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*for a sustainable future*

## OCCASION

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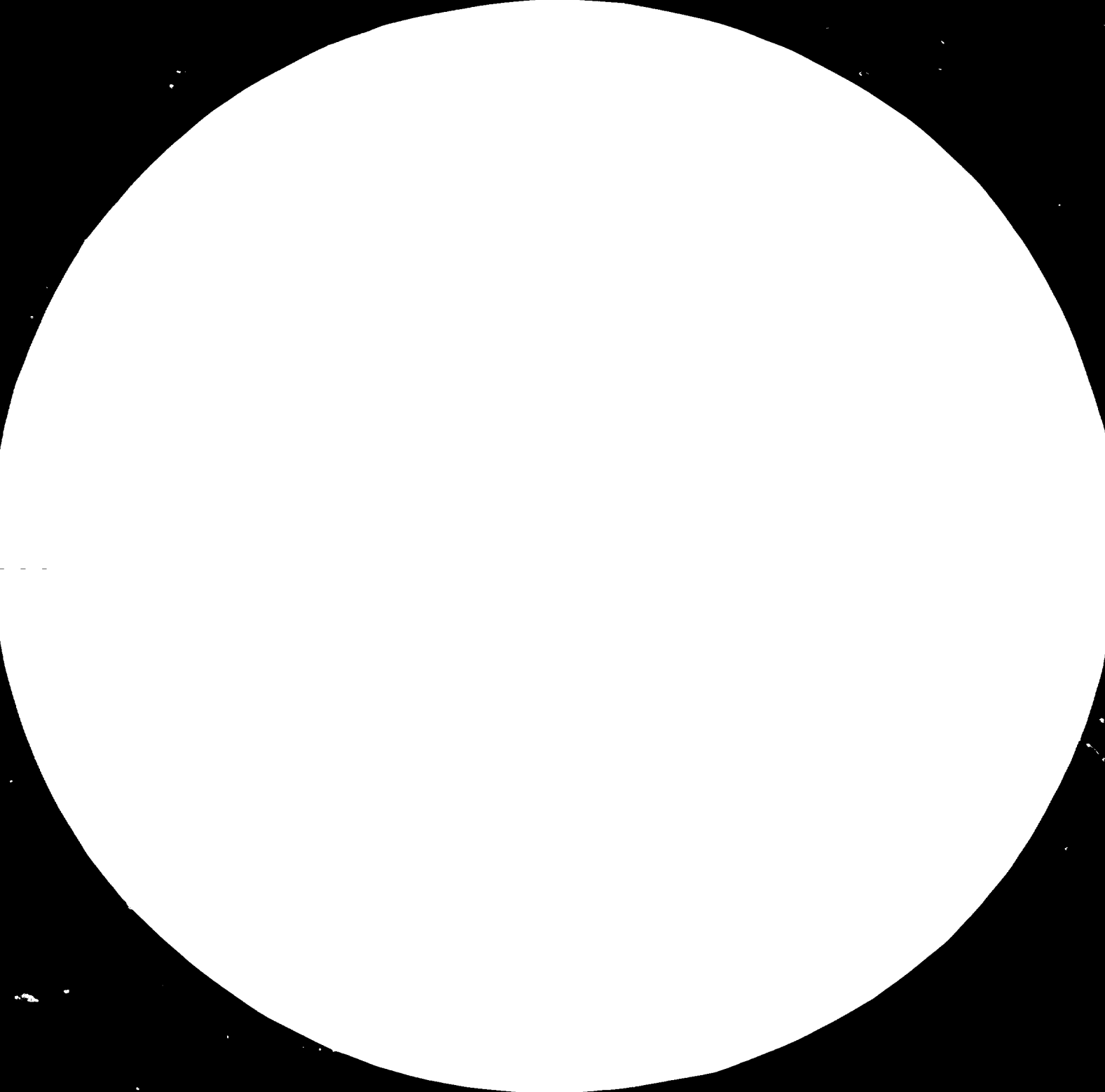
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January 1982

INDUSTRIAL PROMOTION

DP/TON/79/004

TONGA

Terminal Report

Prepared for the Government of Tonga  
by the United Nations Industrial Development Organization,  
executing agency for the United Nations Development Programme

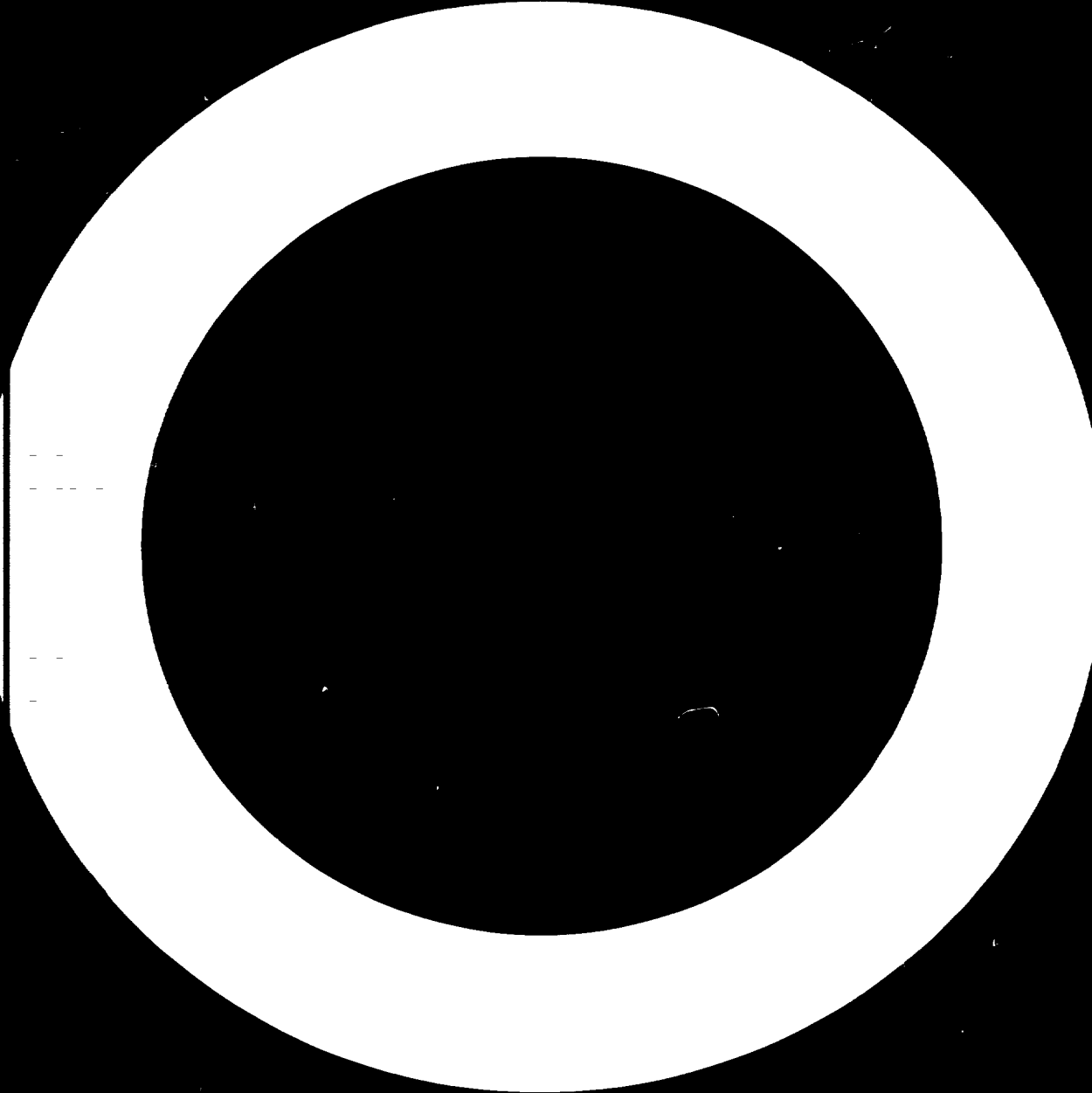
Based on the work of N. Boral,  
Adviser on identification, evaluation  
and promotion of industries

United Nations Industrial Development Organization

Vienna

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## INTRODUCTION

Tonga urgently needs to develop its productive capacities to stem a rising unemployment. Agro-based industries, and labour intensive industries with semi-mechanized production are possible and feasible, if they receive adequate planning and promotional guidance. Small industries with modest goals involving manual skills can produce competitively; the Tongan labour force, apart from its low cost, is easily trainable and has shown a high degree of adaptability and perseverance. Any entrepreneur, foreign or local, planning to operate in Tonga needs to select the appropriate ventures very carefully. He requires the assistance of specialized technical expertise to foresee and recommend ways to overcome the difficulties in establishing Pacific Island enterprises.

To achieve this goal, the Ministry of Labour, Commerce and Industry decided to establish a Unit to provide expertise in Industrial Evaluation and Marketing and Promotional Services. This Unit would assist the Government and the private sector in Tonga to identify industrial opportunities, assess feasibilities and provide contacts with prospective foreign investors for future development of new industries in Tonga.

The Government, therefore, requested the services of an expert from the United Nations Industrial Development Organization to provide the necessary expertise to the Unit in the identification, evaluation of possible industries, as well as in market identification and promotional programmes to the extent feasible, in order to achieve the aforesaid goal.

The expert arrived on the post in Tonga on 14 February 1981, and stayed on for a year.

WORK DONE DURING MISSION

1) The adviser undertook a number of familiarisation and survey trips to the main island groups (Ha'apai, Vava'u, and 'Eua), only the two most northern islands were left out due to transportation difficulties (Niua-Toputapu and Niua-Fo'ou). Many useful contacts were established during those trips and several applications for development licences were initiated (sawmills, bakeries, boat yard).

2) The Promotion Unit was created upon arrival of the adviser in Nuku'alofa. It consisted of an adviser, a counterpart officer and a secretary. The counterpart officer was and at present is the only officer of the Ministry dealing with all matters pertaining to industry, in addition to other matters. This state of affairs has limited the benefit which would derive from being a member of the Unit; nevertheless, the progress in defining and solving problems as they arose is remarkable.

Problems related to industrial development from various aspects (trade, aid) were handled by other officers of the Ministry. Consultations related to the work programme and its implications on the Unit's tasks were carried out in a satisfactory manner.

There is still lack of knowledge among the officers of the Ministry in industrialization matters. This impairs the smooth operations of promotional activities, and could be alleviated by training activities either on an established basis (periodical lectures followed by discussion) or by holding periodical (weekly) staff meetings where such problems are discussed.

The know-how gained by national personnel in both approaching and solving problems has been and will remain an asset provided that it will be retained. It is hoped that it will be utilized well.

3) Contacts with firms were maintained and new ones made. Several initiatives from local entrepreneurs and foreign investors regarding requests for development licences and their issuance were dealt with.



4) Overseas investment contacts were furthered by either direct contact (FRG Chamber of Commerce, representative in Auckland), or by briefing national representatives on missions to New Zealand, Canada, United Kingdom, etc. (refer to Annex I).

5) Several applications for new businesses were handled by the Unit; at the time this report was written, these applications were in various stages of implementation (refer to Annex I).

The interest from overseas countries in investing in Tonga is limited for a number of objective reasons as well as well-founded subjective reasons such as misleading statements concerning joint ventures, market access to developed countries within the SPARTECA agreement, Government participation in share capital, etc.

6) Promotion of new industries for import substitution has received a lot of attention and effort (refer to Annex I). The limited local market is to be regarded as an objective constraint. A household consumption pattern survey may produce information indicating markets which would warrant commercially viable enterprises.

7) A study on investment incentives, undertaken by SPEC, is being prepared; although important, incentives carry less weight than their implementation. It has been the adviser's experience that the implementation has been much haphazard due to either ambiguity of texts, misrepresentations, and interpretations of various papers not made available to the general public and especially to prospective investors. In certain instances an outright credibility crisis has developed. In these instances promotional activities are either hampered or are bound to lead to failures. According to experience the adviser gained during his stay in Tonga, the policy of initiated projects should cease due to prevailing conditions and constraints; prospective investors should submit their projects for scrutiny by the Ministry before the Development Licence is granted. Such policy would be compatible with the objectives as set out in the Investment Incentive Law.

#### PARTICIPATION WITH OTHER GOVERNMENT AGENCIES

Close co-operation with other Government Agencies was maintained throughout the Unit's activities. All contacts, whether on the Unit's or other agencies' and departments' initiative resulted in a close and harmonious working relationship. As a result, the Unit was both giving and receiving assistance and/or advice. In addition, NGO's (e.g. Chamber of Commerce) and community-oriented organizations (e.g. Rotary, Church missions and the co-operative movement) sought and got advisory services to the best of the Unit's capabilities, and requestors' satisfaction.

#### UNDP AND UNIDO PARTICIPATION

The Unit and the adviser received support from UNIDO, Vienna, and UNDP, Suva. Valuable assistance was also received from other UN experts stationed in Nuku'alofa.

#### WORK CONTACTS AND RELATIONS

Numerous excellent work contacts and relationships were established in government- and private industries as well as overseas. The quality of the contacts and relationships established by the adviser and by the counterpart officer will definitely assist in carrying out future programmes.

#### PUBLIC INFORMATION

The arrival of the adviser in Tonga received publicity in the local media (radio, press). Private enterprises have been very helpful in spreading favourable publicity regarding the Unit and its work.

#### PROBLEMS ENCOUNTERED

The main problem encountered was the interpretation given to the Project Document by the Secretary to the Ministry of Labour, Commerce and Industries, his operating methods, and approach to foreign industrial investment.

RECOMMENDATIONS

1) The Project Document should be revised as soon as possible taking into account the needs of Tonga, its capability and capacity to industrialize in the light of prevailing constraints and the Ministry's objectives, structure, procedures and operations. The revised project document should spell out in precise terms the objectives, the priorities for these objectives, and ways and means to attain the objectives.

2) The post of adviser should be maintained in the expert status and not changed to OPAS status, otherwise the adviser would become instrumental in handling policy which so far is mostly written in ambiguous terms and at discretion of civil servants, without possibility of recourse to higher authorities. In addition, the prevailing concept here is that OPAS experts are administrators whereby their availability for training and other tasks inherent to promotional activities is diminished.

3) The main purpose of the expert and the Unit should be in the promotional and selection areas; less in the evaluation and projects areas for the time being, until, when, and if recommendation is implemented.

4) The training function of counterpart officer should be assigned a higher priority on condition that his time will be devoted to the fullest possible extent to the function and duties of the Unit in the strictest sense. In view of the lack of qualified national personnel and Establishment's Division policy of rotation, a number of officers should be trained thereby improving the present situation and creating a pool of Tongans with a basic understanding of industrial development and promotional operations. The acquired know-how will, undoubtedly, improve the attitudes of officers to industrialization and its problems. The training should be in a variety of areas resulting in lessening the approach to problem solving through purely administrative methods.

5) An evaluation of policies which govern the Unit's activities should be undertaken and reported on at least once a year, in order to monitor the potential benefits Tonga will derive from the Unit's activities. Proceedings should be summarized in writing in precise terms and responsibilities should be assigned in order to avoid misunderstandings and recriminations.

6) It should be brought to the attention of the Ministry and through it to the attention of the Government, that Tonga's best resource has so far received little attention and in its present form constitutes a constraint on industrial development. The abundance of a literate, quiet labour force is an asset at the present state of industrialization, any effort to reach for higher degrees of industrialization such as vertical and/or horizontal integration needs skilled and semi-skilled labour; such is at best not available in Tonga for a variety of reasons. The first is the lack of vocational training facilities and either refresher courses or higher study courses leading to a foreman's qualification. The only training facilities available in Tonga, at present, are on the job training.

7) Another two tasks which need attention and implementation at earliest are:

- a) an Indicative Industrial Plan should be considered in order to bring more co-ordination into the industrialization effort furthering vertical integration, spin off, etc.
- b) a revision of the present incentives scheme application would be worthwhile indicating in precise terms the benefits thereby leaving less to either discretion or negotiation.

These two tasks should be handled at Development Committee Level with the adviser presenting the papers and defending his thesis; this, due to the wider implications of items (a) and (b) will have on the national economy.

ACKNOWLEDGEMENT

The adviser wishes to take this opportunity to thank the Government of the Kingdom of Tonga, the Minister for Labour, Commerce and Industries, the officials of the Department, the officials of the Government Departments and Agencies, the Business Community, the Resident Representative and officers of UNDO in Suva, Fiji, the UNIDO personnel for their full and active co-operation that contributed to making the assignment a successful one.

ANNEX I

- 1) Assessment of on-going Tongan businesses to individualize possibilities for enlargement, production, diversification and branching into new ventures.
  - a) Promotional material Tapa (Marketing)  
Black Coral (Marketing)  
Knitted Woolen Garments, Skiwear (Marketing, Production)  
  
(Recommendations for industrial activities Vava'u, Ha'apai, 'Eua.)  
  
Terms of Reference Identification of activities is in the Northern Islands.
  
- 2) Provide ideas for new areas of productive business activity accompanied by the required pre-feasibility investigations, evaluations and market analysis.
  - a) Ladies Handbags. High class leather articles. Oils and fats (sun flower). Passionfruit. Food processing. Vetiver (MAFF). Papain. Packaging industry. Essential Oils. Ordinary ball point pens. Saw mills.
  
- 3) Identify specific projects which would justify Government participation and recommend possible joint ventures with outside financing.
  - a) Ethyl Alcohol                    SIC II  
Kapok                                Fruit juices and pulp, specifically  
    passionfruit, strawberries, rock melons, guava.  
  
Ladies underwear
  
- 4) Initiate contact with local business and overseas associations, and investment groups in New Zealand, Australia, and Hawaii with the aim of promoting Tonga's potential for foreign investment.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Request from the Government of  
the Kingdom of Tonga

JOB DESCRIPTION

DP/TOM/79/004/A/01/37/11-01/31.3.F

POST TITLE                    Adviser on Identification, Evaluation and Promotion  
                                  of Industries

DURATION                        One year, with possibilities of extension

DATE REQUIRED                    As soon as possible

DUTY STATION                    Nuku'alofa, Tonga, with some travel among the islands

PURPOSE OF PROJECT            To create an Industry Promotion Unit for the promotion of  
                                  industry within the Ministry of Labour, Commerce, and  
                                  Industry. The Unit will be responsible for: identification  
                                  of industrial opportunities; evaluation of industrial  
                                  projects; responding to inquiries from home and abroad.

DUTIES                            The adviser will be attached to the Industry Promotion  
                                  Unit within the Ministry of Labour, Commerce and Industry.  
                                  His specific duties will be to assist:

1.    in assessing the existing Tongan business in order to  
          determine possibilities for expansion, diversification,  
          and branching into new ventures;
2.    in providing ideas for new areas of productive business  
          activity: accompanied by the required pre-feasibility  
          investigations, evaluations and market analysis;
3.    in identifying specific projects which would justify  
          Government participation and recommend possible joint  
          ventures with outside financing;



4. in initiating contacts with local business and overseas associations, and investment groups, in New Zealand, Australia and Hawaii, with the aim of promoting Tonga's potential for foreign investment;
5. in providing guidance and strategy for indirect and direct promotional campaigns in the advertising media of investment countries;
6. in making market studies, market testing for future production in the pre-feasibility period so as to provide realistic guidelines for investors;
7. in developing working contacts with the international assistance agencies, bilateral aid groups, and non-government institutions in order to promote and receive assistance for this project;
8. in supplying representative service for the Government of Tonga to assist foreign visitors who are interested in investigating industrial investment prospects;
9. by giving local staff on the job training ;
10. in establishing a modus operandi for a Marketing Promotion Office which would eventually become an operational arm of the Ministry of Labour, Commerce and Industry.

The expert will also be expected to prepare a final report, setting out the findings of his mission and his recommendation to the Government on further action which might be taken.

**QUALIFICATIONS**

Advanced degree in economics or business administration with extensive experience in promoting small business in developing countries.

**LANGUAGE**

English

**BACKGROUND INFORMATION**

The Kingdom of Tonga has a population of 92,000 people living on three major island groups with a total land area of about 269 square miles. Total exports in 1978

amounted to \$ 4.9 million, over 90% of which was accounted for by agricultural products. Imports in 1978 amounted to \$22.3 million. Receipts from tourism and remittances from abroad supplement receipts from exports. The traditional export markets for copra have been Netherlands, United Kingdom, West Germany and tourism mostly from Australia, New Zealand and United States of America.

The Government of Tonga has taken a number of steps to foster industries, viz: (i) it has established a mini industrial estate which is called Small Industries Centre, in the capital of Nuku'alofa; (ii) the Tonga Development Bank was established in 1977; (iii) it grants liberal tax incentives for new industries.

There is need in Tonga for increased productivity in all sectors, especially in the small local industries that can produce import substitutes. Joint ventures with New Zealand and Australian firms are taking advantage of the Government's incentive scheme, and the large pool of Tongan labour forces: foreign firms are setting up operations in processing/manufacturing and assembling goods which are then re-exported.

Tonga urgently needs to develop its productive capacities to stem rising unemployment. Agro-based industries, and labour intensive industries with semi-mechanized production are possible and feasible, if they receive adequate planning and promotional guidance. Small industries with modest goals involving manual skills can produce competitively; the Tongan labour force, apart from its low cost, is easily trainable and has shown a high degree of adaptability and perseverance. Any entrepreneur, foreign or local, planning to operate in Tonga needs to select the appropriate ventures very carefully. He requires the assistance of specialized technical expertise to foresee and recommend ways to overcome the difficulties in establishing Pacific Island enterprises.

