

**TONGA COOPERATIVE FEDERATION (TCF)**  
and  
**FRIENDLY ISLANDS**  
**MARKETING COOPERATIVE (FIMCO)**

*Final Evaluation Report*

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## ABBREVIATIONS USED

|       |  |
|-------|--|
| ACDI  | Agricultural Cooperative Development International |
| ADB   | Asian Development Bank                             |
| AID   | Agency for International Development               |
| FIMCO | Friendly Islands Marketing Cooperative             |
| GOT   | Government of Tonga                                |
| MAFF  | Ministry of Agriculture, Fisheries and Forestry    |
| MLCI  | Ministry of Labour, Commerce and Industries        |
| OPG   | Operational Program Grant                          |
| TCF   | Tonga Cooperative Federation                       |
| T\$   | Tongan Pa'anga (currency)                          |
| USAID | U.S. Agency for International Development          |
| US\$  | United States Dollars                              |
| VOCA  | Volunteers in Overseas Cooperative Assistance      |

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**EVALUATION REPORT**

**I. Background and Methodology**

The Tonga Cooperative Federation (TCF) project started in January 1982 and ended in July 1986. The Friendly Islands Marketing Cooperative (FIMCO) Project started in August 1987 and will end approximately July 1988. Both projects have been implemented by ACDI and funded by USAID grants. The FIMCO project is a follow-on project to TCF so the projects overlapped and are therefore closely related. Since no funds were provided in the FIMCO project agreement for an evaluation, this report will serve as a final evaluation for both projects.

ACDI's involvement began in June 1980 with a request by the Registrar of Cooperatives for the Kingdom of Tonga for assistance to the Tonga Cooperative Federation (TCF) which was experiencing serious difficulties.

An ACDI staff member visited Tonga in late 1980 to study the TCF situation and prepare a report. Also in 1980, Britain's CLEAR Unit (Cooperative Liaison, Education and Research), examined TCF's financial records and management problems and prepared a report. VOCA (Volunteers in Overseas Cooperative Assistance) conducted a preliminary evaluation of TCF in May 1981. These three reports formed the basis for the initial OPG proposal and the ensuing two-year program. The project was extended in August 1984 until January 1986 and continued until July 1987 with remaining funds. A proposal to support the further development of FIMCO in a new OPG was submitted and approved for one year beginning in August 1987.

Process evaluations were conducted by Bruce Gervan, VOCA, in February 1983; by Job Savage, an independent consultant hired by ACDI in February 1984; and by Don Crane, an ACDI staff member, in July 1985. Bart Harvey, former ACDI Executive Vice President, visited the project in January 1986. The current evaluation for both the TCF and FIMCO projects was conducted between November 23 and December 4, 1987 by Jerry Lewis, ACDI vice president for Asia & Pacific region.

During both projects, ACDI and VOCA provided significant short-term technical assistance. The consultancies of Ray Lewis, Howard Johnson, E.J. Kashiwase and Al Pena, all

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VOCA volunteers, have produced special reports on fish marketing, vanilla marketing and accounting and computerization, respectively. Dale Key, ACIDI staff systems analyst, provided special computer programming services for FIMCO and TCF. ACIDI-provided consultants Jim Guderyon, Lars Matthiessen and Bill Aldworth in cooperative education, refrigeration, and cooperative branch operations development, respectively.

**Methodology**

The evaluator visited Vava'u to observe fisheries, vanilla and handicrafts activities. Visits were made to the fisheries building where fish are received, processed, frozen and stored, and where fishing supplies are sold to cooperative members and the general public. Also in Vava'u, the handicrafts branch retail store was visited. Other visits in Vava'u were to the MAFF office and to a vanilla curing shed. In Tongatapu, the evaluator visited the main offices of FIMCO and TCF. Also visited were the FIMCO retail stores for fresh and frozen fish, two handicrafts outlets, fisheries supplies and the main TCF wholesale outlet. Calls were also made on government and banking officials in the capital city.

Cooperative employees, board members, cooperative members and government officials were informally interviewed. Efforts were made to interview committee members, cooperative members and employees to determine their viewpoints and impressions.

Sales, profits and production data were collected from TCF and FIMCO offices and tabulated into the exhibits included in the following pages.

This is not meant to be a detailed assessment since time did not permit contact with more than a representative sample of concerned persons.

**II. SUMMARY, ACCOMPLISHMENTS AND RECOMMENDATIONS**

**A. EXECUTIVE SUMMARY**

The TCF and FIMCO projects can be assessed as successful. They have made a significant impact in the country and among the beneficiaries. The major accomplishments are briefly summarized in the next section. Sales, profits and growth over the life of these projects have been impressive.

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It is expected that the growth will continue in the coming years.

The separation from TCF of the fisheries, vanilla and handicrafts components, as was recommended in past evaluations, has been completed. In spite of some natural sales declines and foreign exchange losses as a result of severe fluctuations, sales of TCF wholesale operations have been maintained and are likely to climb. It is expected that profits in 1987 will equal profits before the split.

The goal of the TCF project was to "develop TCF into a strong, self-reliant importing and wholesaling institution capable of managing its own affairs and paying its own way while providing valuable and needed services for its members." That goal has been achieved.

The newly created FIMCO operation has grown remarkably fast in its first two years. There are strong indications that growth and profits will continue to increase.

TCF now has a Tongan manager who is gaining the confidence of the Management Committee (Board of Directors) and the bankers who provide the lines of credit which are the organization's lifeblood. FIMCO has identified a qualified Tongan who has the qualities required for the position of secretary/manager. He has two years of work experience with TCF/FIMCO and has received cooperative manager training in the United States. He should be designated the "manager-in-training" as soon as possible and be prepared to take over the office of secretary/manager in the near future. His appointment is subject to agreement by the management committee. Many persons contacted have strong reservations about the ability of the Tongan manager to run the large organization. They felt he needs an expatriate adviser for another year or more. It therefore behooves the board of directors to permit the manager as much time as possible in a leadership position while the ACDI adviser is still in the country.

The arrangement for obtaining a long-term lease for FIMCO's exclusive use of the Vava'u fisheries facilities has not been finalized. This is a major bit of unfinished business for FIMCO that may not be achieved during the life of the project.

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**B. ACCOMPLISHMENTS**

a. TCF is a successful "turnaround operation." From a virtually bankrupt federation in 1981, it is now probably the fourth largest company in Tonga with annual sales over T\$6 million (US\$ 4.285 million). It is managed by a Tongan without the need for salaried expatriate advisers. However, two British volunteers are assigned to TCF in administrative capacities.

b. TCF provides good services to more than 500 Fale Kaloas (retail shops) at reasonable and stable prices. It serves the population throughout the islands with provisions, as well as fresh and frozen goods, at the same prices in the rural areas as in large cities. The retail outlets are both cooperative and proprietary village stores selling consumer goods. The shops served by TCF are thriving because the customers save time and transport costs since they don't have to travel to the cities to obtain good quality supplies at fair prices. These are real savings to the rural population.

c. The profits generated by TCF and FIMCO provide increased income through payment of a bonus (patronage refund) to cooperative members. Both cooperative organizations now pay significant amounts of income taxes to the government.

d. TCF has had a rough, but successful, transition to Tongan management from the ACDI-provided manager followed by two expatriate managers (hired and paid for by the TCF).

e. Employment generation: the number of TCF employees increased from 3 at the start of the project in 1982 to 58 in December 1987. FIMCO now employs 28 full-time employees and 34 more during the 6-month vanilla season.

f. The growth of FIMCO is measured by expanded branch operations which include:

- Two fishing supplies retail stores (Nuku'alofa and Vava'u). Supplies are made available to fishermen in the northern group of islands through a TCF store in Ha'pai which obtains the supplies at wholesale prices from FIMCO.

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- Three hand crafts stores (two in Nuku'alofa and one in Vava'u).
  - Four vanilla curing sheds in Vava'u and one in Tongatapu for a total curing capacity of 6.5 metric tons.
  - Retail outlets for fresh and frozen fish in Nuku'alofa and Vava'u.
- g. FIMCO membership grew from none at its creation to 800 members at the end of November 1987.
- h. FIMCO hand crafts section enables mostly women to supplement family income and receive about 80 percent of the retail sales price. This consists of 75 percent of the retail price when the produce is delivered to FIMCO and a subsequent 5% bonus payment.
- i. FIMCO provides increased services to its members including:
- fishing supplies;
  - ice to fishermen;
  - management of fully-equipped vanilla curing sheds;
  - purchase and sale of raw material for handicraft producers.
- j. Increased income to cooperative and non-cooperative members.
- TCF prices are less than the competition's.
  - FIMCO's pricing policy keeps producer prices higher for vanilla farmers. Competitors are forced to buy vanilla at higher than FIMCO prices because people are aware of FIMCO's patronage bonuses.
- k. Increased FIMCO sales as growth indicator:
- 1987 vanilla sales almost doubled over 1986.
  - Fish sales doubled between 1985 and 1987.
  - 1986 hand craft sales double of 1985.
  - 1987 hand craft sales will be almost double those of 1986.
- l. In the first six years of the projects, the sponsored cooperative activities have earned profits of over T\$ 600,000. Less than T\$ 150,000 has been paid for income

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taxes and member bonuses (patronage refunds) with over T\$ 450,000 being left as equity for continued growth.

**C. RECOMMENDATIONS**

**1. TCF**

(1) The Registrar of Cooperatives attended but did not vote at TCF management committee meetings from the inception of the project until about a year ago when the Government of Tonga appointed the registrar as a voting member. Since the registrar's role is to supervise and audit all cooperatives, he should not be a voting member of the management committee.

(2) Efforts are required on the part of the Cooperative Department and TCF to increase the number of cooperative members in TCF. About 15-20% of the customers are now cooperative members. One suggestion has been to allow private fale kaloa owners to join TCF and buy shares so they can be members (possibly associate members) of the cooperative federation. In that way they too can earn patronage refunds.

(3) Job descriptions for all TCF positions should be completed as soon as possible.

(4) TCF management should establish sales and profit targets for each year and assess them quarterly. Based on the assessment, it may be necessary to set new targets either higher or lower. At year-end, an evaluation can be made of the original and revised targets and use these as basis for subsequent years' projections. A three-year development plan should be prepared in advance and revised each year. In addition, standard financial ratio analysis should be used to assess business performance and strength. Variance reporting should be used as these are common business tools for management to gauge the success of the organization (and the various departments, employees) and for the management committee to evaluate the manager's performance.

**2. FIMCO**

(1) The FIMCO secretary/manager is now a voting member of the board of directors. He should attend all meetings but not have any voting rights. For example, in the United States, managers or chief executive

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officers of agricultural cooperatives are almost never members of the respective boards of directors (management committees). Playing both roles is seen as a direct conflict of interest between that of member/owner/patron and employee. In some instances, managers are considered non-voting members of their boards. Managers usually attend board meetings because the board needs information to make appropriate decisions and the manager wants to keep the board informed of progress and his performance as their employee. In most cases, it is the manager, working closely with the chairman of the board, who sets the agenda for board meetings. He ensures that each board member receive his/her copies in sufficient time before the meeting, to consult with other board members and to determine questions or issues to be raised.

(2) A long-term lease in Vava'u for building and freezer equipment should be negotiated with the fisheries department. A minimum of a 6-month notice period should be negotiated.

(3) A cleaner, more presentable retail fish store should be established in the center of town because the Nuku'alofa government market is not an inviting setting.

(4) Tests to produce smoked fish in Vava'u and to market it throughout Tonga, especially in Nuku'alofa, should begin as soon as possible.

(5) Job descriptions for all FIMCO positions should be completed as soon as possible.

(6) FIMCO management should establish sales and profit targets for each year and assess them quarterly. Based on the assessment, it may be necessary to set new targets either higher or lower. At the end of the year, evaluation can be done on the original and revised targets and used as basis for subsequent years' projections. A long-term development plan should be prepared and revised each year for three years in advance. In addition, standard financial ratio analysis should be used to assess business performance and strength. Variance reporting should be used as these are common business tools for management to gauge the success of the organization (and the various departments, employees) and for the management committee to evaluate the manager's performance.

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(7) FIMCO has identified vegetable marketing as a new target of business opportunity. This would be the fourth marketing component. A major investment would have to be made to provide technical assistance, working capital and some equipment. The new activity would include the production of vegetables for local and export markets. Besides having the potential to raise farmer income, it would also make nutritional foods more readily available to the Tongan population.

(8) In addition to fishing supplies, fishermen need basic spare parts for fishing boats. FIMCO should try to stock such parts. The market should be tested on a pilot basis and expanded if indicated.

(9) The MAFF official in Vava'u has identified the need for more vanilla curing sheds at Leimateia, Taao and Taanea. Viability of establishing improved sheds requires increased vanilla production, an increase of farmer members of FIMCO and more bank capital. Also, sheds should be considered only in those places where FIMCO has good, active members.

(10) FIMCO membership has had a very rapid growth from its inception to present membership of over 800. There is a need for members to receive training in cooperative principles. Some training is provided at annual meetings and through radio broadcasts. However, the management committee should institute a policy of regular training for board members, employees and the general membership. FIMCO itself should organize the training and it may decide to ask the cooperative department to assist. Employees should have access to technical training in their respective fields from management, accounting and sales to planning, analysis and computerization.

### **III. PROGRESS TO DATE**

#### **A. TONGA COOPERATIVE FEDERATION (Consumer Goods Wholesaling)**

The TCF wholesaling business has continued to grow and prosper. Sales have continued to make an astronomical climb over the years 1982 to 1986 when they have levelled off at about T\$ 6 million for 1986 and 1987. Profits, however,

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reached their peak in 1984 at T\$ 166,000. Profit decline in 1986 is understandable. After the formation of FIMCO, (a) expatriate management salaries and benefits had to be paid out of profits and (b) there was an adjustment to the new (expatriate) management. Such a temporary decline should have been expected. Now under Tongan management, profits for 1987 are projected to be T\$ 100,000, approximately the same as in 1985 when ACDI's adviser was managing TCF. It is fair to state that, although the levels are approximately the same for the past two years, the inflation rate should have accounted for some increase in sales over 1986. The following chart shows the progress of the wholesale operation. The TCF-salaried expatriate manager replaced the ACDI manager on January 2, 1986 when FIMCO was established.

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EXHIBIT 1

Tonga Cooperative Federation

Wholesale Consumer Operations

Sales and Profits

1982 to 1987

(In '000 Tongan Dollars)

T\$1 = US 0.70

| YEAR              | 1982   | 1983  | 1984  | 1985  | 1986  | Projected<br>1987 |
|-------------------|--------|-------|-------|-------|-------|-------------------|
| SALES             | 540    | 2,241 | 3,290 | 4,907 | 6,590 | 6,000             |
| PROFIT*<br>(LOSS) | (10.2) | 48    | 166   | 99.9  | 78    | 100               |

\* Before payment of income taxes to government and bonuses to members.

WHOLESALE MARKETING



Tonga Cooperative Federation warehouse  
and wholesale outlet - Nuka'alofa.

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The above sales achievements surpass even the most optimistic projections.

Although January 2, 1986 was set for the phase-over to TCF direct management by the ACDI consultant, a lengthy search for a Tongan replacement had been underway for over a year. However, no qualified Tongan could be identified. The only qualified persons responding to advertisements in regional newspapers in Fiji, Australia and New Zealand were expatriates. Ten months before the phase-over, two members of the board of directors (management committee) went to New Zealand to interview several prospective expatriate candidates and selected a United Kingdom citizen as TCF manager. He served for seven months and was replaced by another UK citizen. A qualified Tongan was identified and joined TCF in June 1986 as financial manager. He took over as acting manager in April 1987 and was confirmed in that position in October 1987. His salary is substantially less than that of the expatriate staff and it is hoped that this inequity will be resolved next year when his performance demonstrates that he can produce positive results for TCF. There is already evidence that the Tongan manager is gaining the confidence of the business community. The Tonga Development Bank has increased the TCF line of credit to T\$ 300,000 from T\$ 200,000. This will serve to reduce the cash flow problems recently experienced by TCF as a result of the expatriate manager's over-ordering. It is worth mentioning here that cooperatives should pay good salaries for professional management. If competitive salaries are not paid, the personnel will seek other employment (or emigrate) with the result that the effort to train the manager will be lost and the cooperative business will suffer during the break-in period of a replacement.

TCF's policy is to provide goods to retailers (fale kaloas) at competitive prices. TCF passes along discounts and savings to the shops. Free truck delivery is provided twice a week in Tongatapu and Vava'u. The shopkeepers or managers may buy their goods in the capital city or from the truck at the same price. This is a great advantage to fale kaloas who can save time and transportation cost to the city. Likewise, the consumer knows that he will not gain any economic advantage by purchasing in the central city. He too saves time and transport cost and gets the same goods in the village. Therefore shops in rural areas thrive and are very profitable ventures. Both consumers and shopkeepers greatly appreciate that they can receive truck delivery of the bulky staples (such as flour, tinned fish and sugar) to the rural areas

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thereby avoiding having to haul heavy loads from the cities. TCF has three delivery trucks on Tongatapu, one in Vava'u and one rental truck on Eua island. The truck business handles about 45 percent of the sales on Tongatapu. It appears that trucks are less expensive to operate than a store and if financial analysis proves it true, this points out a potential growth area for TCF.

There have been long delays in obtaining the freezers being provided under the AID project, were caused by TCF and FIMCO not being able to locate a building to house them. A movie theater has recently be rented and the freezer supplier is currently in the process of installing them for both TCF and FIMCO. TCF will receive a 45 cubic meter freezer and two retail freezers.

The AID-provided computers have been installed but the inventory and accounts systems have still not been programmed for either TCF or FIMCO. TCF currently has a consultant working on this aspect.

Several issues related to the separation of TCF from FIMCO have created some minor resentment:

The division of the capital assets between TCF and the newly established FIMCO were decided and agreed to by the TCF Management Committee. A separate Price Waterhouse audit later verified the correctness of items and values to be divided. The value of the assets to be transferred to FIMCO consisted of 65 percent of the pre-tax earnings of the activities transferred and the amount of AID contributions specifically made to these sections. Because of complexities in transferring the capital between the two cooperatives, it was decided that the simplest method would be to give FIMCO a long-term (50-year) non-interest bearing loan in the value that was due to the members of the vanilla, fisheries and handicraft sections. This was to be essentially handled as a grant. Now almost two years have passed and memories are fading even though management committee meeting minutes record the above facts. It is now viewed by some as a loan that should be repaid. Perhaps some feel that the loan was not appropriate to begin with. The most recent TCF audit by the Department of Cooperatives has recommended that the loan be considered a grant and be written off. A sum of about T\$ 6,000 in cash to be paid to FIMCO is still in dispute by both parties who await reconciliation by a neutral audit party. The 1986 department of cooperatives audit of both organizations did not address or resolve the dispute.

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While the ACDI adviser was managing TCF, it was agreed by the board of directors to purchase a store in Mu'a (in the eastern part of Tongatapu island). The store was formerly doing about T\$ 500,000 business annually and was purchased for about T\$ 51,000 plus the inventory. It previously did about 80 percent of its business in wholesale operations. TCF planned to increase the business and to make a profit, using the store as a wholesale outlet for that part of the island. It was also to be used by the truck as a convenient supply source for deliveries in that region. The owner of the property sold the building to TCF without any inventory but stipulated that TCF could select those inventory items it desired. The balance would be removed by the owner. Unfortunately, TCF took title to the store property after ACDI's adviser had shifted to FIMCO. The new TCF (British) manager was present at all negotiations for the sale. However, almost all the merchandise was accepted by TCF and some of the items, non-consumer goods such as pots and pans, have been difficult to sell and are still in inventory. There is also some possibility of theft since the new manager did not have time or interest to exert full control during the takeover and subsequent transfer of the goods to and from the Mu'a location. Now the Mu'a warehouse is reported to be operating at a loss and TCF management is resentful about the purchase of the property. It has been pointed out that TCF is considering the store as a separate profit center (which is operating at a loss) but has not considered or calculated the savings that accrue to TCF by using the store as a storage depot for truck deliveries. It is also being allocated warehouse expenses from Nuku'alofa even though it also serves as a warehouse. It is likely that if the warehouse expenses are properly accounted and the sales of the truck are included in the sales of the Mu'a store, the situation would not be as bad as it is being portrayed.

### **B. CREATION OF FIMCO**

As recommended in the July 1985 evaluation, separation of the federation's market development activities from its wholesaling operation through the creation of a new organization was effected on January 2, 1986. Friendly Islands Marketing Cooperative (FIMCO) was established with the components of vanilla, fisheries and hand crafts marketing. When FIMCO management was able to devote full-time attention to the production marketing components, growth, increased sales and profits resulted. The following exhibit shows sales and profits for the FIMCO

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operation as a whole. It also shows data for the TCF vanilla, fisheries and handicrafts components for those years before FIMCO was established. The exhibit points out the dramatic increase in its first two years of FIMCO operations.

Exhibit 2

TCF/FIMCO

Combined Sales and Profits

Vanilla, Fish and Handicraft Marketing

1982-1987

(in '000 Tongan Dollars)

T\$1 = US\$ 0.70

| Year               | T C F |      |      |      | FIMCO |                |
|--------------------|-------|------|------|------|-------|----------------|
|                    | 1982  | 1983 | 1984 | 1985 | 1986  | Projected 1987 |
| Sales              | 308   | 319  | 428  | 285  | 798   | 965 **         |
| Profits*<br>(Loss) | 0.8   | (9)  | (14) | 30.1 | 92.1  | 75 **          |

\* Before income taxes and bonuses  
 \*\* Approximately T\$ 230,000 of the 1987 vanilla crop remains unsold at year-end compared to T\$ 77,000 in 1986.

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The fledgling FIMCO organization has much scope for expanded growth and is projecting a combined sales target for 1988 of about T\$ 1.5 million. In order to get started in 1986, it was necessary to create a large organization in both Nuku'alofa and Vava'u. Once the staff was hired and trained, positive results came quickly.

FIMCO has hired a young financial manager who has the capability of being trained to take over the Secretary/Manager position from the ACIDI adviser in the next few months. He had previously worked with TCF and has worked with FIMCO since its inception. He recently received a 6-week cooperative management training program in the U.S. which included on-the-job training. Several key government, cooperative and banker counterparts feel he will need more backstopping after he assumes the manager role. All feel he is competent to handle the position in a responsible manner.

The Tonga Development Bank took a conservative approach to the fledgling FIMCO organization. It would provide a significant line of credit only because an expatriate was manager and at a maximum of T\$ 180,000. It would have been substantially less had a Tongan manager headed FIMCO at its inception. After establishing its credibility in its first year of operations, the bank increased the line of credit to \$400,000 in 1987 ( FIMCO used T\$ 375,000). Had the line of credit been larger in 1986, growth would have been far greater, especially in the vanilla section.

### **1. VANILLA MARKETING**

As vanilla is the second largest agricultural crop in Tonga, it is an important component of FIMCO's operations. Efforts to increase sales have been complicated by increased competition and poor quality standards. The following data reflects progress in vanilla marketing since 1982:

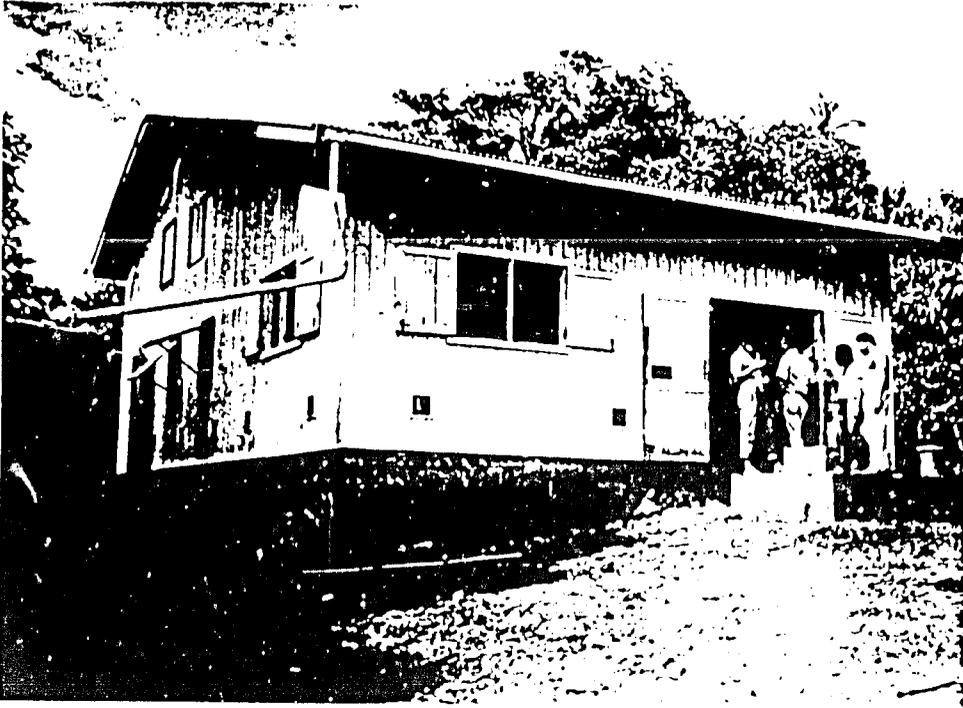
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|                                     |
|                                     | EXHIBIT 3 |
|                                     |
|                                     | Sales and Profits |
|                                     |
|                                     | Vanilla Marketing |
|                                     |
|                                     | 1982-1987 |
|                                     |
|                                     | (in '000 Tongan Dollars) |
|                                     |
|                                     | T$1 = US$ 0.70 |
|                                     |
|-----|
|                                     |
|                                     | Projected |
| YEAR      | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|-----|
| SALES     | 295  | 197  | 253  | -0-  | 264** | 510** |
|           |      |      |      |      |      |      |
| PROFITS*  | 3.2  | -0-  | 10.7 | 14.6 | 55.1  | 60    |
|-----|
|
| * Before payment of government income taxes and |
| bonuses. |
|
| ** Based upon fiscal year ending March 31 which |
| allows completion of marketing of the crop. |
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VANILLA MARKETING



Vanilla curing shed - Vava'u



Vanilla beans before harvest



Inspecting cured beans before boxing for export



Boxing cured beans for export

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Because of the difficulties involved in buying, curing and marketing vanilla over the years, TCF management realized by 1985 that the core problem was that farmer members were not curing vanilla properly. There were many curing sheds throughout the islands but it was difficult to train farmers to properly cure the beans and when trained, they failed to follow the required curing process. Their cured beans did not conform to international standards and therefore received a much lower price. Farmer-members of a village cooperative used to bring their crop of green beans to a common curing building where volunteer labor, rotating among all the farmers, performed the curing work. Without training, supervision or incentives they performed below standard. This meant large losses for the producers in some years. FIMCO purchased very little vanilla in 1986. Management felt they would have to concentrate on buying green beans in order to control the curing quality. The board of directors (management committee) were very resistant to the concept of the cooperative undertaking the curing responsibility. This was new ground for the committee members and was considered risky to the farmers. However, management prevailed and the committee gave its reluctant approval.

An ACDI cooperative marketing consultant was assigned to Vava'u for six months in 1986 (January to August) to assist in the establishment of buying stations. He also participated actively in effecting the changeover to FIMCO-managed cooperative curing. The individual societies own the curing sheds and FIMCO is renting them. Tonga Development Bank loans (through ADB funds) financed construction of three sheds. One society financed the construction of its own shed. Originally the plan was to construct one three-ton curing shed but it was impossible to obtain the land. Further, the societies seemed to prefer to have sheds in their own communities. So instead of a centralized curing shed, a decentralized operation has been established. Now FIMCO has a curing shed capacity of five tons in Vava'u and one and a half tons in Tongatapu.

The FIMCO-managed curing service was an immediate success as can be seen from the 1986 results in Exhibit 3. The next year, 1987, was even better. Not only was the management committee relieved and happy with the results, but the farmers were especially pleased with the ease with which they could sell their green beans. The price FIMCO paid to the farmers was the same they would have received if they had cured the vanilla themselves. A large number of farmers were employed by FIMCO to work in the curing sheds. They

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were trained by MAFF staff in proper curing techniques and also received salary in addition to a top price for their vanilla. to the evaluator to be a splendid concept. Not only do these member-curers receive a salary, they also can be expected to do their jobs conscientiously. The better the quality of the vanilla, the better the price and the larger the bonus (patronage refund) to them as well as the other farmer-members.

Virtually all targets in the TCF and FIMCO projects have been surpassed. The only goal not achieved has been the projected quantity of vanilla to be handled by TCF/FIMCO. The reason is poor home curing techniques and a low bank line of credit limiting the quantity of green vanilla beans that could be purchased in 1986. The targets set by the July 1985 evaluation were:

- a) "average curing ratio reduced to 4.5." This was achieved in 1986.
- b) "volume of vanilla marketed in 1985 reaches four tons." This was not achieved. For the record, the actuals are shown in Exhibit 4 below:

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|           |           |
|   Exhibit 4   |           |
|   TCF/FIMCO   |           |
|  Vanilla Marketed  |           |
|   1982 to 1987   |           |
|           |           |
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|           |           |
|   Year    |   Metric  |
|           |   Tons *  |
|-----|-----|
|   1982    |   5.1     |
|   1983    |   2.9     |
|   1984    |   3.9     |
|   1985    |   0.7     |
|   1986    |   2.8     |
|   1987    |   5.1     |
|-----|-----|

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|           |           |
| * rounded to nearest |           |
| tenth of a ton      |           |
|           |           |
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FIMCO has established a 1988 goal of curing and marketing 6.5 tons which is the maximum capacity of their curing sheds and the limit their line of credit will allow. FIMCO intends to request a line of credit of T\$ 600,000 in 1988 and if granted, it could increase its ability to buy more green beans. Because of the strong acceptance of the new idea of cooperative curing, there is much growth potential. There are a large number of farmers still doing their own curing and who are potential FIMCO members. The MAFF staff in Vava'u have identified three other large vanilla growing areas that do not yet have proper curing sheds. These are Leimateia, Taaoa and Taanea. Only Taaoa is not a strong FIMCO area. At least two should be targeted for the construction of curing sheds. Bank loans by each society will be required to finance construction of the sheds and purchase of curing equipment (sweat boxes, blankets, thermometers, etc.).

The positive impact of FIMCO on the vanilla prices in Tonga is worthy of mention. The Tonga Commodities Board (TCB) is the principal vanilla buyer on the island. The consensus is that TCB is a high overhead organization that has lost touch with the farmers. TCB usually starts out the buying season by setting a low price. Private buyers (there are a few in Vava'u and Tongatapu) offer a slightly higher price. FIMCO establishes its price based on world market prices, curing costs and competition. It pays its bonus (patronage refund) after the season. Its policy is to pay the highest amount possible to its farmer-members. When FIMCO announces its price, the other buyers are forced to raise their price to be competitive with FIMCO's total price which includes the bonus. The 1987 season for cured vanilla saw TCB open with a price of T\$ 72 per kilo. Private buyers responded with a price of T\$ 75. FIMCO's price of T\$ 80 plus an estimated T\$ 5 bonus forced some private buyers to raise to T\$ 86, and TCB to T\$ 75/kg. In negotiating the selling price, both member and non-member farmers could use the FIMCO price as a fair standard. The result is that all farmers (except those responding early to TCB prices) received significantly more than they would have if FIMCO was not a buyer in the vanilla market. The reduced profit margin of some private buyers this season will make them more conservative next season which should work to FIMCO's advantage.

Cooperative "purists" would take issue with the fact that FIMCO is assuming the risk of the business venture and not the cooperative members. A marketing cooperative should handle member product on a partial consignment basis.

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The cooperative provides the farmer with an advance against the anticipated final sales price. This is anywhere from 50-80 percent of the final estimated value of the product and depends upon cash flow capabilities of the cooperative and the inherent risk in the market. If the cooperative has to borrow heavily to pay farmers in advance, the interest costs will result in lower profits. If the cooperative has forward contracts and already knows the price it will receive for the final product, the percentage advanced to farmers can be even higher than the 80 percent figure mentioned above. In markets without much intelligence, with wide fluctuations in price or when the final product is subject to quality inspection by the purchaser (as in the case of vanilla), there is much risk. The cooperative should not assume the risk. If the cooperative buys the product and takes title to it, the loss is for the cooperative if there is any complication. By definition, a cooperative is a non-profit business and therefore should not expose itself to risk. Cooperative members should be educated about this aspect of cooperative business. Over some period of time, they should be weaned to a situation where the members eventually assume the risk. The same pertains to fisheries members.

### **2. FISHERIES MARKETING**

The fisheries section of TCF has been one that has lagged behind the others in the early years. However, it has benefited from the increased attention given to it since the creation of FIMCO in 1986.

There has been a very positive growth in members of the FIMCO fisheries section. There were 26 members in 1986 and 46 members in 1987 (as of November) with new members joining each month.

The following exhibit traces the progress of the fisheries section:

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| Exhibit 5                         |      |      |       |      |      |      |
|-----------------------------------|------|------|-------|------|------|------|
| Fish Marketing                    |      |      |       |      |      |      |
| (Including Fishing Supplies)      |      |      |       |      |      |      |
| TCF/FIMCO                         |      |      |       |      |      |      |
| Sales and Profits                 |      |      |       |      |      |      |
| 1982-1987                         |      |      |       |      |      |      |
| (in '000 Tongan Dollars)          |      |      |       |      |      |      |
| T\$1 = US\$ 0.70                  |      |      |       |      |      |      |
| Year                              | 1982 | 1983 | 1984  | 1985 | 1986 | 1987 |
| Sales                             | 0    | 64   | 114   | 225  | 411  | 375  |
| Profits*                          |      |      |       |      |      |      |
| (Losses)(1)                       |      | (13) | (1.1) | 8.1  | 22.9 | 23   |
| * Before income taxes and bonuses |      |      |       |      |      |      |

The sales target for 1988 is T\$ 500,000.

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| Exhibit 6 |
| TCF/FIMCO |
| Fish Purchases |
| 1983-1987 |
|=====
| Year | Metric |
|      | Tons  |
|-----|
| 1983 | 64    |
| 1984 | 68    |
| 1985 | 125   |
| 1986 | 116   |
| 1987 | 98    |
|-----|
|=====
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## FISH MARKETING



Vava'u Fisheries Building which houses refrigeration, FIMCO fisheries offices and retail fisheries supplies store.



Fisheries supplies retail store clerk



Peace Corps Volunteer receiving load of red snapper and grouper from cooperative member



FIMCO employees preparing stock certificate  
Each certificate is on tapa cloth.

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Profitability of the fisheries section of FIMCO has been exceptionally good even though tonnage has declined. Growth of the fisheries section has been hampered by the lack of refrigeration and availability of fish. In order to buy fish, it has to have the means to refrigerate and store the product. There are certain times of the year (i.e., inclement weather or high winds) when there are shortages of fish. Without adequate refrigeration, FIMCO is unable to store fish during plentiful catches, for marketing during scarce periods.

The basis of the operation of the fisheries component is to buy fish in Vava'u and to market it in Tongatapu. About 70 percent of the fish are sold in Tongatapu, the rest in Vava'u. A portion of the government market in Nuku'alofa is rented by FIMCO. It rents only one table and one 5-ton freezer. In Vava'u, FIMCO rents almost the entire fisheries department building which houses two walk-in blast freezers and other refrigeration and working equipment, most of which were obtained by GOT under an ADB loan. The equipment and the building are available at reasonable rates but on a short-term lease which could be cancelled by the fisheries department on short notice.

In Nuku'alofa, the government market is conveniently located in the port area at the end of the main street. However, the building is old and dark and customers must talk through a chain link screen to the staff selling fish. Fish are cut in pieces and displayed on a bare table. It is not an appetizing environment. Other vendors can rent tables adjoining FIMCO to sell fish or other products. One half of the market is for fish sale; the other half is a butcher shop for meat products. Now that FIMCO has received its refrigerators, it should expedite the opening of a retail store in the main part of town.

In Vava'u, FIMCO has a very clean and efficient fisheries operation. It is located in a large building with adequate space for receiving, weighing and storing fish. There is a clean room for retail sale of fish which has a table covered with ice on which fish and lobster can be attractively displayed. In an adjoining room, fishing and snorkeling equipment and supplies are sold to cooperative members, the general public and tourists (mostly international yachters). The building is about 50 feet from the wharf so it is easy for fishermen to bring their fish to FIMCO. Some fishermen sell their fish on the wharf to the public for about the same price they could sell it to FIMCO. FIMCO would prefer that all fishermen sell to them

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to better control the price. However, the current system precludes monopoly control by FIMCO and provides some competition, although only for the small percentage of fish that are sold on the wharf.

One problem has existed for some time. The fisheries department refuses to rent the Vava'u facilities to FIMCO on a long-term basis. The current plan of fisheries is to create a fishermen's association to include fishermen in all the island groups. The hope is that it will be a viable organization serving fishermen's interests in marketing, boating and lobbying. However, progress with the establishment of the association has been very slow. Further, the only forward movement has been to name the governors and members of the royal family as patrons and to plan working committees which may include government officers. If that is the case, marketing is likely to suffer, since fishermen and government workers are not entrepreneurs or business managers. As it has for the past three years, FIMCO must mark time patiently until the fisheries department establishes a policy on how the donated equipment will be utilized in the long run. If the Department pursues its current plan, the fishermen's association will be the custodian of all donated equipment and may resort to auction of fish as the principal method of marketing. The head of the fisheries department recognizes the "tremendous effort" of FIMCO that was responsible for the introduction in Tonga of the concept of "commercial marketing" and sale of fishing supplies. Nevertheless, he is prepared to see FIMCO "evolve or go out of business" if the fisherman's association approach is adopted by the fishermen and can successfully take over fish marketing in Tonga.

It appears risky to allow a viable, ongoing organization to possibly disintegrate while a new, untested "association" is created without any assurance that it will succeed. It would seem more prudent for the fisheries department to support the expansion of FIMCO with its record of success. The evaluator recommends that FIMCO be permitted to continue to utilize the Vava'u facilities and that a long-term lease be provided by the fisheries department. The private sector (entrepreneurial) approach is likely to provide more tangible results than the government-directed "association approach." There are several differences between "associations" and marketing organizations such as cooperatives. An association is usually a non-profit organization of individuals and/or firms sustained by dues or a form of payment based on the

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quantity of product handled. Associations provide services that do not require capital assets since they are usually not permitted by law to issue stock. Without stock ownership, it is difficult to raise needed capital to build a plant and equipment. Associations usually represent all the producers of a particular product and its services are directed toward everyone in the sector. A cooperative only provides business services to enhance member/owner/patron incomes. Many producers or businesses choose not to become stockholders in the cooperative. In other words, the services of cooperatives are directed only to members while associations usually benefit all within that area of business. Frequently, associations serve as motors of cooperative growth and development. Since associations are rarely involved in commercial business operations, they have been known to help start cooperatives to serve the members of the association. Another important difference between associations and cooperatives is at the leadership level. Association leaders and managers are more "political" or public relations oriented. Cooperative leaders and managers need to be business-oriented to effectively and professionally manage the commercial operation. For that reason, it is recommended that the marketing of fish remain in the cooperative sector.

In past years, FIMCO has had serious problems marketing its fish when the government tuna boats return after three-month cruises and sell the excess (non-Tuna) catch on the local market at subsidized prices. Also the government boat building program is virtually complete. Thirty-eight of the 40 planned fishing boats are now operational. Neither of these potential threats to FIMCO's market has proven to be a major problem as local demand for fish has greatly increased. Fortunately, FIMCO has not been significantly challenged by increased competition as was feared at the time of the July 1985 evaluation.

Without adequate refrigeration facilities in Nuku'alofa, FIMCO could not do more than buy fish in Vava'u and sell in Nuku'alofa. FIMCO was and is able to sell everything it can buy and store. Up to now, it has been able to concentrate on building a successful business which has maximized profits and minimized losses. However, one telling comment made to the evaluator was that FIMCO has "just been selling fish." It has not been "marketing."

Now that the AID-donated display freezer and large capacity refrigeration equipment are virtually installed, it is time to prepare to make a significant entry into the

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Hapa'i island group market where FIMCO has not penetrated. FIMCO has some occasional institutional customers such as the defense forces, police, hotels and some restaurants. It is time for FIMCO to do proactive marketing to develop a steady clientele. Salesmen, advertising and other marketing techniques should be tested to increase demand. A presentable retail store in the center of town will further enhance sales and appeal to foreign residents and the more prosperous Tongans of Nuku'alofa who appreciate choice types and cuts of fish and could afford the higher prices demanded by a retail outlet with higher overhead costs. Experimentation with dried and smoked fish should be accelerated since this is a higher-priced product that may increase consumption and make fish more readily available in some inland areas through fale kaloas. There is a smoker in Vava'u and FIMCO should make the extra effort to start testing and selling smoked fish.

A new problem may be at hand. The fisheries department feels that "the nearby fishing banks are almost depleted or fished out." This can mean that the fish catch may be reduced in future years. Fishermen must go longer distances to find fish. In the "cold months" (March to September), fishermen are reluctant to go long distances. Marketing during these months will be complicated by the fact that it is difficult to guarantee availability during these months. Usually the stored frozen fish is exhausted by May. However, increased refrigeration capacity should provide hope for larger reserves. Inclement weather and size of fishing boats will be constraints to maintaining current volume of fish catches. The problem of availability is combined with the problem of lack of refrigerated space (which is due to be resolved in 1988.) The total problem of fish purchase volume is seen in Exhibit 6 above.

### **3. HAND CRAFTS MARKETING**

This component of the project has particularly flourished under the increased attention given by FIMCO management since its formation. Sales and profits have virtually doubled during the past few years. The next exhibit traces the growth:



HAND CRAFTS MARKETING



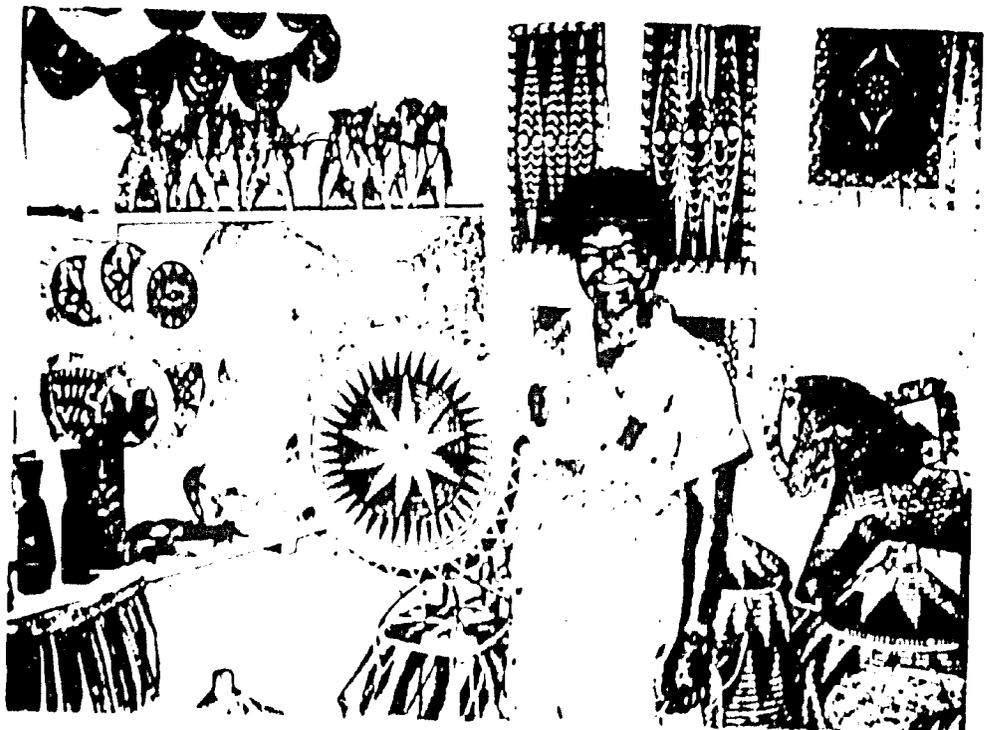
Head of FIMCO Hand craft committee in front of Nuka'alofa retail store



New Hand craft retail store in converted movie theater. Tali'e'va (Everyone Welcome)



Cooperative members wait at Tali'eva to deliver their hand crafts to cooperative.



Vava'u hand craft retail store clerk.

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For many years, the base of the TCF/FIMCO hand crafts operations has been one small, attractive retail store on the main street in Nuku'alofa. It carried a complete line of high quality products for the tourist trade, such as woven baskets, traditional painted tapa cloth (made from mulberry bark), black coral jewelry, scrimshaw on bone and tusks and carved wood items. The TCF/FIMCO management also developed items to appeal to tourists such as low-cost souvenir items such vanilla beans and tapa greeting cards, etc. The cooperative store took pride in the fact that it carried the best quality items in Tonga. For that reason management prefers to refer to its products as "hand crafts" and not "handicrafts" since the former connotes higher quality work.

The strong growth recently evidenced by the above chart is attributed to the following reasons:

- FIMCO has acquired a reputation for carrying quality products.
- The increase in tourism and conferences in Tonga.
- Attractive displays increased sales.
- Employees are trained in salesmanship.
- Two branch offices have been opened. One small house in Vava'u has been turned into a handicrafts Shop and it is located close to the largest tourist hotel. Vava'u is also a port visited by yachts on international cruises and that is a further source of tourist business. In 1987, FIMCO rented Tonga's oldest cinema, "Tal'eva" (Everyone Welcome). The large downstairs area (formerly the orchestra seating area) and high ceiling makes for a spacious sales area. The balcony area still has some seats remaining, ideal for use as a waiting area for women who come to sell their wares to FIMCO. The other section of the balcony is used for storage (currently boxes of vanilla awaiting shipment). The area in back (formerly the backstage area) is where the large 12-ton capacity freezer is being installed. FIMCO is still in the process of renovating the building and installing shelves and tables. There may be space available to set aside a small area as a coffee shop to attract customers.

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This project seems to have made a big impact on women. Membership has increased from 87 members in 1986 to 198 as of November 1987. FIMCO's policy is to pass on 80 percent of the retail price to the producer-members. This is made up of 75 percent initially and 5 percent (1986) in bonus or patronage refund. Women I spoke to, use the money they earn to pay school fees for children, support relatives and to purchase food. Producers earn, on the average, more than double the daily labor rate per hour of work. This provides the women with a steady source of income and increased pride in themselves and their work.

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**APPENDIX I**

**PERSONS CONTACTED**

**FIMCO**

|                  |                                  |
|------------------|----------------------------------|
| John Kresag      | Secretary-Manager                |
| Edgar Cocker     | Financial Manager                |
| Ma'u Havea       | General Manager, Vava'u          |
| Fapui Vakapuna   | Fisheries Supplies Clerk, Vava'u |
| Vasita Tauaika   | Fisheries Clerk, Vava'u          |
| Karen Olson      | Peace Corps Volunteer, Fisheries |
| Viliami Tongo    | Fisherman, member                |
| Latu Fainuaa     | Bookkeeper, Vava'u               |
| Lisiate Kaisele  | Fisherman, member                |
| Viliami Foketi   | District Officer                 |
| Maumi Aloua      | Handicraft Clerk                 |
| Sini Nafe        | FIMCO/TCF, Vanilla Committee     |
| Ipolito Ongolea  | Fisheries, Committee             |
| Viliami Foketi   | Vanilla Manager, Vava'u          |
| Amini Mahini     | Vanilla member                   |
| Sionne Lolohea   | Vanilla member                   |
| Soni Folau       | Vanilla member                   |
| Falakesi Lani    | Handicraft member                |
| Sinamon Manizela | Handicraft member                |
| Peta Halafihī    | Fisheries Store clerk            |
| Mele Simione     | Handicrafts Committee Member     |

**TONGA COOPERATIVE FEDERATION**

|               |                      |
|---------------|----------------------|
| Tevita P.'Ova | Manager              |
| Hama'i        | Management Committee |

**GOVERNMENT OF TONGA**

|                   |                                  |
|-------------------|----------------------------------|
| Tom Semiki        | Ministry of Agriculture          |
| Lopeti Foliaki    | Deputy Secretary, MLCI           |
| Fononga Tuipeatau | Registrar of Cooperatives        |
| Peni Vea          | Tonga Development Board          |
| Alexi Semisi      | Chief Fisheries Officer          |
| Haniteli O'       |                                  |
| Fa'annunu         | Ministry of Agriculture, Vava'u  |
| Sioni Tongi       | Deputy Registrar of Cooperatives |
| Aleki Sisifa      | Deputy Director, MAFF            |





