefit to a considerable extent from computerization, notably overseas order control, inventory management, and general ledger. The emphasis would be on obtaining more, better, and quicker information which is critical to an importing business that relies on the availability of the right goods at the right time. In addition, more emphasis should be placed on quality training and specialized software and less on equipment than initially envisioned. Ultimately, a better result will be achieved by narrowing the scope of the system, starting with simpler equipment, and concentrating enough expert programming and training assistance on the effort to make it work well. Expansion to more

=====  
complicated systems in the future will be much simpler and more natural if taken from a simple but well understood base system.

Much has been done to improve wholesaling operations through development of display, sales and warehousing methods. Shelving and display racks have been installed in the wholesale store making it easier for customers to see what is being offered for sale and facilitating traffic through the store to service a higher customer volume. The manual check-out system which has been developed seems cumbersome to outside observers as it involves writing of an invoice by one clerk, checking of the invoice and acceptance of cash by a cashier, and finally matching of the invoice to the goods at the door by another clerk. Still, it seems to be working well under Tongan conditions. The major unfinished bit of business in this area is adequate handling of frozen goods. Walk-in freezers were recognized as a need going back to the Phase I project, but no suitable space has ever been identified. This need is tied to the general need for more space for the wholesale business, but if a new location can not be obtained fairly soon, it would make sense to settle for a less than optimal site for the freezers because their lack is holding up growth of the business. Once the freezers have been installed, it has been suggested that TCF promote the sale of its frozen goods by providing freezer chests to primary societies at concessional purchase terms.

Another problem that has been holding up procurement of freezers is lack of technical expertise on the part of TCF management and fear of buying inappropriate equipment. A refrigeration consultant would be useful to review the needs and draw up specifications for procurement.

Development of extension activities for primary societies is an area that has not received much attention primarily due to the overwhelming demand on the Secretary/Manager's time from the daily routine of operating the federation. However, the need is still as important as ever, so some way must be found to address this need. It may be necessary to use some of the consulting or training resources available to the project to get at this issue.

As noted in the problem section, separation of the Federation's wholesaling business from its market development activities through the creation of a new federation dedicated to producer cooperatives is moving forward apace. If all goes as expected it should be in operation by January, 1986.

Construction of a warehouse extension to the existing facilities in Vava'u using bank facilities is still under consideration. Ajoining land is available. At the same time, a search is under way

=====  
for a suitable warehouse to lease as this may prove to be more cost efficient.

Construction or purchase of adequate warehousing, sales, and office facilities on Tongatapu is still in the investigation stage. Office space currently occupied by the New Zealand High Commission near the current TCF office located in the Tungi Arcade will soon come available and may be taken by TCF. However, sales and warehouse facilities are proving harder to come by. There is a site search subcommittee actively working on the problem. Discussions on existing facilities have not led to agreement and the few available sites for construction are either not good locations or have certain entangling problems. It seems likely, though, that some suitable resolution will be reached within the year.

#### Handicrafts

No significant export channel has as yet been developed. One major sale in Fiji has not led to significant follow-on business. Some items were sold in Hawaii on a trial basis to develop interest, but this, too, has led to no significant orders. There are some intermittent purchasers in New Zealand, but so far the volume is low. Quality has been kept high, but so have prices. This has probably depressed the local market to some extent while the quality market has not yet been fully exploited. Sales targets for 1984 were not met, though sales were up from 1983. If suitable space were available, management would like to add a coffee shop and handicrafts demonstration area to the store in order to encourage shoppers to stay longer. In the mean time, new display shelves and cabinets are being installed to reduce clutter and facilitate shopper traffic.

#### Fish Marketing

As discussed in Section 1, the artisanal fishing industry continues to grow with considerable GOT support and promotion. However, the issue of control of the fish marketing facilities at Vava'u remains. TCF has had de facto control of the facilities and has managed to keep them in good working order so far.

No proper lease or management agreement has as yet been worked out. At present, it is doubtful that TCF could afford to bear the full cost of the equipment at the facility because it is not currently fully utilized. This is especially true with respect to the blast freezers. Some of the holding space is being used for storage of mutton flaps and other frozen goods instead of fish. However, this situation is rapidly improving as catches continue to increase and by the end of the current grant, the equipment should be

=====  
heavily used for the purpose intended and the volume of fish should be adequate to cover the cost of the facility.

It has been suggested that more efficient use of the facility would be encouraged by granting access to it to several additional parties. In this evaluator's opinion that is not a correct view. In the first place, TCF has been acquiring virtually all the fish available for market as frozen product. Thus, providing others with access to the freezers will not increase their use for the intended purpose. Only increasing the total catch will accomplish this and the program which will bring in the increased volume of fish is already in full swing.

Secondly, although some of the freezer space is currently under-utilized, the work space, at the time the fishing boats are in port, is fully utilized and is inadequate to be simultaneously shared by various parties. One could not maintain security of the fish, proper operation of the equipment, good business practices, nor orderly buying of fish. While it may seem a reasonable proposition, in theory, to permit sharing of the facilities, it is simply not practical.

TCF's fish marketing activity, based largely on the purchase of fish in Vava'u and sale in Nuku'alofa, showed a small profit of about T\$1,000 for 1984. For the first five months of 1985, fish volume has been about double that of the same period the year before and the activity is showing a profit of about T\$3,000 to date. Appendix 2 shows the volume of fish handled by TCF at Vava'u for the period March, 1984, to May, 1985.

At present in Vava'u there is a fishermen's cooperative society with 19 members, but of these only 4 are actively fishing and only one is landing catches comparable to the more active newer fishermen. The bulk of fish marketed by TCF is coming from 9 boats in the 28'/32' class. Kingdomwide, Tonga expects to produce 40 new boats in the next two years. Of these, two are already scheduled to be put into production in Vava'u yet this year and about half of the rest are expected to be operated from Vava'u. Each of these boats is conservatively estimated to land 11 tons of fish per year. Thus, it is not unreasonable to expect catches to double in 1986 and to come close to doubling again in 1987. Provided the fishermen continue to find a well organized market for their fish at a fair price, such as TCF has been providing, this looks like the beginning of a substantial domestic industry that will provide gainful employment to more than 200 commercial fishermen and a domestic source of protein badly needed for both dietary and balance of payments reasons. However, efficient marketing is the key.

=====

The Federation plans to take steps to get the fishermen not currently members of a cooperative to join. At present the nonmembers are receiving valuable services in marketing and fishing supplies but are not eligible for patronage refunds which this year could amount to as much as 5 cents per Kilogram.

In addition to the domestic market, TCF has been experimenting with export of specialty items. Initial sales of lobster tails in Hawaii produced a profit of about \$1,000 and this activity appears to have considerable scope for expansion. Other specialty items which will be considered include dried octopus and fresh tuna for the sushi market in Hawaii. TCF has also been experimenting with packaging choice fish filets for the Nuku'alofa market to gain experience which might lead to export potential. However, the domestic market remains the principal target and the potential demand far exceeds current supply.

Fishing supplies outlets have been established in Vava'u, Ha'apai, and Tongatapu and are doing a reasonably brisk business. It is too early to say whether it is a profitable venture, but it seems a necessary adjunct to the fish marketing business.

No significant fish marketing operation has been established in 'Eua, as envisioned, due to technical problems. Chief among these is the inadequacy of the harbor there. There are GOT plans to improve the harbor and it now seems prudent to wait until this has been done before embarking on any major development activity. However, a scaled down version is possible and wanted. One of the new 28' boats will be commissioned in 'Eua this year and existing fishermen who currently waste time and fuel marketing their own fish in Nuku'alofa would benefit from marketing services at an appropriate scale.

So far, there has been no problem selling all the available fish in Nukualofa with the exception of one temporary glut in skipjack tuna, a nonpreferred variety in Tonga. This situation is expected to hold for one or two more years, but after that it will be necessary to distribute the fish more widely. Now is the time to begin planning for that day.

Dried or smoked fish and octopus have been mentioned as possible new products to market. So far, TCF has done little work along these lines and there is no significant production elsewhere. It is unknown whether a local market can be cultivated for these products, but the possibility is attractive because once processed they can be handled without need for refrigeration and so can easily enter the village distribution system.

=====

Vanilla Marketing

The Phase II proposal identified declining quality standards as a major problem facing the vanilla marketing activity of TCF. Considering the results of the 1984 crop of which two-thirds was rejected for poor quality, this was quite prophetic. The specific remedy suggested in the Phase II proposal was to create two large curing sheds to be operated by TCF. This would provide greater control over green bean purchases and curing operations.

The first step was taken in this regard when Howard Johnson was recruited through Volunteers in Overseas Cooperative Assistance (VOCA) to analyze the situation. His report, finalized in April 1985, recommended going forward with centralized curing and, in particular, to introduce a mechanized curing process developed and owned by McCormick & Co. Use of the McCormick process would be accompanied by an exclusive marketing agreement. For the 1985 crop it was too late to obtain the equipment.

An alternative suggestion, given the unavailability of the mechanized process, was to lease or construct a large conventional curing shed which could be operated conventionally in the current year and later retrofitted with the mechanized curing equipment. This was not done. Rather, contracts with primary societies were revised so that TCF would not be committed to market societies beans, if they are not of top quality.

If the concepts put forward in the Phase II proposal and the Johnson report are to be accomplished in the term of the existing grant, steps to implement them must be taken right away. However, this evaluator recommends caution. So far, all of the analysis appears to have been done from the point of view of TCF as an entity unto itself, which it is not. TCF in its vanilla operations is a federation of primary societies whose members are vanilla farmers. Unless it can be demonstrated in terms of dollars and cents and degree of risk that individual farmers will be better off with centralized curing, it would be both improper and ill-advised for TCF to make heavy commitments in this regard. Also, it is not enough to just do an analysis. The farmers must participate in the analysis and the ultimate decision, if they are expected to believe in it.

A compromise position favored by some in MAFF makes a great deal of sense. In this case, TCF would construct a single large shed on about a three-ton scale. This would allow TCF to compete for roughly half the cooperative members' vanilla on a single price basis while continuing assistance to primary societies who wish to cure their own.

=====

Thus, a feasibility study to consider the alternatives and demonstrate the economics of the various proposals is in order.

Farm Marketing and Farm Supplies

TCF is now selling farm supplies in Vava'u, Ha'apai and Tongatapu. It is too soon to evaluate whether these activities will prove to be profitable, but so far sales have been disappointing and competition is keen. At present, TCF does not appear to have any special constituency in farm supplies and it is questionable whether now is the best time to expend valuable managerial resources in the attempt to try to establish such a clientele.

A small beginning has been made in the marketing of kava.

IIB. BENEFICIARY IMPACT

Wholesaling

TCF's 1984 sales of T\$3.3 million compared to a total population of about 100,000 implies a per capita annual transaction level of roughly T\$33. While not everyone in the Kingdom has access to TCF goods, the principal clients are the small neighborhood and rural shops scattered throughout the islands providing daily essentials, mainly food, to the average person near his home. TCF has built its volume by offering reasonable prices and convenience. It operates wholesale stores in Tongatapu, Vava'u and Ha'apai and delivers directly to rural shops on a regular schedule in Tongatapu and Vava'u at the same price available in the wholesale stores.

As pointed out in the initial proposal, the theory of trade states that whenever two parties make an exchange, both parties are benefitted. Based on the above discussion, it is clear that a large proportion of the population of Tonga, particularly the rural poor, have benefitted from the project.

In addition, the theory of cooperatives is that if the users of a service own the service itself, they benefit not only from the trade but also by capturing the profit associated with the provision of the service. In 1984, TCF made a profit of T\$147,000 which will be either distributed as patronage refund to members or held as capital contribution to further improve services offered.

Vanilla Marketing

At present, there are about 1,500 vanilla producers of whom about 1,250 are located in Vava'u and 250 in Tongatapu. About 900, or 60%, are cooperative members. Total area under vanilla production is about 1,200 acres. It appears that cooperative members are marketing only slightly more than half their crop through their cooperatives.

In past years, cooperative members have always received a better final price for their vanilla by marketing through the cooperative. However, more aggressive competition in recent years which offers more money up-front for green beans has been luring away cooperative business. In 1984, however, TCF suffered price reductions on its vanilla due to quality problems and, consequently, those who marketed outside the cooperative system actually did better.

One may justifiably question wherein the benefit lies with a federation that returns a lower final price than the competition.

SECTION 2b: BENEFICIARY IMPACT

=====

However, this is a short-run view. In the first place, this is the first year that TCF has not had the best final price. Secondly, one does not know how well the competition has done financially nor for how long they can remain so price aggressive. Finally, and most importantly, one might justifiably conclude that much of the aggressive competition for green beans is due to the Federation's presence in the market. Without TCF, the relatively small number of private competitors and the Commodities Board could afford to become complacent. TCF has managed to negotiate contracts for cured beans at up to 98% of Madagascar prices and this has set the standard against which the others have been forced to compete.

Fish Marketing

The nine commercial boats operating out of Vava'u employ about 45 fishermen. Add to this the outboard boat fishermen and specialty fishermen and the number receiving direct services from TCF is over 100. The 40 commercial boats scheduled to come on-line in the next two years will employ an additional 200 fishermen. This is rapid growth, but it is only the foundation of an industry which could become much larger.

The fishermen involved are making a good living and receive a good price for their fish, at present T\$1.00 per kilogram for grade-A&B fish compared to the retail price of T\$1.35. They can sell their entire catch immediately on return to port and do not waste time trying to market their own fish. They can concentrate on fishing, which they do best and which is the more productive use of their time. They do not run the risk of spoilage. TCF freezes the fish beyond what can be sold fresh and moves the excess to Nuku'alofa, the deficit market. There is no way the fishermen could do as well for themselves.

The real beneficiaries, however, are the consumers who are now able to obtain fresh and frozen fish at prices far below traditional imported protein sources.

Handicrafts

There are over 100 members of the handicraft society in Tongatapu and the Federation also purchases from nonmembers on the other islands. During 1984, TCF's cost of goods sold, equivalent to payments made to handicraft producers for items sold, was about T\$50,000 or nearly T\$500 per producer. The handicraft activity is not particularly significant when viewed as a percentage of TCF's total sales, but it is likely significant to the budgets of the producers marketing through the Federation, mostly women.

SECTION 3: BASELINE DATA

III. Baseline Data

A. Financial Indicators

1. Wholesale Goods.

Baseline data for the wholesale operation date back to the period prior to project initiation. Objectives in this area have been fully met as shown in the following table:

Table 1.-- Wholesale Performance Compared to Baseline and Targets

Objectives	Baseline (*) Target (**)	Achieved	Year
a. Gross Sales	* T\$314,855		1979
		T\$514,000	1982
		T\$2,241,000	1983
	** T\$450,000	T\$3,290,000	1984
b. Transportation Cost (1)	* 1.25%		1979
		1.10%	1982
		0.90%	1983
	** 1.25-2.50%	1.00%	1984
c. Administrative Expense (2)	* 7.40%		1979
		3.70%	1982
		3.10%	1983
	** 7.50%	4.51%	1984
d. Gross Profit	* -3.0% (loss)		1979
		5.5%	1982
		7.0%	1983
	** 9.0%	9.5%	1984

(continued next page)

(1) Wholesale only  
 (2) Total excluding transportation

SECTION 3: BASELINE DATA

Table 1. (cont'd) -- Wholesale Performance Compared to Baseline and Targets

Objectives	Baseline (*)		Year
	Target (**)	Achieved	
e. Current Ratio(3)	* 1:1		1979
	* 0.7:1		1980
		2.5:1	1982
		2:1	1983
	** 2:1	1.54:1	1984
f. Inventory Turnover No Target		7 times	1979
		2 times	1980
		7 times	1982
		14 times	1983
		23 times	1984

(3) Ratio of current assets to current liabilities

2. Fish Sales.

At the beginning of the project there was virtually no organized market for fish caught by the artisanal fleet, so the benchmark was nil. Now there is something of a track record for future reference. For the twelve months ended May, 1985, TCF marketed approximately 88 metric tons. Sales results are shown in Table 2.

Table 2.-- TCF Fish Sales

Year	Sales	Profit (Loss)
1983	T\$64,000	T\$(13,000)
1984	T\$114,000	T\$1,000

SECTION 3: BASELINE DATA

Page 22

3. Vanilla Price.

Baseline is 94.7% of the FOB Madagascar price. TCF achieved 98% in negotiations for 1984, but since two-thirds of the crop did not grade out, the negotiated price was not especially relevant.

4. Vanilla Quantity.

Baseline was about 5.5 tons of cured vanilla for 1982. In 1984, TCF marketed only about 4 tons and a further reduction is expected in 1985. Clearly, the movement in this indicator is in the wrong direction. Construction of a TCF operated central curing shed might turn this around in 1986.

B. Organizational Indicators

1. Phase I Indicators.

As noted in the Phase II proposal, the Phase I organizational indicators had all been achieved within the limits of Phase I including written contracts and job descriptions for employees, organization chart, standard operating procedures, a long range plan, and a useful management accounting system. However, there has been continued progress in these areas during Phase II and much of the credit is due to the ODA advisors who have filled the post of Financial Manager up to the present year.

TCF's management accounting system has become quite sophisticated and is capable of showing reliable profit center results for the various major activities of TCF as well as overall financial performance. Audited financial statements for 1984 are contained as Appendix 3.

Also during 1984, under the guidance of Patrick Blunt, ODA financial advisor to TCF at the time, TCF prepared a detailed Three-Year Plan which is contained as Appendix 4.

2. Inventory Control.

The Phase II proposal identified inventory control as the key element for success of TCF's wholesale business due to the narrow marketing margins permitted by Tongan law. This is still the case. TCF can not afford a high proportion of missing, damaged or spoiled goods nor unintentional investment in stores of slow-moving goods. Goods which must be imported must be directly purchased by TCF rather than bought from local importers to avoid sharing the narrow margin. Such imported goods must be obtained at a competitive purchase price

SECTION 3: BASELINE DATA

=====

and must be continuously reordered to match the supply flow to demand as nearly as possible to avoid stock build-up and disadvantageous price fluctuations. Since maximum selling price is established at time of entry of goods, no advantage can be achieved by storing goods, but market price might fall and storage costs are unavoidable.

Currently, TCF is doing a very good job in this regard, but much of the knowledge and technique exists only in the head of the current Secretary/Manager. The manual systems are good but cumbersome. Computerization of this element of the business, though not absolutely essential, could certainly improve the timeliness, scope and quality of reports in this critical area. Furthermore, the effort to computerize can help to quantify and make explicit many of the procedures which currently rely on intuition and memory. This latter point could prove to be a valuable contribution to successful transition of Secretary/Managers.

3. Management Training.

This area has been recognized as critical all along and progress has been made, principally as on-the-job instruction of individuals in their particular functions. The competence of the key Tongan staff, the Financial Accountant, the Stock Accountant, and the Sales Manager, in their functions testifies to the effort in this regard. However, these individuals seem to exhibit some confusion as to their role in the overall organization. They and others could benefit from an organized seminar on organizational structure, lines of reporting, responsibilities to superiors, subordinates, management committee, government and other outside parties. They could also benefit from a discussion of general management principles such as management by objectives and focusing on the mission of the organization.

Equally important would be a seminar for the management committee. One important topic in this regard is consideration of which issues are appropriate for management committee attention and which should be left to management. A second important topic concerns agenda planning so that the committee can focus on the more important issues outstanding and budget committee time in accordance with priorities.

Other priority needs for training include English language lessons for key TCF staff, technical and managerial skills for TCF staff, involvement of Cooperative Department personnel in management and commercial exercises, and primary society level training as it relates to TCF's commercial interests.

There are more training needs than there are funds in this project, but existing funds have been only lightly used up to now.

=====

Much of the original funding was earmarked for a few individuals who would be identified as candidates for the top two management positions to receive high level training in the United States. Unfortunately, no such high level candidates have emerged and a strategy of slower development of staff up through the ranks has been adopted. Under present circumstances it appears that training funds can be much more efficiently used in Tonga. This requires a detailed training plan to be developed to sort out priorities, identify specific training programs, and to budget and schedule these. This must either be done locally or a consultant will be needed. Patrick Blunt, ODA advisor to the Cooperatives Department, has agreed to explore whether his schedule will permit taking on this task. If some competent local person can find the time to do it, this would obviously save money for actual training.

=====

IV. Methology.

No major change from the methodology expressed in the Phase II proposal is indicated. However, from a technical point of view, the time frames recommended in this evaluation report take on additional significance because much of the money in this project allocated for capital assistance, training and consultants is yet to be spent. In order to achieve the objectives of the project, progress must be made on several fronts simultaneously. Slippage from the schedule may mean in some areas that funds can not be spent for their intended purpose in a responsible way. Thus, close monitoring of progress in these areas is called for so that any problems can be detected early enough to be resolved or to permit funds to be responsibly reprogrammed.

SECTION 5: TIME FRAME

=====

V. Time Frame

A. Results Against Time Frame To Date

Time Frame

As Programmed

Results

September 1984

- |   |   |
|---|---|
| 1. Activities begin under Phase II  | 1. Activities begun on Schedule   |
| 2. Tongan Wholesale Manager managing consumer wholesale business                                  | 2. Tongan Wholesale Manager was managing wholesale business with considerable supervision, but he resigned in November, 1984.   |
| 3. Begin surveying market for micro-computer hardware and software for wholesale goods management | 3. Survey of market on schedule   |
| 4. Vanilla contract negotiated with FOB Tonga price at 96% of FOB Madegascar price                | 4. Vanilla contract was negotiated at 98%, but quality problems on 2nd and 3rd shipments concerning high moisture content, low vanillin and mold led to down-grading and lower prices |

December 1984

- |   |   |
|---|---|
| 1. Computer and software selected and ordered               | 1. Computer and software not ordered. Systems being considered involved point-of-sale/cash register entry. Systems appeared to be too complex for Tongan situation. In interim, manual point-of-sale system greatly improved. On reevaluation, computers should be limited to stock control, purchase management and financial accounting within head office. |
| 2. Wholesale volume reaches annual rate of T\$3.0 million.  | 2. Wholesale volume reached annual rate of T\$3.3 million.  |
| 3. Gross margin on wholesale activities reaches rate of 8%. | 3. Gross margin on wholesale reached 9.5%   |

SECTION 5: TIME FRAME

=====

- |   |  |
|---|--|
| 4. Net surplus on wholesale activities reaches rate of 2.0%                     | 4. Net Surplus reached 4.8%  |
| 5. Direct overseas purchase of items for wholesale reaches 85%.                 | 5. Virtually no overseas goods are being purchased from other importers.                           |
| 6. Handicraft sales increased 25% over 1983 with gross margin remaining at 25%. | 6. Handicraft sales only increased 4.6% and due to increases in staff costs made a small net loss. |
| 7. Volume of vanilla marketed reaches 14,000 lbs.                               | 7. Volume of vanilla marketed reached only about 8,000 lbs.  |
| 8. Number of cooperatives marketing through TCF reaches 14.                     | 8. Number of cooperative marketing vanilla through TCF did reach 14.                               |
| 9. Average vanilla curing ratio falls to 4.6.                                   | 9. Vanilla curing ratio not available, still being audited.  |
| 10. Fish sales reach annual rate of T\$125,000.                                 | 10. Fish sales reached T\$114,000 (an increase of 78% over 1983).                                  |

March 1985

- |   |  |
|---|--|
| 1. Deputy Secretary/Manager designate attends management training course in U.S.                  | 1. No Tongan Deputy Secretary/Manager was ever appointed by the management committee. The Wholesale Manager resigned in November and was later replaced by a Sales Manager at a lower level. When the ODA-provided Financial Manager transferred from the Federation to the Cooperatives Dept., an expatriate, Eric Abbott, was hired as Financial Manager and Secretary/Manager Designate. Thus, the envisioned training program was not appropriate. |
| 2. Microcomputer and software installed and training for computerized inventory management begins | 2. Due to the second thoughts about computerization explained above, procurement did not go forward. It is appropriate now to go forward with revised objectives.  |

=====

June 1985

- |  |   |
|--|---|
| 1. Tongan appointed as Deputy Secretary/Manager of TCF and begins serving as counterpart for ACDI technician | 1. As explained above, no Tongan was ever appointed as Deputy Secretary/Manager. Current intention is for John Kreag to step aside as Secretary/Manager of TCF in favor of Eric Abbott in January, 1986, subject to Management Committee approval.                            |
| 2. Fish marketing volume reaches rate of 10 tons per month   | 2. Fish Marketing for the 12 months ended May 31, 1985 reached about 7.3 tons per month. The high month in the period was December, 1984, in which 19.8 tons were purchased. Purchases for the first five months of 1985 are nearly double those for the same period in 1984. |
| 3. Annual evaluation begins.   | 3. Annual evaluation began on schedule.   |

B. Remaining Time Frame As Programmed

July 1985

- Computerized inventory management system in place

Comment: Due to delay in settling on the system parameters this objective cannot be achieved before mid-1986.

September 1985

- Vanilla contract negotiated with FOB Tonga price at 98% of FOB Madagascar price

Comment: O.K.

- Tongan accountant attends financial management course in U.S.A.

Comment: This training is no longer appropriate.

SECTION 5: TIME FRAME

=====

- Warehouse extension completed in Vava'u

Comment: TCF has been renting warehouse space. Plans for the extension are complete, but will not be implemented until such time as it becomes clearly cost effective. Such extension will be bank financed locally.

December 31, 1985

- Wholesale volume reaches annual rate of T\$3.5 million

Comment: Volume should considerably exceed this level, but since greater attention needs to be paid to fish and vanilla marketing there is no good reason to fix a new target.

- Gross margin on wholesale activities reaches a rate of 8.5%

Comment: O.K.

- Net surplus on wholesale activities reaches a rate of 2.5%

Comment: O.K.

- Direct overseas purchase of items for wholesale reaches 85%

Comment: Direct purchase of items manufactured overseas is near 100% and should remain near this level.

- Handicraft sales increased 25% over 1984 with gross margin remaining at 25%

Comment: Sales projections have been overly optimistic. 10% would be satisfactory and more realistic. Gross margin target is O.K.

- Volume of vanilla marketed reaches 16,000 lbs

Comment: In view of last year's performance, such a level is not achievable. However, TCF should try to at least achieve last year's level of 8,000 lbs.

SECTION 5: TIME FRAME

- =====
- Number of cooperatives marketing through TCF reaches 16

Comment: Cannot be achieved. At least two cooperatives that marketed through TCF last year are having problems acquiring green vanilla because they are in default on vanilla curing shed loans and so do not qualify for procurement loans.

- Average vanilla curing ratio falls to 4.5

Comment: Last year's results are not encouraging, but the current Government program of quality assurance is resulting in a much lower percent of immature beans. At any rate, 4.5 is a proper target.

- Fish sales reach annual rate of T\$250,000

Comment: The amount was a misprint. It should have been T\$200,000 as in the goal section. T\$200,000 may be achievable and is a reasonable target.

January 1986

- Tongan Secretary/Manager takes over primary responsibility for TCF management; ACDI technician remains as advisor and manager of special projects

Comment: The currently designated replacement for ACDI's technician as Secretary/Manager is not Tongan but a British citizen. Still, it is anticipated that the transition will take place as scheduled and that management of TCF, whether Tongan or not, will be paid from the income of the business.

SECTION 5: TIME FRAME

=====

June 1986

- Federation moves to new owned facilities in Nuku'alofa

Comment: TCF has a site selection committee actively working on this issue, but if facilities need to be constructed, they cannot be ready on this time line. It is more important that expansion plans be prudent than rapid. Hopefully, a site will have been selected and a development plan roughed out by the time ACDI's technician relinquishes managerial responsibility in January, 1986.

- Annual evaluation begins

Comment: O.K.

August 1986

- ACDI technician departs

Comment: O.K.

- Tongans are competently executing the duties of the following posts: Secretary/Manager, Controller, Wholesale Manager, Fish Marketing Manager

Comment: Tongans are currently fulfilling the duties of Sales Manager and Fish Marketing Manager, which are mid-level supervised management positions. Current plans are for the present Financial Manager, a British citizen, to assume the duties of Secretary/Manager in addition to his current post and to hire the services of a senior level Merchandise Manager who is already fully qualified, whether Tongan or not.

September 1986

- ACDI technician submits final report to ACDI home office

Comment: O.K.

SECTION 5: TIME FRAME

=====

November 1986

- ACDI submits final report to TCF Management Committee, Tonga Department of Cooperatives, and AID

Comment: O.K.

March 1987

- All expenditures under the grant have been completed and final bills have been cleared

Comment: O.K.

- End-of-project audit has been completed and any required reports have been submitted

Comment: O.K.

C. Recommended New Time Frame

July 1985

- Management committee approves establishment of fish market in Nuku'alofa and decides whether to build or rent
- Feasibility study for central vanilla curing shed in Vava'u completed and recommended to management committee by Vava'u subcommittee

September 1985

- Feasibility study for central vanilla curing shed in Vava'u approved by management committee
- Bank loan for central curing shed in Vava'u applied for
- Vanilla contract negotiated with FOB Tonga price at 98% of FOB Madagascar price
- Training consultant begins training plan and seminars on management and organizational structure for TCF staff and policy/representational skills for management committee
- Computer equipment ordered

SECTION 5: TIME FRAME

=====

October 1985

- Land obtained or rental agreement signed for Nuku'alofa fish market
- Rental agreement signed for 'Eua fish handling facility
- Refrigeration consultant completes specifications for freezers and related equipment for Nuku'alofa fish market, Vava'u and 'Eua fish handling centers, and wholesale warehouse
- Training plan completed and approved by management committee
- Computer equipment delivered and installed
- Software for overseas procurement and stock control roughed out at ACDI

November 1985

- Land acquired for vanilla curing shed in Vava'u
- Bank loan for vanilla curing shed in Vava'u approved
- Freezers and refrigeration equipment ordered
- Consultant trains staff in use of computer and word processing package and begins adaptation of software for overseas procurement and stock control systems

December 31, 1985

- Drawings completed, bids submitted, management committee approval for central vanilla curing shed in Vava'u
- Drawings completed, bids submitted, management committee approval for Nuku'alofa fish market
- Wholesale volume reaches annual rate of T\$3.5 million
- Gross margin on wholesale activities reaches a rate of 8.5%
- Net surplus on wholesale activities reaches a rate of 2.5%
- Direct purchase of overseas items for wholesale remains near 100%

SECTION 5: TIME FRAME

- =====
- Handicraft sales increased 10% over 1984 with gross margin remaining near 25%
  - Volume of vanilla marketed reaches 8,000 lbs
  - Number of cooperatives marketing through TCF does not fall below 12
  - Average vanilla curing ratio falls to 4.5
  - Fish sales reach annual rate of T\$200,000

January 1986

- New Secretary/Manager paid from TCF resources takes over primary responsibility for TCF management; ACIDI technician remains as advisor and manager of the new federation with responsibilities for fish, vanilla and handicraft marketing
- Federation has located site for new owned facilities in Nuku'alofa and has roughed out a development plan
- Vava'u branch operations consultant arrives
- Construction contract let for central vanilla curing shed in Vava'u
- Construction contract let for Nuku'alofa fish market

February 1986

- Freezers and refrigeration equipment delivered
- Equipment ordered and construction begun for central vanilla curing shed in Vava'u
- Construction begun for Nuku'alofa fish market
- Computer software consultant returns for software maintenance and revision for overseas procurement and stock control systems

SECTION 5: TIME FRAME

=====

March 1986

- Freezers and related equipment for Nuku'alofa fish market, Vava'u and 'Eua fish handling centers, and wholesale warehouse installed
- Computerized inventory management system in place

April 1986

- Central vanilla curing shed in Vava'u completed

May 1986

- Nuku'alofa fish market begins operation

June 1986

- Annual evaluation begins

August 1986

- ACDI technician departs

September 1986

- ACDI technician submits final report to ACDI home office

November 1986

- ACDI submits final report to TCF Management Committee, Tonga Department of Cooperatives, and AID

March 1987

- All expenditures under the grant have been completed and final bills have been cleared
- End-of-project audit has been completed and any required reports have been submitted

SECTION 6: ASSUMPTIONS

VI. ASSUMPTIONS

The assumptions below are from the Phase II proposal. The comments are those of the evaluator.

1. TCF will be able to attract and hold competent, honest and diligent management personnel.

Comment: TCF has been successful to a degree in this regard. Certainly, they have attracted honest and diligent personnel who are competent at the level of work they have been assigned. However, TCF has not been successful in attracting personnel with proven competency at the highest level of management despite having advertised several times with salary scales increased each time. Current mid-level management may eventually reach top-level competence, but promotion from this cadre will require a longer time-line than originally envisioned to allow for adequate on-the-job experience.

2. In light of TCF's experience with hurricane Isaac March 1982, it bears stating the obvious that project success depends upon freedom from natural calamity. This is particularly relevant with respect to vanilla production and fish catches.

Comment: Fortunately, the project has not suffered any natural calamity thus far in Phase II, but the assumption is as valid as ever with respect to the remaining period.

3. Fish marketing is highly dependent upon the continued pace of boat building under programs currently being sponsored by the Government of Tonga and also upon the schooling patterns of tuna.

Comment: The boat building program has been moving forward apace and is responsible for driving the TCF fish marketing project so far. These projects are mutually dependent upon one another for success so the original assumption remains valid.

4. The Government of Tonga will continue to support TCF in concept and practice. Specifically, the Government will pass no new laws detrimental to TCF's consumer goods business, will not repeal the vanilla marketing/export license and will not change its attitude toward promoting TCF as the principal institution for domestic fish marketing.

Comment: GOT has been very supportive of TCF, thus contributing immeasurably to project success to date. However, two existing problems relating to fish marketing, one at the concept

SECTION 6: ASSUMPTIONS

=====  
level the other at the practice level, are worth mentioning.

The Fisheries Department has been operating a long-line fishing boat, the Lofa, and delivering most of the catch to the cannery in Fiji. Occasionally, however, it brings fish into Nuku'alofa and sells them below market price as established by competition amongst the artisanal fleet. This appears to be an example of one government program at odds with another. If the artisanal fleet is to be the permanent source of fish for the Tongan population, the market price must remain high enough for the fishermen to achieve an adequate return on their time and investment plus bear all the marketing costs of handling, freezing, transporting, spoilage and selling. So far, in practice, this has not proved to be a major problem due to the infrequency of dumping and the relatively small quantity of fish compared to the annual demand. However, the potential difficulty is considerable and there is a conceptual problem that ought to be sorted out.

The practical problem relates to the fish handling facilities which TCF has been operating in Vava'u. No proper lease has ever been issued by the Government. This has caused no problem on a day-to-day basis because TCF has had de facto control, but the lack of a proper lease is devastating from the point of view of long-run business and project planning.

Looking to the future, it has been suggested that TCF's continued success in fish marketing depends upon establishing a proper retail/wholesale fish market within the business district of Nuku'alofa and renewed success in vanilla marketing depends upon construction of a central curing shed in Vava'u. Thus, it would be prudent to add the following specific assumptions to this category:

- a. GOT will not oppose establishment of a retail/wholesale fish market in Nuku'alofa;
- b. GOT will not oppose construction of a central vanilla curing shed in Vava'u;
- c. GOT will review its policy with respect to selling the catch of the Lofa to avoid conflicting with the requirements of supporting the artisanal fishing industry;
- d. GOT will execute a lease to the Federation as sole proprietor of the Vava'u fish handling complex.

SECTION 7: GOALS

VII. GOALS

A. Financial Indicators

Before considering the specific goals below a general comment is in order concerning those indicators relating to TCF's wholesale activity. By and large, goals in the wholesale activity have been achieved. This activity has developed into a well-run, full-fledged business. Opportunity for further growth exists, but there is little scope for dramatic efficiency improvement. It is not yet a mature business and considerable staff development work remains, but the business itself is clearly beyond the development stage. Financial indicators in this activity are important to monitor maintenance of efficiencies already achieved, but provide little to shoot at as an indicator of project progress. For this reason, this evaluator recommends placing much greater emphasis on the indicators of the other activities, particularly fish and vanilla marketing.

1. Gross Sales. 1984 target = T\$ 3.0 million. T\$3.3 achieved.  
1985 target = T\$ 3.5 million.

Comment: The 1985 target will certainly be exceeded, but there is no compelling reason to revise.

2. Gross Margin. 1984 target = 8.0%. 9.5% achieved.  
1985 target = 8.5%.

Comment: The 9.5% achieved in 1984 is just about all that can be hoped for in the merchandising business under current Tongan law. Since various commodities carry different margins which increase moving from essentials to less essential goods. Slippage in this indicator might indicate nothing more than a change in the mix of goods toward more essentials. This would not necessarily be a bad thing. The 1985 target remains reasonable.

3. Overseas Purchases. 1984 target = 75%. Virtually 100% achieved.  
1985 target = 90%.

Comment: TCF now purchases nearly all its overseas-manufactured goods directly from overseas manufacturers or distributors. The only exceptions are in rare cases when some commodity is in short supply. This

SECTION 7: GOALS

mode of operation must be maintained for TCF to remain successful.

4. Surplus. 1984 target = 2.0%. 4.8% achieved.  
1985 target = 2.5%.

Comment: Hopefully, with increased volume and continued high gross margin, TCF will be able to maintain a surplus rate above 4.0% on its merchandise business.

5. Current Ratio. Target = 2:1. 1.5:1 achieved in 1984.

Comment: Although the ratio is below target, the cash position is healthy. If accounts receivable are removed from current assets, the remaining assets are sufficient to meet current liabilities. Also, if one removes vanilla procurement loans, not a part of the wholesale activity, from current liabilities, then the ratio would be greater than 2:1.

6. Inventory Turnover Rate. No target. Previously reported rate:  
1983 = 14.

Comment: The computed rate for 1984 is far in excess of 14, but is not meaningful because of the formula for calculation which averages beginning and ending stock to compare to sales. Since the business has been rapidly expanding, this method underestimates the actual stock position. If one had the computational means to determine average daily stock position, this would be a more meaningful ratio to sales. Since bulk goods come in on roughly a monthly basis, according to shipping schedules, it is difficult to actually turn over inventory more than about 12 times. TCF has been moving stock well and this is the ultimate key to continued success.

7. Vanilla Price. 1984 target = 96% FOB Madagascar. 98% achieved.  
1985 target = 98%.

Comment: The price is negotiated on the basis of grade-A beans. Since two-thirds of the 1984 crop did not grade out, negotiated price levels were not achieved. The 1985 negotiated price target is still appropriate.

SECTION 7: GOALS

8. Quantity of Vanilla Marketed. 1984 target = 7 tons. 4 tons achieved.  
1985 target = 8 tons.

Comment: In view of 1984 results, the 1985 target is not realistic. It will be very difficult to achieve the 1984 level, but TCF should strive for that if consistent with maintaining high quality standards. However, in 1985, one must regard quality as more important than quantity.

9. Number of Cooperatives. 1984 target = 14. 14 achieved.  
1985 target = 16.

Comment: This target relates to vanilla cooperatives. There are at present no dynamics which would lead one to expect the 1985 target to be achieved.

10. Curing Ratio. Target = 4.5:1.

Comment: Although official computation of the 1984 curing ratio has not yet been completed, it is clear that results were not close to achieving the target. Primary societies did not properly cure in 1984. Operations in 1985 appear to be much improved. Though the target may yet not be achieved, it is nevertheless achievable and appropriate.

11. Fish Sales. 1984 target = T\$125,000. T\$113,848 achieved.  
1985 target = T\$200,000.

Comment: The 1985 target should be achievable.

12. Handicraft Sales. 1984 target = 25% increase. 4.6% achieved.  
1985 target = 25% additional increase.

Comment: A more realistic target for 1985 would be a 10% increase over 1984.

SECTION 7: GOALS

=====

B. Organizational Indicators

1. Phase I Indicators. As indicated in the Phase II proposal, the Phase I indicators had been achieved in Phase I, but would continue to be improved in Phase II. These included organization chart, job descriptions, standard operating procedures, management accounting system, and a long-range plan.

Comment: Noteable achievements in this regard in 1984/85 include the first fully audited financial statements (Appendix 3) and a detailed Three-Year Rolling Plan (Appendix 4).

2. Computerized Inventory Control. Targeted to be in place by June, 1985.

Comment: This has not gone forward. However, the need remains as described in the Phase II goal. This should be implemented not later than June, 1986.

3. Management Training. Goal is to shift from near total reliance on on-the-job training to a more balanced program including formalized training.

Comment: Little has been done along these lines. Since high level management candidates have not been identified, the overseas training envisioned is considered a bit premature. The consensus seems to be that more can be achieved with training in country. A detailed training plan must be drawn up right away to accomplish this within the term of the grant.

VIII. POST-PROJECT EXPECTATIONS

=====  
If the recommendations of this evaluation are implemented, the following conditions can be expected to prevail at the end of the project. The Tonga Cooperative Federation will have been split. Only the consumer wholesaling function will remain in TCF. The business will be able to carry on as a fully commercial venture. Top management, though not Tongan in the near term, can be afforded from the profits of the business. TCF can continue expanding its valuable consumer services without outside assistance other than normal banking support and occasional consulting on technical or managerial matters. Continued success is not guaranteed, but TCF has now been given the tools it needs to continue successful operation and the advantages of capital and institutional structure the lack of which contributed to its earlier difficulties.

The new federation or other organizational structure which is set up to manage the "developmental" activities of vanilla, fish and handicraft marketing will have established a principal office in Nuku'alofa and a major branch office in Vava'u. Key personnel including a General Manager, Vava'u Branch Manager, Assistant Manager/Vanilla and Chief Curer (Vava'u), Assistant Manager/Fish Operations (Vava'u), Assistant Manager/Fish Sales, and support staff will have been hired and will be managing the organization. If there is no follow-on technical assistance, the new federation will not be in a strong managerial or organizational position, but such follow-on assistance need not necessarily come from USAID. The basic structure, facilities, and activities will be in place.

The new federation will be operating a vanilla curing shed and assembly point for cured vanilla procurement in Vava'u, the fish marketing complex in Vava'u, a small fish marketing facility in 'Eua, and a fish retail/wholesale store in Nuku'alofa.

The split in TCF will not be totally beneficial to the new federation. It will be allocated the resources donated by various assistance agencies for the sake of the activities it operates, but it will not share in the accumulated profits of TCF. Nor will it enjoy the good will and credit status which TCF has built up. Nor can it hedge risks against the more certain merchandise income. Nor will it fully participate in the staff development resources which have been absorbed by TCF. However, it will have the advantage of a more representative, more concerned management committee and a leaner more focused organizational structure.

This is not a place to debate the pros and cons of splitting the TCF since this is primarily a local debate which is well on its way

SECTION 8: POST-PROJECT EXPECTATIONS

=====  
to resolution. Only general member approval remains. The principal driving force appears to be protection of the assets and interests of the consumer primary societies which dominate the affairs of TCF. This seems a reasonable position for those societies to take. All that remains for ACDI is to try to see that the new federation is in the best possible position for survival at the end of the grant period. Hopefully, some form of follow-on assistance will be forthcoming, but all programs within the grant should be discrete so that they do not directly depend upon follow-on assistance which may or may not materialize. Nevertheless, the project should aim at establishing a sound foundation upon which further expansion can be based.

IX. EVALUATIONS

ACDI's grant stipulates annual evaluation and a terminal audit. Only the final evaluation remains and the procedure as established seems appropriate. ACDI is unclear concerning the nature, intent and scope of the proposed final audit, but with AID guidance will conform to requirements.

X. FINANCIAL NARRATIVE

The overall budget for the project remains adequate for achieving project objectives. Such changes as are recommended here relate only to adjustments within line items and are intended to better achieve original objectives.

Commodities

The commodities line item detail budget, in contrast to the analysis of other line items herein, contains an estimate of amounts committed as well as expended through June, 1985, because a substantial amount has been expended from TCF local funds for commodities to be financed by the project. These amounts are to be reimbursed shortly. The figures for this detail were taken from the project's local books rather than ACDI/Washington books which reflect only actual grant expenditures.

The commodities program began in Phase I when funds originally intended for warehouse construction were reprogrammed for hurricane reconstruction and procurement of various kinds of equipment deemed to be of higher priority and less within the means of TCF to provide for itself than warehouse facilities. This was in recognition of changed conditions. The line item Office/Warehouse and Other was created at that time. In Phase II, additional equipment needs were identified and were subsumed with the Phase I funds in the new commodities line.

Phase I commodity funds were detailed at a level of \$94,000 but funded only at \$85,000. Of this amount, \$20,000 was identified for hurricane reconstruction, but only \$3,000 was actually used. No further expenditure for that purpose is anticipated.

Equipment for vanilla curing sheds up to \$3,000 each was programmed to a total of \$24,000. \$6,000 has been expended and up to four more sheds could become eligible within the term of the grant. Thus, \$6,000 is available for reprogramming.

Fish marketing equipment including a freezer were provided for at \$30,000. The smaller equipment has been purchased, but the freezer has not been due to uncertainty over the type of equipment that will best meet the need and lack of an appropriate place to put it. Similar problems have held up procurement of freezers for the wholesale activity. A refrigeration consultant and establishment of the Nuku'alofa fish market and new wholesale facilities within the term of the grant are expected to resolve these problems.

=====

Of the Phase II funds, a total of \$23,500 is available for reprogramming. The source of these funds is an excess in the budget for sales displays for fish supplies, farm supplies, and wholesale goods. The needs have been satisfied locally at much lower than expected cost.

The major new item recommended for use of the available funds is 50% support of a new vanilla curing shed to be operated by TCF or its successor organization. This appears to be important to get TCF more into the vanilla business and to establish a more permanent presence in Vava'u. It is also important to permit cooperative members to have an alternative marketing channel as a hedging strategy and to permit them to get a higher front-end payment for their vanilla without marketing outside the cooperative system.

#### Training

Amounts set aside for U.S. training are no longer appropriate. Aside from the computer training funds, all available training funds should be used locally. This evaluator recommends that a consultant visit the project in September, 1985, to draw up a training plan with local cooperative leaders and to provide basic seminars in management and organizational structure for key staff of TCF and the management committee.

#### Technical Assistance

This line item is the one easiest to program in advance, so less change is expected. However, the need for additional short term consultants was identified. The budget provides for 5 one-month consultancies. At this point, the project would be better served by three consultancies for a total of eleven months.

The first consultancy would be a six-week assignment for a refrigeration expert to advise on appropriate equipment for the fish marketing and wholesale businesses and to draw up specifications for procurement.

The second would be another six-week assignment for software maintenance of the procurement and stock control system to follow up on the original implementation and training. This would permit user feedback after an initial trial period to be incorporated into improvements in the system. ACIDI's experience has been that this is a very valuable part of system development.

Finally, it would be desirable to have a consultant for eight months beginning in January, 1986, through the end of the project to help establish the Vava'u office for the new marketing federation, to

SECTION 10: FINANCIAL NARRATIVE

=====  
oversee construction of the central vanilla curing shed, and to work on improving the fish and vanilla marketing activities at the producer level. Due to communications problems, the head office must be in Nuku'alofa so that the general manager can manage the export business. Also, the principal fish market will be in Nuku'alofa. However, the bulk of the vanilla producers and fishermen are in Vava'u. Thus, the new federation must have a very strong branch office there and the branch manager should be the second ranking position in the organization. The consultant would be counterpart to the Vava'u branch manager. This consultant would also be in an excellent position to take over project management, if a follow-on project is forthcoming.

Unfortunately, there appears to be only enough money in the technical assistance line to support 8.5 months of consultancy. Such additional funds as are available come primarily from reprogramming unused housing and education allowances. The available time would best be distributed by allocating 5 weeks to each of the first mentioned consultancies and 6 months to the Vava'u operations consultant. The latter consultancy should begin in January shortly after the establishment of the new federation. Perhaps, as the project winds down, additional unexpended funds will become available to extend the consultancy to project's end or, if there is to be a follow-on project, funds may be available from the new source.

XI. BUDGET

There are no suggested changes in the controlling budget. Only supporting detail for Commodities, Training, and Technical Assistance line items are adjusted to reflect changed conditions and recommended actions for achieving project goals within the remaining term of the grant.

Table 3.-- Grant Budget (\$'000)

Line Item	Total Budget	Expended to 6/30/85	Funds Remaining
Working Capital	168.0	140.9	27.1
Commodities	217.0	23.4	193.6
Training	57.0	8.6	48.4
Technical Assistance	641.5	380.0	261.5
<b>TOTAL</b>	<b>1083.5</b>	<b>552.9</b>	<b>530.6</b>

SECTION 11: BUDGET

Table 4.-- Commodities Detail (\$'000)

Line Item	Current Budget	Expended/ Committed	Balance	Change	New Program
<u>Phase I:</u>					
Ha'apai warehouse & hurricane reconstr'n	20.0	3.0	17.0	-17.0	3.0
Equipment for vanilla curing sheds	24.0	6.0	18.0	-6.0	18.0
Fish marketing equipment (freezer)	30.0	10.0	20.0	nil	30.0
Freezers for Tongatapu warehouse	15.0	0.0	15.0	+11.5	26.5
Management contracts for primary societies	5.0	4.5	0.5	nil	5.0
Subtotal Phase I	94.0	23.5	70.5	-11.5	82.5
Not to exceed	85.0				

Table 4 continued next page

EVALUATION REPORT  
 TONGA COOPERATIVE FEDERATION PROJECT

July 15, 1985

SECTION 11: BUDGET

Page 50

Table 4 (cont'd).-- Commodities Detail (\$'000)

Line Item	Current Budget	Expended/ Committed	Balance	Change	New Program
<u>Phase I:</u>					
Subtotal Phase I	94.0	23.5	70.5	-11.5	82.5
Not to exceed	85.0				
<u>Phase II:</u>					
Fish handling equipment	12.0	7.5	4.5	nil	12.0
Ice maker, crusher, boxes (Tongatapu)	12.0	0.0	12.0	nil	12.0
Freezer for 'Eua (Ice maker, crusher)	24.0	0.0	24.0	nil	24.0
Cash register/display for fish supplies	6.0	2.5	3.5	-3.5	2.5
Sales display for farm supplies	8.0	1.0	7.0	-7.0	1.0
Display for wholesale	20.0	7.0	13.0	-13.0	7.0
Administrative equipment (photocopier, computer, software)	50.0	5.0	45.0	nil	50.0
Subtotal Phase II	132.0	23.0	109.0	-23.5	108.5
Central vanilla curing shed & equipment at 50% financing (Vava'u)					26.0
GRAND TOTAL	217.0	46.5	179.5	nil	217.0

SECTION 11: BUDGET

Table 5.-- Training Detail (\$'000)

Line Item	Current Budget	Expended 6/30/85	Balance	Change	New Program
<u>Phase I:</u>					
General Training	6.0	6.0	0.0	nil	6.0
<u>Phase II:</u>					
U.S. training for:					
Secretary/Manager Designate	9.5	0.0	9.5	-9.5	0.0
Financial Manager Designate	9.5	0.0	9.5	-9.5	0.0
Secretary, Management Committee	0.0	1.3	-1.3	+1.5	1.5
Computer training	7.0	0.0	7.0	nil	7.0
Local training:					
1984/85	12.5	1.3	11.2	-11.2	1.3
1985/86	12.5	0.0	12.5	+28.7	41.2
<b>GRAND TOTAL</b>	<b>57.0</b>	<b>8.6</b>	<b>48.4</b>	<b>nil</b>	<b>57.0</b>

SECTION 11: BUDGET

Table 6.-- Technical Assistance Detail (\$'000)

Line Item	New Program Jul 85 - Aug 86	
Line item budget		641.5
Expended through 6/30/85		380.0
		-----
Unexpended balance		261.5
		=====
<u>New Program:</u>		
Salary		60.0
Payroll added cost		14.0
Allowances:		
Housing	7.0	
Education	28.7	35.7
	-----	
Travel		26.3
Consultants:		
Per diem (\$50 x 30 x 8.5)	12.8	
Fee (#250 x 24 x 8.5)	51.0	
Air fares (\$3,000 x 3)	9.0	72.8
	-----	
Evaluation/Audit		15.0
Other direct costs		2.4
Administrative allocation (13.5%)		35.3
		-----
New technical assistance program		261.5
		=====

APPENDIX 1  
LIST OF PEOPLE CONSULTED

Government of Tonga

S. Raghavan, Secretary, Labour, Commerce and Industries  
T. Simiki, Director of Agriculture, Fisheries and Forests  
Fononga Tuipeatau, Registrar of Cooperatives  
Sione Tangi, Assistant Registrar of Cooperatives  
Semisi Fakahau, Principal Fisheries Officer  
Haniteli Fa'anunu, Principal Agricultural Officer, Vava'u  
Tevita Vulaono 'Aisea, Cooperative Officer, Vava'u  
Aesea Tuipulatu, Fisheries Officer, Vava'u

Management Committee, Tonga Cooperative Federation

'Apolo Lufe, Chairman  
Sini Nafe, Vice Chairman  
Hama Na'ati, Treasurer  
Selesi Takau, Member  
'Aleki Sisifa, Member  
Falekava Kupu, Member  
Mosese Tukufuka, Member  
Tonga Levai, Alternate Member

Staff, Tonga Cooperative Federation

Eric Abbott, Financial Manager and Secretary/Manager Designate  
Soane Talanoa, Financial Accountant  
Edgar Cocker, Inventory Accountant  
Lomekina Pahulu, Sales Manager

Staff, Tonga Cooperative Federation (continued)

Fotuaika, Store Manager, Tongatapu

Latu Fainga`a, Store Manager, Vava`u

Sio `Ofanoa, Fish Manager, Vava`u

Robert Reutenaur, Peace Corps Volunteer, fish marketing, Vava`u

Edward Cohen, Peace Corps Volunteer, fish marketing, Tongatapu

Maureen Kelley, Peace Corps Volunteer, handicraft sales

Alexis Huni, former Wholesale Manager, TCF

USAID

William Paupe

Louis Kuhn

Richard Nishihara

Others

Ronald Wootton, ODA Pacific Regional Officer

Patrick Blunt, Cooperatives Advisor, British Overseas Development  
Administration

Ian Cartwright, Fisheries Development Specialist provided to  
Fisheries Department by Commonwealth Fund for  
Technical Cooperation (CFTC)

Richard Elsy, Former Fisheries Development Specialist provided to  
Fisheries Department by Commonwealth Fund for  
Technical Cooperation (CFTC)

Stephane Sorin, Vanilla Advisor (French) to MAFF

J. Dequaire, Vanilla Advisor (French) to MAFF

Thomas Tischendor, Peace Corps Country Director

APPENDIX 2

Fish Catch at Vava'u, March, 1984, to May, 1985

# T.C.F. Vava'u Marine Purchases

Mar 84 → May 85

MONTH	A + B		SKIPJACK		C		LOBSTER TAILS		OCTOPUS		GOVT BOATS		TOTAL		
	KGS	% Δ vs Last Yr	KGS	% Δ vs Last Yr	KGS	% Δ vs Last Yr	KGS	% Δ vs Last Yr	KGS	% Δ vs Last Yr	Grd	KGS	% Δ vs Last Yr	KGS	% Δ vs Last Yr
u 84	1,037		471		NOT BUY		130		NOT BUY			NIL		1,638	
n 84	3,501		0		NOT BUY		49		NOT BUY			NIL		2,550	
y 84	1,608		11		7		44		NOT BUY			NIL		1,670	
u 84	1,571		1,042		9		74		NOT BUY		A/B	2000		4,696	
ly 84	1,829		500		0		7		NOT BUY		A/B	3000		5,336	
g 84	2,902		14		80		96		NO RECORD		A/B	1000		4,092	
st 84	2,660		2,086		96		120		NO RECORD			NIL		4,962	
f 84	3,673		2,021		247		122		4			NIL		6,067	
v 84	3,845		1,359		175		87		16			NIL		5,476	
x 84	11,426		8,079		136		104		11			NIL		19,756	
n 85	4,246		2,226		37		19		0			NIL		6,528	
b 85	4,879		10,811		213		70		59			NIL		16,032	
n 85	3,221	+210.6	3,773	+70.1	286	+∞	254	+95.3	173			NIL		7,707	+370.5
n 85	3,425	+37.1	777	+∞	246	+∞	189	+285.7	107			NIL		4,747	+86.2
y 85	2,549	+58.5	54	+390.1	166	+227.1	126	+186.3	151			NIL		3,046	+82.4

APPENDIX 3

1984 Annual Accounts, Tonga Cooperative Federation Limited

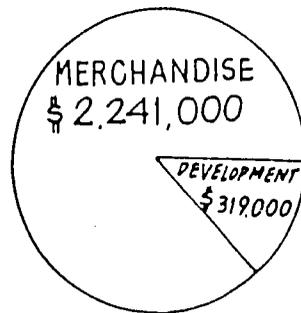
1 9 8 4  
A N N U A L   A C C O U N T S  
T O N G A   C O O P E R A T I V E   F E D E R A T I O N   L I M I T E D

*PREPARED BY: CO-OPERATIVE DEPARTMENT  
Ministry of Labour Commerce & Industries  
NUKU'ALOFA TONGA*

TONGA CO-OPERATIVE FEDERATION LIMITED

1984 FINANCIAL HIGHLIGHTS

SALES INCREASE BY 45%

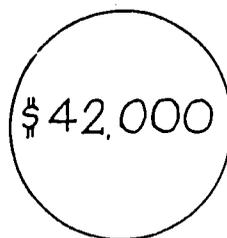


1983 TOTAL  
\$ 2,560,000

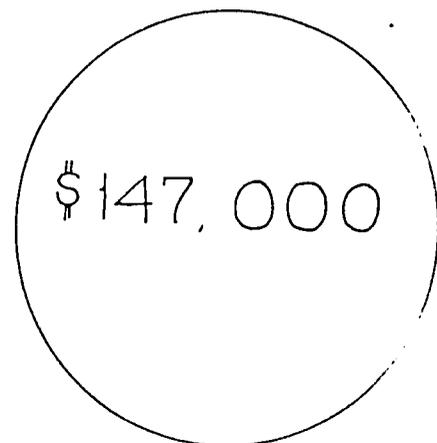


1984 TOTAL  
\$ 3,720,000

NET PROFITS (BEFORE TAXATION)  
INCREASE BY 250%



1983



1984

OPERATIONAL EXPENSES AS A PERCENTAGE OF SALES REMAIN SIMILAR IN 1984 AS THEY WERE IN 1983

Administration and Merchandise Expenses	1.2 %
TRANSPORT EXPENSES	1.1 %
PROPERTY EXPENSES	1.7 %
Finance Expenses	0.8 %
STAFF EXPENSES	1.7 %

TOTAL EXPENSES AS % OF SALES 6.5%

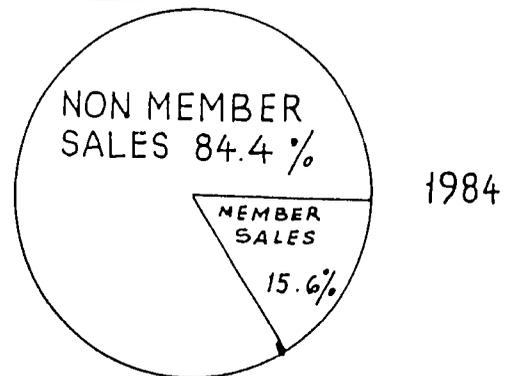
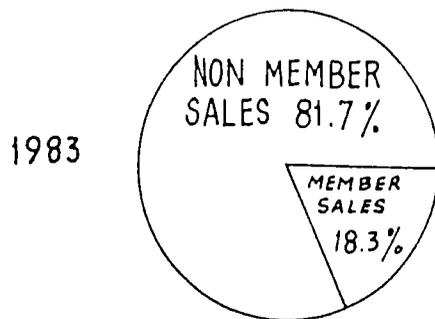
1983

Administration and Merchandise Expenses	1.3 %
TRANSPORT EXPENSES	1.2 %
PROPERTY EXPENSES	1.1 %
Finance Expenses	0.7 %
STAFF EXPENSES	2.3 %

TOTAL EXPENSES AS % OF SALES 6.7%

1984

MERCHANDISE SALES - MEMBER/NON MEMBER  
 MEMBER SALES INCREASED BY 26% FROM \$410,000 TO \$515,000  
 BUT NON MEMBER SALES INCREASED MORE



AUDIT REPORT  
TONGA COOPERATIVE FEDERATION LIMITED  
1984

ANNUAL ACCOUNTS

I have occasioned the audit of the Annual Accounts of Tonga Cooperative Federation Limited for the financial year ending 31st December 1984 to be carried out in accordance with S.39 of the Cooperative Societies Act 1973 and accepted auditing standards.

In my opinion the attached Annual Accounts of the Federation comprising of the Balance Sheet, Profit and Loss Account and accompanying notes and schedules represent a true and fair view of the financial position of the Federation as at 31st December 1984 and account for income received, expenditure made and movements of funds during the financial year.

Signed



Acting Registrar of Cooperatives.

Nuku'alofa.  
June 1985.

TONGA COOPERATIVE FEDERATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1984

31/12/83

NOTES

	<u>FIXED ASSET</u>		<u>COST</u>	<u>DEPRN</u>	<u>NET</u>
5929	Building		9666	4245	5421
16460	Furniture & Fittings		31363	10351	21012
<u>5016</u>	Motor Vehicles		<u>12525</u>	<u>8782</u>	<u>3743</u>
<u>28405</u>		(1)	<u>53554</u>	<u>23378</u>	30176
22183	TDB Curing Shed Loan	(6)			24387
	<u>CURRENT ASSET</u>				
277415	Stock	539521	(7)		
40334	Debtors & prepayments	198651	(8)		
55080	Cash at Bank	188386			
<u>3658</u>	Cash in Hand	<u>3302</u>			
<u>376487</u>	<u>TOTAL CURRENT ASSETS</u>		<u>929860</u>		
	<u>CURRENT LIABILITIES</u>				
2066	Vanilla Loan				
	Loan TDB	1330	(9)		
-	Vanilla Loan				
	Bot	209093	(10)		
187846	Creditors & Accruals	389026	(11)		
-	Tax Provision	22015	(4)		
<u>2954</u>	Member Savings	<u>4825</u>	(12)		
<u>192866</u>	<u>TOTAL CURRENT LIABILITIES</u>		<u>626289</u>		
<u>183621</u>	<u>WORKING CAPITAL</u>				<u>303571</u>
<u>\$234209</u>					<u>\$358134</u>
	<u>REPRESENTED BY:</u>				
22183	TDB Curing Shed Loan	(13)			19487
50796	TDB Long Term Loan	(14)			42863
174302	Capital Contribution Fund	(15)			178789
	<u>MEMBERS FUNDS</u>				
32400	Member Shares	(16)	32268		
-	Statutory Reserve	(5)	20817		
(45472)	Profit & Loss Account		-		
-	Time Share Deposits	(17)	<u>63910</u>		
(13072)	<u>TOTAL MEMBER FUNDS</u>				<u>116995</u>
<u>\$234209</u>					<u>\$358134</u>

*Handwritten signature*  
Acting Registrar of Cooperatives

TONGA COOPERATIVE FEDERATION LIMITED

PROFIT AND LOSS/APPROPRIATION ACCOUNT

For the year ended 31 December 1984

<u>1983</u>		<u>NOTES</u>	<u>\$</u>
(84661)	Profit and Loss Account as at 1/1/84		(45,472)
	<u>Add:</u> Approved Capitalizations:	(2)	
	A) Development Losses pre 1982		73,895
	B) Preliminary Expenses Fish Marketing		14,092
	'Ha'apai -		<u>1,007</u>
			88,994
	<u>Less:</u> Approved Appropriations:	(2)	
	A) Patronage Bonus for 1983		8206
	B) Share Dividend for 1983		3167
	C) Share Transfer Fund for 1983		24,732
	D) Preliminary Expenses for 1983		<u>7,418</u>
			(43,522)
(84661)	Balance C/f after 1983 Appropriations		
	<u>Add:</u>		
	Net Income for the year ended 31 December 1984:		
47669	Nuku'alofa Merchandise (SCHEDULE 2)		118929
3492	Vava'u Merchandise (SCHEDULE 3)		22,334
(292)	Ha'apai Merchandise (SCHEDULE 4)		17,710
4090	Handicraft (SCHEDULE 5)		(2,236)
(13,124)	Fish Marketing (SCHEDULE 6)		(1067)
-	Vanilla Marketing (SCHEDULE 7)		(10,717)
-	Nuku'alofa Agriculture (SCHEDULE 8)		<u>(11)</u>
<u>41835</u>	<u>TOTAL NET INCOME</u> (SCHEDULE 1)		147,076
(26,16)	Income Received in 1984 in respect of prior years		5018
	<u>Less:</u>		
	Capitalised Development Losses and Preliminary Expenses written back to Profit and Loss A/c.	(2) (81,943)	
-	1984 Patronage Bonus transferred to Time Share Deposit A/c (SCHEDULE 9)	(2&3) (24,601)	
-	Provision for TAXATION	(4) (22,015)	
-	Statutory Reserve	(2&5) (23,535)	
			(152,094)
<u>\$(45472)</u>	<u>Profit and Loss Account as at 31 December 1984</u>		<u>\$ -</u>



SCHEDULE 1

TONGA CO-OPERATIVE FEDERATION LIMITED

Consolidated Operating Statement

For the year ended 31 December 1984

<u>1983</u>			
2559686	(100%)	SALES	3720490 (100%)
138139		Opening Stock	186152
2416437		ADD Purchases	<u>3721001</u>
			3907153
186151		LESS Closing Stock	<u>539522</u>
<u>2368425</u>		Cost of Goods Sold	<u>3367631</u>
191261	( 7.5%)	Gross Profit	352859 ( 9.5%)
<u>17390</u>		Other Income	<u>45415</u>
<u>208651</u>		<u>TOTAL INCOME</u>	398274
		<u>LESS Expenses</u>	
		<u>STAFF EXPENSES</u>	
31127		Wages & Commission	57031
10773		Casual Labour	23890
<u>2140</u>		Leave Pay	<u>4773</u>
<u>44040</u>			85694
		<u>FINANCE EXPENSES</u>	
7994		Interest	10168
7721		Bank Charges	12551
1308		Bad Debts	-
4008		Discount	1508
-		Cash Over	(3)
-		Doubtful Debts	<u>2866</u>
<u>21031</u>			27090
		<u>PROPERTY EXPENSES</u>	
9161		Depreciation	5491
12188		Electricity & Water	7772
2149		Insurance	1919
11062		Rent	21845
<u>8394</u>		Repairs & Renewals	<u>3818</u>
<u>42594</u>			41845

TRANSPORT EXPENSES

10258	Freight & Handling	25179	
8509	Transport Hire	11494	
3399	Motor Vehicle Expenses	4480	
<u>4906</u>	Travelling	<u>4794</u>	
<u>27072</u>			45947

MERCHANDISING EXPENSES

2346	Advertising	4425	
2682	Damages/Losses	290	
-	Freezer Storage	<u>6544</u>	
<u>5028</u>			11259

ADMINISTRATION EXPENSES

647	Licence & Fees	929	
2157	Meeting	6051	
7772	Telephone/Telex/ Postage	8619	
15368	Stationery & Office Supplies	23458	
746	Sundry Expenses	306	
<u>26690</u>			39363

166815	(6.5%)	<u>LESS TOTAL EXPENSES</u>	251198	(6.8%)
<u>\$41836</u>	(1.8%)	NET PROFIT	<u>\$147076</u>	(4.0)

TONGA CO-OPERATIVE FEDERATION LIMITED  
Nukunalofo Merchandise Operating Statement  
For the year ended 31 December 1984

<u>1281</u>				
1894414	(100%)	SALLES		2440920 (100%)
96786		Opening Stock	103873	
2107234		ADD: Purchases	3329189	
9621		Transfers Inward	<u>7752</u>	
				3439814
103873		LESS: Closing Stock	401283	
<u>144010</u>		Transfers Outward	<u>223168</u>	
				1224651
<u>1765739</u>		Cost of Goods Sold		<u>2215163</u>
128675	( 6.8%)	Gross Profit		225757 ( 9.2%)
<u>11204</u>		Other Income		<u>20393</u>
<u>139879</u>		<u>TOTAL INCOME</u>		<u>246150</u>
		<u>LESS EXPENSES:</u>		
		<u>STAFF EXPENSES</u>		
15439		Wages	24526	
4326		Casual Labour	10667	
<u>1061</u>		Leave Pay	<u>2058</u>	
<u>20826</u>				37251
		<u>FINANCE EXPENSES</u>		
7596		Bank Charges	10373	
4008		Discounts	1508	
-		Doubtful Debts	<u>2866</u>	
<u>11604</u>				14747
		<u>PROPERTY EXPENSES</u>		
4134		Depreciation	3294	
1034		Electricity & Water	1314	
1356		Insurance	1143	
5930		Rent	5994	
2486		Repairs & Renewals	1304	
<u>14940</u>				14349
		<u>TRANSPORT EXPENSES</u>		
4510		Freight & Handling	3556	
4079		Transport Hire	4966	
3399		Motor Vehicle Expenses	4158	
<u>492</u>		Travelling	<u>1111</u>	
<u>12480</u>				13791
		<u>MERCHANDISING EXPENSES</u>		
543		Advertising	2540	
2537		Damages/Losses	290	
-		Freezer Storage	<u>4826</u>	
<u>3080</u>				7656
		<u>ADMINISTRATION EXPENSES</u>		
219		Licences & Fees	461	
2840		Telephone/Telex/ Postage	3008	
3752		Stationery & Office Supplies	7107	
109		Sundry Expenses	(50)	
<u>22358</u>		Head Office Expenses	<u>28201</u>	
<u>29277</u>				39427
92207	(4.9%)	<u>LESS TOTAL EXPENSES</u>		127221 (5.2%)
<u>\$47669</u>	(2.5%)	NET PROFIT		<u>118929</u> (4.9%)

TONGA COOPERATIVE FEDERATION LIMITED

Vava'u Operating Statement

For the year ended 31 December 1984

<u>1983</u>			
346309 (100%)	SALLES		532525 (100%)
34241	Opening Stock	50392	
6021	ADD: Purchases	843	
344502	Transfers Inward	<u>499505</u>	550740
50392	LESS Closing Stock	52769	
<u>15420</u>	Transfers Outward	<u>19539</u>	72308
<u>319012</u>	Cost of Goods Sold		<u>478432</u>
27297 ( 7.9%)	Gross Profit		54093 (10.2%)
<u>(24)</u>	Other Income		<u>4443</u>
<u>27273</u>	<u>TOTAL INCOME</u>		<u>58536</u>
	<u>LESS Expenses :</u>		
	<u>STAFF EXPENSES</u>		
4226	Wages & Commission	6937	
1935	Casual Labour	3353	
<u>335</u>	Leave Pay	<u>633</u>	10923 ! 3/12 2002
<u>6496</u>			
	<u>PROPERTY EXPENSES</u>		
1458	Depreciation	780	
221	Electricity & Water	304	
316	Insurance	312	
975	Rents	1960	
<u>475</u>	Repairs & Renewals	<u>67</u>	
<u>3445</u>			3423
	<u>TRANSPORT EXPENSES</u>		
4588	Freight & Handling	7007	
3659	Transport Hire	<u>1936</u>	
-	Motor Vehicle Expenses	322	
<u>96</u>	Travelling	<u>783</u>	12048
<u>8343</u>			1743
	<u>MERCHANDISING EXPENSES</u>		
-	Freezer Storage	1718	
51	Advertising	13	
<u>145</u>	Damages/Losses	<u>-</u>	
<u>196</u>			1731
	<u>ADMINISTRATION EXPENSES</u>		
144	Licences & Fees	136	
253	Telephone/Telex/ Postage	441	
306	Stationery & Office Supplies	1197	
4086	Head Office Expenses	6303	
<u>2</u>	Sundry Expenses	<u>-</u>	
<u>5301</u>			8077
23780 ( 6.9%)	<u>LESS TOTAL EXPENSES</u>		<u>36202 ( 6.8%)</u>
<u>\$3492 ( 1.0%)</u>	<u>NET PROFIT</u>		<u>\$22334 ( 4.2%)</u>

SCHEDULE 4

TONGA CO-OPERATIVE FEDERATION LIMITED

Ha'apai Operating Statement

For the year ended 31 December 1984.

<u>1983</u>			
	SALES		319257 (100%)
	Opening Stock		
	<u>ADD:</u> Purchase	179	
	Transfer Inward	<u>321539</u>	
			321618
	<u>Less</u> Closing Stock		<u>335380</u>
	Cost of Goods Sold		<u>286238</u>
	Gross Profit		33019 (10.3%)
	Other Income		2826
	<u>TOTAL INCOME</u>		35845
	<u>Less Expenses:</u>		
	<u>STAFF EXPENSES</u>		
	Wages	2001	
	Casual Labour	2331	
	Leave Pay	<u>161</u>	
			4493
	<u>PROPERTY EXPENSES</u>		
	Depreciation	140	
	Electricity & Water	(43)	
	Rent	1798	
14	Insurance	-	
<u>14</u>	Repairs & Renewals	<u>411</u>	
<u>28</u>			2306
	<u>TRANSPORT EXPENSES</u>		
	Freight & Handling	5185	
	Transport Hire	683	
<u>105</u>	Travelling	<u>1263</u>	
<u>105</u>			7131
	<u>MERCHANDISING EXPENSES</u>		
<u>3</u>	Advertising		7
	<u>ADMINISTRATION EXPENSES</u>		
	Licenses/Fees	116	
	Telephone/Telex/Postage	209	
6	Stationery & Office Supplies	89	
152	Sundry Expenses	-	
<u>-</u>	Head Office Expenses	<u>3784</u>	
<u>158</u>			4198
	<u>LESS TOTAL EXPENSES</u>		<u>18135 (5.7%)</u>
<u>\$(292)</u>	<u>NET PROFIT</u>		<u>\$17710 (5.5%)</u>

## TONGA CO-OPERATIVE FEDERATION LIMITED

## Handicraft Operating Statement

For the year ended 31 December 1984

<u>1983</u>			
58092 (100%)	SALES		50748 (100%)
7113	Opening Stock	23315	
52817	Add: Purchases	46078	
5798	Transfer Inwards	<u>4553</u>	
			73956
23315	LESS: Closing Stock		23332
<u>532</u>	Transfer Outwards		-
<u>41882</u>	Cost of Goods Sold		<u>50624</u>
16211 (27.9%)	Gross Profit		10124 (16.7%)
<u>3</u>	Other Income		<u>143</u>
<u>16213</u>	<u>TOTAL INCOME</u>		<u>10267</u>
	<u>Less Expenses:</u>		
	<u>STAFF EXPENSES</u>		
2836	Wages	4122	
1043	Casual Labour	529	
<u>84</u>	Leave Pay	<u>223</u>	
<u>3963</u>			4874
	<u>FINANCE EXPENSES</u>		
-	AMEX SERVICES CHARGE		29
	<u>PROPERTY EXPENSES</u>		
146	Depreciation	144	
35	Electricity & Water	169	
13	Insurance	87	
1765	Rents	2165	
<u>1565</u>	Repairs & Renewals	<u>149</u>	
<u>3524</u>			2714
	<u>TRANSPORT EXPENSES</u>		
42	Freight/Handling	20	
17	Transport	108	
<u>766</u>	Travelling	<u>802</u>	
<u>825</u>			930
	<u>MERCHANDISING EXPENSES</u>		
<u>675</u>	Advertising		775
	<u>ADMINISTRATION EXPENSES</u>		
36	Licence & Fees	51	
653	Telephone/Telex/Postage	1139	
1742	Stationery & Office Supplies	1272	
19	Sundry Expenses	1	
<u>686</u>	Head Office Expenses	<u>718</u>	
<u>3136</u>			3181
12123 (20.9%)	<u>LESS TOTAL EXPENSES</u>		12503 (20.6%)
<u>4090</u> (7.0%)	NET LOSS		<u>\$(2236)</u> (-3.7%)

SCHEDULE 6

TONGA CO-OPERATIVE FEDERATION LIMITED  
Fish Marketing Operating Statement  
For the year ended 31 December 1984

<u>1983</u>		
63940 (100%)	SALES	113848 (100%)
	Opening Stock	8572
64157	<u>ADD: Purchases</u>	<u>102656</u>
		111228
<u>8572</u>	<u>Less Closing Stock</u>	<u>17028</u>
<u>55585</u>	Cost of Goods Sold	94200
8355 (13.1%)	Gross Profit	19648 (17.3%)
<u>3337</u>	Other Income	<u>16518</u>
<u>11692</u>	<u>TOTAL INCOME</u>	36166
	<u>LESS Expenses:</u>	
	<u>STAFF EXPENSES</u>	
1751	Wages	5555
2454	Casual Labour	5652
<u>135</u>	Leave Pay	<u>484</u>
<u>4340</u>		11691
	<u>PROPERTY EXPENSES</u>	
435	Depreciation	384
10671	Electricity & Water	5629
8	Insurance	68
<u>178</u>	Rent	<u>5393</u>
<u>1521</u>	Repairs & Renewals	<u>850</u>
<u>12813</u>		12324
	<u>TRANSPORT EXPENSES</u>	
611	Freight & Handling	1385
695	Transport	957
<u>2746</u>	Travelling	<u>388</u>
<u>4054</u>		2730
	<u>MERCHANDISING EXPENSES</u>	
<u>718</u>	Advertising	159
	<u>ADMINISTRATION EXPENSES</u>	
20	Licences & Fees	65
279	Telephone/Telex/Postage	294
2572	Stationery & Office supplies	6454
20	Sundry Expenses	39
<u>-</u>	Head Office Expenses	<u>1343</u>
<u>2891</u>		8195
24816 (38.8%)	<u>LESS TOTAL EXPENSES</u>	35099 (30.8%)
<u>(13124)</u> (-20.5%)	NET PROFIT	<u>\$ 1067</u> (0.97%)

TONGA CO-OPERATIVE FEDERATION LIMITED

Vanilla Operating Statement

For the year ended 31 December 1984

<u>1983</u>			
196931 (100%)	SALES		253096 (10.0%)
	Opening Stock	-	
186208	ADD: Purchase	243156	
	LESS: Closing Stock	<u>263</u>	
<u>186208</u>	Cost of Sales		<u>242893</u>
<u>10723</u> ( 5.4%)	Gross Profit		<u>10203</u> ( 4.0%)
10723	<u>TOTAL INCOME</u>		10203
	<u>LESS Expenses:</u>		
	<u>STAFF EXPENSES</u>		
<u>1015</u>	Casual Labour	1190	
	<u>FINANCE EXPENSES</u>		
3736	Interest	1920	
-	Bank Charges	<u>2078</u>	
<u>3736</u>			3998
	<u>PROPERTY EXPENSES</u>		
-	Electricity & Water	66	
285	Insurance	360	
-	Rent	360	
<u>673</u>	Repair/Renewals	<u>850</u>	
<u>958</u>			1636
	<u>TRANSPORT EXPENSES</u>		
507	Freight	8019	
53	Transport	835	
<u>330</u>	Travelling	<u>163</u>	
<u>890</u>			9017
	<u>MERCHANDISING EXPENSES</u>		
	Advertising		42
	<u>ADMINISTRATION EXPENSES</u>		
192	Licences	95	
1253	Telephone/Telex/ Postage	619	
2670	Stationery & Office Supplies	1319	
5	Meetings	4	
-	Head Office Expenses	<u>3000</u>	
<u>4124</u>			5037
<u>10723</u> ( 5.4%)	<u>LESS TOTAL EXPENSES</u>		<u>20920</u> ( 8.3%)
<u>\$ 0</u> ( - )	NET LOSS		<u>\$( 10717)</u> (-4.2%)

TONGA CO-OPERATIVE FEDERATION LIMITED  
Nuku'alofa Agriculture Operating Statement  
For the year ended 31 December 1984

<u>1983</u>		
-	SALES	96
	Opening Stock	-
	<u>ADD/TRANSFER INWARDS</u>	9548
		9548
	<u>LESS: Closing Stock</u>	<u>9467</u>
	Cost of Goods Sold	<u>81</u>
	Gross Profit	15
	Other Income	-
	<u>TOTAL INCOME</u>	<u>15</u>
	<u>Less Expenses:</u>	
	<u>ADMINISTRATION EXPENSES</u>	
	Stationery & Office Supplies 26	
		<u>26</u>
	<u>LESS TOTAL EXPENSES</u>	26
<u>\$ -</u>	NET LOSS	<u><u>\$(11)</u></u>

SCHEDULE (2)

TONGA COOPERATIVE FEDERATION

Time Share Deposits and Bonus Distribution.

For the year ended 31 December 1984

Societies	Time Share deposit as at 1/1/84	Interest Earned 10%	Patronage Bonus 27%	Withdrawals and Adjustments	Time Share Deposit 31/12/84	Balance Available for withdrawal 1985
Toahola	205.49	20.55			226.04	50.51
Fakaakeake	289.94	28.71	339.37	72.49	585.53	146.53
Leimatu'a	251.55	25.16	154.93		1091.64	272.51
Uasila'a	1306.39	125.71	449.50	326.60	1555.00	388.75
Fie'aonga	317.77	31.78	308.18		1207.73	301.53
Tonga Feed	15.00	1.50	-		16.50	4.13
Matahangale	385.10	38.51	502.77		926.32	231.50
Latanoa	120.00			120.00	0	-
Lotopoha	1243.04	111.53	99.84	310.76	1143.65	285.31
Lototaha	1735.73	155.27	499.30	433.93	1556.37	489.69
Ministry of Works	391.22	39.12	-		430.34	107.59
Si'i Kae Ha	307.81	30.78	-		338.59	84.55
Visone 'oe 'Ofa	1206.47	109.74	484.82	301.62	1499.41	374.55
'Ahiohio	3712.95	371.30	1456.09		5540.34	1385.28
Lateau	20.01	2.00	2.18		24.19	6.55
Mapu 'a Vaea	1205.75	120.58	950.56		2276.39	569.22
Sia ko Kafoa	2802.53	280.25	169.63		3252.41	813.10
Fakimoeto'a	576.52	57.65	923.99		1553.16	389.54
Faleono	539.45	53.95	3.06		651.46	162.57
Pita Sanele	34.23	-	217.72	34.23	217.72	54.43
Peauma'a	112.32	11.23	506.30		729.35	182.45
Siu mo Heu	109.82	10.98	-		120.80	30.20
Hala Vi Mahi	190.37	19.04	296.18		505.59	126.40
Vai ko Kahana	31.45	3.15	97.28		131.88	32.57
Fakaola 'oe Kolo						
Kakala	2426.44	224.36	1196.36	606.61	3240.55	810.14
Maka ko Liuakifunga	473.26	47.33	1413.01		1933.60	483.40
Sio ki he Kaha'u	342.21	34.22	-		376.43	94.11
Alafolau Heavula	10.00	1.00	-		11.00	2.75
Toutaiola	332.99	33.30	152.92		574.21	143.55
Ha'asini Hamula	2588.82	258.88	2168.54		5016.24	1254.36
Po'uli kae 'aho	792.12	79.21	185.14	200.00	842.45	210.61
Kele'amaka	3.64	0.36	-		4.00	1.00
Vai ko Likisia	410.80	41.08	271.13		723.01	180.75
Vai ko 'Atele	503.37	50.34	723.66		1282.87	320.72
Longo moe Loto	397.32	39.73	.23		437.28	109.32
Hala Taukei 'oe						
Vaituilua	777.21	78.09	450.96	194.30	1111.96	277.59
Hala Tutuotasi	482.21	48.22	-		530.43	132.61
Kolofo'ou	10.00	1.00	-		11.00	2.75
Faingamalie	1378.75	137.88	1048.75		2565.38	641.34
Kolo Falahola	1000.98	100.10	841.71		1242.79	485.70
Funga Veimamuni	640.03	64.00	607.69		1311.72	327.53
Kolomaile	147.37	14.74	262.87		424.98	106.24
Kaurikalilo	378.97	37.90	347.44		764.31	191.53
Ngule'ia	805.27	80.53	79.13		964.93	241.23
Tui mo Ngaue	433.93	39.26	8.33	108.48	373.04	93.26
Malumalu 'o Puli-						
langi	60.96	6.10	-		67.06	16.76
Kolofahina	178.41	17.84	.46		196.71	49.13
Vao Mataki	179.55	17.96	170.88		368.39	92.10
Lolo Paongo	10.04	1.00	2.90		13.94	3.48
Mata ki Vaha	145.41	14.54	63.23		223.18	55.79
Houma Niuvai	126.57	12.66	45.94		185.17	46.29
Vai ko Pule	525.43	52.54	703.28		1284.55	321.14
Mata'aho	81.55	8.16	396.62		486.34	121.59
Pangai	10.00	1.00	-		11.00	2.75

	Time Share deposit as at 1/1/84	Interest Earned 10%	Patronage Bonus 27%	Withdrawals and adjust- ments	Time Share Deposit as at 31/12/84	Balance Available as for with- drawal in 1985
Momuka	98.05	9.81	524.63		692.55	173.14
Mafoa e Ata 78	498.76	49.88	442.83		991.47	247.27
'Otukinekina	340.00	34.00	625.34		999.34	249.23
Ha'atalafale	395.93	39.59	565.08		1000.60	250.15
Ipu Tuluta	39.84	8.98	257.40		356.22	89.06
Funga Fele'unga	337.74	33.77	316.20		687.71	171.93
Afangia 'o Fanga- nonu	10.00	1.00	313.32		324.92	81.23
Muku'alofa Fishing	10.00	1.00	-		11.00	2.75
Kaha'u 'o Tu'anuku	233.35	23.40	.15		257.50	64.37
Fakama'unu'atu'u	435.69	43.57	191.13		670.39	167.60
Alafolau 'a Toutai	824.08	82.41	432.14		1338.63	334.66
Ha'afuluhao	2.47	.25	117.77		120.49	30.12
Muitafuna	123.53	12.35	-		135.88	33.97
Mataika	225.33	22.53	536.82		784.68	196.17
Hanjale ko Mata e Afe	10.00	1.00	-		11.00	2.75
Houma Niutao	273.31	27.33	499.29		799.93	199.98
Vai o Lupe		2.86	35.03	28.60	366.49	91.62
Ngaue Fakamea'a 'o Tonga	-	-	-	-	-	-
Vai ko Lofia			390.15		390.15	97.54
Makahokovalu			31.23		31.23	7.81
Sala 'o Vea			-	-	-	-
Matekifonua 'o Va'epopua			253.69		253.69	63.42
'Utulongoa'a	-	-	-	-	-	-
Funga Vaise		12.28	-	122.84	135.12	33.75
Fanga Tu'o Ha		12.28	-	122.84	135.12	33.75
To'anga 'Ofa		.77	-	7.66	8.43	2.10
Livestock Develop- ment		7.92	-	79.21	87.13	21.73
Vao Mapa		4.58	-	45.76	50.34	12.53
Lele 'a Lulu		-	5.67	-	5.67	1.42
<b>TOTALS</b>	<b>37512.76</b>	<b>3730.16</b>	<b>24601.40</b>	<b>2233.65</b>	<b>63910.67</b>	<b>15977.65</b>

TONGA COOPERATIVE FEDERATION LIMITED  
NOTES FORMING PART OF THE 1984 ANNUAL ACCOUNTS.

1. ACCOUNTING POLICIES

- a) Accounting Convention - the accounts are prepared under the historical cost convention.
- b) Depreciation - fixed assets are depreciated by the straight line method at the following annual rates calculated on the cost of the asset:
- |                      |     |
|----------------------|-----|
| Buildings            | 5%  |
| Furniture & Fittings | 10% |
| Motor Vehicles       | 25% |
- c) Fixed Assets - the cost of all additions to buildings, furniture & fittings and motor vehicles are capitalised except alterations to short-term leasehold property which are treated as repairs and renewals, and small items of expenditure which are written off in the year of purchase.
- d) Repairs & Renewals - all repairs and renewals are charged to revenue in the year the expenditure is incurred.
- e) Stock Valuation - trading stocks have been valued at the Balance Sheet date at either cost price or net realisable value, whichever is the lower. Stock-in-transit valuation is based on the exchange rates in force at the end of the financial year.
- f) Foreign Exchange - all foreign exchange gains and losses are taken into account in the financial year in which they occur. Overseas creditors balances outstanding at the year end in foreign currencies are valued at the rate of exchange prevailing at the time of the importation of merchandise into the Kingdom. Debtors balances outstanding at the year end in foreign currencies are valued at the rate of exchange prevailing at the end of the financial year.

2. 1983 APPROPRIATIONS - made in accordance with Registrar of Cooperative Societies authority reference J311/26/150 dated 27 March 1984 and subsequently approved by the Federation's Membership during the 1984 Annual General Meeting held on 27 July 1984.

3. 1984 MERCHANDISE PATRONAGE BONUS

Patronage bonus distribution has been calculated based on the following formula:

$$\frac{\text{Net Profit from Merchandising Branches}}{\text{Merchandising Sales}} \times \text{Member Sales}$$

Allocation of patronage bonus by cooperative society is outlined in schedule 9.

4. TAXATION PROVISION - the provision for taxation has been computed in conformity with the Income tax Act 1976.
5. STATUTORY RESERVE - the statutory reserve has been made in accordance with S-38 of the Cooperative Societies Act 1973 and taking into account the authority of the Registrar of Cooperatives of 27 March 1984 (see also Note 2 above).
6. VANILLA CURING SHED LOANS - advanced for a period of 8 years to the following Primary Societies.

<u>Date Advanced</u>	<u>Society</u>	<u>Amount \$</u>
31/8/83	Sio ki he Kaha'u	12193
31/8/83	Fie'aonga	12193
		<u>\$24386</u>

7. STOCK

	<u>\$</u>
Merchandise Stock-in-Transit	177333
Merchandise	312099
Handicraft	23332
Fish	17028
Vanilla	263
Nuku'alofa Agriculture	9466
	<u>\$ 539521</u>

8. DEBTORS & PREPAYMENTS - include the following items:

	<u>\$</u>
Trade Debtors	23087
Vanilla Debtors:	
South Pacific Duty Free Stores **	13192
Vava'u vanilla societies	<u>2977</u>
	171169
Trade Deposits	1010
Cargo claims	11463
Accrued Income	<u>406</u>
	207135
<u>Less</u> Provision for Doubtful Debts	<u>8484</u>
	<u>\$ 198651</u>

\*\* Vanilla debtor in USdollars recorded at the exchange rate of T\$1.00 = US\$1.186.

9. VANILLA LOAN (Tonga Development Bank) - represents the balance outstanding on TDB 8% Vanilla Loan made to the Federation to finance the processing of the 1983/84 vanilla crop. Funds on-lent by Federation to Primary Society Vanilla producers at the rate of 8% p.a.
10. VANILLA LOAN BANK OF TONGA - represents the balance outstanding on a 10% short-term loan facility, provided against the security of a letter of credit, to finance exports of the 1984 vanilla crop.
11. CREDITORS & ACCRUALS - includes the following items:
- |                         |             |                  |
|-------------------------|-------------|------------------|
|                         | \$          |                  |
| Trade Creditors         | 325751      |                  |
| Provision for Leave Pay | 5040        |                  |
| Accrued Expenses        | 51532       |                  |
| Curing Shed Deposits:   |             |                  |
| Leimatu'a               | 2955        |                  |
| Sia ko Kafoa            | 2343        |                  |
| Alafolau 'a Toutai      | 400         |                  |
| Longo moe Loto          | <u>1005</u> |                  |
|                         |             | <u>6703</u>      |
|                         |             | <u>\$ 389026</u> |
12. MEMBER SAVINGS - deposited by Primary Societies during 1984 earning interest at 10% p.a.
13. TONGA DEVELOPMENT BANK LONG TERM LOAN - represents funds borrowed from TDB on behalf of two primary societies in 1983 (cf. Note above) at 8% p.a. over 8 years in 1992.
14. TONGA DEVELOPMENT BANK LONG TERM LOAN - represents funds provided by TDB as part of the 1981 rescue package. The loan is repayable over 10 years to 1991 at an interest rate of 8% p.a.
15. CAPITAL CONTRIBUTION FUND - represents cash and equipment received from overseas aid donors and the Government of Tonga mainly as part of the 1981 rescue package:

	\$	
U.S. Aid	119871	67%
Government of Tonga	20000	11%
UK Christian Aid	17443	10%
Canadian Aid	17400	10%
N. Z. Aid	<u>4075</u>	<u>2%</u>
	<u>\$178789</u>	<u>100%</u>

- i) US AID granted US\$491000 to Agricultural Cooperative Development International (ACDI) on 30 September 1981 for

17

the benefit of the Federation. Additional funding of US\$592505 under the same project was provided in 1984 making total funds approved for the project of US\$1083505. The grant funds are administered by ACDI in Nuku'alofa and Washington DC U.S.A., but are not included in the scope of this audit except in respect of the T\$119871 received by the Federation up until 31 December 1984 in cash and equipment donations. However ACDI have provided information on their expenditure of the grant funds and an analysis of the expenditure information provided is summarised below:-

EXPENDITURE OF ACDI GRANT FUNDS  
FOR TONGA COOPERATIVE FEDERATION LIMITED  
30 September 1981 - 31 December 1984.  
(Unaudited by Cooperative Department)

	<u>US\$</u>			<u>TOTAL</u>	<u>%</u>
	<u>1981/82</u>	<u>1983</u>	<u>1984</u>		
Personnel	90935	82282	90037	263254	57
Consultancy & Evaluations	5307	9591	10668	25566	6
Equipment & other costs	644	11219	10912	22775	5
Administration	12342	13689	13649	39680	9
Working Capital	96470	739	1819	99028	21
Training	869	4788	1933	7590	2
	<u>206507</u>	<u>122308</u>	<u>129018</u>	<u>457893</u>	<u>100</u>

Less: Grant Funds Provided under Project 1083505

Available Grant Funds as at 31 Dec. 1984 US\$625612

Local Currency Equivalent at T\$1.00=US\$1.186 T\$741976

ii) Overseas Aid Donors - have contributed manpower resources to the Federation. During 1984 the following personnel were provided:

<u>Post</u>	<u>Person</u>	<u>Duration</u>	<u>Aid Donors</u>
Sec./Manager	John Kreag	1/84 - 12/84	USA - USAid
Acting Secretary Manager	David Rushton	1/84 - 5/84	UK - ODA
Financial Manager	Patrick Blunt	7/84 - 12/84	" "
Fish Marketing Manager	Richard Elsey	1/84 - 2/84	C.F.T.C.

Fish Manager Vava'u/Nuku'alofa	Edward Cohen	1/84 - 12/84	USA Peace- Corp.
Fish Manager Vava'u	Robert Reutenauer	9/84 - 12/84	USA Peace Corp.
Marketing Assistant	Maureen Kelly	1/84 - 12/84	USA Peace Corp.

Apart from the funding of nominal expenses in connection with some of the above personnel the Federation has had the benefit of their services at little or no cost during the financial year. It is the opinion of management that it would have cost an additional \$80,000 to replace aid donor manpower used by the Federation during 1984.

16. MEMBERS SHARES - represents actual \$100 par value TCF shares subscribed to by member societies.
17. TIME SHARE DEPOSITS - represents a 2% bonus on 1983 patronage; 10% Share Dividend for 1983 and a refund of some societies shareholdings paid on a deferred basis, with maximum of 25% payable in any one financial year. The balance on the time share accounts earn interest at the rate of 10% p.a. calculated on the average monthly balance and 1984 Patronage Bonus has been added.

APPENDIX 4  
TCF Three-Year Rolling Plan

DRAFT

TONGA COOPERATIVE FEDERATION LTD.

SHORT TERM OBJECTIVES

1985

The following short term objectives have been prepared by the management of the TCF for consideration by the Management Committee. The objectives are divided into the following major sections:

- WHOLESALE
- FISH MARKETING
- LAND CRAFTS MARKETING
- PRODUCE MARKETING
- FARM SUPPLIES MARKETING
- INSTITUTIONAL DEVELOPMENT

## INTRODUCTION TO TCF 3YRS. ROLLING PLANNING PROCESS

This is the first time the Federation has started to prepare a longterm plan, and as such it is an essential part of the development of a now very successful business, enabling us to remain successful and to be able to offer an even higher standard of service to our members in the future.

### PLANNING PERIOD

1. The period chosen for the long term plan is three years. This effectively means to say that when preparing our plan an attempt is made to try look three years into the future from 1st January 1985 - 31st December 1987. Next year the planning period will cover the next three year period 1986 - 1988, hence the name "rolling plan".
2. The next step is for the Managing Committee to give very careful consideration to the "draft outline plan" asking themselves the following questions:

What is the purpose of the Federation?

What businesses is the Federation in?

What services do members want?

How can member services be best provided?

What obstacles lay in the path of the Federation in the next three years?

How can these obstacles be overcome?

What opportunities are there for the Federation over the next three years?

How can these opportunities be taken advantage of?

It is very important that this process is covered by all members of the Management Committee prior to attending the formal meeting. Where possible discussions should be held with the primary societies you represent.

3. Members of the Management Committee are then able to discuss their individual opinions with others on the committee and with Senior Management Staff so as to arrive at an "agreed outline plan" which all concerned are committed too for the future.
4. Based on the "agreed outline plan" Senior Management will then prepare necessary operating and capital budgets for 1985 (the first year of the plan). These budgets are a financial representation of the "agreed outline plan" and provide the basis for assessing the performance of the Federation over the coming year.
5. During the operation of the plan it is the task of the management staff to carry out the plan, and the task of the Management Committee to use all their resources to support the management staff in carrying out the plan; and to monitor the performance of the Federation towards achieving the "agreed outline plan" objectives.

## LIMITATIONS OF PLANNING

The "agreed outline plan" objectives because they are based on an attempt to look into the uncertain future and to provide an incentive for improved management performance may not always be achieved, and some objectives may be easily exceeded. It is for this reason that the plan must not be regarded as a rigid statement of what must happen during the planning period, but rather a guideline to help the Federation to plot a safe and successful course through the uncertain seas of tomorrow.

## BENEFITS OF PLANNING

You will be able to recognise that planning provides an opportunity for members of the Management Committee to fully participate in deciding what the Federation will be doing and how it will do it.

Planning provides for meaningful discussion to take place between the Managing Committee and the Management Staff of the Federation enabling better understanding and creating an opportunity for staff and committee members to work together as one team for the greater benefit of the members based on mutual trust and common purpose.

TONGA COOPERATIVE FEDERATION  
STATEMENT OF PURPOSE AND LONG RANGE OBJECTIVES  
1985 - 1987

BASIC PURPOSE OF FEDERATION

The purpose of the Tonga Co-operative Federation Limited is to provide marketing and other supporting services to the people of the Kingdom so as to:-

- Meet the needs of primary producers through cooperative marketing
- Meet the needs of consumers through cooperation
- Make profits and reinvest a significant portion of the profits in future growth.
- Achieve and maintain institutional self-reliance
- Promote unity and cooperation in the community
- Provide a high standard of service on a cost effective basis so as to demonstrate best business practice.

MAJOR LONG RANGE OBJECTIVES

OVERALL/ADMINISTRATIVE

1. To establish a permanent centralised administrative headquarter and sales facility in Nuku'alofa.
2. To continuously examine the structure of the Federation so as to provide the highest qualities of services.
3. To continue to improve inventory control and management.
4. To continue to improve ordering systems and to make purchases from the best possible sources to meet market preferences.
5. To recruit, train and develop local manpower resources to be able to meet the current and future needs of the Federation as a self-reliant institution.
6. To provide high quality cost effective services throughout the Kingdom to include branch operations in 'Eua and possibly the Niuas.
7. Maintain and Improve Communications and relationships with members, staff, government and the public at large.
8. To maintain and improve profitability of all operations.
9. To maintain adequate liquidity through a retention of a significant proportion of profits and Sound financial management.
10. To provide improved conditions of service for staff as an example of best employment practices in Tonga.
11. To investigate possible savings and withdrawal services offering more convenience throughout the Kingdom.

CONSUMER/WHOLESALE

12. To provide a cooperative supermarket in Nuku'alofa.
13. To gain a market share of 25% in the market that we serve.
14. To be alert to the opportunity to provide better services through acquiring a major competitor.

DEVELOPMENT ACTIVITIES

15. To seek to reduce the Commodity Board monopoly in copra and vanilla.
16. To improve vanilla harvesting and curing processes to as to maximise income from this crop.
17. To maintain a one-third share of the vanilla bean export market.
18. To improve Tongan vanilla quality so as to obtain best export prices.
19. To be the market leader in Tongan marine products with annual sales of \$500,000 by 1987.
20. To increase hand craft sales by 25% p.a reaching annual sales of \$140,000 in 1987.
21. To provide marketing services for at least one new line of produce each year.
22. To establish agriculture and fisheries inputs marketing facilities in Nuku'alofa, Vava'u and Ha'apai operating on profitable self-supporting basis by 1987.

\*\*\*\*\*

## WHOLESALE

1. To establish a wholesaling branch in 'Eua to include fish marketing facilities.
2. To provide freezer storage facilities at the Ha'apai branch as part of fish marketing facility improvements.
3. To buy and operate two new delivery trucks on Tongatapu.
4. To buy and operate one new delivery/warehouse collection truck for Nuku'alofa.
5. To operate the existing Tongatapu delivery truck in Vava'u to provide delivery and warehouse collection services.
6. To rent a warehouse in Nuku'alofa. (minimum size 3000ft<sup>2</sup>).
7. To create associate membership status for established falekoloas enabling them to share patronage.
8. To locate a site for building a future sales/warehouse/administration complex in Nuku'alofa.
9. To provide regular sales representation and marketing information for customers in Tongatapu.
10. To obtain improved merchandise facilities in Vava'u.
11. To achieve a 10% gross margin on merchandise sales.
12. To achieve the following merchandise sales:

	\$	
Ha'apai	520,000	1232
Vava'u	700,000	1659
Tongatapu & 'Eua	<u>3,000,000</u>	<u>7107</u>
	<u>3,220,000</u>	<u>10000</u>

'Eua sales expected to average \$5000 per week when in full operation.

13. To investigate the viability of establishing a bonded warehouse in Nuku'alofa.

## FISH MARKETING

1. To achieve fish sales of \$175,000 pa in 1985 (Vava'u \$75,000, Nuku'alofa \$100,000).
2. Maintain a minimum gross profit margin of 25%.
3. Explore the possibility of export sales.
4. To establish fish buying, ice making, and freezing facilities at 'Eua as part of a new wholesaling branch.
5. To establish fish buying, and freezing facilities at Ha'apai as part of the Ha'apai branch.

### FISH MARKETING

6. To consider and evaluate a Ha'apai fish buying boat service to supply fish to Nuku'alofa and if appropriate to implement either in addition to (5) above or to compliment it.
7. To establish a retail fishing supplies facility in Nuku'alofa as part of a retail fishing and farm supplies outlet.
8. To operate fish marketing within a working capital facility of \$15,000 plus cumulative net profits.
9. To operate fishing supplies marketing within a working capital facility of \$15,000 plus cumulative net profits.
10. To break-even on fishing supplies marketing.

### HAND CRAFTS MARKETING

1. To achieve sales of \$90,000 increasing to \$110,000 if larger facilities are obtained. \$5000 of sales of traditional hand craft materials to producers are projected.
2. To achieve a minimum margin of 25% on all sales.
3. To increase wholesale hand crafted exports to \$8400 PA.
4. To produce an export quality colour catalogue.
5. To produce and distribute a direct mailing aimed at the up-market sector for hand crafts exports.
6. To expand to a larger sales premise in Nuku'alofa.
7. To provide as part of the expanded sales premises:-
  1. Small luxury coffee shop
  2. Tongan background music
  3. In-store hand crafting demonstrations
8. To operate hand crafted marketing within a working capital facility of \$25,000 plus cumulative net profits.

### PRODUCE MARKETING

1. To establish a Federation controlled 3 tonne <sup>vanilla</sup> curing shed in Vava'u buying green beans at market price for cash.
2. To purchase primary society cured vanilla beans at the prevailing market price for cash.
3. That all profits on vanilla to be allocated to the member society time share accounts.
4. To continue to expand kava marketing.
5. To market one new agricultural crop.

## FARM SUPPLIES MARKETING

1. To establish retail farm supplies facility in Nuku'alofa as part of a retail fishing and farm supplies outlet.
2. To achieve sales of \$36,000.
3. To obtain an average gross margin of 20%.
4. To break-even during the year.
5. To operate farm supplies marketing within a working capital facility of \$30,000 plus cumulative net profits.

## INSTITUTIONAL DEVELOPMENT

1. To establish an appropriate institutional structure for the Federation and seek necessary revisions to the bye-laws and (if necessary) the Cooperative Societies Act 1973.
2. To establish separate financing and financial controls for each of its activities.
3. To recruit and train local staff for all key management positions.
4. To have an appropriate staff organisation structure with all necessary posts approved to enable the three years plan to be achieved.
5. To review current employment procedures to include hiring procedures and a remuneration package.
6. To have a well defined and understood management system with written guidelines on main operating areas.
7. To have all staff positions filled by salaried staff.
8. To enable management to have sufficient authority delegated to it by the Management Committee to enable the Federation to achieve its short and long term objectives.
9. To establish a regular newspaper in the Tongan language for members of cooperatives.
10. To train members of the Management Committees.
11. To create an associate membership grade in the Federation's wholesaling business, which will participate in the wholesaling patronage through the time share accounts.
12. To buy and operate on Tongatapu a mini-van for administrative use.

TCF PLANNING 1985 - 87

MAJOR OPPORTUNITIES/BENEFITS

OPPORTUNITY/BENEFIT	PRIORITY	HOW TO INCREASE OPPORTUNITY (IF POSSIBLE)
1. We have a large ownership base through primary societies.		Create a logo for the Federation Incorporate the logo into goods handled by the Federation.
2. We have a Unique position in being able to attract foreign aid.		Create aid donor opportunity slots with written project profiles.
3. Our staff generally have very positive attitudes (success follows success.)		Keep the ideas flowing and maintain willingness to try new things. <i>Suggestion Box</i>
4. We have a good financial reputation with outside community.		Keep making profits. Maintain strong financial policies. Produce a professional looking annual report.
5. Weakness of Foreign competitors.		<i>Keep paying bills on time</i> Be alert to all possible opportunities and be able to act quickly.
6. Tongan competitors are not as well organised as TCF.		Continue to improve TCF organization to take advantage of growing markets.
7. The Vanilla industry is expanding.		Same as 6 above.
8. Consumer consumption is expanding.		<i>Same as 6 above</i>
9. Increasing Tongan/Polynesian population overseas.		Seek export markets in US. mainland/Hawaii, NZ, Australia (estimated to be over 50,000 Tongans plus other Polynesians). <i>Hand Crafts</i>

TCF PLANNING 1985 - 87

MAJOR PROBLEMS

PROBLEM	PRIORITY	HOW TO INCREASE OPPORTUNITY (IF POSSIBLE)
1. Riette's are not quite playing it straight or giving us the best service. (This is considered a mild problem).		Look at changing suppliers in Australia.
2. Need suppliers of US and Chinese goods for checking quotes and as alternative suppliers.		Contact British High Commissioner/Hongkong trade agency direct contact. Contact Pago Pago Supplier for US goods.
3. Local agent for Nestle's in is not responsive to orders.		Obtain Nestle's agency through continued pressure.
4. TCF cannot benefit from liquor sales which are dominated by foreign businesses. This is high profit, low cost line of business.		Try to obtain a retail/wholesale alcohol outlet in Nuku'alofa.
5. Lack of counter cyclical shipping between Tongatapu - Vava'u & Ha'apai.		Negotiate with ATA (or another competitor for a good freight rate and a better schedule.
6. Price control regulations make three tier distribution in the country difficult if not impossible.		Present case to Ministry of Labour, Commerce & Industry requesting a change in price control regulations.
7. It is extremely hard to recruit highly qualified personnel in the Tongan community in part due to lack of belief in TCF's long term stability.		<ul style="list-style-type: none"> <li>- recruit from overseas</li> <li>- increase staff training</li> <li>- improvement of systems and organization</li> </ul>
8. This is a poor public image of TCF.		Improve public relations.
9. A lack of adequate raw materials for hand craft producers.		TCF to approach MAFF and growers on planting crops to provide new materials. Seek new sources particularly from outer islands.

PROBLEM	PRIORITY	HOW TO INCREASE OPPORTUNITY (IF POSSIBLE)
10. A shortage of fish!		<ul style="list-style-type: none"> <li>- TCF ice boxes to be transferred from Vava'u to Ha'apai.</li> <li>- More ice boxes in Tongatapu.</li> <li>- Extension of buying to Ha'apai.</li> </ul>
11. Price competitiveness of TCF products not passed on by retailer to consumer		<ul style="list-style-type: none"> <li>- Try to encourage our own primary societies to follow TCF retail price advice.</li> <li>- Retail prices to be supplied to buyers</li> <li>- use radio to discuss benefits of purchasing savings</li> </ul>