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**EVALUATION
TONGA COOPERATIVE FEDERATION
END OF TWO YEARS OF PROJECT OPERATIONS**

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

Overall, the project has progressed exceptionally well. From a purely business standpoint, progress has been just short of phenomenal. Nevertheless, much remains to be done before the federation achieves its objective of self-sufficiency and realizes its full potential. This summary outlines action to achieve the goal.

1. Finding: Financial goals have either been met or exceeded except for gross margins, and this has significantly improved since the project began. Anticipated gross sales at the end of the project were set at T\$450,000* but were exceeded by T\$1,791,000, or nearly five times more than projected. As a commercial enterprise, the Tonga Cooperative Federation (TCF) is a financial success.

Recommendation: Continue efforts to increase gross profit figure to nine percent or higher.

2. Finding: An accounting and information system has been installed and personnel trained in its use, except for a chief accountant and head bookkeeper. For reasons explained later, it has been impossible to hire a Tongan suitable for training for the chief accountant position. The board of director's reluctance to offer an adequate salary for this position has been overcome and a search begun. The decision to hire a head bookkeeper is a new one brought on by the inability to hire an expatriate chief accountant. The chief accountant is leaving in May 1984 to be replaced by another provided by the British Government's Overseas Development Agency (ODA).

Recommendation: Continue to search for a chief accountant.

*T\$=Tongan dollar
*U.S. \$1.00=T\$1.05

3. Finding: Post project expectations, especially the one calling for TCF to be managed by a Tongan at the end of two years, have not been met. Good progress has been made on other goals such as "sound financial position," "member support," "public confidence," "self-supporting" "competitive supplier," and "reliable market for vanilla." A Tongan with potential to be trained as a general manager was hired in October 1983. Another 12 to 18 months of TA will be required for him to acquire the necessary level of training and experience to manage the consumer wholesale operations. But the diversity of TCF operations will require even more time to train him as general manager of all operations -- vanilla, fish and handicrafts marketing, farm supplies and consumer wholesale. Lack of a Tongan chief accountant trainee further complicates the top management training situation.

Recommendation: Continue to train the potential Tongan general manager. Initial emphasis should be on training him to make the day-to-day decisions, the area where he is weakest. Later he can be introduced to more management techniques and take a short course in selected management subjects in the U.S. After this, he should participate with the expatriate general manager, other top staff, and the board in developing a five year development plan for TCF.

The Tongan selected to eventually be chief accountant should be trained largely by the expatriate financial manager expected to arrive by May or June 1984. He should also be sent to the U.S.A. for a short course in financial management.

Both men should come to the U.S. for 2-3 months of on-the-job training with counterparts in a regional marketing cooperative. Both should also be enrolled in an intensive short course which addresses their area of need.

4. Finding: Looking ahead, TCF will prepare a five-year development program, taking into account all major functions now being considered by management:

- a. cooperative wholesale operations
- b. fish marketing
- c. vanilla marketing
- d. handicraft marketing
- e. farm supplies

Program elements for each function have been outlined with a suggested planning structure.

Recommendation: Involve the top management staff, expatriate general manager, financial manager, the Tongans being trained to replace them, and the board of directors in developing a long-range plan. This exercise would serve as an excellent training technique and the completed plan would be a blueprint for Tongan management when it takes over.

5. Finding: A critical problem in cooperative wholesale operations at this time is how to improve the ratio of member to non-member business. About 20 percent of the merchandise sold by the wholesale store is purchased by member societies, but more than half the merchandise in their shops is purchased by non-members. In most countries this would not be allowed, but the Tongan Cooperative Act permits it. The major reason for the societies doing such a large business with non-members is that they do not adhere to a policy of open membership. Societies are organized around common bonds such as family or church. Store volumes are small and operations are inefficient.

Recommendation: Suggested actions to overcome this problem are listed elsewhere in this report. They involve:

- a. increased cooperative education and member relation efforts.
- b. allowing more than one society to be registered in a village.
- c. opening of one or more federation stores in selected areas to demonstrate the advantage of larger stores.
- d. management contracts with several society stores to help them improve their operations.
- e. more contact with societies by representatives of the cooperative wholesale department, and
- f. improved delivery services to the member societies.

6. Finding: The fish marketing operation is losing money primarily because of the low volume of fish being offered to the federation for sale. It has averaged about one ton a month. Estimates indicate two to, two and a half tons are needed to break even. The Government of Tonga appears anxious to have TCF become the major marketer of fish and has already turned its new fish marketing facility on the island of Vava'u over to TCF, but no written agreement has been signed. The Foundation for the Peoples of the South Pacific (FSP), a PVO with a USAID-funded fisherman-training project in Tonga, is also counting on TCF to provide a market for the fishermen it is training.

Recommendation: There are numerous technical problems associated with development of sound fish marketing, so a recommendation is outlined in this report for a fish marketing expert to be called in quickly after the agreement between the Tongan government and TCF is signed. The expert would help sort out some of the problems and assist in preparing that part of the long-range development plan that pertains to fish marketing.

7. Finding: Vanilla marketed by the federation has been highly successful. Quality has been improved and good prices have been obtained for member producers. Although it has not been a money-maker for the federation, no losses have resulted and much good will has been created. Some of the societies want TCF to provide a central curing service and arrange for funds so that a more sizeable advance payment can be paid by societies to their members when green beans are delivered for curing. The federation is studying both requests.

Recommendation: Requests for a central curing operation and securing more funds are sound. This year only a limited number of the smaller societies will be offered the curing service. If it proves successful, it should be expanded to include others. This central curing system should be able to employ better curing standards, thus improving the quality. Artificial heat should be considered in the process to shorten the curing time, which now takes three to four months. However, this may take some years to develop and institute.

8. Finding: Handicraft marketing is progressing. Gross sales rose from T\$12,410 in 1982 to T\$58,092 in 1983. The handicraft producers are being organized into island-wide cooperatives. Tongatapu is the first to be organized.

Recommendation: This action should be spread to other islands if it proves successful in Tongatapu. Care should be exercised to educate members about the purpose of the cooperative and to help establish meaningful functions for it. TCF must retain authority to set quality standards and the prices it will pay for handicraft items.

9. Finding: Interest in having the TCF provide a farm supply service to agricultural producers seems to be increasing. This idea is being advanced by the cooperatives department and by the Ministry of Agriculture, Forestry and Fisheries (MAFF).

Recommendation: This idea should be carefully explored before TCF becomes deeply involved. It is already handling a few farm supply items through its member society consumer shops. Attention should be given to demand, government policy, facilities required and the reaction of present firms in the farm supply business. However, very gradual expansion in combination with sales of fishing supplies would appear to be a safe and prudent approach for now.

I. PROJECT OVERVIEW

A. 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 ACDI for help. ACDI 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 general manager of the federation.

ACDI's Donald Crane visited Tonga 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 OPG proposal and the subsequent program.

B. Approach

The agreement between ACDI (grantee) and USAID (grantor) September 30, 1981 stipulates project evaluation as the primary responsibility of the grantee (ACDI). Accordingly, ACDI established an evaluation procedure and schedule to comply with the agreement. The evaluation method used is based on the "logical framework" system. It outlines the purpose, goals, objectives, and determination of inputs required and assumptions to be met for achieving desired results. Indicators are selected and measured to determine when goals or objectives have been met and program purpose(s) achieved.

The Tonga project started in January 1982 and Phase I has been completed. A two-year Phase II proposal has been made by ACDI and awaits official approval from USAID. The present evaluation covers accomplishments during Phase I. A mid-term evaluation was made by VOCA's Gervan in February 1983.

II. CONDITIONS AT BEGINNING AND END OF PROJECT

A. General Situation

TCF was organized in November 1977 to serve 60 or more primary cooperative societies selling consumer goods to members and non-members. It was intended to operate as wholesale supplier of consumer goods for the societies, giving them some economic advantages due to scale of purchase. By September 30, 1980, TCF had trade debts of about T\$89,000. At that time one dollar of U.S. currency equaled T\$0.84 (and now T\$1.05). TCF had T\$27,000 cash in the bank and T\$23,000 in stock, questionably valued at T\$20,000. Accounts receivable were considered uncollectable. In fact, it was bankrupt and ready to be closed by the cooperative registrar's office. Because of incompetent management, TCF had failed to generate a sufficient mark-up on goods and sufficient volume of business to be a viable organization. The Whittaker and Gervan reports identify additional reasons which only add support to the idea that poor wholesale level management was the basic problem.

The primary societies were of course having some problems because of the failures of their wholesaler (TCF), though they continue to operate. It was felt that TCF's problems could be corrected. Details of the action initiated through the project and the results achieved are subsequently discussed.

B. Specific Goals and Achievements

The purpose of this project was to build TCF into a sound and viable cooperative organization capable of serving its members. A series of goals were developed and assumptions made based on achieving them. Results of the effort are presented in the following tables.

 Table I ACHIEVEMENT OF TCF FINANCIAL GOALS

Goals	Expected at end of Project (1984)	Achieved	Year
A. Gross Sales	\$450,000	T\$541,000	1982
B. Transportation Cost*	1.25-2.50%	T\$2,241,000 1.10%	1983 1982
C. Administrative Expense**	7.50%	0.90% 3.70%	1983 1982
D. Gross Profit	9.00%	3.10% 5.5%	1983 1982
E. Current Ratio***	2:1	7.0% 2.5:1	1983 1982
F. Inventory Turnover No Target		2:1 7 Times 14 Times	1983 1982 1983

* Wholesale only

** Total excluding transportation

*** Ratio of current assets to current liabilities

Based on these figures, it is apparent that financial goals were either met or exceeded except for gross profit. Progress in achieving this is very good, especially since gross profits were almost zero and TCF was T\$56,000 in debt just prior to project startup. Because a larger percentage of TCF's merchandise is purchased from overseas outlets, the gross margin should increase.

The major indicator, gross sales, exceeded its goal of T\$450,000 more than four times. Administrative expenses have been cut to less than half of the goal. (3.10 percent compared with the goal of 7.50 percent).

 Table 2 -- TCF ORGANIZATIONAL GOAL ACHIEVEMENTS

Goals	Expected	Status
a. Institutional Development Plan	Prepared, Updated	Original proposal plus plan for 2 or more years
b. Organizational Chart	Prepared, Updated	Needs updating
c. Job Descriptions	Prepared, Updated	Done
d. Operating procedures for significant recurring tasks	Prepared, Updated	Done
e. Accounting & Information Systems	Installed, personnel trained in their use	Done, except for chief accountant

The most serious shortfall regarding organizational goals is in the accounting and information system. Finding a capable Tongan to train as replacement for the expatriate manager has been very difficult because of the TCF board's reluctance to authorize a salary high enough to attract a suitable person. By October 1983, the manager was finally permitted to hire a man for between T\$6,000 to T\$8,000 per year. This employee is now in training but will need another 12 to 18 months before he can assume the managership.

Another Tongan was selected last fall to fill the financial manager position. However, his current employer then doubled his salary, causing him to stay where he was. The federation then created a head bookkeeper position and recruiting is now under way.

The original project proposal did not establish guidelines or goals requiring the manager to use sophisticated management training techniques. Management practices were learned as the business moved ahead. Considered this way, the project can be judged a huge success. But if examined in terms of what would happen if the expatriate were to be pulled out at this time, the result would be disastrous. Had the concentration been on training, using more formal and sophisticated methods, successful business results would most likely not have been achieved. The original premise of completely rehabilitating TCF and returning it to Tongan management in two years, was not realistic. In fact, the original projections for a three-year program were reduced to two years, reflecting the need to see if positive accomplishments could be achieved.

III. POST PROJECT EXPECTATIONS

In reviewing post project expectations consideration is given to events that significantly changed the project's character. For example, when the planning goals were exceeded, original expectations may no longer be a valid indication of achievements. For instance, anticipated gross sales upon completion of the project were T\$450,000, but by the first year were exceeded by more than T\$91,000, and by T\$1,770,000 the next year. Management requirements for a \$500,000 business are not the same as for a \$2,250,000 business. The goal of being totally self-supporting at the end of two years may no longer be valid.

The implication at the outset of this project was that it would be extended beyond the two original years. Although such an expectation was not certain, the anticipation of it has affected priorities. As a result, it is likely that sounder decisions have been made and better results achieved.

In the original project planning, vanilla and fish marketing were given scant attention and handicrafts marketing was not even mentioned. These have now become important TCF services along with wholesaling consumer goods. Since they were not originally considered, no base line data or goals were established for them. This makes it difficult to evaluate goal accomplishment and impact from TCF operations. It also affects the validity of original post-project expectations.

The following is an evaluation of post-project expectations as outlined in the planning document:

A. TCF's consumer wholesale operation has achieved a sound financial position. Gross annual sales have far exceeded the goal established (T\$450,000 by December 1983). Gross sales actually reached T\$2,241,000. All other financial goals were either met or exceeded except gross margins, and exceptional progress is being made to achieve that.

B. The goal of "capable management," that is, turning over control to the Tongans, has not been achieved, but progress is being made. During the evaluation, operations at each level were reviewed and discussions were held with some key employees. The staff below the level of wholesale and financial managers are functioning well, but may need some further training and experience.

For perspective, when the project began about two years ago, there were only three employees beside the expatriate manager. There are now 21 full-time employees plus 10 working on a daily paid basis. As of February 5, 1984, five of these 10 became salaried (full-time) employees. Of the 21 regular employees only 10 were working in 1982 (Appendix B).

The tour of duty of David Rushton, made available by the ODA, ends in May, but ODA has agreed to replace him for two years. TCF continues to search for a suitable Tongan to be trained for this position, but prefers Rushton's replacement participate in the screening and selection of this person. TCF's manager is keenly aware of the scarcity of Tongans qualified for this position and would hire a highly qualified person, if one could be identified in the interim.

Another indication of progress toward establishing capable management is that most of the organizational goals have been met. TCF's role and functions in vanilla and fish marketing require further effort. The manager is developing a more precise long-range plan for these activities.

The manager recently observed that when he took over in January 1982 and for a period thereafter, the board tended to more or less "rubber stamp" his requests. Gradually they assumed a more spirited role, more in keeping with a board of directors. There is growing evidence the board is becoming capable of functioning effectively.

C. The goal of "member support of the cooperative wholesale operations" has increased markedly since the project began. At that time the members (primary society stores) seldom purchased merchandise from the wholesale department. At first, the entire monthly volume of business for the wholesale department was around T\$1,000. The primary societies were purchasing stocks from other local wholesalers. Even after the cooperative wholesaler was nearly bankrupt, the societies barely changed buying habits.

Figures on volume sold by the cooperative wholesaler to its members in 1982 were not available. In 1983 the figure was T\$427,151 or about 20 percent of total volume of wholesale merchandise business. This percentage would be higher if additional items were stocked such as eggs and bread, and if mutton flaps (a popular low cost New Zealand product) were regularly available.

Growing member support for TCF is indicated by the extent they market vanilla beans through it. In 1982, TCF marketed member vanilla beans on the export market at a value of T\$295,000. This represents most of the vanilla crop delivered to member societies. In 1983, TCF again marketed all member beans.

A major reason for this high member support is that TCF management worked with key personnel in the Ministry of Agriculture and the cooperatives department to improve the curing ratio from 5.23:1 to 4.08:1 in 1982, although it declined slightly to 4.6:1 in 1983. The federation was able to obtain a better price for the beans because buyers wanted a larger supply than individual societies (members) could provide. In spite of growing member support, it still needs to be increased.

D. The goal of "public confidence" is difficult to measure. There are, however, some indicators, mainly the attitude of those who have business relations with TCF. Tonga Development Bank (TDB), Ministry of Agriculture, Forestry and Fisheries (MAFF) Cooperatives Department, Bank of Tonga, and local wholesale suppliers. The excellent support and working relationship TCF has with these institutions indicates public confidence. TCF can now borrow the maximum amount TDB can loan and also borrows from the Bank of Tonga. The Commodities Board gives approval to the federation to market all of the vanilla from the primary societies. Wholesalers in Tonga do business with TCF, both buying and selling. About 60 to 70 percent of the federation's merchandise is sold to retailers other than primary societies. It would be preferable if these percentages were the other way around, 60-70 percent to members. Management is considering ways to increase the percentage of business with members and strengthen member societies.

E. The goal of the "federation being totally self-supporting and capable of expanding its activities through retained earnings and borrowings" has not been achieved, although progress has been made in that direction.

In 1983, for the first time since 1978, it realized a profit. The wholesale merchandising operation showed a net margin of T\$51,163 and the handicraft operation T\$4,092. Unfortunately, a T\$13,125 loss in the fish marketing operation left a net margin from all operations of T\$42,130. TCF has not achieved its goal of a nine percent net margin, but is moving in that direction as more of its merchandise is purchased overseas and not from local wholesalers. In 1982, its net margin was 3.5 percent but increased to seven percent in 1983. All earnings on non-member business go into a retained earnings account and are used to operate the business. Due to the high ratio of non-member to member business, retained earnings for 1983 are significantly over T\$42,000. When the project began in January 1982, TCF was already T\$56,000 in debt for a loan secured from the TDB to repay a debt incurred before the project began. This loan is being repaid on a monthly basis and has now been reduced to T\$50,796. Had TCF not increased its gross sales way beyond the planned target, its financial requirements would have been far less. By this time, it would have reached, or been closer to, its goal of financial self-sufficiency. On the other hand, its economic service to members and consumers would have been far less. If the fish marketing potential is realized, it could eventually overshadow all the other operations of the federation. Vanilla marketing operations as now conducted are on a break-even basis. The fact that two expatriates are still required as a general manager and financial manager, indicates TCF has yet to meet this goal.

F. The goal of "cooperative members economic position improved due to a dependable source of competitively priced consumer goods and production supplies" has been accomplished for consumer goods. The federation has sold only a limited amount of production supplies. Demand for this service has not materialized. That gross sales of consumer goods were T\$2,241,000 in 1983 and T\$541,000 in 1982 is an indication of customer satisfaction with TCF merchandise. As further evidence of its market impact, gross sales in the first quarter of 1982 were only T\$1,341,00 compared with the last quarter of the year when gross sales were T\$244,000.

G. The goal of "providing a reliable market for member produce and a powerful spokesman for their interest" has been realized for vanilla, the only crop marketed. Each member society that takes delivery of green beans from individual producer members dries the beans and the federation sells them on the export market for the societies. Beginning with the 1984 crop, TCF plans to offer a drying service. Some of the smaller societies will avail themselves of this service. If it succeeds, more societies may wish to use this service. Eventually all of the member societies may have the federation dry their beans in

centralized dryers. In time, artificial heat may be used in drying rather than drying in the sun. If this can be done, curing time may be significantly reduced from its present three months to possibly a week or less. Saving interest on loans tied up for three months in vanilla beans during curing would be significant. Labor cost could be reduced and quality improved. This should more than offset artificial curing equipment and cost of facilities. Now that TCF has good management and improved its financial position, it should look for other ways to better its members.

To date, there has been no pressure from member societies for TCF to market other crops. If this occurs, TCF's experience in marketing vanilla should help it appraise the situation. Technical help might be needed during the decision making process, not unlike any other well managed organization.

TCF is a force in Tonga as evidenced by vanilla not being marketed or tightly controlled by the Commodities Board. In addition, the Government of Tonga wants TCF to take over much of the fish marketing in the country. It is offering to turn over a new fish storage and marketing facility in Vava'u to TCF. The terms for doing so are not known at this time, but indications are they will be reasonable.

IV. LOOKING AHEAD

Good progress has been achieved during the two years the project has operated. However, it has not completely accomplished its overall purpose of building up TCF to a sound financial level with a trained Tongan management staff. Perhaps this was not, reasonable goal to expect in two years. The project still has some time to run under the original proposal, but it will take longer to bring this organization to the desired level. Much work remains to be done.

Non-member Business

The cooperative wholesale business sells over 80 percent of its merchandise to non-members. Of the 20 percent sold to the member societies, about 50 percent is sold by their stores to non-members. This means about 10 percent of TCF's merchandise goes to consumers who are members of a primary cooperative.

The cooperative department reports there are 65 primary societies in the federation. About 3,000 families are members of these societies. On the basis of an average family of six, the total number of persons served by the societies is 18,000. Because 50 percent of society business involves non-members, there are another 3,000 non-member families doing business with these stores. In addition, most villages appear to have four to five shops stocking merchandise similar to that carried in the cooperative shop.

Assuming far more people shop non-cooperative than cooperative, why isn't there more cooperative member business?

During the evaluation, a number of cooperative societies were visited and information obtained provided some ideas on the problem. Mr. Greenslade, registrar of cooperatives and John Kreag, federation general manager, also provided some perspective and ideas. All agree these societies were formed by groups with close common bonds such as church or family. Further, that experience has indicated a great reluctance to open up membership in these societies. All agree that most of the societies are too small to be efficient, but merging them without some powerful incentive would be difficult and perhaps impossible.

In a meeting with the registrar of cooperatives, further ideas were discussed about what could be done to improve the percentage of business with members. Efforts should be concentrated on increasing member business not decreasing non-member business to improve the ratio. The cooperatives department is changing to allow more than one cooperative society in a village to be registered. TCF will work with several of the more viable societies to improve their merchandising and show the advantage of opening up membership to others. Board members will be involved in the effort to increase membership.

TCF may set up a special store in two to three villages with open membership. In conjunction with the cooperatives department, TCF will put more emphasis on improving member relations and communications with the primary societies. The cooperatives department's newsletter will be given wider

distribution. It now goes only to secretaries of societies. A TCF staff person will regularly contact the primary societies to improve their operation and enhance communication between primary societies and the federation. Improving the non-member situation should be given high priority. Tonga's population is around 102,000 or about 17,000 families. Six thousand families are now purchasing from the cooperative societies, but only half are actually members. Hopefully, potential members may be obtained from membership drives and other ideas.

Training - Replacement and Management

TCF has hired a person it considers trainable to become general manager and a future financial manager is being sought. Alexis Huni is the candidate for the manager post. He has a good education, having been trained for the priesthood in New Zealand. He was ordained and served as a priest for seven years. He resigned for personal reasons and later worked for five and one-half years with an international organization in New Zealand looking after the welfare of Tongans there. He later decided to resettle in Tonga and began working with the Tongan Council of Churches before joining TCF. He is between 35 and 40 years old, presentable and pleasant, and experienced in dealing with people. He has had planning and organizing experience, but lacks business training and experience.

Mr. Huni is wholesale manager and directly supervised by the general manager. From this major and highly sensitive position he is learning the most important operations of the business. He is being taught to make day-to-day decisions such as where and how to order, prices, discounts, rebates, insurance, storing, stocking and delivery. Later, he will be introduced to planning and control of the operations. Even now he attends the board meetings as an observer. In time he will become a participant rather than an observer at these meetings. Assuming Phase II of this project is approved, Huni and the future financial manager should be sent to the U.S. for a period of management training in 1985. While in the U.S., it would be advisable for them to visit two or three cooperatives and discuss their management systems.

Both Tongans should be placed with counterparts in a regional marketing cooperative. The general manager should observe all aspects of that job and accompany the U.S. manager on his daily rounds, attend staff and board meetings, and generally observe the complete operations of the cooperative. The chief accountant should work side-by-side with the controller or financial manager of a large regional cooperative. In addition, many good short courses are offered by cooperatives as well as private training institutions. Both Tongans should be enrolled in an intensive short course which addresses their area of need. The general manager will probably want to modify requirements as he further evaluates the training needs of his future replacement and the financial manager.

Given the relative maturity of the project, it is time to move on to a more formal management system to develop increased participation of Tongans in the management process. This does not mean Tongans have not been involved in the decision-making process. The manager has cited numerous occasions where the board and key employees have been informed and consulted and participated in management decisions. The meeting this consultant attended during the evaluation indicated board members are increasingly participating in the management of the federation. But more ways should be found to involve the Tongans. The manager will consider actions to implement it.

The ACIDI evaluation paper calls for a long-range development plan with substantial involvement by key Tongan employees including the future general manager and financial manager. The manager believes it will be a useful training device and essential to the success of the plan. If this suggestion of having the board and the management employees participate in the long-range development plan is accepted, only the preliminaries should be conducted until the manager trainee has returned from the U.S. Also, the new expatriate financial officer is not yet in-country nor has his counterpart been hired. Both are vital to the development of a successful long-range plan.

Elements of a Long Range Development Plan

The framework for such a plan includes decisions about what to accomplish and its purpose. Goals are then established, functions identified, and pertinent policies and assumptions established. Finally programs and projects are defined with work plans, implementation schedules, budgets and a plan for evaluation. In simpler terms, the plan describes what is to be accomplished, why, how, when, cost, and methods of testing these when the plan has been completed.

In the following section what should be accomplished in such a plan and reasons are outlined. This may be used as the beginning of a long-range plan to be developed in conjunction with the board and management trainees. Major federation functions over the next five years will likely be a continuation and strengthening of the cooperative consumer wholesale operation, expanding and improving vanilla bean marketing, developing viable fish marketing operations, further developing and expanding handicraft marketing and developing a farm supply operation. These functions are considered next in the order listed.

Cooperative Consumer Wholesale Operations

TCF's progress in increasing sales over the past year has been phenomenal. This is shown in Chart No. 1 (Appendix H, Monthly Sales-Wholesale). A look at Chart No. 3 (Appendix I) indicates dimensions of hiring and training staff. When the project began in 1982, TCF had only three employees. Today, it employs 31 full and part-time workers (Appendices B and H). One of the ways to perpetuate success is to keep moving ahead. This project is no exception. The general manager has outlined numerous actions that are already under way or will be initiated to maintain progress. Actions under way were in part developed in conjunction with the board. Future actions should be considered now to be incorporated in the long-range development plan.

Action should be taken to reduce "leakage" in the operations. For 1983, the figure was T\$41,000 or two percent of gross sales. Included in this figure are losses due to numerous causes such as pricing errors, spoilage, damaged goods, and pilferage. As employees become more experienced and better trained, the situation should improve. Top staff will learn how to more effectively lower the "leakage" rate. Using the computer as proposed in Phase II also should help reduce this problem.

Efforts to increase gross margins should continue. Significant progress is already being made. First year gross margins averaged 5 percent. By the end of the second year, they increased to seven percent. A larger percent of merchandise was purchased from large overseas firms that offered better prices and sales conditions. A future goal of nine percent has been established. When gross margins are increased, net margins usually follow. This year, for example, a two percent patronage dividend is being paid to 54 societies on the basis of 1983 volume of T\$410,000. Another problem is that tax exemption for cooperatives ended last July. TCF will not feel any effect of the change in tax status for about two years. It can carry over prior losses and deduct patronage dividends and interest paid to primary societies. The societies do not have those deductions and will have difficulties competing with similar-sized private businesses that do not keep records and pay minimal taxes.

Additional space to store merchandise is required in Nuku'alofa and Vava'u. A future store will be established on the island of Ha'apai. Sales space in the stores in Nuku'alofa are crowded and will require expansion.



--TCF Board of Directors



--Consumer Cooperative Store

A computer system to control inventory is needed. At the present time the merchandise operation is turning over T\$2,250,000 and does not even have a cash register. Wholesale operations are hampered by a lack of sufficient delivery trucks. Efforts are needed to increase the percentage of member business relative to non-member business. Suggestions for accomplishing this are presented elsewhere in this report.

Working with the cooperatives department, TCF can develop and institute a meaningful member-relations program. If successful, it should help increase the percentage of member business. In the same vein, societies need to improve their merchandising practices and open up membership.

Through demonstration projects, the primary societies can be shown the advantages of expanding membership and size of their operations. With help from the Cooperatives Department some short cooperative education courses should be conducted for the TCF staff.

Similarly, the cooperatives department can help introduce a system to monitor the election of board members in the primary societies. During the remainder of the project, staff training should be stressed with increased emphasis on more formal training than was previously possible.

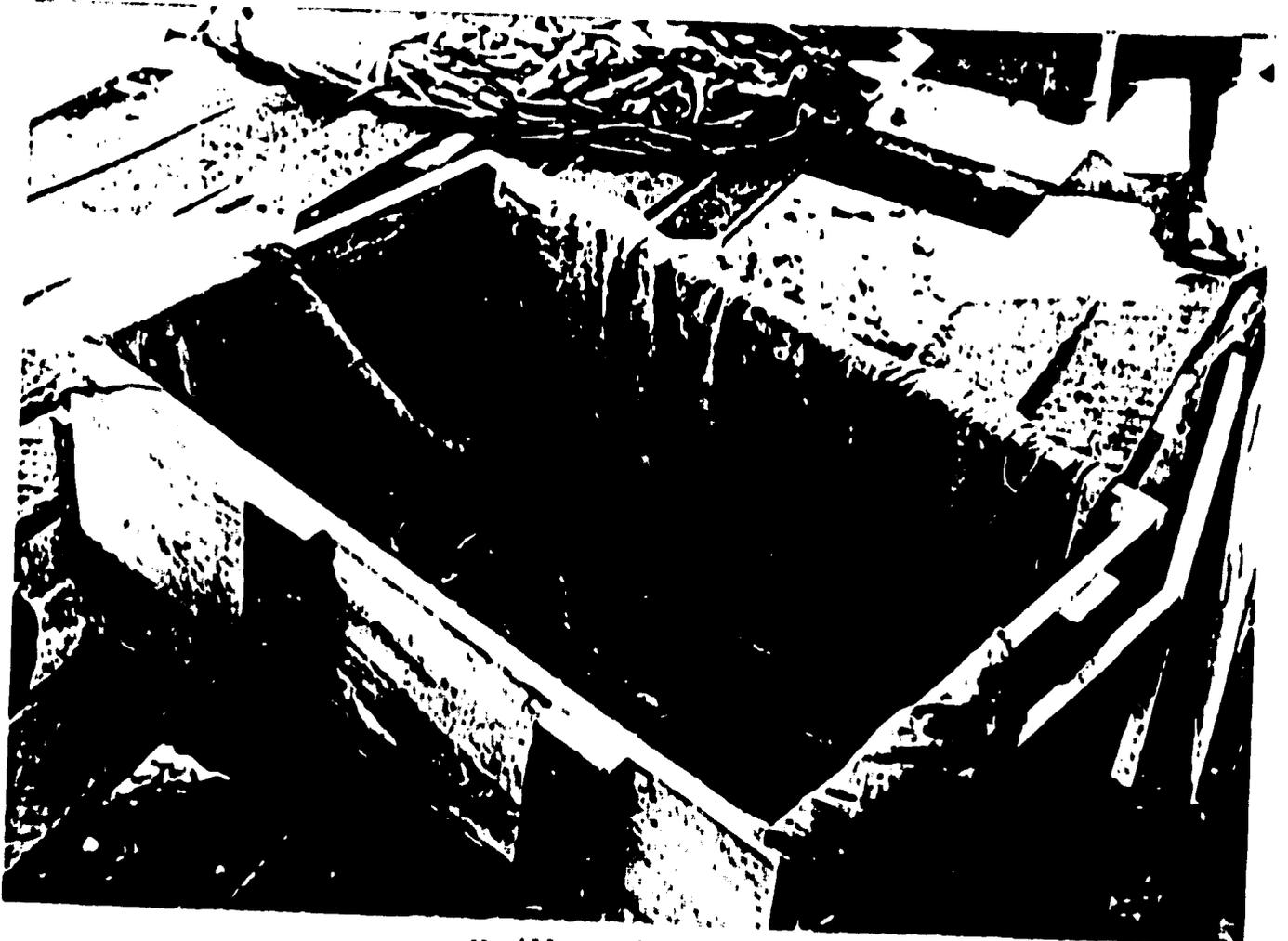
Vanilla Marketing

Vanilla beans come from vanilla plantifolia, the only orchid that produces an edible product. Its original home was in Central and South America. In the past decade, vanilla has gained an important place in Tongan agricultural exports, accounting for just above 17 percent in 1982. Most of the vanilla is produced on the island of Vava'u.

Producers grow the vanilla vine under palm trees and use small trees to support the vine. It takes the new plants three years to flower. The thousands of blossoms produced on the vines must be hand pollinated to produce beans. A small number, those judged as bean producers, are selected for pollination. The labor intensive operation requires trained workers to transfer the pollen from the blossom to the stigma. Eight months after pollination, mature green beans are ready for harvest. The beans enter a curing process. Beans are placed in water up to 145 degrees F. for three minutes, a process called "killing" the bean. Next, they are placed in a sweat box for 48 hours and then dried in the sun. In some places an oven is used. Sun drying requires three hours per day for seven days. Beans are taken in each night and during showers. After this they are



The Orchid



Vanilla Curing

placed in a drying shed for one to two months. Then the beans are bundled and placed in trunks for another two months. Finally, they are removed, sorted and prepared for shipment. The curing process takes three to four months.

Primary cooperative societies are operating facilities to cure their members' beans. The beans are sold on the export market by TCF. It also secures financing from the Tonga Development Bank for the societies to make advance payments to members when green beans are delivered. Last year the advance payment was about T\$5 per kilo and the final payment just above T\$8. The federation deducted from the sales fund an amount estimated to cover costs of providing these services. In 1983, it was a break even proposition for the federation.

In 1984, TCF will offer a bean curing service to the societies for the first time. If successful, it's possible all curing could be done in central facilities owned by TCF. The federation believes it can improve the bean quality and lower the cost of curing. During the two years of federation management, great progress has been made in improving quality and volume of cured beans. TCF was awarded the first private license in Tonga to export cured vanilla beans. By helping the societies improve quality and volume, TCF has helped producers obtain a better price. The federation should look into the feasibility of central curing using artificial heat. Time and labor could be reduced. Effect on the cured vanilla bean is a critical question to be answered by experimentation. Another factor to consider is market potential. Last year the federation marketed its member societies' beans for T\$63.70 a kilo. Prices have increased significantly in recent years and plantings increased accordingly in Tonga. Vanilla, however, could face glutted markets in the future. Tonga is fortunate in that the government does not require growers to sell to a commodity board as in most other vanilla-producing countries. The board usually takes a toll for the government, thereby lowering the price incentive to growers.

Member growers have expressed some dissatisfaction with the advance payment price of about T\$5 a kilo paid by their societies when green beans were delivered for curing. Because of the high demand for green beans in 1983 dealers were offering T\$10 to \$12 a kilo. The second payment added a little more than T\$8 a kilo, for a total price of more than T\$13 per kilo. But some members preferred an immediate total payment of T\$10 to \$12 and sold to the dealers instead of their societies. Although aware of this problem at the beginning of the season, TCF was unable to secure sufficient funds to make a more substantial advance payment. In 1984, the federation expects to receive more



Vanilla Curing

loans funds from the Tonga Development Bank and increase the advance payment. Madagascar is the world market price setter. Its price is known well in advance of when green beans are ready for sale in Tonga. This is an important hedge for TCF and other vanilla buyers in Tonga. Tonga expects a bumper vanilla crop this year and TCF could market much more than the 1983 volume of three tons (about 1/3 of the total vanilla exports for Tonga).

Federation management is considering a plan to separate vanilla marketing from the consumer wholesale operation. Already potential conflict of interest situations are appearing. What happens if there are losses or gains in one function compared to the others? How are profits and losses to be shared between vanilla producers and consumers? Many times they are not the same people.

Fish Marketing

Based on meetings and informal discussions with knowledgeable people on the subject, fish marketing in Tonga is an important topic. The consensus view is the federation should be the principal market for the catch of Tongan fishermen, cooperative and otherwise. This view was expressed by the Cooperative Department of MAFF and the Foundation for the Peoples of the South Pacific (FSP is a PVO). Admittedly, the head of the Fisheries Department does not personally favor TCF doing the marketing, but says his views have not been accepted at higher levels.

TCF is providing a market for fish being offered for sale. In 1983, TCF showed a net loss of about T\$13,000 on fish marketing operations. The major problem seems to be the low volume of fish caught and offered for sale. The general manager says all fish purchased are being sold, but the one ton volume is not enough to cover the fixed overhead. The break even point would require about two to two and a half tons of fish. A volume of this size might be possible. An artisanal catch of 400 tons a year is predicted from waters around Ha'apai, the most productive fishing area (Cooperative Fish Marketing Project Profile, Appendix D).

FSP has a project to select, train and help commercial fishermen purchase boats. Their program would train 15 boat captains and help them become owners in three years. Two expatriates are being assigned to do the training. In support of this program, the Japanese Government has provided funds, engines, and spare parts for the construction of forty 20 foot boats. Construction is under way in Nuku'alofa and Vava'u. Foundation officials say the 15 new boat owners will double and perhaps triple the present catch. A successful pilot operation has produced four new boat owners who have been trained and are now operating. Officials expect the federation to provide a market for the catch of fishermen they are now training and helping to secure boats.



Fish Marketing

The Tongan government recently completed a fish marketing facility in Vava'u and it is being operated by the federation. Facilities include a freezer and ice-making equipment in addition to sale and storage space. TCF has a temporary arrangement with the Fisheries Department to pay only utility costs. A proposed contract submitted to the Fisheries Department provides for TCF to rent the facilities. There are three to four small groups of fishermen being assisted by the Cooperatives Department to organize into cooperatives. So far none are registered and it is not clear what their cooperative functions will be or their relations with the federation.

A detailed project was prepared in 1983 by the cooperatives department in consultation with TCF management ("Cooperative Fish Marketing, Revised," Appendix D). It reflects current thinking and details services to be provided by TCF - purchasing, freezing, storing, icing, transporting, and domestic and export sales of all fish offered by cooperatives, other fisherman and government vessels. This is further detailed for each of the four major islands. Capital expenses are listed as T\$452,000 over five years. Recurrent costs will be recouped from income generated by the project.

More questions than answers may have emerged from discussions on fish marketing. What types of marketing systems and facilities will be needed to do the job successfully? This enters into projections of market demand and whether there will be enough fish supplied to meet that demand. How are the increased quantities of fish to be handled from a sanitation standpoint? Under the present pricing policy, fish caught by government boats are priced artificially high or at least have that potential because the cost of maintaining the large government vessel and a crew has to be subsidized somehow. To what extent could TCF find itself becoming a residual buyer?

What should TCF's relationship be to any fishing cooperative? The potential for conflict between fishermen and producers on one hand and the consumers on the other is so great that it cannot help but cause trouble. Historically, this situation has arisen many times when consumer and production cooperatives have tried to operate under the same roof. The results have nearly all been negative.

TCF and the cooperatives department should be provided some technical assistance to study the fish marketing situation and make recommendations. This would enable TCF to make sound decisions and plans for fish marketing. This idea has been discussed with federation management, the board, and the cooperatives department. There is agreement about need. No objections were expressed provided neither the TCF nor the cooperatives department have to bear the salary or international transportation expenses. This could be an assignment for VOCA.

The type of technical person required should have fish marketing experience that predates modern conditions in developed countries. The person should have work experience in developing countries, preferably in the South Pacific islands. Ray Lewis from VOCA, who was here in the first quarter of 1983, would be able to do the job. Although his work in Tonga was entirely satisfactory, subsequent events indicate it is time to have a technician take another look. Lewis reported, for example, "Little has been done on setting up operating procedures and systems for the processing, quality control, sanitation and transportation of fish caught." Some progress has been made in solving these problems, but more is required. Uncertainty over government policy on use of its fish marketing facilities by TCF has impeded planning. But it appears the policy will be positive for TCF. A signed agreement between TCF and the Tongan government is expected. Once the agreement is signed, the technician will be needed as quickly as possible.

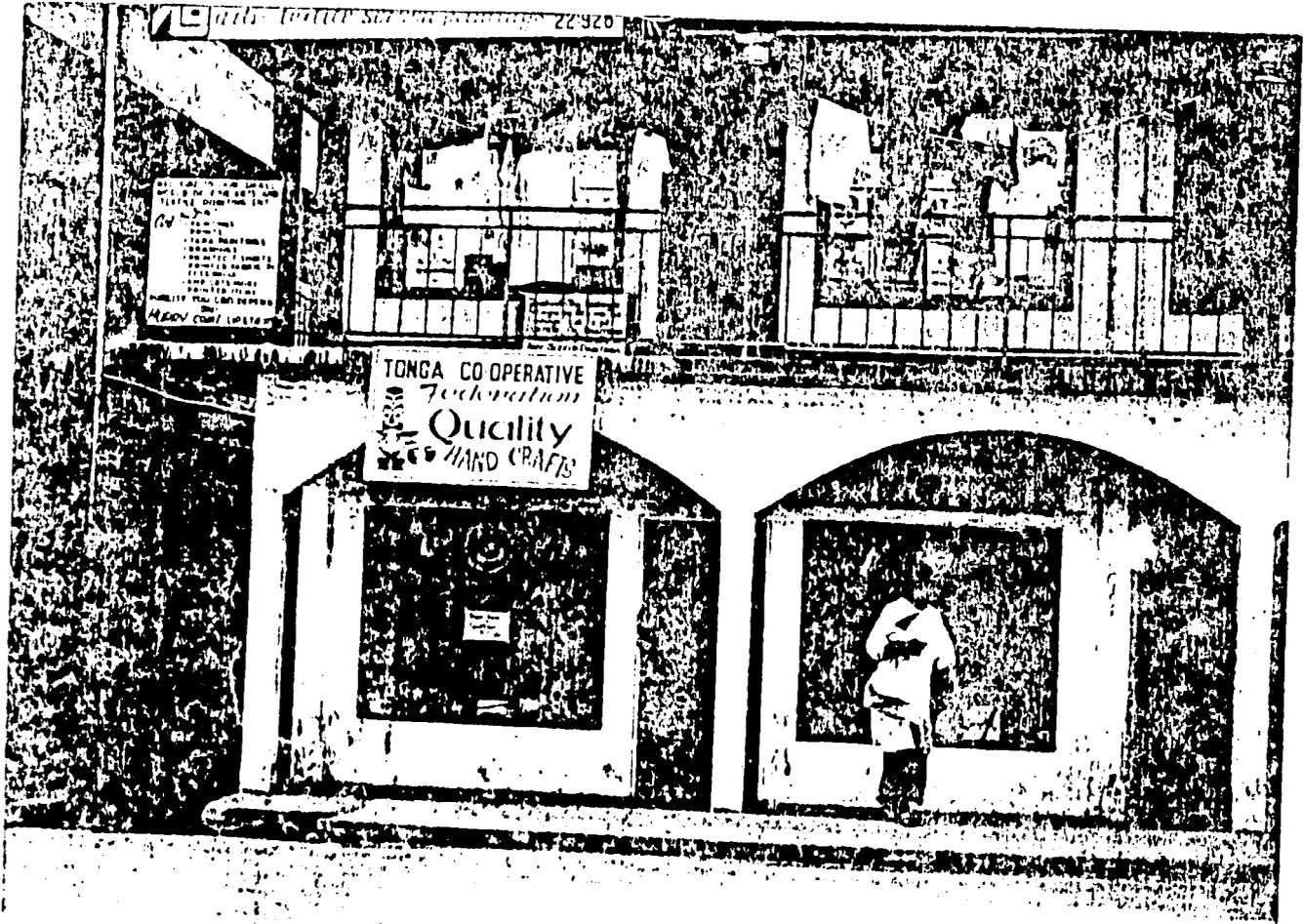
Handicraft Marketing

Tongan handicrafts consist mostly of very high quality woven products (baskets, trays, mats, and bags), scrimshaw (carved designs on bone), tapa (designs painted on cloth made from the bark of mulberry trees) and black coral jewelry. Tongan basketry is the most famous in the South Pacific.

From a business view point, TCF's handicraft marketing operations have been a success. In 1982, gross sales volume was T\$12,480. In 1983, it increased to T\$58,092 (Chart 2, Appendix I). A net profit of T\$4,092 was realized compared with a loss of T\$1,078 in 1982.

Looked at as a cooperative handicraft society, it was not a success because it was not operating as a bona fide cooperative. Merchandise was purchased from individual producers who were not organized into any form of cooperative. This situation is being corrected by helping the handicraft producers organize an island-wide society on Tongatapu and from there to the other islands. TCF and the cooperatives department are working together on this activity. Some suggestions and recommendations follow.

The plan to create an island-wide society on Tongatapu should be carried out rapidly. It should be extended to other islands with sizeable numbers of producers. In the process of helping producers organize, a meaningful cooperative function should be provided. For example, quality control of items being produced is vital to the success of a handicraft marketing program. TCF should provide primary cooperatives with advice and



TCF Handicraft Store



guidance and develop and institute a quality control program. Another important function of the society is to secure selected supplies for its individual members at best prices and terms. Many items are produced. But the more creative artisans could better devote their efforts to production rather than securing supplies. Another important role for the cooperative is to train handicraft workers.

TCF's emphasis on purchasing only high quality items is working and should be continued. It should not become a residual buyer for items produced by the primary societies being organized. To prevent this, the TCF will have to set the policy on quality and prices. The potential for conflicts of interest between the primaries and TCF's market outlet exist. Care must be taken to anticipate and deal with this.

TCF's advertising efforts to promote handicraft sales locally and overseas should continue. Production of high quality items that will sell in overseas markets is limited. This precludes any major overseas advertising campaign. Rather it must be highly selective and care exercised not to overcommit. As the volume of quality items increases, advertising can, if needed, increase. A luxury hotel in Fiji has recently been decorated with items purchased from TCF's handicraft store.

Farm Supplies

The Tonga Cooperatives Department wants TCF to assume the function of providing farm supplies and agricultural inputs to farmers. TCF's management shares this interest to some extent. A Peace Corps Volunteer is being recruited to work in this program and Christian Aid (a PVO) has granted T\$17,000 to the Tongan Government to support it. This is only a small fraction of the amount required to begin the project outlined in a planning document produced by the Cooperatives Department (Appendix E). This plan calls for capital investment of T\$264,000 over three years. This would cover working capital (to purchase tools, seeds, fertilizer, chemicals and crop purchase) and buildings (warehouses and cold storage), with recurrent costs being met from income generated by the project.

Officers in MAFF now have the responsibility of handling these supplies. Such international firms as Morris Hedstrom and Burns Philip and others currently import and sell these supplies. Based on the planning document drawn up in close liaison with MAFF, there appears to be interest by the ministry in turning over its responsibilities for agricultural supplies to TCF. How far is the government willing to go? What actions will be taken by the business firms now supplying these materials if TCF enters the picture in a major way? These factors must be considered in any TCF long-range plan.

Bruce Gervan, who evaluated this project in February 1983, made these observations about TCF taking on the agricultural supply function business is highly seasonal; although difficult to forecast probable consumption, such a forecast is critical because goods must be imported and cannot be made available on short notice; some commodities are incompatible with foodstuffs and segregation of sales facilities is necessary; most primary societies have very limited space.

Gervan's observations are valid and must be taken into account in the Tonga long-range development plan. There are other considerations:

If TCF adds the farm supply function, care must be taken how it is structured in the organization. The interest of members as consumers must be considered in relation to the interest of producer members. There are many members who are not producers of those agricultural products requiring supplies.

The question of TCF being expected to participate in crop marketing other than vanilla should be resolved. The government's project planning document as now drawn contains a statement that TCF would "provide adequate marketing facilities for the resulting increase in agricultural production." Exactly what is intended is not clear. But it implies TCF would be involved in marketing more than just vanilla. All export crops, except vanilla, are now marketed by the Commodities Board.

APPENDIX A

Contacts During Evaluation

Richard W. Greenslade	Registrar of Cooperratives
Fonongaika Tuipeatau	Assistant Registrar of Cooperatives
Jeffrey Schorr	Peace Corps Director
Epeli Lavaki	Manager, TCF Wholesale in Vava'u
Haniteli Fa'anunu	Principal Agricultural Officer in Vava'u
Richard Elsy	Expatriate working on TCF Fish Marketing Commonwealth Fund for Technical Education (CFTE)
Sione Tangi	Cooperative Officer in Cooperative Department
Hama Na'ati	TCF Treasurer
'Apolo Lufe	TCF Board Chairman
Alexis Huni	TCF Wholesale Manager
David Rushton	TCF Expatriate Financial Manager
Semisi Fakahau	Principal Fisheries Officer, GOT
Fred Hawarch	ODA Regional Officer

Interviewed primary society shopkeepers in ten locations over islands of Vava'u, Ha'apai, and Tongatapu.

Attended board meeting of TCF in Nuku'alofa

APPENDIX B

<u>Employee</u>	<u>Position</u>	<u>Annual Salary</u>	<u>Date Hired</u>
<u>A/ADM.</u>			
1. 'Ana 'Ofanoa	Administrative Assistant	\$1950.00	6/4/82
2. 'Ivita Liu	Senior Accounts Clerk	1690.00	24/8/82
3. Tupetaiki Maru'otalaha	Accounts Clerk	1430.00	3/1/83
4. Uilou Vestupu	Cashier	1170.00	25/8/83
5. Hai'one Tautua'a	Secretary	1300.00	26/9/83
<u>W/WHOLESALE</u>			
1. Alexis Bani	W/Sale Manager	7000.00	17/10/83
2. Tevita Palu Fetu'u'aho	Store Manager	1690.00	26/7/82
3. Viliani Kolingi 'Akmu'ola	Delivery Manager	1430.00	1978
4. Fotu'aika Fakalalu	Salesman	1300.00	1/7/82
5. Sione Faingata'a	Cashier	1300.00	3/1/83
6. Soane Talanoa	Freight Clerk	1690.00	21/3/83
7. Moeaki 'Ahoafi	Salesman	1300.00	18/7/83
8. 'Ikani Tolu	W/Sale Clerk	1300.00	3/8/83
<u>R/RETAIL</u>			
1. Tapuaki Ma'unga	R/C Manager	1040 + % Com.	6/9/82
2. Foleuhola 'Unga	Saleswoman	1300.00	16/1/84
<u>R/RETAILING</u>			
1. 'Etimoni Uale	Salesman	1300.00	10/10/83
<u>VAVA'U</u>			
1. Epeli Lavaki	Vava'u Manager	1690.00	13/8/82
2. Latu Fainga'a	Secretary/Accounts Clerk	1040.00	18/6/83
3. Fimi'iliese Tu'a	Saleswoman	1040.00	26/8/82
4. Heleina Tonga	Saleswoman	1040.00	10/1/83
5. Sia 'Ofanoa	Fish Manager	1300.00	20/11/82

In addition the following persons are working on a daily paid basis the persons marked with a * will likely be appointed as salaried employees on 6/2/84.

•	Pape'ai Pinau	Fish Manager	Viliani Faketi	Delivery Manager
•	Vaikalafi Le'ota	Saleswoman		Vava'u - Part Time
•	Eleni 'Ahoalaia	Saleswoman		
•	Kilim	Salesman	Filimono Moala	Vanilla
•	Vaciti Tukuafo	Saleswoman - Vava'u		Inspector -
	Sita Man	Delivery Assistant		Vava'u -
	Kava Hamani	" "		Part Time
	Moseese 'A'ufo'ou	" "		

APPENDIX C

**COMPARISON OF CONDENSED PROFIT AND LOSS BUDGET - 1961 WITH PROFIT AND LOSS
STATEMENT FOR 1961**

Merchandise and Handicrafts

	Budget	Actual
	TA	TA
Sales	<u>1,226,000</u>	<u>2,228,815</u>
Cost of Sales	1,191,050	2,126,630
Gross Margin	104,950	172,185
Other Income	<u>1,000</u>	<u>11,181</u>
Total Trading Income	107,950	183,368
Less Direct Expense	<u>66,960</u>	<u>100,981</u>
Operating Profit	40,990	82,385
Less Administrative Expense	<u>19,170</u>	<u>27,130</u>
NET PROFIT	21,820	55,255
Gross Profit	8.3% of purch.	7.0%
Total Expense	6.3% of sales	5.0%
Net Profit	1.7% of sales	2.0%
Rate of inventory turn	6 x per annum	14

APPENDIX D:

PROJECT PROFILE (UPDATED)

1. Project Title

Cooperative Fish Marketing (Revised).

2. Sector

Commerce, Business Services and Finance/Fisheries.

3. Administering Agency

Tonga Cooperative Federation under the general supervision of the Cooperative Division of the Ministry of Labour, Commerce and Industries.

4. Other Participating Agencies

Close liaison with Fisheries Division.

5. Description of Project

5.1 General

- a) The Tonga Cooperative Federation will supply the following services throughout the Kingdom,
 - i) Purchase from cooperative and other fishermen and Government vessels all catches of merchantable quality offered for bulk sale.
 - ii) Freeze, store, ice or otherwise deal with such purchases through present facilities and those to be installed.
 - iii) Distribution through its member societies and other suitable distribution points of fish required in the areas in which it is caught.
 - iv) Transportation of fish from catching points to areas of short supply - such as Nuku'alofa - and marketing there.
 - v) Export of such fish for which there is no local economic demand.
 - vi) Sale through its own warehouses and member societies to fishermen, at reasonable prices, the inputs they require to secure their catches.
- b) Extension of the above services - particularly in the area of fish processing - as required by the size of the catch.
- c) Training locally and overseas of staff of Tonga Cooperative Federation to manage and run the project. (For this purpose the services of a fish processing technologist are required for the first two years of the project).

5.2 Tongatapu

- a) Reception of fish from catching areas coupled with any processing necessary.
- b) Development of wholesale and retail markets for fish in both urban and rural areas of Tongatapu.
- c) Provision of equipment, facilities and transport to carry out these aims.
- d) Distribution of fishing equipment and supplies.

5.3 Vava'u

- a) Management by Tonga Cooperative Federation of the MAFF fisheries installation to enable it to process and dispose of the local catch to the best advantage.
- b) Provision of working capital to enable the Federation to purchase the expected artisanal catch of 400 tons.
- c) Marketing and distribution in Vava'u of that part of the catch required for local consumption.
- d) Transhipment of fish to areas of scarce supply and for export.
- e) Distribution of fish equipment and supplies.

5.4 Ha'apai

- a) Processing and disposal of the local catch to the best advantage.
- b) Provision of working capital to enable the Federation to purchase the expected artisanal catch of 400 tons.
- c) Transhipment of fish to areas of scarce supply and for export.
- d) Distribution of fishing equipment and supplies.

(Note: The above operation assumes access to Government processing, freezing and ice facilities on a basis of equality with other organisations concerned with fish marketing in Ha'apai. Any other solution leads to a wasteful duplication of facilities.

However, two primary societies have been involved with fisheries and it is anticipated that further such primaries will be registered. Additional equipment will be needed to ensure their integration into an orderly marketing organisation.)

5.5 'Eua

- a) Installation of suitable plant to ensure adequate supplies of ice to local fishermen together with such processing as may be necessary.
- b) Provision of working capital to enable the Federation to purchase the expected artisanal catch.
- c) Marketing in 'Eua of that portion of the catch required for local consumption.
- d) Transhipment of fish to Tongatapu.
- e) Distribution of fishing equipment and supplies.

5.6 Kingdom wide inputs

Provision of working capital to enable the Tonga Cooperative Federation to provide adequate supplies of fisheries inputs at reasonable prices throughout the Kingdom. The expected slow rate of turnover of many of these items is seen as a justification for seeking this subsidy element.

6. Project Objectives

- 6.1 The project seeks to bring about the orderly marketing of fish throughout the Kingdom. Also to bring to the fishermen those supplies and equipment needed for the extraction of fish.
- 6.2 By relieving the fisherman of the necessity of retailing his fish to enable him to maximise the time he spends fishing.
- 6.3 By providing a marketing outlet for all fish offered for sale to give an alternative income to anyone - and particularly to the unemployed school leaver - who is prepared to fish.
- 6.4 To provide additional job opportunities within the Federation for staff involved with the handling, processing and distribution of fish.
- 6.5 To diversify the activities of the cooperative movement - comprising 68 multipurpose societies and one national apex society.
- 6.6 To ensure the supply of fresh and frozen fish throughout the Kingdom as a substitute for imported proteins.
- 6.7 To add to the Kingdom's foreign currency income by the controlled export of suitable fish.

7. Benefits and Beneficiaries

- 7.1 Fishermen throughout Tonga - artisanal and otherwise - will benefit from the scheme. Sound marketing is basic to the development of the artisanal fleet and to the development of fishing as an income earner in addition to agriculture. No market - no commercial fishing. The present ad hoc arrangements are inadequate to deal with the predicted catch.
- 7.2 Fishing and the shore based infrastructure will create jobs for landless school leavers and others.
- 7.3 Consumers throughout the Kingdom will benefit from the year round availability of chilled or frozen fish.
- 7.4 Movement of fish will utilise empty capacity on vessels moving within the island groups.
- 7.5 The economy of the Kingdom will benefit from:
 - a) protein import substitution from the locally consumed portion of the catch.
 - b) foreign currency income from the exported portion of the catch.

8. Regional and Rural Implications

The project will boost the economies of the outer island groups which are the main fish catching areas. Not only will individual incomes be increased but an alternative source of income to agricultural production will be provided in areas which are unlikely to be attractive to industrial developers.

Although greatest benefit will accrue to the owners of the larger boats comprising the artisanal fleet the poorest canoe owner can also participate in the benefits offered by the project.

9. Project Cost

\$452,000

10. Project Finance:

Aid donor not yet identified.

FUNDING SOURCE	TOTAL	1984/85	FUTURE
Aid Grants	452,000	257,500	194,500
Loans	-	-	-
Tonga Govt.	-	-	-
Other	-	-	-

(Note: Under Cooperative Societies Rule No. 66 (3) the Statutory Reserve is indivisible and, even in liquidation, not available for distribution. It is proposed, therefore, to protect the aid grant by putting it to this Statutory Reserve).

11. Internal Rate of Return

12. Implementation Schedule

Project Component	Year 1	Year 2	Year 3	Year 4	Year 5
Fish Purchase	X	X	X		
Processing Plants:					
'Eua		X		X	X
Tongatapu	X				
Processing Equip:					
Ha'apai	X	X			
'Eua	X	X			
Tongatapu	X				
Land & Buildings:					
'Eua	X	X			
Tongatapu	X	X			
Refrigerated Vehicle		X			
Fisheries Inputs	X	X	X		
Training & Travel	X	X	X	X	X
Technical Assistance	X	X			

13. Project Status

Updated Project. Original included as a Reserve Project in 1983/4 Development Estimates - Vote 63 (a) Manufacturing and Commerce \$365,000.

Since the drafting of the original project a Fish Marketing Expert from the American Volunteer Development Corps has carried out an initial survey of the Federation's fish marketing activities and potential. The CFTC Fish Marketing Adviser took post on 5 February 1983. From that date to 31st August 1983 the Federation handled \$26,000 worth of fish (financed from its own resources) - \$18,000 of this in July and August.

14. Date of Profile Preparation

Original Profile 1 February 1983
 Update 19 October 1983

FINANCE

APPENDIX A

PROJECT COMPONENT	Total Cost	Year 1	Year 2	Year 3	Year 4	Year 5
<u>CAPITAL EXPENSES</u>						
<u>1. Fish Purchase Capital</u>						
Vava'u	50,000	30,000	20,000			
Ha'apai	30,000	5,000	15,000	10,000		
'Eua	30,000	10,000	10,000	10,000		
<u>2. Fish Processing Plant</u>						
'Eua	30,000		10,000		10,000	10,000
Tongatapu	20,000	20,000				
<u>3. Fish Processing Equip.</u>						
Ha'apai	20,000	10,000	10,000			
'Eua	10,000	8,000	2,000			
Tongatapu	20,000	20,000				
<u>4. Land and Buildings</u>						
'Eua	20,000	20,000				
Tongatapu	50,000	50,000				
<u>5. Refrigerated Vehicle</u>						
	22,000	22,000				
<u>6. Fisheries Inputs - Capital</u>						
	30,000	10,000	10,000	10,000		
<u>7. Training and Travel</u>						
	20,000	2,500	5,000	5,000	5,000	2,500
<u>8. Technical Assistance</u>						
	100,000	50,000	50,000			
TOTAL CAPITAL	452,000	257,500	132,000	35,000	15,000	12,500

RECURRENT

All recurrent costs will be recouped from income generated by project.

APPENDIX E

PROJECT PROFILE

1. Project Title. Development of Cooperative Agricultural Operation.
2. Sector
Commerce, Business Services and Finance/Agriculture.
3. Administering Agency.
Tonga Co-operative Federation under the general supervision of the Co-operative Division of the Ministry of Labour, Commerce and Industries.
4. Other Participating Agencies.
Close liaison with M.A.F.F.
5. Project Objectives
 - 5.1 To diversify co-operative activities in accordance with DPLV.
 - 5.2 To make available to farmers throughout the Kingdom - but particularly in the outer islands - supplies of agricultural inputs at reasonable prices to assist in the increase of agricultural production.
 - 5.3 To hold adequate stocks throughout the year to avoid shortages of these requirements.
 - 5.4 To relieve officers of MAFF of the responsibility of handling these supplies thus enabling them to concentrate on agricultural production.
 - 5.5 To satisfy para 3.1(f) of the Coconut Review Mission interim report:-
"development of co-operative societies to serve as active agents for the distribution of farm inputs....."
 - 5.6 To provide adequate marketing facilities for the resulting increase in agricultural production.
6. Description of Project.
 - 6.1 The Tonga Co-operative Federation - in close liaison with MAFF - will make the necessary bulk overseas purchases and import into the Kingdom the agricultural input requirements of farmers.
 - 6.2 The Federation will build the necessary warehousing facilities with cool rooms in Vava'u and Ha'apai to store these bulk inputs. Dual purpose sheds will be erected to store inputs and to store agricultural produce prior to shipment. Federation storage facilities presently existing in Vava'u would be adequate for the first two years of operation.
 - 6.3 Through its sixty odd multi-purpose primary, member societies the Federation would eventually make agricultural inputs available throughout the Kingdom. However, in view of present lack of facilities in the outer islands, the Federation would concentrate on Vava'u (21 member societies) and Ha'apai (9 member societies) in the early stages of the project.

- 6.4 Primary societies would sell to both member and non-member. There is no restriction in Tonga or non-member trading. Members would, of course, benefit from any bonus distribution which is not available to non-members. Non-members would be encouraged to join co-operatives to enable them to participate in these benefits.
- 6.5 The Federation would use its chain of member societies as buying stations for increased agricultural production. It would bulk agricultural produce, store it prior to shipment, and dispose of it either within the Kingdom or by export.
- 6.6 The Federation, in co-operation with the Department and MAFF, would mount a series of courses to train personnel at both secondary and primary level in the characteristics and uses of the new products they were handling.
- 6.7 A vehicle would be required in Vava'u for distribution of inputs and collection of crop purchases. Any additional capacity would be used to strengthen other retail and wholesale operations in the co-operative chain.

NOTE:- It is proposed that any working capital provided for the Federation will be put to the Reserve Fund. Under Co-operative Societies Rule 66(j) this reserve is indivisible and not available for distribution thus protecting the grant input.

Benefits and Beneficiaries.

- 7.1 The primary beneficiaries will be the rural population in the outer islands. Over 2000 family groups are members of co-operative societies. These are estimated to contain some 10,000 people who are in direct contact with the co-operative chain. As noted in 6.4 above non-members will be additional to this number. All will benefit from increased production.
- 7.2 The national economy will benefit from:-
- a) increased foreign currency from that portion of the increased crop exported.
 - b) increased skills of those people trained to handle the inputs.
 - c) increased time available to MAFF officers freed from carrying out functions which are properly those of the commercial sector.
- 7.3 Additional jobs will be created in Vava'u and Ha'apai within the distributive chain.
- 7.4 The co-operative movement as a whole will benefit from diversification of activities which would strengthen its income earning potential.

C. Regional and Rural Implications.

The project will make available services in the rural areas and the outer islands which are not available at present. These services should lead to an increase in production with a resultant increase in income to all rural cultivators using the services. These services would be available at village level and not only in centres of high population (e.g. Nuku'alofa).

3.

Project Cost.

The total project cost is \$254,000.

10. Internal Rate of Return

11. Implementation Schedule

PROJECT COMPONENT	Year 1	Year 2	Year 3	Year 4	Year 5
Crop Purchase rate	50%	100%	-	-	-
Inputs rate	40%	70%	100%	-	-
Warehousing Ha'apai	X				
Cool room Ha'apai	X				
Warehousing Vava'u			X		
Cool room Vava'u			X		
Vehicle purchase	X				

12. Project Status

New project but personnel available to institute first phase.

13. Date of Profile Preparation

2 February 1983.

4.

PROJECT PROFILEDevelopment of Co-operative Agricultural Operation

<u>PROJECT COMPONENTS</u>	<u>TOTAL COST</u>	<u>1983/84</u>	<u>84/85</u>	<u>85/86</u>	<u>86/87</u>	<u>87/88</u>
<u>CAPITAL ITEMS</u>						
<u>Working Capital</u>						
Crop Purchase	20000	10000	10000			
Agric Tools	40000	16000	12000	12000		
Seeds	9000	3600	2700	2700		
Fertilizers	40000	16000	12000	12000		
Agric Chemicals	40000	16000	12000	12000		
<u>Buildings</u>						
Warehouse Ha'apai	35000	35000				
Cold Room Ha'apai	15000	15000				
Warehouse Vava'u	35000			35000		
Cold Room Vava'u	15000			15000		
<u>Vehicle</u>						
Vava'u	15000	15000				
TOTAL CAPITAL	264,000	126600	48700	88700		

RECURRENT

All recurrent costs will be met from income generated from the project.

APPENDIX F

NUMBER OF CO-OPERATIVES
IN TONGA BY TYPE & LOCATION

<u>Type</u>	<u>Tongatapu</u>	<u>'Eua</u>	<u>Yava'u</u>	<u>Ha'anapai</u>	<u>Total</u>
Multi Purpose *	28	5	18	8	59
Thrift and Loan	7		1		8
Industrial	1				1
Consumer **	5		1		6
Development (Village)			1		1
Canteen	1				1
Secondary	<u>1</u>	-	-	-	<u>1</u>
	<u>43</u>	<u>5</u>	<u>21</u>	<u>8</u>	<u>77***</u>

* Indicates basis they are registered. Does not mean all are operating as multi purpose societies.

These are primary societies that are members of Federation

** Also primary societies in Federation

*** 65 of these are primary societies in the Federation

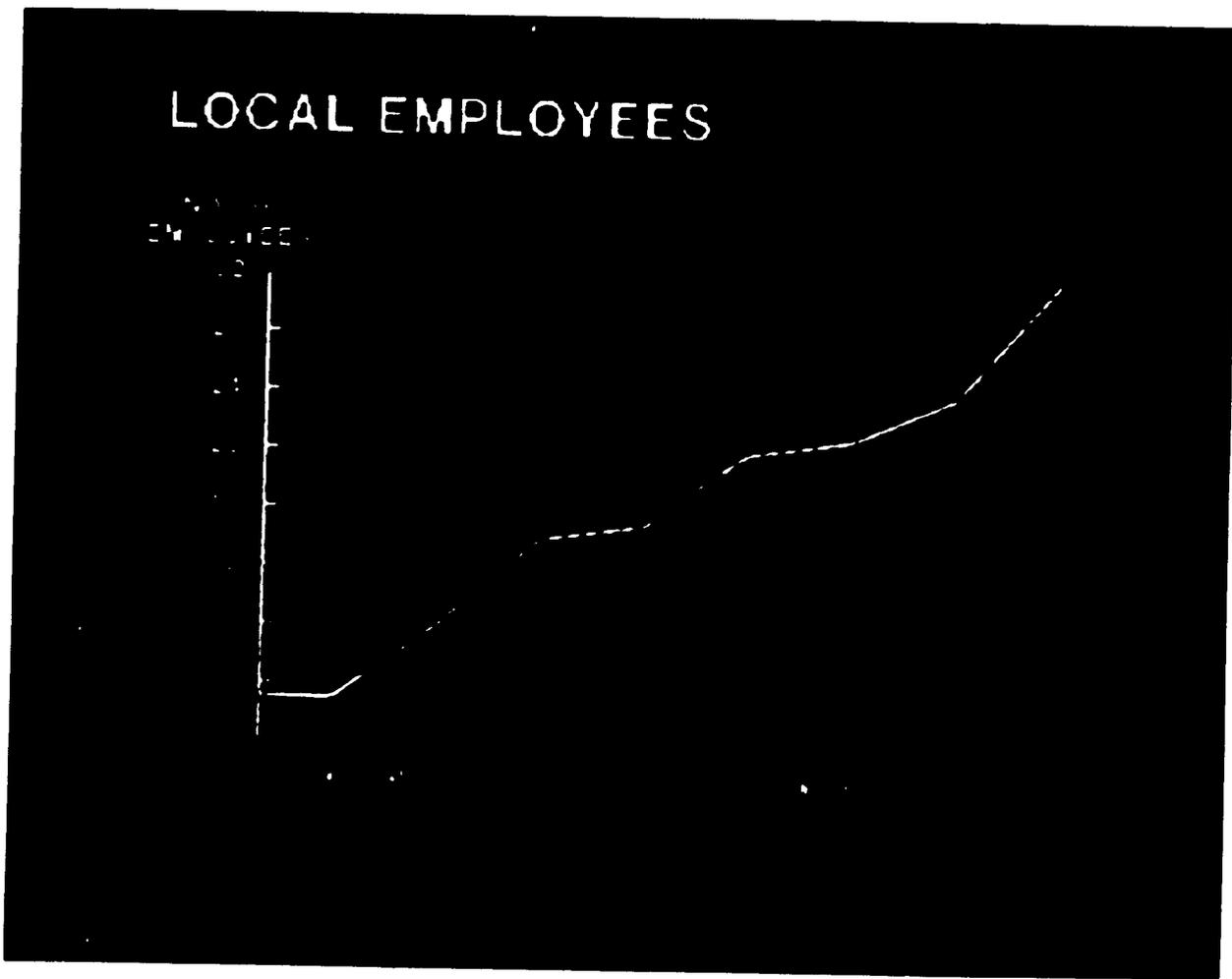
SUMMARY OF INFORMATION OBTAINED FROM VISITS TO
10 PRIMARY SOCIETIES ON 3 MAIN ISLANDS DURING

THE EVALUATION

	1	2	3	4	5	6	7	8	9	10
1. Yr Org.	Dk.	1977	1977	1973	1977	Dk.	1977	1968	Dk.	Dk.
2. No Memb.	51	52	121	100	Dk.	20	31	41	30	22
3. Maj Services	Groc. Truck	Groc. Tractor Coopn Mgt.	Groc. Handcft.	Groc. Fish Boat	Groc.	Groc.	Groc. Purch & Cure Van.	Groc. Purch & Cure Van.	Groc. Purch & Cure Van.	Groc.
4. Av. Wkly. Vol. Bus. 5 Day Wk.	457	1700	565	454	1312	475	400	600	300	200
5. Profit/Loss 1983	P \$184	P \$10,730	- \$1,669	L (\$215)	- \$5,174	L (\$1,582)	L (\$578)	P \$663	- \$1,817	L (\$100)
6. Credit	NO	NO	NO	NO	NO	YES	DK	DK	YES	DK
7. Non Memb. Bus. Est. Percent Non memb. bus.	All call to non memb. 45%	40%	40%	35%	40%	60%	25%	Dk.	50%	40%
8. Involvement of Women	Most shops run by women shopkeepers									
9. Co-op Department newsletter sent to secretary and does not get distributed around										
10. Requirements for membership - purchase share of stock - price varies from T\$ 5.0-10.0										
11. Significant amount of merchandise in shops purchased from other than co-operative wholesale. estimates run around 40 - 50% Co-op wholesale does not carry all items stocked in stores.										
12. Only significant complaint concerned deliveries: not enough supplies on the truck and more frequent deliveries are needed.										
13. Rapid turnover of store keepers										
14. Larger first payment for vanilla desired (Vava'u Societies)										
15. No elec in some villages means no refrigerated boxes in shops - gas or solar energy boxes might be the answer										

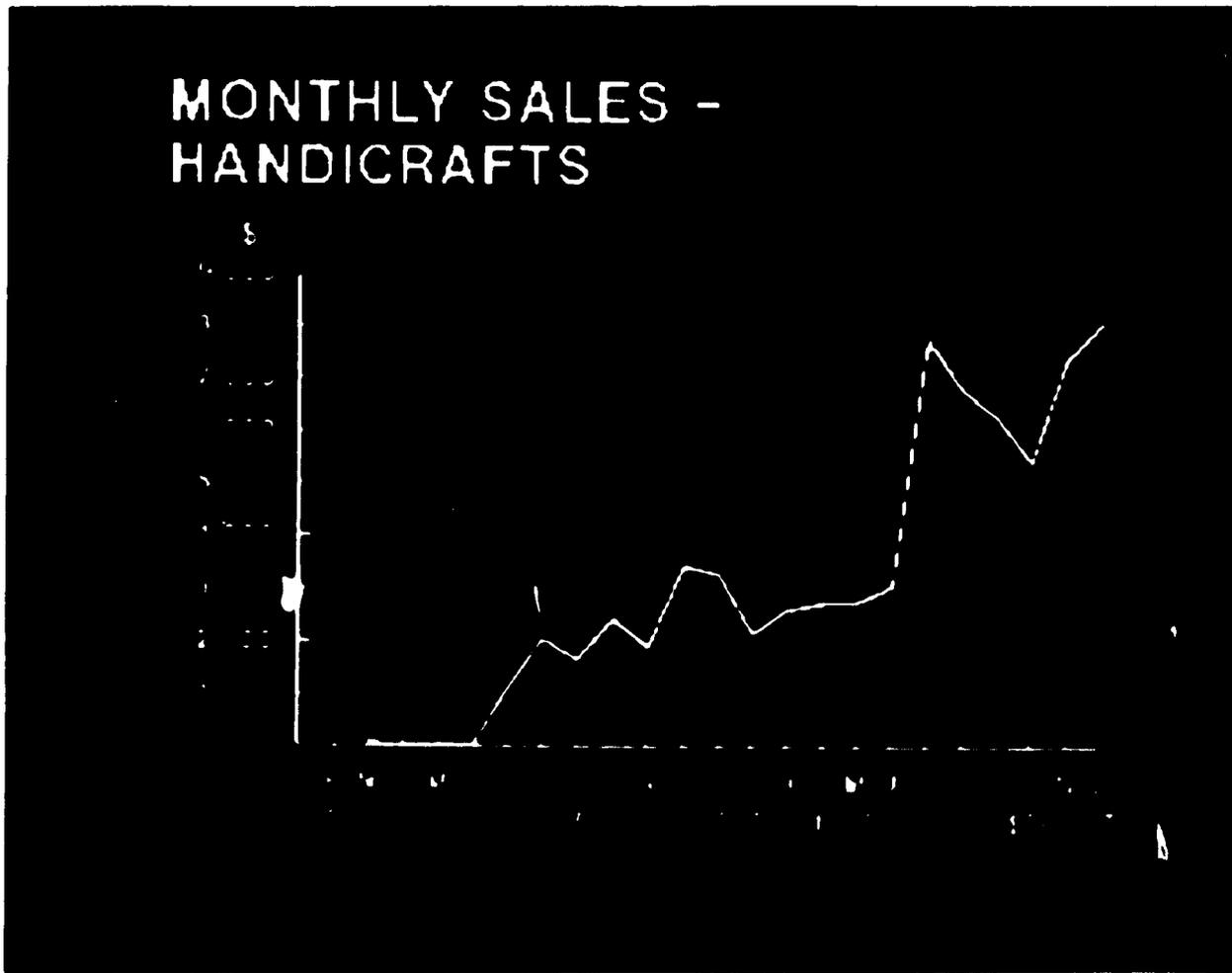
APPENDIX J: Local Employees - TCF

CHART 3



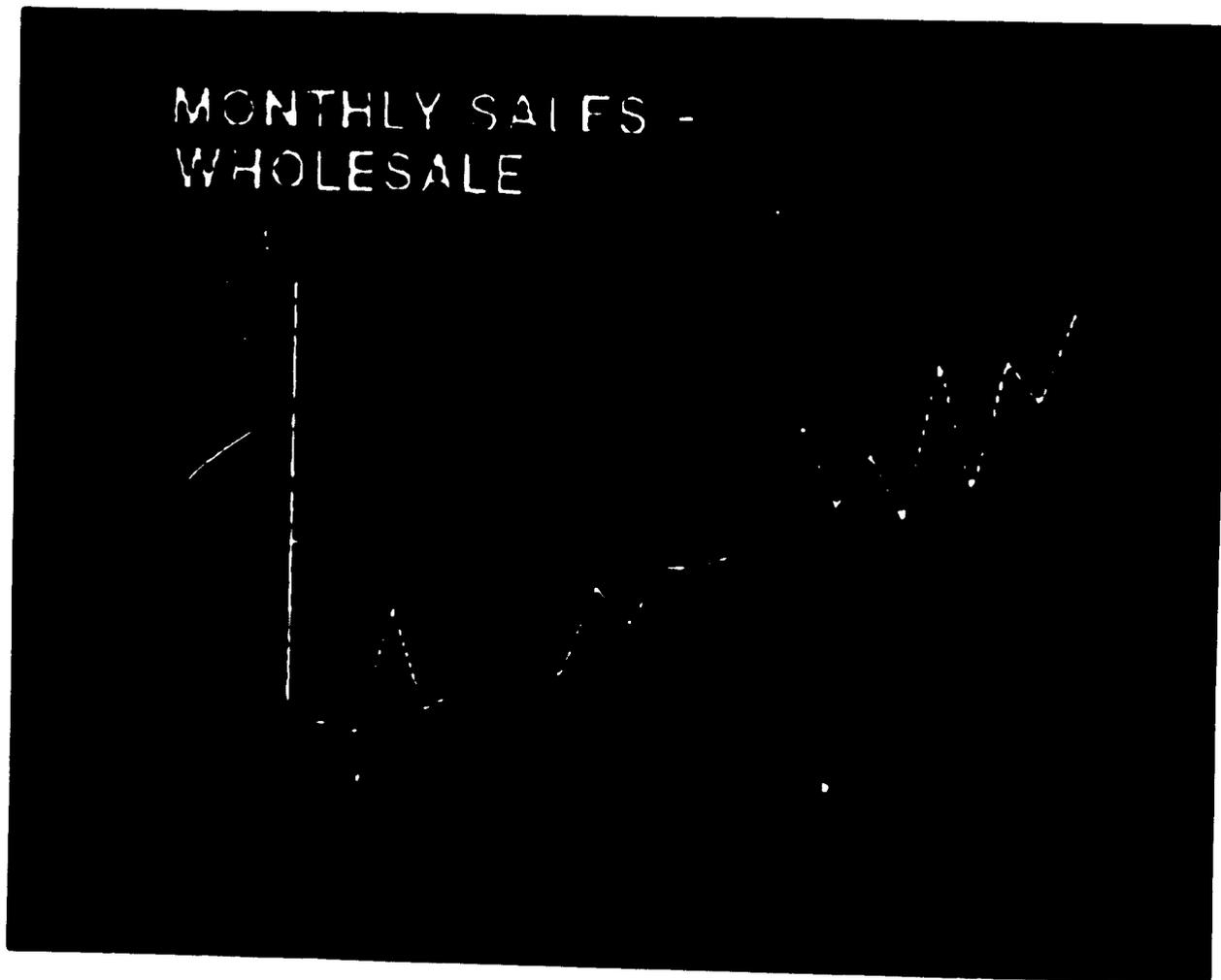
APPENDIX I: Monthly Sales - Handicrafts

CHART 2



APPENDIX H: Monthly Sales - Wholesale

CHART 1



APPENDIX K: Map of Tonga

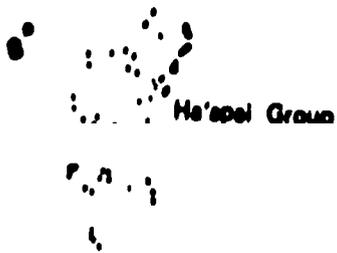
Niua Fo'ou Is



Niutoputapu Is



Vava'u Group



Ha'apai Group

Tongatapu Is



'Eua Is

