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CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE
Private Voluntary Organizations Co-Financing
(Activity evaluation: Friendly Islands Marketing Cooperative Support)

2. PROJECT NUMBER
879-0001

3. MISSION/AID/W OFFICE
RDO/SP

4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)
FY92-1

☐ REGULAR EVALUATION ☒ SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES
A. First PRO-AG or Equivalent FY 84
B. Final Obligation Expected FY 91
C. Final Input Delivery FY 92

6. ESTIMATED PROJECT FUNDING
A. Total $ ______
B. U.S. $ 972,167

7. PERIOD COVERED BY EVALUATION
From (month/yr.) 1988
To (month/yr.) 1992
Date of Evaluation Review February, 1992

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
This is the final evaluation of an activity under the PVO Co-Financing Project. Between 1982-1990, USAID/RDO/SP provided $972,167 to assist in the development of the Friendly Islands Marketing Cooperative.		
The activity has been evaluated as being very successful. Only one follow-up action is recommended: (page 5) "it is recommended that USAID/RDO/SP continue monitoring FIMCO's performance and development to ensure that the cooperative's progress continue... It is also recommended that USAID, in conjunction with FIMCO, make a determination early in 1993 about needs for additional short-term assistance."	Sharon Fee, ADO	February, 1993
A second recommendation, marketing trips for FIMCO and TCF staff, is already being implemented.		

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- ☐ Project Paper
- ☐ Financial Plan
- ☐ Logical Framework
- ☐ Project Agreement
- ☐ Implementation Plan e.g., CPI Network
- ☐ PIO/T
- ☐ PIO/C
- ☐ PIO/P
- ☐ Other (Specify) ______
- ☐ Other (Specify) ______

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. ☒ Continue Project Without Change
- B. ☐ Change Project Design and/or ☐ Change Implementation Plan
- C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Project Officer: Amy Nolan Osborn
Project Manager: Mariangela Pledl
ACDI Project Manager: Jerry Lewis
FIMCO Secretary-Manager: Edgar Cocker
Mission Evaluation Officer: Kirk Dahlgren

12. Mission/AID/W Office Director Approval

Signature
Typed Name John B. Woods
Regional Director
Date 6/12/92

AID 1330-15 (3-78)

XD-ABE-158-A
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ABBREVIATIONS USED

ACDI	-	AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
ACIAR	-	AUSTRALIAN CENTRE FOR INTERNATIONAL AGRICULTURAL RESEARCH
AID	-	U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
CEO	-	CHIEF EXECUTIVE OFFICER
FIMCO	-	FRIENDLY ISLAND MARKETING COOPERATIVE
MAF	-	MINISTRY OF AGRICULTURE AND FORESTRY
MCLI	-	MINISTRY OF LABOUR, COMMERCE AND INDUSTRIES
M	-	METRIC
PVO	-	PRIVATE VOLUNTARY ORGANIZATION
TCB	-	TONGA COMMODITIES BOARD
TCF	-	TONGA COOPERATIVE FEDERATION
TDB	-	TONGA DEVELOPMENT BANK
T$	-	TONGA PA'ANGA (DOLLARS)
TAB	-	TABULATION
US$	-	UNITED STATES DOLLARS
USAID/RDO/SP	-	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT/REGIONAL DEVELOPMENT OFFICE/SOUTH PACIFIC
VOCA	-	VOLUNTEERS IN OVERSEAS COOPERATIVE ASSISTANCE

Average Exchange Rates
U.S. Dollar Exchange Rates
1975 - 1990

YEAR	TONGAN $1.00 = U.S. Dollar:
1975	1.478
1976	1.239
1977	1.117
1978	1.135
1979	1.126
1980	1.165
1981	1.139
1982	1.045
1983	.861
1984	.667
1985	.667
1986	.723
1987	.794
1988	.755
1989	.789
1990	.786
1991	.756

EXECUTIVE SUMMARY FINDINGS AND RECOMMENDATIONS

Findings

Findings of this evaluation indicate that the overall project goal **to increase the incomes of the producers of vegetables, vanilla beans, fish, hand crafts, and to increase the availability of vegetables and fish in Tonga** has been achieved. In support of this conclusion the following evidence is presented:

1. All outputs called for in the project plan were either realized or, in those cases when not, satisfactorily explained. Production in some instances was exceeded. For example, vanilla exports by FIMCO amounted to five percent of total Tongan vanilla exports in 1986, by 1990 FIMCO'S exports amounted to 70 percent. It is now the largest vanilla exporter in Tonga.

2. All growth indicators for FIMCO are positive.

   - Business volume is now over seven times that of 1986.

   - Membership has increased from 164 in 1986 to 1,880 in 1991.

   - Member equity has nearly doubled from 1986 (now $605,000).

   - Member services have increased, vegetable marketing and some farm supplies have been added since 1986.

   - Management capability has increased as evidenced, for example, by way it has overcome vanilla curing problems, and improved the fish marketing situation (fish sales are now showing a profit).

   - Acceptance by business community and government has been achieved. This is based on conversations with key business and government officials. FIMCO no longer has difficulty getting marketing loans from TDB.

   - FIMCO'S market power has grown. Its influence in the vanilla market (previously mentioned) is a good example. Due to the market power generated by FIMCO, all Tongan vanilla producers received an average of at least US$4 more per kilogram for their yellow tip beans in 1987. Also FIMCO is now beginning to become a power player in vegetable marketing.

3. Profitability assessment findings are positive.

- All operations, except vegetables, based on the latest financial statement ending 12-31-91, are positive.

- Net profits for six years from 1986 to 1991 amount to US$491,000. The yearly average is US$82,000.

- Efficiency, as measured by assessment of operating cost, is very satisfactory. All expenses amount to 23.5 percent for the six-year period.

4. FIMCO is sustainable based on its operating results to date.

- Its growth rate is better than satisfactory.

- It has demonstrated that it can and does operate efficiently, produce profits, and provide needed services to its members.

- It has become the leading exporter of vanilla beans in Tonga and is increasing its market power in vegetable exports. Further, vanilla exports account for a major portion of its net profits, and a recent study shows future prospects for vanilla exports to be favorable, with 45 percent internal rate of return to production.

- Its major competitor in the export of vanilla and vegetables is the government-owned TCB which is now in a weak condition due to past unprofitable operations.

- It is providing a great service to Tonga and its producers and consumers by leading the way in demonstrating the advantages of private enterprises over government-operated business enterprises.

5. This project has been highly cost effective as a result of AID grants and ACDI assistance. It has had a little less than US$1 million invested (US$972,167). As a result:

- Foreign exchange earnings from vanilla exports by FIMCO have amounted to over US$3,500,000 since 1986. In 1991 vanilla sales alone rose up to over US$1.6 million. Vegetable and hand craft sales have accounted for additional amounts. These exchange earnings will increase in the years ahead.

- More important, FIMCO is helping to show private export marketing is preferable to government marketing of exports. This is aiding all producers, not just FIMCO members. Over the six-year life of FIMCO, Tongan vanilla producers are estimated to have realized US$2,000,000 in additional income due to the increased competition for their yellow tip vanilla beans.

6. This project has good replicability prospects for the South Pacific region and possibly for Madagascar, the world's largest vanilla producer.

7. A brief assessment of the Tonga Cooperative Federation shows that it continues to operate on a highly successful basis. It is now the largest wholesale grocer in Tonga doing over 75 percent of the total business.

   - Sales for last year were over US$10,000,000, and have doubled since ACDI turned over complete control of management to Tongans.
   - Margins were about where they should be.
   - Operations were on a very efficient basis.
   - Profits exceed US$600,000.
   - U.S. procurement of goods has increased.

8. This project has been a good example of how USAID can manage a project without over-managing it. It facilitated and supported the project, but allowed ACDI some latitude in the implementation process. For example, when the project leader needed some flexibility to carry it out and could justify the need, it was allowed. Most important, he was also permitted to use the inherent leverage in the project to guide the TCF and FIMCO boards to make the proper management decision, especially during the early days of these two organization.

9. FIMCO has been innovative in isolating and solving problems that hampered its ability to effectively serve its members. Some significant examples are cited here and others are found in the body of the report, particularly in the 'Input/Output Assessment" sections:

   a. Work with Tonga Development Bank to ensure that loans are made to member so they can purchase needed production inputs.

   b. Encouraging and assisting the Ministry of Agriculture and Forestry (MAF) to hire and train crop specialist for each major crop produced in Tonga.

   c. Encouraging MAF to prepare cost reports and budgets for former members.

d. Arranging for adequate farm supplies to be available for member farmer.

e. Making fish marketing profitable for the first time in 1991 by (1) discontinuing sale of frozen fish in domestic markets, in form of fresh fish, and (2) exporting fish through a local exporter.

f. Improving the curing of the vanilla bean by improving the method of purchasing the beans and the development of a central curing facility to replace the small scale local process.

g. And determining that a packing shed rather than a cool room would best serve the need of FIMCO's vegetable farmer, a good example of FIMCO's ability to back away from a bad decision. This is also a good example of USAID's flexibility in allowing the change.

RECOMMENDATIONS

1. With the end of USAID project assistance on April 30, 1992, FIMCO will for the first time be technically and financially self-reliant. The evaluators agree that FIMCO should be able to operate on a sustainable basis. However, USAID has invested about US$2 million in setting up both TCF and FIMCO, and it is recommended that USAID/RDO/SP continue monitoring FIMCO's performance and development to ensure that the cooperative's progress continues. As there will be no formal relationship between AID and FIMCO after April 30, FIMCO management will have to share in the responsibility of communicating and should make a strong effort to report to USAID its financial and other performance. It is also recommended that USAID, in conjunction with FIMCO, make a determination early in 1993 about needs for additional short-term assistance. This would be an ideal time to review FIMCO's technical capabilities: FIMCO would have been on its own through the vanilla harvest and curing season and the vegetable season, and would have completed its first squash marketing in December (assuming it receives a percentage of the squash quota). Since ACDI has a vested interest in seeing FIMCO develop, it is further recommended that USAID consider ACDI as a provider of short-term technical assistance should FIMCO need such support, based on ACDI's unique capabilities and experience with FIMCO over the years.

2. The evaluators are also concerned that FIMCO not expand or diversify too quickly. This same concern was raised by prominent officials interviewed by the evaluators. Of particular concern was FIMCO's planned entry into squash marketing, when it has only recently entered into vegetable marketing and with mixed success. It is also new to agricultural inputs and fishing supplies retailing, and seeks to expand both. However, the evaluators note that squash is potentially lucrative, and that FIMCO's marketing experience could make it a leader in quality exports of squash. It is also apparent that if FIMCO does not pursue a portion of the squash market in 1992, the second major year of exports, that it may be difficult to obtain a portion of the quota later. It is therefore recommended that FIMCO pursue obtaining a portion of the 1992 squash quota, but should limit other new commodity marketing until it demonstrates efficiency and makes profits at marketing squash and vegetables in successive years.

3. Consistent with recommendation #2, FIMCO management should carefully consider its future staffing needs, and should initiate planning for one or more new staff positions. While the evaluators believe the completion of ACDI assistance on April 30, 1992 is timely, the loss of advisor John Kreag occurs just as FIMCO is entering what could be its biggest vanilla year, and when it has

ambitious 1992 plans for vegetables and squash, as well as fish and hand craft marketing, and production input retailing. FIMCO management has nothing to gain or prove by expanding with existing staff resources; it is prudent that FIMCO's staff expand incrementally to ensure that its excellent service and marketing record is maintained.

4. USAID and ACDI have assigned a significant level of effort toward training the secretary-manager and FIMCO's staff, board and members. However, <u>rather than looking at training as being accomplished, FIMCO should consider training to be a sound investment and an ongoing requirement, and should develop a training plan for staff and members.</u> FIMCO should not have to rely on outside financial assistance to do short-term training, but in view of training as an investment, should consider assigning its own budgetary resources to such activities.

5. <u>USAID should consider providing marketing trips to the U.S. for FIMCO's secretary-manager and Tonga Cooperative Federation's general manager.</u> FIMCO's secretary-manager is interested in sources for FIMCO's retail fishing supplies and agricultural inputs operation. Almost none of these goods originate in the U.S., though he expects that U.S. purchases would be greatly expanded if market contacts are made. TCF's general manager has never been to the U.S. However, TCF has expanded its purchases of frozen chicken, soft drinks, paper products and other goods, and a Tongan living on the West Coast consolidates containers for TCF. A marketing trip would probably result in increased procurement of U.S. goods. <u>The TCF trip is viewed as a higher priority.</u>

INTRODUCTION

The purpose of this final evaluation of FIMCO is to assess how well the overall goals and objectives of the project and of each project component (fish, fishing supplies, vanilla, hand crafts and vegetables) have been met. In particular, business and membership growth, profitability, sustainability, and benefits to individuals and the nation will be examined. Assessment will also be made as to the cost effectiveness of this project. Other factors, such as possible future assistance needs for FIMCO, will be addressed as will such secondary project benefits as replicability of the project in other countries. In addition, a brief assessment was made of TCF, the cooperative that was assisted by AID funds and technical assistance from ACDI to become a sound business venture and which spawned FIMCO in 1985.

The "logical framework" system of analysis is used that calls for establishing goals, and activities to achieve the goals, and a series of inputs and outputs applied to accomplish the objectives. Indicators are established and measured to reach conclusions as to the extent that activities have been carried out and project goals have been achieved. The basic information used in this analytical process is taken from pertinent documents in the FIMCO office such as the project proposal with amendments, prior evaluations trip reports, progress reports, correspondence, FIMCO financial operating statements and balance sheets, and other documents. In addition, information has been obtained from personal interviews with government and private individuals conversant with FIMCO operations, and with the chief executive officer of FIMCO and TCF and other key employees. In addition John Kreag, ACDI advisor to FIMCO provided much valuable information.

In addition to an input/output assessment, the project is evaluated in terms of growth profitability, benefits to individuals and the Nation, and in terms of cost effectiveness. Growth is examined in terms of (1) business volume, (2) membership, (3) member equity, (4) member services, (5) management capability, (6) acceptance by the business community and government and (7) market power. Income and balance sheet data is heavily relied upon to evaluate (1) profitability, (2) Benefits to individual member, and (3) Cost effectiveness. Sustainability is examined on the basis of past performance as an predictor of future performance. Where possible indication have been selected on the basis of their being able to be measured on a quantitive basis.

The FIMCO project is one activity of USAID/RDO/SP's PVO Co-Financing Project (879-0001), a US$16.4 million project funded by USAID with the overall objective of improving the social and economic status of rural and urban low income groups. The primary phase of this project is to improve the economic situation for small farmers, fishermen, and hand craft producers. Emphasis is centered on improvement of production, harvesting, and marketing activities, and to the obtaining of needed production inputs. To implement this phase USAID has provided US$972,167 in grant funds.

In 1986 ACDI, with funding from AID, helped to organize FIMCO with the overall project goal of increasing the incomes of producers of vegetables, vanilla beans, hand crafts, as well as fishermen. An additional goal was to increase the availability of vegetables and fish in Tonga. The objective of FIMCO was to provide the producers dependable and profitable outlets for all these commodities. In addition - fishing supplies were to be made available through retail outlets in Tonga's capital, Nuku'alofa, and the island of Vava'u. Fish produce exports did not take place until 1989.

The evaluation begins with an assessment of the inputs and outputs called for in the activity grant documents.

Evaluation Team:

Leader: Dr. Job K. Savage, Agricultural Economics
Consultant, Willimsburg, Virginia

Kirk M. Dahlgren, Program Officer,
USAID/RDO/SPO,
Suva, Fiji

INPUT/OUTPUT ASSESSMENT

Over the activity period beginning with a USAID grant to ACDI in August 1, 1987 until end of the activity now projected to end April 30, 1992, a total of US$972,167 has been granted to FIMCO. Details as to dates, amendments and purposes are shown in Annex No. 5. In this section attention is given to the outputs resulting from expenditure of these funds, the intent being to determine that these activities were carried out as projected and if not an explanation as to why not. The overall results from these activities will be evaluated in the sections that follow the Input/Output Section. The headings in bold print are the specific activities or outputs required in the grant documents.

1. **COMPLETION OF MARKET SURVEY AND MARKETING ARRANGEMENT.**

Quoting from John Kreag's progress report dated October 1991 (hereafter referred to as Kreag report '91): "The best way to get the information is to do the business. Much has been learned from FIMCO'S customers in New Zealand and Australia. In addition very good information on import volume, and prices by month and product have been received from New Zealand, and to lesser extent, Australia. FIMCO is still seeking information and contacts for the Fiji and American Samoan Markets." Kreag also reports that "FIMCO has begun to identify produce shipped in corrugated boxes as coming from Tonga (brand identification) but more needs to be done to identify produce shipped in wooden bins and sacks. Trial shipments of pineapple to New Zealand have been made and this crop has considerable export potential."

2. **ORGANIZATION OF A VEGETABLE MARKETING SECTION OF FIMCO.**

This was accomplished very soon after the beginning of the project. This section has its own committee and its chairman is a member of FIMCO'S Executive Committee. It has its own profit center and equity accounts.

3. **DEVELOPMENT AND IMPLEMENTATION OF WORKING ARRANGEMENTS BETWEEN THE FARMERS, FIMCO, THE DEVELOPMENT BANK, MAF AND FARM SUPPLY BUSINESS.**

This has been accomplished in a number of ways as follows:

a) Contracts were signed with farmers to grow watermelons in 1990 and 1991 and in 1991 for green peppers, zucchini, root crops, and tomatoes with the FIMCO vegetable committee being very active in this connection.

b) FIMCO is working with Tonga Development Bank (TDB) to insure that loans are available to vegetable farmers for their inputs. And because of the confidence TDB has in FIMCO, farmers who have contracts with FIMCO are finding it easier to borrow from TDB. No other export dealers are expecting written market contracts with farmers at this time.

c) The Ministry of Agriculture and Forestry (MAF) has created a new job position, crop specialist for each major crop, thereby increasing farmers' confidence in the extension officers. Adding the crop specialist position has resulted in closer cooperation among farmers, MAF and FIMCO.

d) MAF personnel have been invited to participate in all of FIMCO'S general meetings with farmers and they regularly attend and participate. Farmers have relied on local farm supply dealers in the past with generally unsatisfactory service. Now that FIMCO is getting more involved on the production side it is better to handle the farm supply itself.

e) Vanilla production requires little in the way of farm supplies, as do root crops, and these were the principal crops being marketed by FIMCO until recently. Now that FIMCO is planning to become an exporter of squash in 1992 and is already exporting other vegetables requiring inputs such as seed material, tools, packing, fertilizer, and perhaps some farm chemicals, FIMCO will become more active in farm supplies. This does not mean that FIMCO has not been handling some farm supplies. It began in 1991 to sell fertilizer, hand tools and packing materials. Farm supplies sales for the year ending 3/1/92 are expected to total around US$38,000 increasing to about US$76,000 in the following year.

4. TRAINING OF PARTICIPATING FARMERS IN "FARMING AS A BUSINESS - QUALITY AND COOPERATION BRING PROFITS"

This calls for MAF extension staff to prepare cost reports for individual farmers and for each to have an individual budget for his/her crop. The Farmer Management Handbook published by MAF in July 1989 gives full projections of per acre costs for each of the 28 most important agricultural products in Tonga. All of the products that FIMCO exports are individually covered in the handbook. The handbook including estimated costs, has been the basis of educational talks by (formed the starting point) MAF representatives at some FIMCO organized farmer meetings. FIMCO continues to stress the adoption of the budget process outlined in the Handbook.

5. CONTINUATION OF GROWTH AND DEVELOPMENT OF FIMCO

Implicit in this objective is that FIMCO maintains its rapid growth pattern, and management and accounting grow likewise. There are a number of indications that this is taking place. Perhaps the most significant indication that management is growing along with business is that when the vegetable section was added in 1989, very little additional staff or computer capacity was required. The Kreag report '91 states that "FIMCO has consistently produced monthly accounts within 30 days of month's end, and that, in spite of more than doubling sales, the administrative staff size has remained at virtually the same level. A conscious effort has been made to train key management employees including the CEO. The specifics on this training will emerge in connection with outputs discussed later in this section. There is, however, no room for complacency on the continuing need for management training and the development of new business approaches."

(TARGETS AND OUTPUTS CALLED FOR IN YEARS 2 AND 3 OF THE PROJECT):

1. TARGETS - DEVELOP FIMCO'S VEGETABLE MARKETING INTO A PROFITABLE BUSINESS WITH US$230,000 OF SALES IN 1990 AND US$460,000 IN 1991

Sales in 1990 were US$320,000 exceeding the target by some US$90,000, but in 1991 sales were only US$179,000 or a short fall of US$281,000. Kreag has this to say about the situation: "Despite an excellent start, FIMCO had a difficult year (1991) in vegetable marketing. Problems were encountered when the New Zealand buyer failed to accept the quantities of watermelon they had earlier requested and FIMCO had contracted with farmers to produce. Problems were also encountered due to the recession in New Zealand, spoilage in excess of normal, and flooding of the market with root crops from W. Samoa. In addition, a mosaic virus problem affected watermelons and zucchini, and a drought occurred in the September - December period. Some farmers who were scheduled to produce late watermelons shifted to squash and sold to other exporters because of earlier problems with sales to New Zealand. At present time (February 1992), prospects for a good 1992 vegetable marketing year for FIMCO look good. They are expecting to market squash for the first time and expect to receive 1,500 - 2,500 tons of the 10,000 ton Government established quota. Over 1,200 members have indicated a strong interest in growing squash this year. FIMCO has established good marketing contacts in New Zealand, its primary export market, and has undergone a shakedown period in which it gained valuable experience. Also its standing with the Agricultural Development Bank is very good at this time. And it has finally begun to rain in Tonga, giving hope for a good crop year. A sales target of US$750,000 does not seem unrealistic."

A) CONTRACTING WITH INDIVIDUAL FARMER MEMBERS TO GROW THE CROPS NEEDED BY FIMCO FOR EXPORT.

The Kreag report '91 says this has been done and states that "since FIMCO has entered the business it has exported root crops every month. Contracts were signed with farmers to grow watermelons in 1990 and 1991 and for green peppers, zucchini, and tomatoes in 1991." A copy of the watermelon contract is shown in Annex No. 3.

B) ARRANGING FOR ADEQUATE FARM SUPPLIES TO BE AVAILABLE FOR MEMBER FARMERS TO GROW THE CROPS FOR WHICH THEY HAVE CONTRACTED WITH FIMCO.

Initially FIMCO worked closely with existing farm supply businesses to insure that this requirement was met. Kreag reports that this was generally satisfactory until these enterprises began to encounter cash flow problems in some instances and in others began to charge excessive prices. Accordingly, in order to assure farmers of adequate supplies and to provide needed price competition, FIMCO entered the farm supply business in 1991. Sales of US$38,000 were achieved in 1991 and sales of US$76,000 are projected for 1992.

C) ASSISTING MEMBER-FARMERS TO OBTAIN NECESSARY LOANS THROUGH THE BANKS.

FIMCO has developed an excellent performance record in part due to its careful screening of farmers before contracting with them. This, along with its success in marketing the crops of its members, has been an important factor in its members being able to obtain loans from TDB. FIMCO makes no loans to producers. The TDB has now adopted a policy of making loans to farmers secured by their integrity and ability to produce rather than the traditional system of using a wage earner's salary as collateral. FIMCO members growing squash, watermelons, or vegetables who have signed agreements and who are otherwise in good standing with TDB have no problem in getting loans.

D) ALLOW FIMCO TO ENTER INTO THE WATERMELON EXPORT BUSINESS AS SOON AS TONGA CAN MEET THE NEW ZEALAND QUARANTINE REQUIREMENTS AND HAS SIGNED THE AGREEMENT.

Exports to New Zealand began in 1990 and continued in 1991.

2. TO RATIONALIZE (MAKE PROFITABLE) FISH MARKETING BY CONCENTRATING ON EXPORTS AND WHOLESALING IN THE LOCAL MARKET.

Fish marketing operations became profitable for the first time in 1991. Three factors have made a significant contribution to bring about the change from a loss to a profit.

1. FIMCO has found that frozen fish do not sell in the domestic market and has shifted to fresh only sales. FIMCO'S sales strategy is to sell as many fish as possible because higher prices are obtained in the domestic market. Vava'u receives priority for fresh fish as the fish are caught there and it would be bad public relations to do otherwise. Those that cannot be sold there are retailed in Nuku'alofa.

2. It continues to sell on a retail basis and considers this to be the most effective policy at this time. FIMCO has a retail outlet in the government market in Nuku'alofa but on certain days it also sells fish at strategic locations on the street in the center of town.

3. FIMCO is exporting its fish through a local exporter (a former Peace Corps volunteer). This has proven to be a very satisfactory arrangement.

3. AS WITH VEGETABLE FARMERS, FIMCO WILL CONTRACT WITH INDIVIDUAL MEMBER FISHERMEN.

This has not been done. The explanation is that it is virtually useless to execute contracts with fishermen who are constantly shifting from one buyer to another. It is not a practice in the industry in Tonga to execute contracts with fishermen. To enforce these contracts would be difficult if not impossible, and in any case not worth the cost involved.

4. ON HAND CRAFTS, FIMCO'S MAIN EMPHASIS DURING THE PROJECT WILL BE TO IMPROVE IT'S RETAILING OPERATIONS INCLUDING THESE ACTIONS:

a. IMPROVEMENTS TO TALI'EVA CENTER TO MAKE IT MORE ATTRACTIVE.

FIMCO lost its lease and has moved to a different location. Sales continue well at the new location.

b. **AN EXTENSION TO THE VAVA'U STORE TO BE BUILT.**

This has not been done. No funds were marked for this purpose.

c. **RENTAL OF SPACE AT NEW AIRPORT TERMINAL**

This has been accomplished, and FIMCO has an attractive outlet there in a good location.

5. **WITH VANILLA, STRONG EFFORTS WILL BE MADE TO MAINTAIN AND IMPROVE THE QUALITY OF THE CURING. EFFORTS WILL BE MADE TO FIND A BETTER METHOD OF PACKAGING (MARKETING) WHOLE BEANS TO MEET EXPORT MARKET REQUIREMENTS.**

FIMCO has been a major influence in bringing about improvements in the curing process. Some of FIMCO'S practices are being adopted by its competitors, a healthy development. FIMCO purchases green beans and does its own curing. It has learned that overcrowding the curing sheds does not pay and is careful not to increase volume by buying immature beans and sacrificing quality. Rather than overcrowd their four curing sheds, FIMCO will open a new one. By exercising good judgment in the purchasing of beans and careful supervision of the curing process in its own facilities it is producing a higher quality product and receiving more for it. Kreag has this to say, "FIMCO cured and marketed about 13 tons in 1991. While FIMCO'S tonnage in 1991 was only about half that in 1990, it was of much better quality as far more care was taken to insure that only mature vanilla beans were purchased for curing. Curing sheds were not crowded. The end result was a better curing ratio, higher prices to farmers and more profits on a substantially lower volume of vanilla."

On the packaging (marketing) output FIMCO is beginning action to identify its export products. For example, some of the produce exported to New Zealand is being identified as produced in Tonga, and this year for the first time it is working with a customer in the U.S. to develop a Tongan branch identity for FIMCO'S best vanilla. It will be marketed under the brand name "VAN TONGA," and is registered in the USA.

6. **THE TRAINING COMPONENT OF THE PROJECT WILL INCLUDE:**

A. **A TWO YEAR BACHELOR'S DEGREE COURSE IN USA FOR SECRETARY/MANAGERS OF FIMCO**

Edgar Cocker with his previous college credits was able to enter a master's degree program and received a master's degree in Business Administration from New Hampshire College. He returned to his position as manager of FIMCO in August of 1991. Additional courses and seminars were completed by Edgar during his overseas stay (Kreag report).

B. TRAINING OF FOUR OF FIMCO'S ACCOUNTING AND SECRETARIAL STAFF SO THAT THEY CAN HANDLE ROUTINE PROGRAMMING AND OPERATING PROBLEMS.

Kreag reports this as having been accomplished.

C. TRAINING OF MEMBERS, PARTICULARLY THE NEW VEGETABLE MARKETING MEMBERS ON THEIR ROLES AND RESPONSIBILITIES AS MEMBERS, INCLUDING ASSISTANCE AND TRAINING WITH QUARANTINE ISSUES.

Kreag reports this has been accomplished via meetings, contract discussions. FIMCO has also participated in radio programs and newspaper articles initiated by the Cooperative Department (CD) and MAF. In addition, the CD helped educate members by talks on cooperatives at FIMCO organizational and member meetings. More formal training programs have not been considered necessary.

D. HOLDING OF A ONE-DAY COOPERATIVE SEMINAR FOR SENIOR GOVERNMENT OFFICIALS.

This seminar was held in March 1990 during the visit by the ACDI president and two board members.

7. **THE MAJOR COMMODITY TO BE PROVIDED UNDER THIS PROJECT IS A HIGH HUMIDITY COOL ROOM FOR STORAGE OF VEGETABLES.**

USAID/RDO/SP has been asked to allow FIMCO to construct a packing shed in lieu of the cool room. This has been approved by AID.

GROWTH

The prior section has discussed the numerous outputs or actions that have been generated by an expenditure of some US$972,167. In this section attention will be given to how this has impacted on the growth of FIMCO, a key indicator of project success.

The growth elements are:

1. volume of business
2. number of members
3. member equity
4. member services
5. management capability
6. acceptance by the business community and by the government
7. market power

Table 1a. (US$ 000)
FIMCO SALES 1985 - 1991

US$/T$ Exchange:	**0.677**	**0.723**	**0.794**	**0.755**	**0.789**	**0.786**
	1985	**1986**	**1987**	**1988**	**1989**	**1990**
Vegetable	/	/	/	/	49	320
annual % growth		/	/	/		554%
255% avg annual growth ('89-91)						
Vanilla	/	191	288	314	843	852
annual % growth		/	51%	9%	168%	1%
60% avg annual growth ('86-91)						
Fish	152	297	299	286	286	353
annual % growth		95%	0%	04%	0%	23%
18% avg annual growth ('85-91)						
H/crafts	41	88	176	222	217	227
annual % growth		117%	100%	26%	-2%	5%
44% avg annual growth ('85-91)						
TOTAL	193	577	764	822	1,397	1,758
annual % growth		199%	32%	8%	70%	26%
60% FIMCO avg annual growth ('85-91)						
176% FIMCO absolute annual growth ('85-91)						

Table 1b.
BREAKDOWN OF FIMCO SALES
(percentage of FIMCO's total sales by commodity)

	1986	1987	1988	1989	1990
Vanilla	0.00%	33.07%	37.75%	22.49%	48.47%
41.38% avg annual percent of sales					
Fish	78.95%	51.48%	39.10%	20.49%	20.08%
37.50% avg annual percent of sales					
H/craft	21.05%	15.28%	23.09%	15.54%	12.92%
16.63% avg annual percent of sales					
Vegetable	0.00%	0.00%	0.00%	3.50%	18.20%
9.92% avg annual percent of sales					

Growth in business volume FIMCO'S growth in terms of business volume has consistently exceeded expectations, and it has been steady growth. The figures in Table 1 show vanilla sales in 1986 were US$191,000 and they have increased every year since they reached US$1,450,000 in 1991. The increase in 1990 over 1989 was minor, but the average annual increase in vanilla sales from 1986 through 1991 is over 131 percent (percent annual growth).

Hand crafts have also experienced consistent growth, with only a slight drop in 1989. Since 1985 handcraft sales have increased from US$41,000 during the first year of operations to US$265,000 in 1991 an average annual increase of 44 percent.

Fish and fishing supplies have increased over the period 1985 through 1991, but the increase has not been as great as in the other FIMCO business activities, the average annual increase was 18 percent. Also growth has not been as steady. Most of this variation in sales from year to year is due to fluctuation in sale of fish.

FIMCO had its first sale of vegetables for US$49,000 in 1989, and it exceeded that figure by a considerable amount in 1990 and 1991, but its growth has not been as steady as other FIMCO business lines, experiencing a rather severe drop in sales in 1991 of some US$141,000 (US$320,000 in 90 to T$179,000 in '91). Vegetable marketing is the latest business venture of FIMCO and it has had external problems beyond its control that have affected its vegetable sales.

As those in the business of growing and marketing vegetables know, seasonal and annual fluctuations are to be expected.

Overall the sales increase of FIMCO since 1985 has been just short of spectacular, with an average annual sales increase of 148 percent. This will pose some problems for FIMCO to continue to grow at this rate. Of course some of this growth is due to inflation, but after making a 25 percent allowance for that, the growth rate is substantial, nearly seven times 7.75 percent.

Membership growth As FIMCO'S sales volume has increased, so has its' membership. Table #2 shows there were six members, probably the founding members, in January 1986, and by December of that year there were 164. Since that time membership has grown at a steady pace, to 1880 members in 1991. Vanilla producers account for just over half (52 percent) of the members. Hand crafts is next at 22 percent, followed by vegetable producers at 20 percent, and fish at six percent.

Table 2. FIMCO Membership, 1986-1991.

	Veg.	H/crafts	Fish	Vanilla	Total
January 1986	-	6			6
December 1986	-	87	26	51	164
December 1987	-	226	57	553	836
December 1988	-	308	94	644	1,046
December 1989	19	355	98	659	1,131
December 1990	266	380	104	812	1,562
December 1991	377	421	105	977	1,880

Member equity in FIMCO has experienced a steady growth since 1989. Prior to that, member equity did not increase, remaining just above US$300,000, but in 1989 it began a significant climb reaching US$357,000, an increase of 6.8 percent over the previous year. In 1990, it was 8.8 percent over the preceding year, and 8.5 percent in 1991. Member equity has nearly doubled (89 percent) since 1986.

Table 3. FIMCO Member Equity, 1986-1991.

YEAR	AMOUNT (T$)	AMOUNT (US$)
1986	332,000	240,000
1987	327,000	260,000
1988	308,000	233,000
1989	453,000	357,000
1990	512,000	402,000
1991	605,000	457,000

Member services have increased, a reflection on the trust generated by FIMCO'S success in providing the original services it was organized to provide. Vegetable marketing is an example of a service added. The first vegetable sales were in 1989, and the first vanilla sales were in 1986 (US$191,000) and zero in 1985 when the vanilla operation was part of TCF. Actually FIMCO itself came about because of the success of the Tonga Cooperative Federation (TCF), a cooperative wholesale operation supported under a previous USAID grant. Some of its members were also farmers and they saw the need for a producer marketing association. TCF increased its services to include vanilla and fish marketing. Later FIMCO was spun off from TCF.

The point of this historical note is to show that there has been a continuation in the growth of services predating formation of FIMCO. Service growth is a healthy development as long as it is approached with caution and safeguards. When it grows faster than management's capability for oversight, it becomes a negative. This has not happened at FIMCO.

Management Capability growth is essential, but its measurement is difficult. Perhaps the most tangible evidence of growth is reflected in the financial records of FIMCO. Certainly, on that basis FIMCO management capabilities have grown. New services have been added, sales and profits have increased. Problems in curing and marketing vanilla have been encountered and progress has been made in solving them. The manager of FIMCO has recently returned from completing a master's degree in Business Administration, other key management employees have received special training, boards and committee members have undergone training and have accumulated operating experience. Unfortunately no one can say with certainty how much growth in management capability is enough. FIMCO will lose its advisor, John Kreag, in April. Edgar Cocker, FIMCO'S secretary manager, who resumed his duties in August of 1991, will no longer have John's advice, but he is an intelligent and capable young man who has been groomed for the job.

He does lack some experience but seems to be a fast learner and should grow in his job.

Acceptance by business community and government. Based on contacts made with business leaders and key government officials, FIMCO has established a good reputation in its business dealings. One example is the improvement in customer relations as reported by the Kreag report '91 on lack of quality control as follows: "It seems all potential customers in export markets have had bad experiences in the past! However, FIMCO has proven itself with customers by self-imposed consistent quality control that is making marketing easier than before." Another indication, FIMCO now has no problem in obtaining funds from the TDB to support its purchasing of vanilla beans and vegetables for export. Further, a contract with FIMCO to produce vegetables for export is very helpful to producers in securing production loans from TDB. The Cooperative Department headed by Mr. Fononga Tu'Ipeatau in the Ministry of Labour Commerce and Industry (MLCI) is working well with FIMCO and appreciates the contributions it is making to the Tongan economy. A major competitor of FIMCO, the Commodities Board, under Managing Director Mr. Richard 'Akolo, had some good things to say about FIMCO'S operations as did the Director of Agriculture, Mr. Haniteli Fa'anunu. Mr. William Harris, secretary of MLCI also gave high marks to FIMCO. A major concern of a number of those who were contacted was that FIMCO not try to take on more activities than it could properly manage.

They noted that FIMCO management was relatively new and needed to gain experience before any major new activities were undertaken. All gave John Kreag considerable credit for bringing FIMCO to where it is now. The important point is that FIMCO continue to recognize the importance of maintaining and building acceptance at all levels, members, the business community and government.

Market power A major purpose of a cooperative is to gain market power for its members. How has FIMCO measured up? The best example of FIMCO'S market power is the progress it has made in its vanilla marketing operations. An examination of Table 4 shows that in 1986 FIMCO marketed only five percent of Tonga's cured vanilla in 1986 (in terms of T$ value). By 1988, it was up to 40 percent and by 1991 it was selling 66 percent of the vanilla. It should be noted that practically all vanilla beans produced in Tonga are exported. FIMCO does exercise considerable power in the Tongan market for FIMCO beans. It has become the most reliable buyer of beans in Tonga. The Tonga Commodities Board (TCB) is the major competitor of FIMCO in the purchasing of yellow tip vanilla beans. Many people believe that TCB pays low prices for beans in order to generate a large gross profit margin to cover its high overhead cost due to its operational inefficiencies.

As reported by John Kreag, and documented in an 1992 impact study (attached) by Kirk Dahlgren, USAID/RDO/SP Program Officer, generated from this evaluation, "in 1987 TCB announced it would buy vanilla at US$52 a kilogram while private buyers countered with a price of US$60. FIMCO then announced it would pay US$64, and estimated it would be able to pay a US$4/kilo bonus at the end of the year. Faced with losing its supply, TCB was forced to raise its price to US$60 and private buyers jumped to US$68, lost money and did not operate the next year."

Not only were FIMCO members helped, but all vanilla producers. In addition, FIMCO's excellent curing record and prompt payment to producers for their beans has made it a strong competitor in the market. Its good reputation in vanilla marketing is spilling over to its vegetable marketing operations since many of its vanilla producing members also grow vegetables for market. Recently when FIMCO contacted prospective growers of squash as to whether they would sign contracts to produce for the Japanese market, over 1,200 replied in the affirmative.

In a country the size of Tonga, 1,880 members with their various needs for services, be they for farm supplies, fishing equipment, or the marketing of their produce, represent significant marketing power. Used properly, it is a valuable asset not only to its members, but to producers of all commodities marketed by FIMCO.

Table 4. (US$ 000)

FIMCO Vanilla Sales - Percent of Total Tongan Sales, 1986-1991.

YEAR	TOTAL SALES	FIMCO SALES	% OF TOTAL
1986	1,287	40	3.15%
1987	1,127	226	20.07%
1988	898	365	40.59%
1989	1,973	783	39.72%
1990	652	457	70.12%
1991	2,510	1,661	66.17%
TOTAL	8,448	3,533	41.83

PROFITABILITY

Income and balance sheet data on FIMCO operations from March 31, 1986 through December 31, 1991 are contained in Annex 1 for all of FIMCO'S operations, including component operations of hand crafts, fish, fishing supplies, vanilla, and vegetables. In the main body of the report, tabulations of relevant data have been extracted from the consolidated income and balance sheets, as appropriate.

The combined operations of all FIMCO operations over the six year period has produced total net profits of US$491,000. Vanilla operations have been by far the most profitable accounting at US$354,000. The vanilla operations along with hand crafts and fishing supplies compensated for losses incurred. Over the six year period yearly profits have averaged US$82,000.

Table 5.
Total Profits on Basis of Individual Operations
(3/31/86-12/31/91) (0.767 Avg Exchange Rate Used)

OPERATIONS	PROFIT (T$)	PROFIT (US$)
HAND CRAFTS	40,000	31,000
FISH SALES	82,000	63,000
FISHERMAN SUPPLIES	89,000	68,000
VEGETABLE SALES	(32,000)	(25,000)
VANILLA SALES	462,000	354,000
NET PROFIT	641,000	491,000

Total sales for the six-year period amount to US$7,512,000 or an average of US$1,252,000 per year, net profit per year as a percentage of sales has averaged about 5 percent (4.85). In its best year, percentage-wise (1987), net profit as percent of sales was 12.9 percent, but in the best year for total net profit (1990), the percentage of net profit to sales was 8.9 percent. This indicates that FIMCO should have paid growers a higher price for vanilla (its major income earner) in 1987 in order to meet the competition thus reducing its gross profit margin. A good example of this is in 1991 (ending 3/31/91) when net profit was US$56,000 on sales of US$2,469,000, but the percentage of net profit to sales was only 2.2 percent, a small margin yielding an acceptable profit. (see table 6).

Table 6. (US$ 000)
Net Profits as Percent of Sales,
(3/31/86-3/31/91)

YEAR	NET PROFIT	SALES	PERCENT
1986 (3 MONTHS-END 31-12-91)	4	87	4.13%
1987	91	702	12.90%
1988	20	828	2.37%
1989	13	899	1.40%
1990	132	1,478	8.93%
1991	56	2,469	2.27%
1991 (9 MONTHS-END 31-12-91)	56	1,048	5.34%
TOTAL	370	7,512	4.93%

Table 7. (US$ 000)
Expenses as a Percent of Sale (3/31/86-3/12/91)

YEAR	EXPENSES	SALES	PERCENT
1986 (3 months)	22	87	25.62%
1987	150	702	21.38%
1988	207	828	24.98%
1989	231	899	25.72%
1990	264	1,478	17.86%
1991	446	2,470	18.06%
1991 (9 months)	294	1,048	28.07%
TOTAL	1,615	7,512	21.49%

Examination of administrative cost is a good indicator of how efficient the business has operated (see Table 6).

Table 8 (US$ 000)
Administrative Cost as Percent of Sales (31/86-12/31/86)

OPERATIONS	ADM.COSTS	SALES	PERCENT
HAND CRAFTS	92	1,186	7.76%
FISH	90	967	9.29%
FISH SUPPLIES	51	887	5.71%
VEGETABLE	29	539	5.41%
VANILLA	216	3,922	5.50%
TOTAL	477	7,500	6.36%

Another indication as to the efficiency of FIMCO'S operations is the (percentages) of personnel cost to sales. (see Table 8)

Table 9 (US$ 000)
Personnel Cost as Percent of Sales (31/86-3/31/91)

YEAR	PERSONNEL COST	SALES	PERCENT
1986 (3 months)	4	87	4.96%
1987	39	702	5.54%
1988	57	828	6.93%
1989	79	899	8.78%
1990	71	1,478	4.78%
1991	165	2,469	6.67%
1991(9 months)	97	1,048	9.24%
TOTAL	512	7,512	6.81%

Personnel cost account for a sizeable percentage of total cost. FIMCO has performed well in this respect, never exceeding 9 percent and averaging 7 percent since it began operations.

Assessment of headquarters' overhead costs of FIMCO shows they are lower than might be expected in an organization of this size and diversity of operation. In only one year have they exceeded 7 percent (1987 - 7.5%). This shows that the headquarters of FIMCO is operating on a cost efficient basis (see Table 10).

Table 10 (US$ 000)
Overhead Costs as a Percentage of Sales (3/31/86-3/31/91)

PERIOD	OVERHEAD	SALES	PERCENT
3 months ended 31-3-86	6	87	7.03%
year ended 31-3-87	37	702	5.27%
year ended 31-3-88	56	828	7.98%
year ended 31-3-89	68	899	8.19%
year ended 31-3-90	67	1,478	7.44%
year ended 31-3-91	55	2,469	3.73%
9 months ended 31-3-91*	66	1,048 **	2.68%

* 40 percent of sales occur in last three months

** Increase due primarily to salary increases - related to turnover of management to local employees.

The business growth of FIMCO has been faster than expected. Using 1987 as the base year, its first full year of operations and with sales of US$702,000, it increased sales 18 percent in 1988, 9 percent in 1989, 65 percent in 1990, 67 percent in 1991. By 1991 it had sales that exceeded its base year by nearly 4 times (see Table 10).

Table 10-1 (US$ 000)
Rates of Sales Increase, 1987-1991
0.767 avg exchange rate used

(BASE YEAR)	1987	1988	1989	1990	1991
	702	828	899	1,478	2,469
% Increase		18.00%	8.50%	64.52%	67.00%

The success of its operations is reflected in the comparative balance sheet, Table 11. This shows that member equity has increased from US$240,036 in 1986 to US$463,000 at the end of 1991 year, an increase of 82 percent. Its current assets exceed total liabilities by $464,000, and most important it has no long term debt. It is indeed in good financial shape.

Turning n ,r to the individual operations, over the life of FIMCO the most unprofitable of its operations has been fish sales, but in the 9 months period ending 12/31/91 it showed a profit of US$10,000. This amounted to 10 percent of sales profit. John Kreag says this operation for various reasons, some noted elsewhere in this report, has been the most difficult of FIMCO'S operations to deal with. It has been a learning experience, but now some of the major problems have been overcome and prospects for good profits in the future are promising (see especially item 2 in the INPUT/OUTPUT SECTION of this report).

The fishing supplies operation has proven to be a profitable operation and its profits for the period have a little more than made up for losses on fish sales.

Vegetable marketing operations have realized a profit in only one year (first year ending 3/31/90) of the three years of operation. However, prospects for a good year in 1992 and thereafter look very favorable. Most of the problems in this operation have been external and pretty much beyond the control of FIMCO management. The major one was unexpected imposition of a quarantine on watermelons by New Zealand. As that has now been lifted, there are now improved prospects for FIMCO in vegetable marketing. That along with the prospect that FIMCO will export squash to Japan for the first time justifies the continuation of vegetable marketing operations. FIMCO has undergone its "shakedown" period (three years) on this enterprise and now it should begin to operate on a profitable basis.

The other two enterprises operated by FIMCO, hand crafts and vanilla have operated on a profit basis since the beginning. No major increase in sales and profits for hand crafts are predicted at this time due to a drop-off in the tourist trade. It should, however, continue to operate on a profitable basis, and it provides a much needed market for its members.

As discussed elsewhere in this report, vanilla is the most important of FIMCO'S business activities, as vanilla sales accounted for most of FIMCO'S profit over the six-year period of its operations. FIMCO is the leader in the vanilla export business, and with TCB, its major competitor, seriously weakened by business reversals, it is in a position to increase its dominance and profits.

SUSTAINABILITY

The most viable indicator as to FIMCO'S ability to continue to serve its members effectively is to examine some of the highlights of its "track record." Much of this has already been discussed in previous sections of this report, and especially in the two sections entitled respectively GROWTH and PROFITABILITY.

FIMCO'S overall profit record looks good over the six years it has operated, showing a total of US$491,000 over that period. It must be noted that not all of its individual operations were profitable. Fish and vegetable sales showed net losses (see operating statement). Vegetable sales is a new service for FIMCO, beginning in 1989. External factors, beyond control of FIMCO management, such as unexpected quarantines on watermelons by New Zealand are partly to blame for vegetable sales losses. That problem now seems to be under control, and producers in larger numbers are signing up with FIMCO to market vegetables. FIMCO has received an 18 percent quota - (1,800 metric tons) of the squash market in Japan this year (1992). Over 1,200 growers have indicated a strong interest in marketing squash through FIMCO.

Prospects for an excellent vanilla crop this year are reported and FIMCO is now considered the major market for green vanilla beans and is the largest exporter of cured vanilla beans in Tonga. TCB was the largest such operator, but it has encountered financial difficulties and is now in the process of privatizing its operations. FIMCO is in an excellent position to capitalize on TCB'S weakened condition. It should be noted that FIMCO has encountered numerous problems in connection with its vanilla operations, curing being a good example. Ability to borrow sufficient funds to purchase green beans has been another problem. It has largely overcome the curing problem by establishing central curing facilities where it can control the quality of the product by careful selection of green beans and greater uniformity in the curing process. Its ability to pay back loans obtained to market vanilla has been firmly established. This is a good example of management's ability to successfully deal with problems and argues well for FIMCO'S sustainability.

FIMCO's vanilla operations account for a major portion of its net profit, around 97 percent for the period 3/31/86 through 12/31/91. In view of this, its sustainability is likely to depend upon future prospects for continued successful vanilla operation. A recent technical report (1989) titled "Economic Prospects for Vanilla in the South Pacific" by Kenneth M. Merz and Evan M. Fleming of the Australian Centre for International Agricultural Research (ACIAR) support the idea that vanilla bean production in Tonga is sound and likely to become even more so in the future. Some factors influencing FIMCO's sustainability are as follows:

1. Vanilla beans produced in Tonga are of the Bonbon type, the most preferred type. They are competitive with those grown by Univanilla Producers (a cartel of the major vanilla producers). This is evidenced by the fact Tongan vanilla beans sell for the same or higher price as that of Univanilla vanilla beans.

2. Two recent studies of net return per acre of vanilla beans produced over the typical life (Defined as 13 years) of a Tongan vanilla plantation demonstrated the greater profitability of vanilla over the most common or alternative cash crops. The analysis indicated that "even with prices at half their current level and using a discount of 10 percent, the internal rate of return to production is around 45 percent.

3. Madagascar is by far the largest producer of vanilla beans in the world and by virtue of this the dominant member of the Univanilla Cartel, but it places a high export tax on the cured beans and because of this its producers receive about one fifth of the world price. When the government of Madagascar wishes to increase production it lowers the export tax. Now that FIMCO has broken the monopoly of TCB, the producers in Tonga receive the world price less the cost of doing business (FIMCO members). Madagascar does have a large potential to increase production, but may not deem it wise to do so, because the world demand for vanilla is considered to be somewhat inelastic.

4. There could be a potential for increasing the demand for natural vanilla. In 1985 artificial vanilla accounted for 96 percent of the consumption by 1986 it declined to 94 percent. The USA market accounts for half of the sales of natural vanilla, and 445 of this is used in the production of ice cream, particularly in high quality ice cream. There has been a significant increase in the better ice creams in recent years, in one of those years as much as 30 percent.

5. Further, with more promotion activity, there is a reasonable chance that the sales of cured beans could be increased, particularly in gourmet markets. In Europe, especially France, cured beans account for a major part of sales. (Note point #5 not contained in ACIAR report)

Fish sales operations are finally showing a profit due to some changes in sales strategy. FIMCO has ceased to sell frozen fish in Tongan markets in favor of fresh fish. Also FIMCO made an agreement with a local exporter of fish to handle its export sales. These two changes have improved FIMCO'S fish sales operation. This is another good example of management being able to recognize problems and devise ways to overcome them, a good indicator of FIMCO'S ability to sustain and improve its operations.

The fishing supply operations has always shown a profit, accounting for around US$68,000 since it began operations. There seems no reason to doubt its ability to continue to operate successfully in the future.

While profits of the FIMCO handcraft section have not been large over the period (US$31,000), they have been consistent; a loss occurred in only one year. That was the year FIMCO lost its lease on the shop in Nuku'alofa and had to relocate. More important, this operation provides a market for many women who are estimated to earn an average of US$38 a week producing crafts. Sizeable amounts of foreign exchange earnings also result from this operation. FIMCO crafts have a reputation of being the best in Tonga. All signs point to this business being able to sustain itself.

Another factor to consider in examining the past record of FIMCO is how well it has trained its key management and other employees, as well as its corporate board, its various committee members, and members in general. It has done so, but is cautioned that this is not a one time but a continuing activity.

Another factor to consider is whether there is likely to be a continuing need for the services of FIMCO. Certainly at this time there is no reason to project that there will not be. This is especially true when one considers that its major competitor in the marketing of vanilla and vegetables (TCB, the government-owned enterprise) is in a very weakened position and is not predicted to improve in the near future. It must be pointed out however, that there is nothing magical about a cooperative enterprise; it will survive only so long as it can effectively provide services to its members. Cooperative loyalty on the part of members vanishes when a cooperative ceases to serve them well.

There is no reason at this time to suggest that FIMCO will not continue to serve it members effectively. Growth considerations as discussed in the section entitled "Growth" is a positive indicator that FIMCO should be able to sustain itself in the future. Not only has it grown in terms of volume of business, members, and member equity, but also in terms of services provided members. Of equal importance is that it has shown growth in terms of acceptance by business and government communities, and management has developed along with the growth that has taken place in the size and complexities of FIMCO'S operations.

One final factor in FIMCO'S ability to sustain itself is that it has been able to successfully compete under a system dominated by government policy as illustrated by the fact that its major competitor TCB, is a government-organized and controlled enterprise. FIMCO is in the vanguard of the move to privatize business enterprises in Tonga. It already understands the system.

Barring some unforeseen events, FIMCO should be able to sustain itself and grow in the future.

BENEFITS TO INDIVIDUALS AND THE NATION

Major indicators of attainment of this objective are foreign exchange earnings, markets for producers, market power for producers, competitive effect of FIMCO in the marketplace, and the influence FIMCO has had on the Tonga Commodities Board's (TCB) recent decision to privatize its operations.

All of FIMCO'S vegetable and vanilla sales represent foreign exchange earnings. Over a six-year period beginning in 1986, FIMCO brought in over US$3,500,000 in foreign exchange from exports of cured vanilla. By 1990 it had become the major Tongan exporter of this commodity. Exports of vegetables by FIMCO over the three years it has operated (1989-1991) amounted to US$538,000. On hand crafts it is impossible to say exactly what the exports are. But John Kreag reports that "while virtually all hand craft sales are local, sales go to visitors and short term residents both of whom are using foreign exchange earnings to make their purchases. Fish marketing represents a mixture of import substitution and foreign exchange earnings." Hand craft sales over the period 1986 to the end of 1991 amount to US$1,186,000, a major part, then, in foreign exchange.

To members, FIMCO provides reliable markets for their produce, fish and hand crafts. FIMCO pools the sale of products and is thus able to sell in markets that would not be open to members as individuals. It helps members to improve the quality of their produce. In vanilla it centrally cures the green beans and thereby improves the quality, and is able to sell in better foreign markets at better prices. This enables FIMCO to pay its members higher prices at time of delivery and in most years a bonus after cured beans have been sold. This has provided members with market power not available to them as individuals in the market place.

Individual producers who are not members of FIMCO have also been helped as it has gained market power and become a serious competitor to TCB, until recently the major purchaser/exporter of vanilla in Tonga. On this point a "Working Paper" (No.5) published by the Pacific Islands Development Program (PIDP) in April 1991 reports that after "some convincing from grower and businessmen (in Tonga) the Board of Directors of TCB agreed to issue export licenses for vanilla. As soon as private licenses were granted, competition for supplies between the Board and private exporters became quite fierce, ... and led to more efficient marketing and improvement in producer prices. It is estimated that up to 20 percent of the improvement in producer prices was due to this competition ..."

It was at this time that the Tonga Cooperative Federation (TCF) from which FIMCO was spun off in 1986 obtained a license to market vanilla and became active in the market. Since that time Statistical Abstract records on foreign trade show Tonga exported US$9,600,000 of cured vanilla through 1990. That amount less about 20 percent for cost of sales represent what growers would receive for their green beans, or US$7,680.000. Due to the increased competition they received 20 percent more for their beans or 20 percent times US$9,600,000 = US$1,920,000 more than would have been the case absent the competition. In addition,increased returns to growers helped to increase production of vanilla from 10 tons of dried beans in 1980 to 62 tons in 1991. FIMCO as a major exporter can rightfully claim some of the credit for this development.

In recent years a combination of some bad business decision by TCB along with highly effective competition from FIMCO in vanilla operation has about convinced the Tongan government that its vanilla producers are better served by a private business enterprise such as FIMCO then by a Government Commodities Board (TCB). FIMCO has also taken a leadership role in the export marketing of vegetables and now that TCB no longer has a monopoly on the marketing of vegetables a similar development in that commodity is taking place. Growers are receiving higher prices and production is increasing, but no figures are available to arrive at the amount of additional income going to producers.

While some criticism is made of TCB, the Ministry of Agriculture and Forestry is to be applauded for its research, educational, and promotion efforts that have helped Tonga to increase its export of vanilla beans from ten tons in 1980 to sixty-two tons in 1991. This effort has been led by Mr. H. O. Fa'anunu of that Ministry.

FIMCO has also been important in its members being able to obtain loans to produce their crops, particularly vegetables. The Tonga Development Bank feels much safer in making a loan to a producer who has a contract with FIMCO to market his/her crop than it does for one who has no contract. In 1991 FIMCO contracted with farmers to grow watermelons, green peppers, tomatoes, zucchini, and rootcrops.

FIMCO NOW ENGAGES IN MARKETING THE FOLLOWING FRUITS, VEGETABLES AND TREE CROPS:

Root Crops:

taro
yam
kape (giant taro)
taurua

Fruits & Vegetables:

watermelon
capsicum
tomato
zucchini
carrot
lettuce
cabbage
beans
parsley
green onions
yam bean
squash

Coconut:

fresh drinking coconuts
matured coconut

FIMCO is also becoming a competitive factor in the farm supply market. It has found that some of the existing farm supply dealers are having cash flow problems, making it difficult at times for its member producers to obtain needed supplies on a timely basis. And it has also found at times prices charged are excessive. It has found for example that it can purchase fertilizer (the highest cost farm input) and mark its purchase price up 10 percent and sell the identical fertilizer carried by existing dealers for only 75 percent of their prices. This represents a savings to farmer and allows a profit to FIMCO. And of course all farmers, not just FIMCO members, profit from this added competition.

Because of FIMCO more fresh fish is available to Tongan consumers at more competitive prices.

It was impossible in the time allowed to make any study of farmers and consumers to give some more exact measurement of the advantages to them generated by FIMCO'S operations.

COST EFFECTIVENESS

AID has invested US$972,167 in this project to help Tongan producers of vegetables, vanilla beans, hand crafts, and fish in order to increase their incomes. A secondary goal was to increase the availability of vegetables and fish in Tonga. Has this investment helped these goals to be achieved and to what degree? To some extent achievements can be quantified.

To begin with the project called for a series of activities with objectives to be carried out by those responsible for execution. In the section of this report entitled "Input/Output Assessment," examination shows that all of the outputs have either been realized, or if not, justification is presented as to why not. In most cases the outputs exceeded proposed targets. These activities resulted in a highly satisfactory growth in business volume, membership, member equity, member services, management capability, acceptance by the business community and government, and market power. The reader is asked to review the section of this report entitled "Growth" for quantitative data to support this assessment.

An analysis of the comparative income and balance sheet statements of FIMCO since it began operations shows that it has had sales of over US$7.4 million dollars since it began operations. Producers of hand crafts, fish, vegetables, and vanilla beans received an estimated US$5.6 million of that amount for produce sold to FIMCO. The members of FIMCO number some 1800 and share accumulated equity funds in their association totalling US$463,000.

There is also the foreign exchange generated by export of fish, vegetables, vanilla, and even hand crafts because most were sold to foreign tourists. Vanilla sales alone amounted to over US$3,922,000.

More important than all of the aforementioned returns on AID assistance is, however, the effect that FIMCO is having on the market situation in Tonga, particularly in purchasing, curing and exporting of vanilla. FIMCO has become the leader in vanilla marketing, taking over from the Tonga Commodities Board in the 1989 season. Because of its efficient operation in curing and marketing vanilla it is forcing other competitors to provide higher prices to all producers. This has helped to increase the production of vanilla and with the higher production and better prices growers are realizing more income. Vanilla bean production in 1980 was 10 metric tons and by 1991 it had increased to 62 metric tons.

FIMCO has played an important role in breaking the government monopoly (TCB). In 1981, for the first time, dealers other than TCB were allowed to operate in the Tongan vanilla market and later in the vegetable export market. FIMCO was not operating at that time but its predecessor the Tongan Cooperative Federation was. FIMCO began operating on its own in 1986. It is estimated that over the past six years (1986-1991) vanilla farmers in Tonga have received US$2 million more than they would have for their vanilla beans had TCB continued to operate as a government monopoly.

(See section of this report titled **"BENEFITS TO NATION AND INDIVIDUALS"** for more details).

FIMCO'S market power is beginning to be felt in vegetable export marketing, but it is to early to quantity the extent.

In view of the aforementioned information on the cost effectiveness of USAID'S assistance it must be concluded that it has been most effective, and highly justified.

NEED FOR FUTURE ASSISTANCE

Currently there is a request from FIMCO for additional assistance for short term training in the U.S. for the manager. Mr. Edgar Cocker needs to come to the U.S. for two weeks in order to gain additional information and ideas on fishing gear and farm supply operations, and also to make contacts with potential supply sources.

It is suggested that FIMCO continue to keep in touch with ACDI and USAID after the project formally ends in April 1992. Some additional short term technical assistance and overseas training are likely to be needed in coming years if volumes of export increase and new component operations are added. Both agencies have expressed a willingness to be of assistance in the future should a need arise. It should be recalled that these organizations cannot assist unless specifically requested.

REPLICABILITY OF PROJECT

This project is a splendid example of how a producer marketing cooperative can operate in a country that in the past has relied upon government enterprises to operate the export marketing system. It has and is playing an important role in convincing this government of the need to privatize its marketing operation, and for privatization in general.

One of the unique features of FIMCO is how it has diversified it operations to serve producers of hand crafts, fish, vegetables, and vanilla beans.

A close examination of FIMCO will show that it has encountered some unusual problems and developed ways to overcome them. Being an island country with its export markets located great distances away has added some problems not encountered by mainland cooperatives. The way it has solved them should be of interest to other island countries.

One specific country comes to mind, Madagascar, because it produces vanilla, and in fact is the world's leading producer. It is reported that growers there do not have much market power and therefore receive less for their beans than producers in Tonga. Also there are some curing problems. If these problems do exist FIMCO'S experience could help. Also there are undoubtedly other island countries in the South Pacific that can profit from FIMCO's experience.

FIMCO is a success story that should be told. Its experiences could help others.

FOLLOW-UP ASSESSMENT OF TONGA COOPERATIVE FEDERATION (TCF)

It is noted that since 1986 TCF has operated independent of any technical or financial assistance from USAID/ADCI. However, the management of TCF recognizes that in the past USAID/ACDI did provide such assistance and that USAID has a continuing interest to help TCF in the future should a need arise. Therefore, it has willingly agreed to provide information on the current status of its operation. An additional reason for including TCF in this evaluation of FIMCO is that in the past the operations of these two organizations have been so closely linked. In 1986 some of the present operations of what is now FIMCO were conducted by TCF, and the same technical expertise provided by USAID and ACDI to help guide TCF in its infant years was assigned to guide FIMCO after it was spun off from TCF in 1986.

TCF was organized in November 1977 by Tongans with assistance from the British to operate as a cooperative wholesaler serving some 60 or more primary societies operating small retail shops. By late 1980 it was virtually bankrupt with debts of over US$56,000. Local financing to eliminate the debt, together with AID funds and technical help from ADCI transformed TCF into a sound business enterprise capable of achieving its goal of providing consumer goods, primarily groceries, to its members at reasonable prices.

The overall goal of the two grants under which their project was funded was to provide support for PVO activities in fields of regional strategy, specifically to **"improve the social and economic status of rural and urban low income groups."** Operational Program Grant #879-0251, and a second grant PVO Co-financing (879-001-G-SS-7037 was under project 879-0001; US$1,365,000 was used at the end of the TCF component). Progress evaluations made in 1983 (Bruce Gervan, VOCA), in 1984 (Job Savage - ACDI), in 1985 (Donald Crane - ACDI) and in 1988 (Jerry Lewis - ACDI) have all shown TCF to be operating far above original expectations. In fact TCF has been written up as a success story on several occasions.

This current assessment is based primarily on a discussion with the manager of TCF, Mr. Tevita 'Ova, and an examination of consolidated income statements and balance sheets from 1986 to the end of 1991. Based on this it is evident that TCF continues to be a highly successful cooperative business enterprise. Documentary evidence to support this statement is presented as follows:

SALES - have more than doubled from 1986 to end of 1991, US$4,760,027 to US$10,179,547.

__**NET PROFITS**__ - have increased from US$48,219 in 1986 to US$ 607,982 by the end of 1991, or a 12 fold increase. Examination of Table 11 shows that there has been a steady increase and net profit with each year significantly surprising the preceding one. While this aspect of the business is important in a cooperative enterprise the major objective is to provide patrons quality products at reasonable prices. Net profits as percentage of sales range from a low of 1.01 percent (1986) to a high of 5.97 percent (1991) (See Table 11 for all years).

Table 11.

TCF Comparative Operating Statements, 1986 - 1991.
(in US$)

	1986	1987	1988	1989	1990	1991
SALES	4,760,027	4,878,072	6,114,988	7,335,368	8,807,582	10,179,547
NET SALES	4,756,869	4,873,784	6,111,113	7,330,944	8,596,377	9,751,002
TOTAL COST OF SALES	4,315,4156	4,344,741	5,403,331	6,439,280	7,565,715	8,567,697
GROSS PROFIT	441,453	529,043	707,782	891,664	1,030,662	1,183,306
GROSS PROFIT % SALES	9.27%	10.85%	11.57%	12.16%	11.70%	11.62%
TOTAL INCOME	456,815	537,121	730,099	921,879	1,082,415	1,330,326
PERSONNEL EXP.	163,430	160,857	160,941	214,213	263,319	290,760
TRANSPORT CHARGES	48,099	47,086	48,577	56,999	66,614	87,887
ADM. EXP.	42,118	40,538	49,108	60,757	68,188	76,946
TOTAL OPER. EXP.	408,596	419,107	409,263	507,608	655,871	722,344
NET PROFIT	48,219	118,015	320,836	414,271	426,543	607,982
NET PROFIT & SALES	1.01%	2.42%	5.25%	5.65%	4.84%	5.97%

GROSS PROFITS - have increased from US$441,453 (1986) to US$1,183,306, or more than 2.6 times, but gross profits as a percentage of sales has remained reasonably steady over the years ranging from a low 9.27 percent in 1986 to a high of 12.16 percent. (see Table 1 for all years). This figure of 12.14 seems a bit high and may result in some loss of business due to higher prices. It is also somewhat contradictory to the idea that the role of a cooperative is to serve its patrons not to make profits. Net profits in 1991 were also slightly higher in 1991 than in any of the previous 6 years.

Some indication as to the efficiency of TCF is shown in Table 2:

Table 2. TCF Efficiency Indicators

		1986	1987	1988	1989	1990	1991
		%	%	%	%	%	%
1.	COST OF SALES AS % SALES	91	89	88	87	86	84
2.	GROSS PROFITS AS % OF SALES	9.2	10.85	11.57	12.16	11.70	12.14
3.	NET PROFIT AS % OF SALES	1.0	2.4	5.2	5.6	4.8	6.0
4.	TOT. OPER. EXP. AS % SALES	8.6	8.6	6.7	6.9	7.4	7.1
5.	PERS. EXP. AS % TOT. EXP.	40.0	38.0	39.0	42.0	40.0	40.0
6.	ADM. EXP. AS % OF TOT. EXP.	10.3	9.7	12.0	12.0	10.4	11.2
7.	TRANS. CHARGES AS % OF TOT. EXP.	11.8	11.2	11.9	11.2	10.1	12.2
8.	INVENTORY TURN*	NA	8.56	9.85	8.95	10.38	11.04

* Based on Sales Divided by Beginning Inventory.

COST OF SALES - has decreased from 91 percent (on the basis of cost as percentage of sales) in 1986 to 84 percent end of 1991, a significant drop of 7 percent. Note that each year there has been a decrease from the preceding year, an especially good performance.

INVENTORY TURN - has ranged from 8.56 (1987 to 11.04 (1991), and the increase has been steady, a good performance.

OPERATING EXPENSES - have never exceeded 8.6 percent of sales, and since 1988 ranged from 6.7 (1988) to 7.1 (1991). The major expense items have remained steady at acceptable levels. For example, personnel cost as a percent of total expenses has never exceeded 42 percent. Administrative expenses and transportation charges have also remained steady.

LOSSES - due to pilferage or damage have been insignificant over the period.

An examination of key TCF Balance sheet information shows that:
MEMBER EQUITY - has increased yearly (from US$291,761 (1986) to US$1,611,296 in 1991, for annual increase of over five times (5.52). A look at Table 3 shows that the increases have been steady, each year larger than the preceding one. Total member equity is now US$5,166,746.

CURRENT ASSETS - have exceeded current liabilities in each year with working capital of US$1,399,907 in 1991 compared to US$269,404 at the end of 1986.

Table 3.

TCF Comparative Balance Sheet, 1986-1991.
(in US$)

	1986	1987	1988	1989	1990	1991	TOTAL
MEMBER EQUITY	291,761	429,982	629,746	945,870	1,257,462	1,611,926	5,166,746
CURRENT ASSETS	711,355	823,298	1,251,216	1,508,075	1,669,114	2,388,475	8,351,533
CURRENT L/BILITIES	441,950	527,266	671,707	748,568	665,337	1,048,568	4,103,397
WORKING CAPITAL	269,404	296,032	579,509	759,506	1,003,777	1,339,907	4,248,136

Analysis of the income and balance sheet statements of TCF indicates that it is being well managed and is in sound financial shape. Being the largest enterprise of its kind is another strong indicator of this. TCF estimates that it accounts for at least 75 percent of all the food wholesale business in the island Kingdom. Its volume of business has more than doubled since 1986.

TCF now operates 12 outlets consisting of 4 stores and 8 delivery trucks serving 700 retail cooperatives and private shops throughout the islands. It now has the first computerized inventory system in the islands. Its efficiency has kept prices low in the islands, a benefit enjoyed by all consumers. It has also been an important reason why the government has recently decided that price controls on most (95 percent) food items are no longer necessary and has removed them.

Manager Tevita 'Ova reports: "We now have a Tongan residing in the U.S. who buys goods and consolidates containers that are then shipped to TCF. Prior to this, almost all of our goods came from Australia and New Zealand. Our frozen chicken imports from the U.S. for example have risen from about 4 containers to about 24 containers a year, and soft drink imports have increased from 4 to 13 containers."

The only negative factor pertaining to TCF operation is that a large part of its business is from sales to non-members (85 percent). This has been noted in every previous evaluation. In fairness to TCF it has tried to solve this problem. Mr. Tevita reports the TCF'S board has agreed that all of the non-member retail outlets have been invited to become members. However, since some of them are not cooperatives, the government cooperative department will not allow TCF'S board to proceed with its plan to allow all outlets to become members. The danger posed to TCF is that some or all of the 85 percent of its non-members could decide to form a separate wholesale board on a non-cooperative basis. This hasn't happened and may never happen, but TCF should continue to monitor this possibility.

TCF is a success story and it can and should be replicated in other countries. The former Iron Curtain countries need a TCF to compete with the unbridled consumer operations that are now springing up in those countries to replace the state-owned and operated shops.

FIMCO COMPARATIVE BALANCE SHEETS IN US$ 000, 1986 - 1991
(Exchange Rate: US$1.00 = T$ 1.30)

	1986	1987	1988	1989	1990	1991
Current Assets	246	397	538	552	274	963
Fixed Assets	96	107	107	127	128	186
Other Assets	15	14	12	9	11	8
Total Assets	357	518	657	688	413	1,156
Cuurent Liabilities	92	258	415	341	18	692
Long Term Liabilities	12	8	5	/	/	/
Total Liabilities	104	266	420	341	18	692
MEMBER FUNDS						
Shares	1	3	4	5	5	6
Capital Contrib.	102	105	107	140	143	148
Note Payable TCF	77	77	77	77	71	71
Statuatory Reserve	4	4	4	4	(3)	(3)
Retained Profits	2	41	35	48	177	184
Current Yr Profit	68	21	9	74	0	57
TOTAL MEMBER FUNDS	255	251	236	348	393	463

FIMCO COMPARATIVE INCOME STATEMENTS SHEETS 1986 - 1991
CONSOLIDATED OPERATIONS - IN US$ 000
(Exchange Rate: US$1.00 = T$ 1.30)

	3 months 3/31/86	YE 3/31/87	YE 3/31/88	YE 3/31/89	YE 3/31/90	YE 3/31/91	9 months 12/31/91	TOTAL
Sales	93	678	842	874	1,443	2,506	1,063	7,498
less Cost of Goods Sold	69	472	634	661	1,081	2,010	720	5,647
Gross profit	24	206	207	213	362	496	343	1,851
Other Income	4	26	23	24	25	14	12	127
Total Income	28	232	230	237	387	509	355	1,979
Expenses								
Personnel	5	38	58	77	69	167	98	512
Property	11	43	51	60	65	96	57	383
Financial & Merch.	0	8	18	5	43	116	54	243
Administration	8	57	83	83	81	74	90	475
NET PROFIT	4	87	20	12	129	57	57	366

FIMCO COMPARATIVE INCOME STATEMENTS SHEETS 1986 - 1991
HANDICRAFTS OPERATIONS - IN US$ 000
(Exchange Rate: US$1.00 = T$ 1.30)

	3 months 3/31/86	YE 3/31/87	YE 3/31/88	YE 3/31/89	YE 3/31/90	YE 3/31/91	9 months 12/31/91	TOTAL
Sales	17	110	191	215	213	221	219	1,186
less Cost of Goods Sold	13	83	149	165	163	169	163	904
Gross profit	4	28	42	50	50	52	57	282
Other Income	2	8	9	9	7	1	2	38
Total Income	5	36	51	59	57	53	59	321
Expenses								
Personnel	1	6	11	15	16	21	17	87
Property	2	7	11	12	14	15	13	73
Financial & Merch.	0	1	2	5	9	8	11	37
Administration	2	12	19	19	13	10	18	92
NET PROFIT	2	11	8	8	5	(2)	1	32

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FIMCO COMPARATIVE INCOME STATEMENTS SHEETS 1986 - 1991
FISH MARKETING OPERATIONS - IN US$ 000
(Exchange Rate: US$1.00 = T$ 1.30)

	3 months 3/31/86	YE 3/31/87	YE 3/31/88	YE 3/31/89	YE 3/31/90	YE 3/31/91	9 months 12/31/91	TOTAL
Sales	64	251	179	143	110	120	99	967
less Cost of Goods Sold	47	189	143	120	91	113	66	769
Gross profit	18	62	35	23	20	7	33	198
Other Income	2	16	13	14	17	13	9	84
Total Income	20	78	48	37	37	20	42	282
Expenses								
Personnel	3	15	12	14	15	15	8	82
Property	8	27	29	29	31	26	13	163
Financial & Merch.	0	2	1	4	2	3	0	11
Administration	6	23	22	14	8	5	12	90
NET PROFIT	2	12	(16)	(24)	(18)	(29)	10	(64)

FIMCO COMPARATIVE INCOME STATEMENTS SHEETS 1986 - 1991
FISHING SUPPLIES OPERATIONS - IN US$ 000
(Exchange Rate: US$1.00 = T$ 1.30)

	3 months 3/31/86	YE 3/31/87	YE 3/31/88	YE 3/31/89	YE 3/31/90	YE 3/31/91	9 months 12/31/91	TOTAL
Sales	12	55	109	148	183	206	173	887
less Cost of Goods Sold	7	36	94	103	139	149	132	659
Gross profit	5	19	15	45	44	58	41	228
Other Income	0	0	0	0	0	0	0	0
Total Income	5	19	15	45	44	58	41	228
Expenses								
Personnel	1	3	5	7	8	11	8	43
Property	1	3	3	5	7	7	5	31
Financial & Merch.	0	0	1	5	7	12	11	35
Administration	1	4	8	11	10	6	11	51
NET PROFIT	2	9	(2)	18	12	22	6	68

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FIMCO COMPARATIVE INCOME STATEMENTS SHEETS 1986 - 1991
VEGETABLE MARKETING OPERATIONS - IN US$ 000
(Exchange Rate: US$1.00 = T$ 1.30)

	3 months 3/31/86	YE 3/31/87	YE 3/31/88	YE 3/31/89	YE 3/31/90	YE 3/31/91	9 months 12/31/91	TOTAL
Sales					90	274	175	539
less Cost of Goods Sold					64	239	166	470
Gross profit					25	35	9	69
Other Income					0	0	0	0
Total Income					25	35	9	69
Expenses								
Personnel					4	14	12	29
Property					2	10	6	18
Financial & Merch.					2	12	2	16
Administration					5	12	13	30
NET PROFIT					12	(13)	(24)	(25)

FIMCO COMPARATIVE INCOME STATEMENTS SHEETS 1986 - 1991
VANILLA MARKETING OPERATIONS - IN US$ 000
(Exchange Rate: US$1.00 = T$ 1.30)

	3 months 3/31/86	YE 3/31/87	YE 3/31/88	YE 3/31/89	YE 3/31/90	YE 3/31/91	9 months 12/31/91	TOTAL
Sales	0	262	363	367	848	1,685	397	3,922
less Cost of Goods Sold	2	164	249	257	624	1,340	193	2,830
Gross profit	(2)	97	114	110	223	345	203	1,092
Other Income	0	2	1	1	1	1	1	5
Total Income	(2)	99	115	111	224	346	204	1,097
Expenses								
Personnel	0	13	31	41	26	107	54	271
Property	0	6	8	15	12	38	19	97
Financial & Merch.	0	5	14	(9)	23	81	30	143
Administration	0	18	33	39	44	44	38	216
NET PROFIT	(2)	56	29	26	120	77	64	370

TCF Comparative Operating Statements, 1986-1991
(in US$)

	1986	1987	1988	1989	1990	1991
Sales	4,760,027	4,878,072	6,114,988	7,335,368	8,807,582	10,179,547
Net Sales	4,756,869	4,873,784	6,111,113	7,330,944	8,596,377	9,751,002
Total Cost of Sales	4,315,416	4,344,741	5,403,331	6,439,280	7,565,715	8,567,697
Gross Profit	441,453	529,043	707,782	891,664	1,030,662	1,183,306
Gross profit % of sales	9.27%	10.85%	11.57%	12.16%	11.70%	11.62%
Total Income	456,815	537,121	730,099	921,879	1,082,415	1,330,326
Personnel Exp.	163,430	160,857	160,941	214,213	263,319	290,760
Transport Charges	48,099	47,086	48,577	56,999	66,614	87,887
Adm. Exp.	42,118	40,538	49,108	60,757	68,188	76,946
Total Operating Exp.	408,596	419,107	409,263	507,608	655,871	722,344
NET PROFIT	48,219	118,015	320,836	414,271	426,543	607,982
NET PROFIT % SALES	1.01%	2.42%	5.25%	5.65%	4.84%	5.97%

TCF Comparative Balance Sheets, 1986-1991
(in US$)

	1986	1987	1988	1989	1990	1991	TOTAL
Memeber Equity	291,761	429,982	629,746	945,870	1,257,462	1,611,926	5,166,746
Current Assets	711,355	823,298	1,251,216	1,508,075	1,669,114	2,388,475	8,351,533
Current Liabilities	441,950	527,266	671,707	748,568	665,337	1,048,568	4,103,397
Working Capital	269,404	296,032	579,509	759,506	1,003,777	1,339,907	4,248,136

ANNEX 3.

Ref/W0101404.010

4 January 1991

Cooperative Marketing Agreement

between

Friendly Islands Marketing Cooperative Ltd (FIMCO)

and

______________________ (the member) FIMCO member no _________ living in _____________________ .

The member agrees to plant ________ watermelon plants* in the period ________________ for expected harvest of about________ kgs of watermelon around_________________.

The member agrees to offer all watermelon from this planting for sale to FIMCO and FIMCO agrees to purchase watermelons from the grower under the following conditions.

1. The field must be inspected approved, and registered with MAFF for watermelon prior to the watermelon being planted

2. The watermelons must have been planted in the period _______________.

3. The watermelon must be harvested according to the requirements of the MAFF Tonga and MAFF New Zealand agreement and the requirements of FIMCO.

4. The watermelon must be transported to the FIMCO packing house by the member in accordance with the MAFF Tonga and MAFF New Zealand agreement.

5. The watermelon must pass the inspection by FIMCO and MAFF Tonga including:

    a. no bruises or cuts

    c. no soft spots

    d. no fruit fly marks

* The normal recommended spacing is 2m x 2m = 1000 plants per acre

e. no dirt

f. no insects, mold or other diseases

g. no sun burn

h. they must have good shape

i. they must be a minimum of ________ kg ea

j. they must be harvested on the same day as they are delivered to the packing house.

FIMCO agrees to pay the member within one week of the delivery of the watermelon as follows:

1. The price will be established by the market conditions in the overseas market and agreed with the watermelon growers committee. For example in 1990 FIMCO received an average CIF price of New Zealand $1.50 per kilo.

After deducting the following costs:

freight

packing bins

10% Commission to Turners and Growers.

Customs and Handling charges in New Zealand

fumigation in Tonga

inspection, packaging and handling charges in Tonga

FIMCO administration and accounting costs of less than 5 percent

The exchange rate from New Zealand dollars to Tonga dollars.

2. In 1990 FIMCO was able to pay the members growers T$.50 per kilo for their watermelon. In addition it is the FIMCO policy that any profits from the watermelon business will, after the year end audit is completed, be divided 50 percent to the member growers and 50 percent to be left in the business to help it grow. The 50 percent of the profit paid to the member will be determined based upon the members percentage of the total watermelon purchases that FIMCO made from all watermelon growers. This is known as a patronage bonus and is made in accordance with cooperative principles, the Act, the Rules, and FIMCO'S by laws which govern such bonuses.

Both FIMCO and the member understand that high yields per acre are essential that in order for watermelon growers to make good profits for their work.

The Member understands that failure to sell to FIMCO_____kgs of watermelon in 1991 may result in the Member not being given a chance to export through FIMCO in 1992.

For 1991 these agreements with members have been made using the following priority:

1. Members who grew and sold watermelons to FIMCO last year and demonstrate that they have adequate financing for 1991

2. Existing Vegetable Section Members who have sold other root crops and vegetables to FIMCO who have demonstrated that they have access to the necessary equipment and financing.

3. New Members who have demonstrated that they have access to the necessary equipment and financing.

4 No members who registered to grow watermelon for FIMCO last year but did not sell any will not be registered in 1991 until three weeks after the above new members have been given the chance to fill the requirements.

Signed by the member ________________ date ____________________

Signed on behalf of FIMCO by ____________________ title _______
date______________.

Witness.______________________________.

NOTE: The agreement signed by growers is in Tongan.

ANNEX 4.

Ref/U0100908.081

FRIENDLY ISLANDS MARKETING

COOPERATIVE LTD. (FIMCO)

A STRUCTURAL REVIEW TO ASSESS FIMCO'S STRENGTHS AND WEAKNESSES WITH A VIEW TOWARD APPLICABILITY IN OTHER SOUTH PACIFIC NATIONS

BY: JOHN G. KREAG

AUGUST 1991

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INTRODUCTION

The following will give details on how FIMCO is organized and operates. It should be taken as an example of how a business was structured in a Tongan environment to create the necessary accountability and incentives to flourish.

Any attempt to use FIMCO as a model in other situations should concentrate minimally on the structure, for it is relatively easy to create similar structures. Rather it is much more important to emphasize the right mix of accountability and incentives so as to make it an attractive proposition to all involved, including:

the owners
the management
the employees
the financiers
the public

for the interests of each of the above MUST be kept in a proper balance if the business is to prosper.

It is extremely important to note that FIMCO's business is primarily successful because of the way it is organized and because it has the confidence of the banks, employees and producers.

FIMCO is not dependent upon large amounts of fixed assets, high tech equipment or processing skills, and as such is constantly responding to competitive pressures to perform more efficiently.

THE ENTITY

FIMCO is a producer owned business, in this case a cooperative, however it could have been just as successful as a producer owned company.

Another possibility would be to operate as a producer association. However for legal liability and other reasons is generally more practical for an association to carry out its business activities through a registered and limited liability company or cooperative.

THE OWNERSHIP

FIMCO is 100% owned by individual farmers, fishermen and hand craft producers each of whom has one share. At the end of July there were over 1800 shareholder members as follows:

	MEMBERSHIPS
Vanilla farmers	972
Vegetable farmers	356
Hand craft producers	391
Fishermen	105

TOTAL AT JULY 27, 1991	1824
	====

OWNERSHIP PARTICIPATION

Ownership Participation in decision making at FIMCO is exercised at General Meetings, Section Committee Meetings, and Executive Committee Meetings.

Two general meetings are held each year one on Tongatapu the main island and one on Vava'u the second most important island. FIMCO's business and membership is split almost evenly between the two islands with other islands generating less than 5% of the business.

The annual general meeting is alternated between Vava'u and Tongatapu Immediately proceeding the AGM a general meeting is held on the other island for consideration of the same issues as will appear at the AGM. While this practice is a bit cumbersome, in practice, it has worked very smoothly and has allowed members to have an annual voice at general meetings on the governance of the business.

Four committees of seven persons each are elected at the AGM to represent:

Vanilla Farmers
Vegetable Growers
Hand Craft producers
Fishermen

These committees then select their own chairperson who then becomes a member of the Executive Committee (the primary policy making body) Two other persons are also members of the Executive Committee. There is an outside representative who is jointly appointed by the 4 Executive Committee members and the Registrar of Cooperatives. For the last few years this has been the Managing Director of the Tonga Development Bank. FIMCO's manager is the Secretary for the Executive Committee, a non voting position.

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THE FINANCING

FIMCO has obtained financing from three sources:

1. From Owners - Share Capital and retained profits ($318,000 at 31-3-91)
2. Development assistance - Capital contributions ($287,000 at 31-3-91)
3. Short term bank loans:

    - $1,600,000 for vanilla buying and curing
    - $75,000 bank overdraft facility

A fourth source of financing long term debt is presently being investigated. Consideration is being given to issuing bonds which would be about 3% cheaper than from long term bank financing.

FIMCO has always paid cash for all produce, fish and hand craft purchases. Thus FIMCO has not utilized credit from producers to finance expansion of the business.

THE MANAGEMENT

FIMCO has had the benefit of having technical assistance in the form of its Secretary/Manager or Financial Manager for its first 5 1/2 years. During this period sales grew from T$285,000 to T$3,269,000 per year. While the number of employees remained almost constant during this period, three new senior managers were hired, one with a university degree and two with two year diplomas. In addition the Tongan Secretary/Manager completed a two year Masters Degree program in the USA.

It is most interesting to note that as sales grew there was virtually no growth in employment. It increased from 23 persons at 31-12-86 to 28 persons at 31-7-91. Most of this growth was in senior management. Thus the growth at FIMCO was characterized by increased productivity rather than increased employment. Sales per employee increased from $35,000 in 1986 to $117,000 for the year ended 31-3-91.

GOVERNMENT'S ROLE

The Government of Tonga carries out its regulatory role of performing audits and in general seeing that the business is being conducted within the Cooperative Act and Rules. In the early years of operation, several instances occurred where the Registrar attempted to exercise a degree of control over FIMCO that was unacceptable if FIMCO was to operate as a part of the private enterprize sector. Each of these cases were appealed to a higher level and ultimately resolved in favor of FIMCO, however, the process was painful and pointed out the need for Governments to clearly recognize the private enterprize nature of the business.

Likewise for the cooperative to be successful it must remain outside of politics as FIMCO has always done.

Throughout the period of FIMCO's existence Government has maintained a very positive attitude toward private enterprize development which has created the necessary environment for FIMCO to prosper. However government is still greatly involved in providing a lot of business services that might be expected to be provided by the private sector. To date none of these services or businesses have been privatized. Future development in agriculture and Fisheries would probably be greatly enhanced should Government decide to privatize such services as ice making and tractor ploughing etc.

THE OPERATIONS

The operations of FIMCO are much more dependent on well trained and managed people than on fixed assets, technical skills, or processing techniques.

Every activity that FIMCO is involved in could easily be undertaken by other persons without a lot of equity. In fact many have entered and left the vanilla, fish, hand crafts and vegetable marketing businesses during the first 5 1/2 years of FIMCO's life.

Competition has thus been a key factor in keeping FIMCO successful as FIMCO had to struggle for producers loyalty offering better prices and services.

In its first years FIMCO was successful both in growth and profits while depending entirely on rented space and the hiring of transportation. However as it has matured the need for permanent access to vehicles and space has resulted in a few acquisitions. (two trucks and a vanilla curing shed) Leasehold land has also been acquired in both Tongatapu and Vava'u for future building of vanilla curing and vegetable packing buildings.

Detailed comments on each of FIMCO'S operations is as follows:

Sb

VANILLA

In virtually every instance in every year FIMCO has paid better returns (purchase price plus bonuses) to growers than was available from the competition. Competitors who paid higher prices have generally gone out of business. However several problems persist. These include:

1. The fact that it is extremely difficult to obtain higher prices for higher quality vanilla from the markets. The minimum level of acceptance by the markets has generally meant that virtually all Tonga vanilla has sold for the same price. This has tended to frustrate attempts to improve quality.

2. The fact that growers are very anxious to harvest vanilla as quickly as possible has led to the harvesting of immature vanilla. The motivations of the farmers are the need for the money, ease of harvesting, and to reduce the risk of theft. This results in the harvesting of a lot of immature vanilla with resultant poor curing ratios, lower vanillin content and generally poorer appearance and aroma.

3. The competition between buyers of green vanilla has often resulted buyers accepting immature vanilla in order to retain producer loyalty.

4. Inventory control is extremely difficult as the vanilla beans are being individually handled over a six month period and each individual bean is worth about $.35.

5. The vanilla beans need a lot of space to maximize the chances of producing excellent quality vanilla. When the harvest has been extremely heavy as in 1988 and 1990 FIMCO has encountered curing problems brought on by lack of space.

For the 1991 vanilla season FIMCO is making the following changes:

1. FIMCO purchased a 3 ton curing house in April.

2. FIMCO has been extremely strict on the purchase of green vanilla and has rejected immature vanilla. This has caused the amount of green vanilla purchased to decline by about 50% over 1990.

3. FIMCO is working with a customer in the USA to develop a brand name "Van-Tonga" for our vanilla and to have it identified as Tongan vanilla. Previously it was mostly mixed with and sold as Bourbon vanilla. A considerable price improvement has also been negotiated for vanilla to be marketed as Van-Tonga.

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HAND CRAFTS

Hand Craft sales rose quickly from $60,000 in 1985 to just under $300,000 in 1988 and have stayed at that level since then. This has coincided with a decline in the number of visitors during the same period. Probably the most important lesson that FIMCO has learned here is that quality sells. Given a choice of quality products for a higher price the customers will almost always opt. for the quality despite the higher price.

One of the biggest problems in hand crafts is quality control. It is even more difficult when the owners of the business are the producers. At times the needs of the business for quality exceed the ability or drive of the owner producers. Price levels and inventory stocking levels also produce conflicts. Therefore it has proven necessary to have some very strong guidelines for the hand craft buyer. Some of these are:

1. Never purchase more than you can sell in three months.

2. Never repurchase items which had to be marked down to sell then in the past.

3. Written records are kept on discussions with each producer which help to insure that product improvements are made.

4. FIMCO has a fixed mark up policy.

VEGETABLES

FIMCO entered the vegetable marketing business in July 1989 with the export of root crops. In August 1990 watermelons exports were began. In June 1991 other vegetables were added. Future expansion will probably include pineapples, eggplant and flowers. The difficulty of entering this business should not be underestimated as it requires a great amount of management and persistence to create a profitable business. This is especially true at the inception when it is extremely difficult for new persons entering the business to anticipate all of the potential problems. These include:

1. Price fluctuations in overseas markets

2. Difficulties is organizing adequate supplies

3. Proper quality control

4. Obtaining the necessary packaging at the right time and price.

5. High transportation costs, frequent schedule changes and odd hours of departure.

6. Production problems caused by disease, drought, shortages of inputs, producers switching exporters or not planting as contracted.

7. Refrigeration and fumigation problems.

In spite of all the potential problems FIMCO is now exporting:

Round yams
Long yams
Sweet yams
Swamp taro
Giant Taro
Taro futuna
Green peppers (capsicums)
Tomatoes
Zucchini
Green Beans
Cabbage
Watermelons

Lessons learned have allowed FIMCO to improve and expand the business each year. In particular it has become increasingly important to work closely with the farmer to insure that farm inputs are available, that planting is done as contracted and that quality requirement are well understood.

FISHING AND FARM SUPPLIES

FIMCO found that the commercial fishermen and farmers did not have the supplies that they needed. A lot of necessary items were not available at any price causing producers to find their own sources of supply from overseas or go without. For items that are available prices were often extremely high. A recent example was on Urea-46 which FIMCO imported, marked up 12 1/2% and sold for $18.00 per bag. Exactly the same fertilizer was selling in the main farm supply store in Nuku'alofa for $24 a bag which implies a 50% mark up. This size of a mark up on this type of an item is only obtainable when there is insufficient competition.

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The result of FIMCO's entry into the fishing supplies business at reasonable markups is that it has always been profitable and now has 80-90% of the fishing supplies business in the country. FIMCO has only entered the farm supplies business in 1991 as a response to the needs of its watermelon and vegetable growers. Prior to this it was not necessary (not appropriate) as no significant farm supplies are required for vanilla or root crops. A key ingredient in the success is that FIMCO has always searched hard for sources of supply for the business to insure that the products can be marketed at very competitive prices.

FISH

Fish marketing by FIMCO is done by buying fish from the Northern Island of Vava'u. The priority for sale of the fish is as follows:

1. Export quality fish are sent fresh to Nuku'alofa then by air to Hawaii (fishermen receive a premium price)

2. Fish that can be sold fresh in Vava'u are kept in Vava'u.

3. All other fish are sent fresh or ice to be sold in Nuku'alofa

Fish are no longer frozen, however octopus and lobster tails are frozen for local sale.

For years FIMCO routinely froze fish as they were purchased and lost money in the process. Only in 1991 has FIMCO adopted a fresh fish only policy which is now beginning to produce profits. Also in the past FIMCO had great difficulty obtaining premium prices in Hawaii. This was primarily because in no more than two out of four weeks can FIMCO ship fish to Hawaii due to the constraints of weather and shipping. This was not satisfactory for the Hawaii customers. However FIMCO also had difficulty in meeting the highest quality requirements. These problems have now been solved by joining with an exporter from Tongatapu who can supply more regularity and insures that quality requirements are met. The result is a significant improvement in price for FIMCO's fish from Vava'u.

DEVELOPMENT ASSISTANCE

While some small amounts of assistance for marketing, training and commodities have come from other sources, the bulk has come from USAID. Most of this has been technical assistance aimed at developing the management systems, operating procedures and training of employees needed to insure success. In part the technical assistance may also have been more effective due to the fact that the person was working in a line rather than as advisory position. Smaller amounts of funds were available for working capital training and capital equipment. The availability of these funds allowed the person providing the technical assistance to introduce new ideas such as, computers, faxes, better displays, ice boxes for fish storage, that were essential to make the business more competitive. This is consistent with the nature of the business in which success depends on organization and people rather than on capital equipment.

ANNEX 5.

INPUTS/OUTPUTS SPECIFIED BY USAID

GRANT NO. AND	879-0259-000-1013-00	$1,083,500
GRANT/AMENDMENT	879-0010-053-7037-00	

No	Date	Pacd	$ Tranche	$ Total	Purpose
Grant	8/1/87	7/37/88	92,219		partial support to ACDI for instill dev. in prod & marketing of fish, vanilla & handcrafts
1.	9/14/87	"	32,239		
2.	3/10/88	"	11,542	136,000	
3.	7/31/88	12/31/88	40,970	176,970	1. complete 1988 vanilla season 2. start. experimental root crop, veg. marketing. 3. computerize record keeping of purchase. 4. solving fish marketing probs. 5. work w/marketing, committees & good to solve the role of FIMCO with the registrar. 6. advise to Sec./Mgr. re: dev. of FIMCO's marketing systems.
4.	9/16/88	6/30/91	2,255,367		(illustrative budget included)

199,523.67

5.	1/10/89	"	100,000	299,523.67	1. complete market survey & mark arrangement NZ, A.Samoa, Hawaii & Japan. 2. organize vegetable marketing section. 3. could arrangements FIMCO, farmers, MAFF Dev. Bank Farm supply. 4. budget training of farmers. 5. train equipment staff for general ledger /financial statement (new budget)
6.	3/30/89	"	147,644		
7.	7/29/89	1/31/92	525,000		(new budget)
	Total		$972,167.67		1. vegetable marketing T$300,000 sales in 90, $600,000 in 91. - contracting w/farmers - arranging inputs - arranging loans - FIMCO enter watermelon by, NZ government 2. rationalize fish marketing by commenting on exports & wholesale sales.

3. contract w/fishermen.
4. handcrafts
- improve Tali'eva Center
- extend Vava'u store.
- rent airport space (terminal)
5. vanilla: curing & packaging improvements
6. training
- 2 yrs bachelors course (U.S.) for Sec./Mgr.
- 4 acct/sec staff long for program ps. prob.
- members training, responsibilitie s,
- one day senior coop seminar
7. high humidity cool room for vegs.

8. 1/9/92 9/30/92

(to be done) 9

change cool room to packing shed.

ANNEX 6.

CONTACTS

NAME	POSITION	ORGANIZATION
VILIAMI FOKETI	CHAIRMAN	FIMCO
EDGAR COCKER	SECRETARY/MANAGER	FIMCO
MA'U HAVEA	FINANCIAL MANAGER	FIMCO
'ALIPATE VAKA	PRODUCE MANAGER	FIMCO
VULAONO 'AISEA	VAVA'U MANAGER	FIMCO
JOHN KREAG	ADVISOR	ACDI
TEVITA 'OVA	SECRETARY/MANAGER	TCF
WILLIAM HARRIS	SECRETARY	MLCI
RICHARD 'AKOLO	MANAGING DIRECTOR	TCB
PENI VEA	ACTING MANAGING DIRECTOR	TDB
HANITELI FA'ANUNU	DIRECTOR	AGRICULTURE
FONONGA TU'IPEATAU	REGISTRAR	CO-OPERATIVE DEPARTMENT
HON. TU'I'AFITU	GOVERNOR	VAVA'U
WILLIAM HOLDEN	OWNER	'ALATINI FISHERY
KIRK DAHLGREN	PLANNING OFFICER	USAID/FIJI
SHARON FEE	AG. DEV. OFFICER	USAID/FIJI

ANNEX 7.

USAID/RDO/SP SUCCESS STORY:

<u>Tonga's Cooperative Federations at the Center of Economic Development</u> (all prices in US dollars)

With about $2 million in grant assistance from the U.S. Agency for International Development (AID), two cooperative associations in Tonga have played an integral role in the supply and distribution of consumer goods, and in the marketing of vanilla, fish and hand crafts. The cooperatives, both entirely private owned and operated, compete on an equal basis with other Tonga businesses. The Tonga Cooperative Federation (TCF), nearly bankrupt when AID support began in 1981, is now the country's largest wholesaler of consumer goods, and has played an influential role in the government's decision to drop price controls on most food items. The Friendly Islands Marketing Cooperative (FIMCO), has replaced many of the marketing functions once carried out by a government marketing board, and has played a key role in giving growers the confidence to expand production of Tonga's second largest agricultural commodity, vanilla.

FIMCO: Tonga's Export Leader

Prior to the entry of TCF and FIMCO, which split from TCF in 1986, into the vanilla market, vanilla was entirely a government-controlled industry. The government's Tonga Commodity Board (TCB) determined the size, direction and composition of the industry, and the Ministry of Agriculture trained farmers in production and curing methods. During this period, production stagnated and there was a high rejection rate for cured beans. Later, when FIMCO was allowed to export vanilla, its volume was controlled through licensing by TCB.

According to John Kreag, an Agricultural Cooperative Development International (ACDI) consultant under an AID grant with both TCF and FIMCO during the past ten years, a main objective was to introduce competition and a price structure based on world price, efficient management and benefit to the grower. This contrasted with TCB's lower buying price which left a large TCB margin to cover high overhead due to operational inefficiencies. For example, in 1987 TCB announced it would buy vanilla at $57 a kilogram while private buyers countered with a price of $60. FIMCO then announced it would pay $64, and estimated it would be able to pay a $4/kilogram bonus at the end of the year. Faced with losing its supply, TCB was forced to raise its price to $60 and private buyers jumped to $61, though they subsequently lost money.

An independent report by the Hawaii-based Pacific Islands Development Program in 1991 estimates that increased competition in the vanilla industry has gained growers an additional 20% annually on their vanilla prices. Considering that sales of vanilla in the 1981 - 1991 period have totalled about $11 million, the benefit accruing to farmers would have been about $2.2 million. Also, higher prices have had an important role in stimulating production, which climbed from less than 10 tons of dried beans in 1980 to 62 tons in 1991.

According to AID's Regional Director in the South Pacific, John B. Woods, this demonstrates the positive impact aid donors can have in stimulating economic growth through support of privatization. "In an era of scarce aid resources, we have to think like investors. We need to identify dependable ways of gaining the best return for recipient countries for our investment in grant aid. Our $2 million investment in TCF and FIMCO proved to be a critical factor in allowing the vanilla industry to expand from a $300,000 to a $11 million industry in ten years and in gaining farmers an additional $2 million piece of the pie. Our assistance also allowed TCF to become a major wholesale supplier, and has enabled FIMCO to expand fish and hand craft sales. That's the kind of performance we would always like to attain on our aid investment."

AID's grant assistance was intended to develop FIMCO's organizational capabilities. A primary activity was training of both management and support staff. FIMCO's Secretary/Manager, Edgar Cocker, a Tongan, was sent to New Hampshire College where he completed his B.A. and an M.A. in Business Administration. He also attended short courses at the U.S. Department of Agriculture Graduate School and Colorado State University. Local support staff have received computer, accounting and office management training.

Tonga's national commodity board, TCB, has felt the heat of private sector competition. After a dismal year in 1989 when it could not finance purchases of vanilla from growers, FIMCO had its first big chance, and succeeded in making the transition to largest vanilla marketer. TCB, which is involved in activities as diverse as agricultural marketing, quarry operations, construction, soap manufacturing and cooking gas distribution, never recovered from that bad year. The government immediately seconded Tonga Development Bank Managing Director, Richard Akolo, coincidentally just returned from AID-sponsored Masters degree training in Development Banking at American University in Washington, to take over TCB operations.

Instead of propping up the ailing businesses, Akolo has undertaken an ambitious, and at times daring process of corporatizing TCB in preparation for wholesale privatization of its remaining operations by 1994. "Considering the King of Tonga founded TCB, and many nobles and government ministers were on its board, marshalling political will was a challenge. I spoke directly to the King, gained his consent for privatization, and I believe now that the process is irreversible," said Akolo.

FIMCO also markets fresh fish and hand crafts -- mostly finely woven baskets, hand designed bark cloth wall hangings (tapa) and wood carvings. Both fish and hand crafts are profitable, though one of FIMCO's main interests is the service they provide to the community by selling fresh fish -- a traditional staple less available now then in past years -- and in providing a market for crafts produced largely by women for supplemental family income. FIMCO also retails fishing gear from Japan, Australia and the U.S. According to Registrar of Cooperatives, Fononga Tuipeatau, "it is the quality of FIMCO's services that earns them praise from so many rural people I talk to. Whether vanilla or vegetable growers, fishermen or craftspeople, they all appreciate the quality of support FIMCO offers."

A key to FIMCO's success with vanilla was a shift from purchases of privately cured vanilla to buying only mature yellow-tip beans for curing in FIMCO-operated sheds. Curing is a long process, usually six months, and requires skill and attention. However, leaving the curing to growers resulted in inconsistent quality and lost income, a problem the federation has largely solved by buying only yellow-tip beans and systematically curing in FIMCO sheds. The decision was not one easily taken by FIMCO's board of directors, so there was great satisfaction when the strategy paid off. FIMCO found that not only quality was improved, but it could pay growers the same price for green beans as they had for privately cured vanilla -- and still come out ahead financially.

Vanilla, a member of the orchid family, is produced on small plots on Tonga's main island, Tongatapu, though most comes from the northern island group of Vava'u. FIMCO's sole market for cured vanilla is two U.S. firms, Centercham and Zink & Triest. These firms in turn provide the cured vanilla to companies that industrially extract the valuable active essence, vanillin. There is also a small market for whole beans used in cooking. "Vanilla is an ideal crop for the remote islands of Tonga," says Kreag. "Not only is it a high-value non-perishable product, but it requires almost no foreign exchange inputs for production and curing."

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John Kreag leaves Tonga this year after ten years of ACDI technical support to TCF and FIMCO. However, he feels comfortable in FIMCO's future, and says that Edgar Cocker is firmly in control of the association's operations. "Edgar has a special talent for business and management. He knows the in's and out's of marketing and has a wealth of ideas. When I leave, I fully expect FIMCO to not just survive, but to grow quickly." As for Cocker: "I see 1992 as our biggest year ever. We hope to get a share of squash sales to Japan, watermelon and vegetables should be in good supply, and we expect a bumper crop of vanilla. The best news is that we have the export markets for all these commodities."

Tonga Cooperative Federation: Number One in Tonga

A 1988 evaluation of the AID project described the TCF experience as "an impressive turn-around story." Faced with bankruptcy in 1981, TCF has grown at a 20% annual rate the past few years to where it is today the largest wholesaler of consumer goods in Tonga. According to General Manager Tevita 'Ova, TCF recorded $10.4 million in sales in 1991, which probably exceeds 75% of all wholesale trade in the island kingdom. He credits TCF success to a variety of merchandising strategies, including large bulk purchases and identification of new sources of goods, including the U.S.

"We now have a Tongan residing in the U.S. who buys goods and consolidates containers. Prior to this, almost all of our goods came from New Zealand and Australia. We have found that with some important items the U.S. prices are lowest, despite higher freight costs. Our frozen chicken imports from the U.S. have risen from about 4 containers to about 24 containers a year. Annual soft drink imports have grown from about 4 to 13 containers. And there are other items for which we find the U.S. to be the best source."

TCF has managed to be a large business with sound profits while still striving to serve its cooperative members in the best way possible. "We recently adopted a Mission Statement which describes our philosophy. According to this statement, our long-term success is to be based on maximizing profit, while providing customers with quality services and products, creating for our employees an environment in which they can develop and prosper, and to cultivate a set of shared beliefs on which our policies and actions are based." said 'Ova.

TCF operates 13 outlets, five stores and eight trucks, which serve 700 retail cooperative and private shops throughout the islands. It has recently moved to a computerized inventory system, the first in the islands. It is able to keep prices low through efficient management, and ships products to the outer islands without store owners having to travel to Tonga's main island for buying. TCF has prospered, with profits growing from about $417,000 in 1990 to $618,000 in 1991, and dividends being paid to members annually.

The cooperative federation has also played an important role in convincing government that price controls on food items should be lifted. The government had implemented a system that limited profit margins on a wide range of food items and other consumables. However, there was little incentive for wholesalers to cut costs through bulk purchases or to lower their margins. TCF was able to regulary beat the prices and the profit margins of its competitors. This demonstrated to government that price controls were not necessary, and today 95% of food and beverage items are deregulated.

TCF's future? 'Ova says the federation is content to stay in the wholesale consumables business, though it may take a careful look at diversification. However, he is guided by TCF's Mission Statement, and would not be willing to sacrifice service to members if new ventures draw too heavily on staff and management resources. 'Ova does concede that the cooperative competition TCF has introduced would benefit several other sectors of Tonga's commercial community.

(Kirk Dahlgren, Program Officer, USAID/RDO/SP, Suva, Fiji)

FIMCO COMPARATIVE INCOME STATEMENTS

1986 - 1991

CONSOLIDATED OPERATIONS (US$.000)

(EXCHANGE RATE T$1.00 = US$.80)

	3 MONTHS ENDED 3.31.86	Y.E 3.31.87	Y.E 3.31.88	Y.E 3.31.89	Y.E 3.31.90	Y.E 3.31.91	9 MONTHS ENDED 12.31.91	TOTALS
SALES	$121	$884	$1097	$1139	$1881	$3266	$1386	$9774
LESS COST OF SALES	90	615	827	861	1409	2620	939	7361
GROSS PROFIT	31	269	270	278	472	646	447	2413
OTHER INCOME	5	34	30	31	32	18	16	166
TOTAL INCOME	36	303	300	309	504	664	463	2579
EXPENSES								
PERSONNEL	6	49	76	100	90	218	128	667
PROPERTY	14	56	67	78	85	125	74	499
FINANCIAL & MERCHANDISING	-	10	23	7	56	151	70	317
ADMINISTRATION	11	74	108	108	105	96	117	619
NET PROFIT	5	114	26	16	168	74	74	477

FIMCO COMPARATIVE INCOME STATEMENTS

1986 - 1991

HANDCRAFTS OPERATIONS (US$.000)

(EXCHANGE RATE T$1.00 = US$0.80)

	3 MONTHS ENDED 3.31.86	Y.E 3.31.87	Y.E 3.31.88	Y.E 3.31.89	Y.E 3.31.90	Y.E 3.31.91	9 MONTHS ENDED 12.31.91	TOTAL
SALES	$22	$144	$249	$280	$277	$288	$286	$1546
LESS COST OF SALES	17	108	194	215	212	220	212	1179
GROSS PROFIT	5	36	55	65	65	68	74	367
OTHER INCOME	2	11	12	12	9	1	3	49
TOTAL INCOME	7	47	67	77	74	69	77	416
EXPENSES								
PERSONNEL	1	8	14	20	21	27	22	113
PROPERTY	2	9	14	15	18	20	17	95
FINANCIAL & MERCHANDISING	-	1	3	7	12	11	14	48
ADMINISTRATION	2	15	25	25	17	13	23	120
NET PROFIT	2	14	11	10	6	<2>	1	40

FIMCO COMPARATIVE INCOME STATEMENTS

1986 - 1991

FISH MARKETING OPERATIONS (US$.000)

(EXCHANGE RATE T$1.00 = US$.80)

	3 MONTHS ENDED 3.31.86	Y.E 3.31.87	Y.E 3.31.88	Y.E 3.31.89	Y.E 3.31.90	Y.E 3.31.91	9 MONTHS ENDED 12.31.91	TOTALS
SALES	$84	$327	$233	$187	$144	$156	$129	$1260
LESS COST OF SALES	61	246	187	157	118	147	86	1001
GROSS PROFIT	23	81	46	30	26	9	43	259
OTHER INCOME	3	21	17	18	22	17	12	110
TOTAL INCOME	26	102	63	48	48	26	55	369
EXPENSES								
PERSONNEL	4	20	16	18	19	20	10	107
PROPERTY	11	35	38	38	40	34	17	213
FINANCING & MERCHANDISING	-	2	1	5	2	4	-	14
ADMINISTRATION	8	30	29	18	11	6	15	117
NET PROFIT	3	15	<21>	<31>	<24>	<38>	13	<82>

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FIMCO COMPARATIVE INCOME STATEMENTS

1986 - 1991

FISHING SUPPLIES OPERATIONS (US$.000)

(EXCHANGE RATE T$1.00 = US$.80)

	3 MONTHS ENDED 3.31.86	Y.E 3.31.87	Y.E 3.31.88	Y.E 3.31.89	Y.E 3.31.90	Y.E 3.31.91	9 MONTHS ENDED 12.31.91	TOTALS
SALES	$15	$72	$142	$193	$239	$269	$226	$1156
LESS COST OF SALES	9	47	122	134	181	194	172	859
GROSS PROFIT	6	25	20	59	58	75	54	297
OTHER INCOME	-	-	-	-	-	-	-	-
TOTAL INCOME	6	25	20	59	58	75	54	297
EXPENSES								
PERSONNEL	1	4	6	9	11	14	11	56
PROPERTY	1	4	4	6	9	9	7	40
FINANCIAL & MERCHANDISING	-	-	1	7	9	15	14	46
ADMINISTRATION	1	5	11	14	13	8	14	66
NET PROFIT	3	12	<2>	23	16	29	8	89

FIMCO COMPARATIVE INCOME STATEMENTS

1986 - 1991

VEGETABLE MARKETING OPERATIONS (US$.000)

(EXCHANGE RATE T$1.00 = US$.80)

	3 MONTHS ENDED 3.31.86	Y.E 3.31.87	Y.E 3.31.88	Y.E 3.31.89	Y.E 3.31.90	Y.E 3.31.91	9 MONTHS ENDED 12.31.91	TOTALS
SALES					$17	$357	$228	$702
LESS COST OF SALES					84	312	216	612
GROSS PROFIT					33	45	12	90
OTHER INCOME					-	-	-	-
TOTAL INCOME					33	45	12	90
EXPENSES								
PERSONNEL					5	18	15	38
PROPERTY					3	13	8	24
FINANCIAL & MERCHANDISING					2	16	3	22
ADMINISTRATION					7	15	17	38
NET PROFIT					16	<17>	<31>	<32>

FIMCO COMPARATIVE INCOME STATEMENTS

1986 - 1991

VANILLA MARKETING OPERATIONS (US$.000)

(EXCHANGE RATE T$1.00 = US$.80)

	3 MONTHS ENDED 3.31.86	Y.E 3.31.87	Y.E 3.31.88	Y.E 3.31.89	Y.E 3.31.90	Y.E 3.31.91	9 MONTHS ENDED 12.31.91	TOTALS
SALES	-	$341	$473	$479	$1105	$2197	$517	$5112
LESS COST OF SALES	3	214	324	355	814	1747	252	3709
GROSS PROFIT	<3>	127	149	124	291	450	265	1403
OTHER INCOME	-	2	1	1	1	1	1	7
TOTAL INCOME	<3>	129	150	125	292	451	266	1410
EXPENSES								
PERSONNEL	-	17	40	53	34	139	70	353
PROPERTY	-	8	11	19	15	49	25	127
FINANCIAL & MERCHANDISING	-	7	18	<12>	30	105	39	187
ADMINISTRATION	-	24	43	51	57	57	49	281
NET PROFIT	<3>	73	38	14	156	101	83	462

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FIMCO COMPARATIVE BALANCE SHEETS (US$.000)

1986 - 1991

(EXCHANGE RATE T$1.00 = US$.80)

	12-31-86	12-31-87	12-31-88	12-31-89	12-31-90	12-31-91
CURRENT ASSESTS	321	517	701	720	357	1,255
FIXED ASSETS	125	140	140	165	167	242
OTHER ASSETS	20	18	16	12	14	10
TOTAL ASSETS	466	675	857	897	538	1,507
CURRENT LIABILITIES	120	336	541	445	24	902
LONG TERM LIABILITIES	15	11	6	-	-	-
TOTAL LIABILITIES	135	347	547	445	24	902
MEMBER FUNDS						
SHARES	1	4	5	6	6	8
CAPITAL CONTRIBUTIONS	133	137	140	182	186	193
NOTE PAYABLE TCF	101	101	100	100	93	93
STATUTORY RESERVE	5	5	5	5	<4>	<4>
RETAINED PROFITS	3	53	46	63	231	240
CURRENT YEAR PROFIT	89	27	12	97	-	74
TOTAL MEMBER FUNDS	332	327	308	453	512	605