CO-OPERATIVES IN PAPUA NEW GUINEA

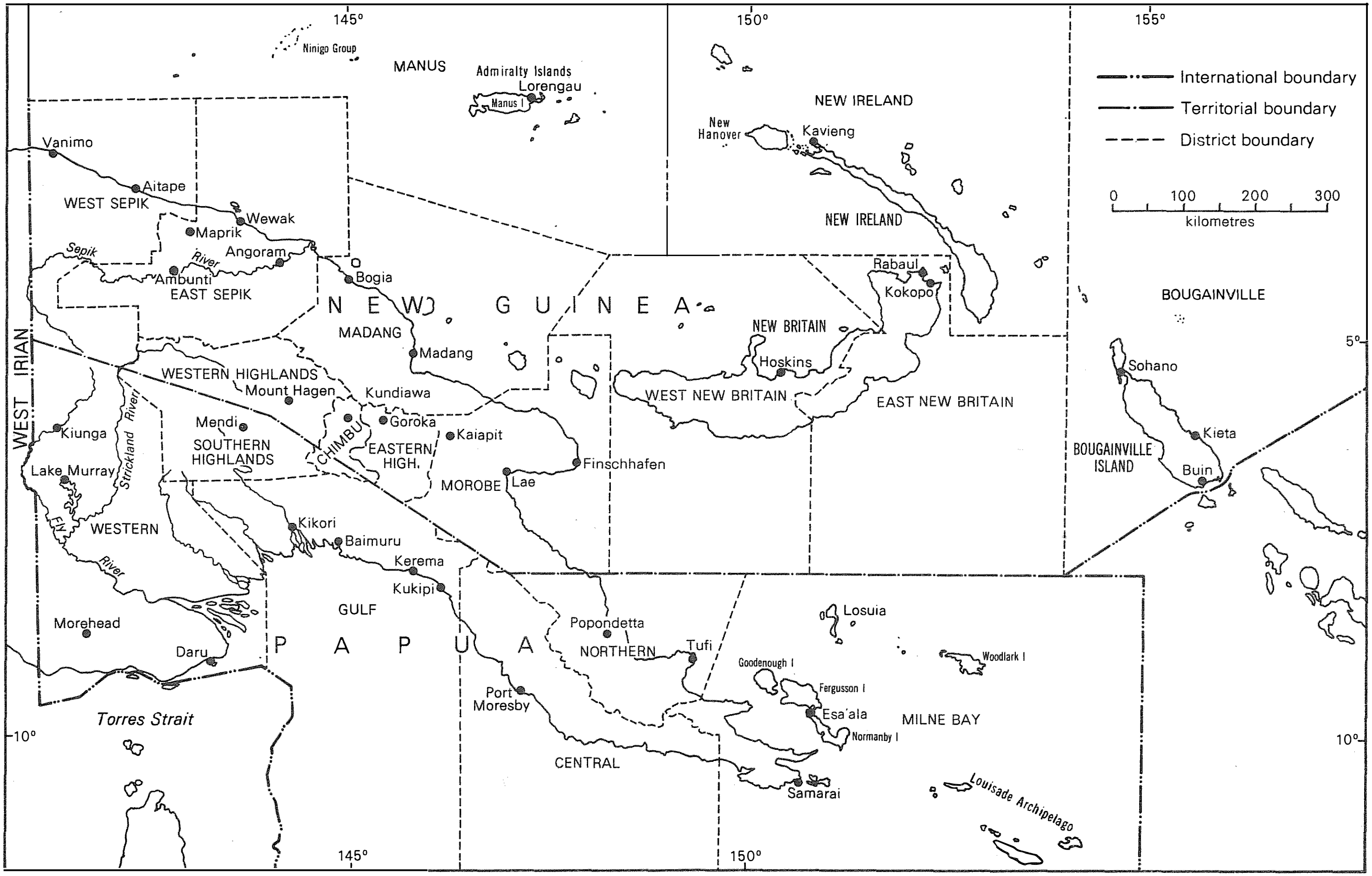

Fig. 1. Papua New Guinea

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CO-OPERATIVES IN PAPUA NEW GUINEA

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Port Moresby and Canberra

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To the people of Papua New Guinea

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Editor's Note

This manuscript was in the final stages of preparation for publication when Dr Sumer Singh died, at the age of 39. The editing of the manuscript has been completed and it is published with the kind permission of Mrs Misia Singh.

Dr Sumer Singh first worked in Papua New Guinea in 1965-66 on a study of the Vanumami Resettlement Scheme near Rabaul. He returned in 1967-68 on leave from the University of New England to undertake the major research on co-operatives upon which this Bulletin is based, and was Acting Executive Officer of the New Guinea Research Unit for part of this time. He again visited Papua New Guinea in 1969, and in 1970-71, to complete his collection of data on co-operatives.

The Singh family is remembered fondly by many in Port Moresby. The years 1966 and 1967, coincidentally the first years of the University of Papua New Guinea, saw the beginnings of the awakening of Port Moresby from its long, racist slumber. The Singhs participated in and contributed to this awakening.

Sumer Singh's friends and former colleagues in Papua New Guinea, Canberra and elsewhere express their deep loss at his untimely death.

Acknowledgments

This study was undertaken as part of the research programme of the New Guinea Research Unit of the Australian National University and was financed by a grant from the Reserve Bank of Australia. I thank the Australian National University for inviting me to undertake the research and the Reserve Bank of Australia for providing the necessary finance.

I also wish to thank all the organisations and individuals who assisted me during the course of my fieldwork in Papua New Guinea. In particular, I am indebted to the staff of the Registry of Co-operative Societies and both the employees and members of the individual co-operatives. Without their assistance and co-operation this study would not have been possible. Some of the fieldwork was carried out by my field assistants: Messrs Ross Garnaut, Andrew Elek, Gregory Smith and Robert McClelland. I am thankful for the data collected by them.

Mr E.K. Fisk read the first draft of the manuscript. His detailed comments on some of the chapters were particularly valuable and I wish to record my special thanks to him. I have also benefited from comments on the draft by Dr Marion Ward, Dr Ronald May and the officials of the Registry of Co-operative Societies. Professor Ron Crocombe introduced me to the problems of Papua New Guinea and encouraged me to undertake this study.

My thanks are also due to Mrs Phyl Collinson-Smith and Miss Helen Paull for their typing assistance.

Finally, I owe a special debt to my wife. I have benefited greatly from many discussions with her and she gave me valuable editorial assistance. Moreover, her persistent encouragement and patience at all stages were very much appreciated.

<u>Author's note</u>

1. All monetary values are in Australian currency which is the currency in use in Papua New Guinea.

2. Unless otherwise stated, net surplus (or net profit) refers to profit after taking into account all incomes and deducting all expenses, except income tax.

3. Much of the data were extracted from files kept by the Registry of Co-operative Societies. These files are identified by the prefix CR. Unless otherwise stated, all CR files quoted are available in the Registry Headquarters in Port Moresby.

4. When available, the date relating to the financial aspects of the individual co-operatives were extracted from audited statements. In the absence of audited statements, the figures were taken from comparative and other statements prepared by the Registry of Co-operative Societies as well as from the accounts submitted to the Registry by the various co-operatives. In cases of discrepancies among the various financial statements, the most recently compiled figures were used.

5. The British system of measurement has been used throughout this book. (See Appendix A for conversion factors if required.)

Chapter 1

Introduction

The co-operative movement in Papua New Guinea[1] is by far the most important way in which the local people are able to participate in the business and economic life of their country. It began just over two decades ago. Before the commencement of the Pacific war in 1942, group commercial activities among the indigenous people were organised on an informal basis, usually under the direction of Administration officials and missionaries. These activities were confined largely to primary production, but in some instances members pooled their financial resources to buy motor vehicles. The latter ventures were mostly unsuccessful, partly because of financial mismanagement and partly through vehicles falling into disrepair due to lack of mechanical knowledge.

With the outbreak of the Pacific war, there followed an influx of foreign troops of several nationalities who brought with them a wide range of machinery and equipment as well as a high level of organisation. The local people thus suddenly came into greatly intensified contact with alien cultures. This increased their desire for the type of goods enjoyed by the foreigners, but failure to acquire them readily caused a great deal of confusion and led to the growth of cargo cult movements in many centres. The end of the war, however, saw the emergence of a growing number of informal indigenous group enterprises to promote common economic interest.

The existence of an embryonic co-operative movement in Papua New Guinea was officially recognised by the Administration in May 1947, when the special 'Co-operative Section' was created within the then Department of District Services and

[1] Papua New Guinea is an administrative union of the Australian Colony of Papua and the United Nations Trust Territory of New Guinea under the Papua and New Guinea Act 1949-63 of the Commonwealth of Australia.

Native Affairs.[1] A small group of expatriate officers was assigned the task of fostering indigenous group enterprises along co-operative lines, partly as an attempt to promote indigenous economic and social development, and partly to prevent the spread of cultist movements. The villagers indicated widespread interest in co-operative activity and co-operative societies began to emerge in many parts of the country.

In the initial stages the structure of the co-operative movement was very simple. It consisted mainly of groups organised to operate small trade stores in the villages. Over the years co-operative activities became more diversified and the main source of revenue now is through the marketing of members' produce. About 53 per cent of the coffee and 25 per cent of the copra (two of the major exports of Papua New Guinea in value terms) produced by the indigenous people are marketed through the co-operatives.[2] As the co-operative movement expanded, its structure also became complex. It now includes primary societies which serve their members directly, secondary organisations represented by associations formed by primary societies at the district level, regional unions composed mainly of associations, and a nationwide federation formed by the unions. In addition, there are a few service institutions (for example, shipping societies) in which membership is open to all relevant associations and primary societies.[3]

Primary societies

These constitute the core of the co-operative movement. Any group of seven or more individuals of 18 years and over, wishing to pursue common economic and social interest in accordance with co-operative principles, is eligible to apply to the Registrar of Co-operative Societies for registration as a society. Table 1.1 shows that the number of primary societies increased in most years since the inception of the

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[1] The Co-operative Section, which later became the Registry of Co-operative Societies, was transferred to the Division of Business Training and Management in a newly established Department of Trade and Industry in 1962 and was given a divisional status in the middle of 1968. In 1971 the division became part of the new Department of Business Development.

[2] The amounts handled by co-operatives constitute about forty per cent of the coffee and seven per cent of the copra marketed in Papua New Guinea.

[3] See Fig. 8 in Chapter 9.

Table 1.1

Primary societies: statistical summary, 1949-50 to 1967-68*

Year ended 31 March	Number	Membership	Share capital	Turnover				Net surplus	Net surplus distributed	Statutory reserves	Provisions for depreciation	Investments**	Fixed assets at cost
				Store	Copra	Other produce	Total						
			$	$	$	$	$	$	$	$	$	$	$
1950	98	8,556	25,924	73,334	50,264	1,006	124,604	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1951	119	20,688	60,620	145,486	78,014	-	223,500	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1952	110	22,172	102,954	231,600	135,500	12,000	379,100	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1953	151	37,818	263,472	418,992	351,908	18,378	789,278	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1954	182	53,891	455,680	536,928	630,840	73,118	1,240,886	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1955	198	54,250	570,604	960,352	826,470	138,384	1,925,206	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1956	224	61,385	667,378	1,031,380	760,426	214,124	2,005,930	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1957	214	64,035	766,662	1,079,796	734,840	240,462	2,055,098	n.a.	138,308	n.a.	n.a.	n.a.	n.a.
1958	222	61,733	851,036	879,364	494,720	130,234	1,504,318	n.a.	59,942	n.a.	n.a.	n.a.	n.a.
1959	220	72,730	886,170	881,556	594,366	158,906	1,634,828	n.a.	33,382	n.a.	n.a.	n.a.	n.a.
1960	218	71,651	963,770	1,124,838	1,046,172	153,892	2,324,902	n.a.	91,426	n.a.	n.a.	n.a.	n.a.
1961	219	74,140	1,026,448	1,366,474	865,844	131,500	2,363,818	44,588	143,010	239,242	119,726	241,142	275,708
1962	245	78,203	1,154,790	1,350,142	784,654	92,958	2,227,754	148,352	149,922	264,990	126,572	310,994	279,852
1963	270	85,451	1,228,790	1,401,760	746,274	139,740	2,287,774	163,190	65,630	300,332	144,400	373,370	310,170
1964	281	85,900	1,288,720	1,393,380	810,692	314,218	2,518,290	222,912	126,044	350,458	143,060	427,346	296,308
1965	296	94,083	1,562,374	1,703,946	712,176	1,433,602	3,849,724	454,208	241,958	449,812	197,160	548,040	499,828
1966	303	102,120	1,823,091	2,044,860	914,586	2,150,359	5,109,805	490,231	284,050	564,902	257,331	620,407	620,819
1967	312	109,488	2,063,221	2,012,897	770,466	2,191,061	4,974,424	262,989	312,198	626,717	268,639	744,139	748,535
1968	316	109,175	2,329,405	2,197,326	725,772	2,455,320	5,378,418	280,505	221,433	696,700	362,577	733,675	884,029

* All figures except those for turnover, net surplus and net surplus distributed are cumulative totals at the end of each period.
** Include interest earning assets only.
n.a. Not available.
Source: RCS Annual Reports 1949-50 to 1967-68.

co-operative movement. But of the total of 316 societies at the end of March 1968, 37 were either in the process of liquidation or in temporary recess.[1] The societies are widely dispersed throughout the country, though most of them are located in the coastal regions. In March 1968, 141 of the societies were in Papua, 58 on the New Guinea Mainland and 117 in the New Guinea Islands.[2]

The primary societies are classified into three functional groups: consumer, producer and dual purpose. Consumer societies are retailing organisations which aim to supply their members with most of their consumer goods requirements, while producer societies are marketing bodies which buy and sell their members' produce. However, as indicated in Table 1.2, relatively few societies are engaged solely in consumer goods trade or in marketing. Most primary societies are dual purpose organisations whose activities include both consumer goods trade and marketing of members' produce.

Several of the primary societies began as rural progress societies formed to facilitate marketing of primary produce through assembly, processing and disposal to buyers. The rural progress societies were sponsored by the Department of Agriculture, Stock and Fisheries (DASF), which used them as points of contact with villagers for agricultural extension activities and provided assistance in the form of agricultural officers acting as society staff and use of departmental transport and storage facilities until the societies were able to carry their own costs and responsibilities. Often the Registry of Co-operative Societies assisted in book-keeping and gave advice on financial management generally. After the societies had achieved a suitable level of stability in their operations they were registered as co-operatives, but DASF staff continued to maintain close supervision, especially in areas where Registry officers were not present. The number of societies sponsored by DASF stood at 36 at the end of September 1966.[3] Of these

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[1] Annual Report of the Registrar of Co-operative Societies, (hereafter RCS Annual Report) 1967-68, p.5.

[2] New Guinea Mainland refers to the mainland part of the United Nations Trust Territory of New Guinea while New Guinea Islands include New Britain, New Ireland, Bougainville and Manus. The latter are also part of the Trust Territory.

[3] The membership of these societies totalled 30,539, and share capital $281,506. Their estimated turnover for the year ended 31 March 1967 was $878,874 (copra $81,406, cocoa $127,450, coffee $407,109, rice $94,599, peanuts $99,060, basketware $18,000 and sundries $51,250).

17 had already been registered as co-operatives and 10 more were awaiting registration.

Generally, the membership of primary societies ranges between 100 and 400 persons, but societies with much larger membership are not uncommon. As with the number of societies, total membership increased in most years since the introduction of the co-operative movement. Total membership at the end of March 1968 was 109,175, compared with 8,556 at the close of statistical year 1949-50. Nevertheless, in recent years the number of members has declined somewhat in some of the older co-operative areas such as Port Moresby-Rigo, Abau and Rabaul-Kokopo. On the other hand, there have been remarkable increases in other areas, particularly in the Eastern Highlands, Morobe, Finschhafen, Northern District and Western District. By far the heaviest concentration of persons belonging to primary societies is on the New Guinea mainland, which accounted for 49 per cent of the total membership at the end of March 1968, while the New Guinea islands accounted for 27 per cent and Papua 24 per cent.

The total share capital of primary societies rose from $25,924 at the end of March 1950 to $2,329,405 at the close of March 1968, partly through the formation of new enterprises and the consequent rise in aggregate membership and partly through bonus share issues out of the net surpluses earned by the societies.

The volume of business handled by primary societies also increased substantially over the period. In 1967-68 their total turnover amounted to $5,378,418. However, there were some major fluctuations in total turnover over the years. These reflected changes in price and marketing conditions on the one hand, and seasonal climatic variations on the other. The growth of indigenous coffee production, and the formation of the Chimbu Coffee Co-operative Limited in 1964, also played an important part in the mid 1960s.

The overall importance of copra as a source of income to primary societies as a whole has declined dramatically over the last few years. Until 1962-63 it accounted for well over 80 per cent and at times over 90 per cent of the value of produce marketed by them. In 1967-68 the proportion was only about 23 per cent. On the other hand, the relative importance of other produce, especially coffee, cocoa, peanuts, timber and crocodile skins has increased substantially. Apart from world price fluctuations, the societies' income from copra has suffered greatly from active competition provided by private traders (mainly Chinese and to a lesser extent Europeans and indigenes) in some areas and a growing interest among members to sell their produce directly to the Copra Marketing Board.[1] The Board's depots are readily accessible, particularly on the east coast of New Ireland and on the Gazelle Peninsula on New Britain. And with increasing diversification in agricultural production, it is likely that the relative importance of copra will decline even further.

Although total store turnover of primary societies has risen over the years, it represented only 41 per cent of the total turnover in 1967-68 compared with an average of 57 per cent for the years 1959-60 to 1963-64. Store sales have declined markedly in some areas, particularly in Port Moresby-Rigo, Madang, Rabaul-Kokopo and New Ireland. The societies in these areas are close to urban or semi-urban centres and competition from Chinese and European traders in these centres has been particularly severe. With their superior knowledge of business methods and much greater access to finance, the non-indigenous traders have been able to maintain a much more regular supply of a wider range of store goods and, in some instances, several of them have also engaged in price cutting and credit sales in order to attract indigenous customers. The societies in most cases have not been able to counteract this competition effectively.

To some extent the store turnover of societies has also been adversely affected by competition from indigenous private traders operating in the villages. In some villages there are six or more small indigenous trade stores established with funds provided by the operators themselves or in association with relatives. The operators of these enterprises are often also members of the village co-operative and some of them have worked previously as storemen or in other capacities for the society. Generally, these traders are very inefficient and, owing to heavy losses, many of them are forced to cease operations after a few years.[2]

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[1] This is a statutory body established under the Papua and New Guinea Copra Marketing Board Ordinance 1952 to handle all copra exports.

[2] The range of goods stocked by these traders tends to be narrow. It usually consists of essential items such as canned meat and fish, flour, rice, sugar, salt, tea, soap, tobacco, cigarettes, matches, kerosene and a few items of clothing and some hardware. Much of the stock is bought retail either from the co-operatives to which they belong or from expatriate firms. Consequently their selling prices tend to be higher, in some cases considerably higher, than those charged by co-operatives or

Net trading results of a large number of primary societies have been disappointing mainly because of staff dishonesty, credit transactions, general mismanagement and lack of support from members. But the unfavourable results of these societies were more than offset by relatively large surpluses achieved by the others. Overall net results are shown in Table 1.1. The ratio of total net surplus to share capital reached the peak at 29.1 per cent in 1964-65, compared with only 4.3 per cent in 1960-61 and 12.0 per cent in 1967-68. The average for the period 1960-61 to 1967-68 was 16.1 per cent.

Each co-operative enterprise is required by legislation to transfer 20 per cent of its annual net surplus to a fund known as the Statutory Reserve Fund until the total amount to its credit in the fund is equal to 50 per cent of the paid up share capital and loans received by it. Co-operatives which had reached this limit were encouraged by the Registrar of Co-operative Societies to continue voluntarily to set aside as reserves 10 per cent of their net surplus each year. The amount included in the Statutory Reserve Fund is not available for distribution to members except in the event of the winding up of the organisation; instead the cash equivalent is required by legislation to be invested in securities approved by the Registrar. The amounts transferred by primary societies to statutory reserves increased each year from a total of \$239,242 at the end of March 1961 to \$696,700 at 31 March 1968.

Only a very small proportion of the net surplus earned by co-operatives is retained as undistributed profits. After transfers to statutory reserves, the balance is generally distributed to members mostly in the form of bonus shares.[1] Cash rebates are then calculated on the basis of their participation in the business of the organisation to which they belong. Dividends on share capital contributed are also pay-

(footnote 2 cont'd)
other retailers. The traders also suffer from shortage of capital, credit sales and general mismanagement due to inadequate training and experience in business methods and practices. The Registry of Co-operative Societies is now encouraging the traders to pool their financial resources and organise themselves into wholesale co-operatives to take advantage of bulk purchasing arrangements.

[1] Bonus share issues accounted for 70 per cent (\$171,164) of the increase in total share capital of primary societies in 1966-67 and 41 per cent (\$109,871) in 1967-68 (RCS Annual Report, 1966-67, p.11; 1967-68, p.9).

Table 1.2

Statistical summary by type of primary societies, 1967-68

	Consumer	Per cent of total	Producer	Per cent of total	Dual purpose	Per cent of total	Total
Number of societies	33	10.4	45	14.2	238	75.3	316
Membership	5,228	4.8	13,311	12.2	90,636	83.0	109,175
	$		$		$		$
Share capital turnover:	134,193	5.8	249,728	10.7	1,945,484	83.5	2,329,405
Store	410,388	18.7	-		1,786,938	81.3	2,197,326
Produce	-		591,295	18.6	2,589,797	81.4	3,181,092
Net surplus	19,188	6.8	56,260	20.1	205,057	73.1	280,505
Distributions	15,333	6.9	29,295	13.2	176,805	79.8	221,433
Statutory reserves	38,398	5.5	61,031	8.8	597,271	85.7	696,700
Provisions for depreciation	30,736	8.5	37,951	10.5	293,890	81.0	362,577
Investments*	45,047	6.1	57,638	7.9	630,990	86.0	733,675
Fixed assets (at cost)	42,855	4.8	119,036	13.5	722,138	81.7	884,029

* Include interest earning assets only.

Source: RCS Annual Report, 1967-68.

able, but these are limited to 6 per cent per annum or such other amount as prescribed by the Registrar.

Table 1.1 shows that the total amount of net surplus distributed by primary societies to members varied markedly from year to year. There was also considerable variation in the amounts distributed by the individual societies. Owing to relatively low rates of profit and even losses in some years, a large number of them were able to distribute only small amounts and often long intervals elapsed between payments. This created a great deal of dissatisfaction and disappointment among members, many of whom did not fully understand the mechanism through which profit is made and surplus distributed. Moreover, in the early years of the movement some Administration officers promoting co-operatives had placed excessive emphasis on rebates to attract members. Failure of societies to pay cash rebates regularly has caused a great deal of discontent among members which partly accounts for their lack of support and decline in co-operative activity in some areas.

Associations

According to co-operative legislation, three or more primary societies may apply for registration as an association. In most districts associations were established within a few years after the introduction of primary societies while in some areas the two types of organisations were started almost simultaneously. As indicated in the statistical summary for the associations, Table 1.3, most of them had come into existence before the end of March 1955. Their number then stood at eleven, of which six were in Papua and the remainder in New Guinea. Another association was started in Papua in 1956 and later two more were introduced in New Guinea, bringing the total to fourteen in 1963-64. Their total membership at the end of March 1968 stood at 239 societies; of these 116 were in Papua and 123 in New Guinea. The share capital contributed by member societies totalled $666,840 at the end of March 1968, compared with $327,850 at the end of March 1955.

Initially, the associations were formed principally to achieve amalgamation of purchasing power for bulk buying of consumer goods for society stores and to facilitate the marketing of primary produce. They also enabled concentration of capital for the purchase of such assets as small ships, trucks and agricultural machinery which most member societies could not acquire on individual basis through lack of financial resources. The total business of the associations expanded steadily over the years, but there were marked variations in the performance of the individual associations.

Their aggregate turnover in 1967-68 amounted to $1,147,106. By far the largest component of the turnover was represented by sales of consumer goods to societies. Other elements in the turnover figures included sales of primary produce and receipts from shipping. The associations also earned commissions from selling copra and other primary produce on behalf of societies and in some cases from agencies such as savings bank, travel and petrol depots.

Like many primary societies, the associations also suffered from inadequate finance and overall mismanagement caused by lack of properly trained and honest staff. As shown in Table 1.3, their annual net surplus fluctuated markedly over the period 1960-61 to 1967-68. Distributions of net surplus to member societies were mostly in the form of bonus share issues. The amounts accumulated as statutory reserves, however, increased each year to a total of $104,692 at the end of March 1968, but most of this was invested outside the co-operative movement.

Until the end of March 1969, the associations in Papua obtained most of their supplies through the Federation of Co-operative Associations Limited,[1] a tertiary body formed in 1956 mainly to import consumer goods from overseas or purchase them locally for resale to member associations. Towards the end of 1968, it was decided to reorganise the co-operative structure. This involved winding up the Federation of Co-operative Associations and forming a new tertiary organisation: the Papua New Guinea Federation of Co-operative Unions Limited. In this associations and major societies of both Papua and New Guinea are represented through four regional unions: East Papua, West Papua, New Guinea mainland and New Guinea islands - to which they belong. The new federation has its head office in Port Moresby. It has established a fully owned subsidiary, the Co-operative Wholesale Society Limited, whose primary function is to import goods from overseas and supply the societies with their stores requirements. With its head office in Lae and a

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[1] For several years this enterprise was known as the Federation of Native Associations Limited. The title was changed after the introduction of the new Co-operative Societies Ordinance 1965, which amalgamated two earlier laws - the Co-operative Societies Ordinance 1950 and the Native Economic Development Ordinance 1951. The 1950 legislation was modelled on the co-operative law in force in New South Wales and proved too complex for local co-operatives, almost all of which were therefore registered under the simpler Native Economic Development Ordinance 1951.

Table 1.3

Associations: statistical summary, 1954-55 to 1967-68*

Year ended 31 March	Number	Membership (Societies)	Share capital	Turnover: Store	Turnover: Copra	Turnover: Other	Turnover: Total	Net surplus	Net surplus distributed	Statutory reserves	Provisions for depreciation	Investments**	Fixed assets at cost
			$	$	$	$	$	$	$	$	$	$	$
1955	11	183	327,850	756,328	-	-	756,328	n.a.	n.a.	3,638	n.a.	n.a.	n.a.
1956	12	201	361,604	956,006	-	-	956,006	n.a.	n.a.	28,522	n.a.	n.a.	n.a.
1957	12	181	421,308	907,104	-	-	907,104	n.a.	34,504	n.a.	n.a.	n.a.	n.a.
1958	12	180	434,992	694,544	-	-	694,544	n.a.	7,468	n.a.	n.a.	n.a.	n.a.
1959	13	190	458,518	782,292	-	-	782,292	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1960	13	187	493,838	1,092,694	-	-	1,092,694	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1961	13	196	525,494	1,038,400	3,012	20,076	1,061,488	20,048	5,350	43,250	141,650	120,280	307,066
1962	13	212	574,964	1,021,774	4,332	22,224	1,048,330	25,132	9,468	46,984	130,226	145,110	290,546
1963	13	226	590,164	1,112,682	9,998	9,042	1,131,722	17,832	12,270	54,042	161,640	168,174	310,620
1964	14	236	608,750	1,131,892	2,224	10,638	1,144,754	30,442	5,248	61,044	148,576	189,060	277,944
1965	14	239	593,776	1,255,146	5,756	932	1,261,834	26,526	8,434	68,660	143,690	205,782	264,376
1966	14	242	623,011	1,305,436	814	221	1,306,471	48,954	32,327	91,019	157,809	219,167	283,413
1967	14	240	645,712	1,297,580	-	22,717	1,320,297	39,296	20,393	98,557	172,522	256,123	283,523
1968	14	239	666,840	1,128,197	-	18,909	1,147,106	11,194	13,488	104,692	178,985	211,475	248,730

* All figures, except those for turnover, net surplus and net surplus distributed, are cumulative totals at the end of each period.

** Include interest earning assets only.

n.a. Not available

Source: RCS Annual Reports, 1954-55 to 1967-68.

network of branches and sub-branches in main centres such as Port Moresby, Samarai, Lae and Rabaul, the Wholesale Society began its operations on 1 April 1969. In the new framework a different role was envisaged for the associations, which were to gradually relinquish their trading functions and instead undertake to assist in supervision and inspection of primary societies.

Finance for co-operatives

The co-operative structure described above is complex and the volume of business undertaken at each level of organisation is very considerable in so far as the local people are concerned. To perform their functions effectively, co-operatives require finance on a substantial scale for a variety of purposes. These include the acquisition of capital assets such as land, buildings, equipment, motor vehicles and coastal vessels, and the need to replenish stocks, pay for produce and meet operating expenses such as salary and wages, stationery, postage, telephone charges and fuel. Indeed, one of the main factors responsible for lack of success of many co-operatives in the past has been inadequate finance. A large number continue to suffer from undercapitalisation which prevents them from expanding their activities sufficiently to compete more effectively with private businessmen.

To date most of the finance for co-operatives has come from within the movement itself, mainly through share capital contributions by members of primary societies. The share capital of associations and other enterprises in the apex structure is subscribed to by respective member co-operatives. Only a small proportion of the statutory reserves and provisions for depreciation accumulated by the co-operatives has been mobilised for expansion within the movement. Instead, as indicated in Table 1.4, most of the investments on account of statutory and depreciation reserves were in securities outside the movement, mostly in Administration loans and savings and fixed deposits with trading banks. These forms of investments were motivated partly by the desire to provide a reliable source of income and partly for protection of weaker organisations. At the end of March 1968, interco-operative loans, mostly to secondary, tertiary and service institutions, accounted for only 13.5 per cent or $132,257 of the total reserves invested. This represented a fall of $27,677 over the previous year. These loans were used largely for the purpose of acquiring coastal vessels, crayfish processing, sawmilling equipment and buildings and, in some instances, to augment working funds.

With the expansion of co-operative activities, increasing difficulties were experienced in obtaining adequate funds.

This led to a reconsideration by the Registry of Co-operative Societies of the policy of investing statutory and depreciation reserves of co-operatives outside the movement. Finally it was decided to establish a central finance society in an attempt to retain a much greater proportion of the reserves within the movement to finance developmental projects which, because of inadequate funds, would not otherwise be undertaken. It was also envisaged that the concentration of reserves in one organisation would provide collective security which could be used to attract funds from outside sources.

Other sources of finance from within the movement include undistributed profits and trade credits. Undistributed profits, however, are kept to an insignificant level or totally eliminated where practicable because co-operatives are taxed on their undistributed profits. Also, many co-operatives have not been in a position to accumulate large amounts of undistributed profits because of their poor trading results. The amounts involved in trade credits, on the other hand, are quite large and often remain outstanding for long periods because of lack of funds and financial mismanagement.

Until recently the total amount of funds available from outside sources was relatively very small. One of the more important sources of outside funds is the Rural Credits Department of the Reserve Bank of Australia which provides seasonal finance to a small number of co-operatives to purchase coffee and cocoa during peak periods. In each case the loans are secured by the assets of the society as well as guaranteed by the Administration, and they are acquitted within a year. The first loan under this arrangement was approved during 1966-67 and was for an amount of $40,000. During 1967-68 advances totalling $475,000 were approved for three societies, but only a part of this amount was actually drawn upon by one organisation owing to a changing pattern in coffee flush and delay in securing approvals in the case of the other two societies. In the following year eight more of these loans, totalling well in excess of $500,000 were under consideration.

In recent years a few larger co-operatives have obtained loans from commercial banks to augment their working funds and meet part of the costs of fixed assets such as coastal ships, buildings and equipment. At the end of March 1968, the total amount of these loans outstanding from all co-operatives was of the order of $250,000. Over 50 per cent of this was on account of amount borrowed for the purpose of acquiring coastal vessels. No doubt, a small number of co-operatives will continue to supplement their funds for both working and fixed capital purposes through overdrafts from

Table 1.4

Investments of depreciation and statutory reserves by co-operatives, as at 31 March, 1965-68

	1965		1966		1967		1968	
	$	Per cent of total	$	Per cent of total	$	Per cent of total	$	Per cent of total
Inter-co-operative loans	82,622	10.2	88,224	10.3	159,934	16.0	132,257	13.5
Savings bank deposits	130,748	16.1	136,542	15.9	193,960	19.4	195,416	20.0
Fixed deposits	91,800	11.3	94,723	11.1	158,069	15.8	167,885	17.2
Administration loans	501,030	61.8	537,135	62.7	488,301	48.8	480,704	49.2
Sundry	4,002	0.5	-	-	-	-	680	0.1
Total	810,202	100.0	856,624	100.0	1,000,264	100.0	976,942	100.0

Source: RCS Annual Reports, 1964-65, pp.8-9; 1965-66, p.12; 1966-67, p.12; 1967-68, p.10.

commercial banks, but bank overdrafts are not likely to become a major source of finance for a great majority of co-operatives through lack of suitable securities.

In the past a small number of co-operatives also obtained some loans from the former Native Loans Board, which was established by the Administration after the Pacific war with the transfer from the wartime Production Control Board of about $120,000 of surplus funds, accumulated through trade store and canteen operations, to provide a cheap source of finance to suitable indigenous businessmen or organisations. These loans were for specific purposes such as crayfishing, establishment of a sawmill and purchase of a plantation. They were obtained at the interest rate of 4.75 per cent per annum and the amounts outstanding at the end of March 1966 totalled $31,712.[1] When the Papua and New Guinea Development Bank[2] commenced business in July 1967, the Native Loans Board ceased making fresh loans and its entire operations were taken over by the new institution at the beginning of April 1969. Until the Papua and New Guinea Development Bank started operations, the Commonwealth Development Bank of Australia also made several small loans to co-operatives for buying motor vehicles required for transportation of primary produce.[3]

The Papua and New Guinea Development Bank is becoming increasingly involved in the provision of development credit for co-operatives. Except for the finance channelled through this Development Bank, the Administration does not make funds available to individual co-operatives, although it assists them indirectly by financing the activities of the Registry of Co-operative Societies, meeting part of the costs of co-

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[1] RCS Annual Report, 1965-66, p.13.

[2] The Papua and New Guinea Development Bank was established under the Papua and New Guinea Development Bank Ordinance 1965, with funds appropriated from the Administration's budget. Its primary function is to stimulate the private sector by providing finance to suitable persons or enterprises for primary production and to establish or develop industrial or commercial undertakings, the latter in cases where the finance would not otherwise be available on reasonable and suitable terms and conditions through ordinary commercial lending institutions. Its name was changed to Papua New Guinea Development Bank by Ordinance 92, 1973.

[3] The Commonwealth Development Bank of Australia ceased its operations in Papua New Guinea after the establishment of the Papua and New Guinea Development Bank.

operative education, and guaranteeing seasonal crop loans from the Reserve Bank of Australia to selected enterprises.

The general picture of the co-operative movement in Papua New Guinea is that of a few fairly successful enterprises and a large majority struggling and inefficient. Nevertheless, co-operatives have been of considerable service to indigenous people, encouraging them to participate in the cash economy of their country by providing marketing outlets for primary produce and facilities for obtaining cash goods. In many cases these services were formerly either not available or unsatisfactory.

The economic performance of co-operatives, however, has varied from area to area. Apart from lack of good management, which seems to pervade nearly all villages, diverse economic and social conditions have influenced the results obtained by co-operatives in different areas. The case studies presented in the following seven chapters give an account of economic performance and reasons for the successes and failures of selected co-operatives. In the selection, an attempt was made to include different types of activities as well as give examples of both successful and unsuccessful organisations. During the 1960s considerable emphasis was placed on the development of the co-operative federation and service institutions. These form the subject matter of Chapters 9 and 10, respectively. In Chapter 11, the role of the Papua New Guinea Administration in the promotion and supervision of co-operatives is examined. Finally, Chapter 12 is devoted to some policy considerations.

Chapter 2

Kukipi

Co-operatives were introduced in Kukipi in the late 1940s, an area inhabited almost entirely by the Eastern Elema people.[1] It stretches along the coast of the Gulf of Papua between Cape Possession in the east and Cape Cupola near Kerema in the west. Early enthusiasm for co-operatives was greatest in the Toaripi villages and this was a spur to action amongst other local groups. In 1949 a co-operatives officer was stationed at Kerema to conduct book-keeping courses for co-operative employees and undertake patrols into Eastern Elema villages. Supervision was brought closer to Eastern Elema in 1951, when a co-operatives office was established within the Kukipi area. The resident expatriate co-operatives officer from late 1951 to early 1953 encouraged the association of the co-operatives with the London Missionary Society. Some of the ritual of the church, such as prayers and hymns, were incorporated in meetings of the co-operatives. Much of the early support for co-operatives might not have developed if this association had not been permitted. But it is possible that the enthusiasm that was partly a result of linking the co-operatives with the church, contributed to later disillusionment when the people were not made as wealthy as they had hoped.

In 1968 there were twenty primary societies and one secondary organisation, the Toaripi Association of Co-operatives Limited.[2]

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[1] There are four sub-tribes of the Eastern Elema, being distinguished from each other by their legends of origin, dialects and other less fundamental cultural features. They are, from Cape Cupola eastwards: Melaripi-Kaipi (from Silo to Koaru), Moveave-Toaripi (Lelefiru to Popo). Moripi-Iokea (Ilava to Iokea), and Sepoe (from Sarota to Rove). See Brown (1957).

[2] Until the introduction of the Co-operative Societies Ordinance 1965, it was known as the Toaripi Association of Native Societies Limited.

Their activities were mostly confined to copra marketing and consumer goods trade. Many ideas for other co-operative ventures were supported by the people of the area from time to time, but only a few were in fact started. Exceptions included the Association's M.V. Toaripi and rice mill, Iokea dairy farm, and Moveave sawmill. In addition, a Moveave group, the Apamara Co-operative Society, operated a small investment business, and another group, the Isapearuru Co-operative Society was engaged in crocodile skin marketing.[1] The activities of the Toaripi Association and four primary societies (Uritai, Mirivase, Iokea and Moveave) are examined in some detail later in this chapter after a brief general survey of the co-operative movement in the area as a whole.

Table 2.1 gives a summary of major statistics for primary societies. The increase in total membership of primary societies by 563 to 3,576 over the period 1955-56 to 1965-66 was almost entirely due to the growth in the number of institutions. In many cases, however, the majority of members live away from their villages. Owing to poor economic resources and lack of opportunities for wage labour in the villages, the people who would be best able to contribute to the economic development of the area, the better-educated younger men, are nearly all away in wage employment in the towns and outstations. However they make useful contribution to the village economy by remitting large sums of money to relatives.[2] Many of the emigrants seem to have settled permanently in urban centres and occasionally there is pressure from some of them for the refund of their

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[1] Unlike other societies in the Kukipi area, the Isapearuru Society drew its membership from the whole of the area, although its strongest support initially came from Moveave and the Kovio villages up the Lakekamu River. It had a membership of about 100 in 1968.

[2] Amounts remitted by emigrants to their relatives have probably declined in recent years as many have allowed their ties with the villages to weaken and as the Eastern Elema have gradually lost the competitive edge in the labour market that the early provision of education gave them. The competitive advantage of the Eastern Elema in immediate postwar years was due to the schools established by the London Missionary Society and the Roman Catholic Mission which continued to function very much as normal during the war years. Thus when a secondary school was opened at Sogeri, near Port Moresby, in 1944 there were large numbers of Eastern Elema students who had reached a sufficient standard to qualify for it.

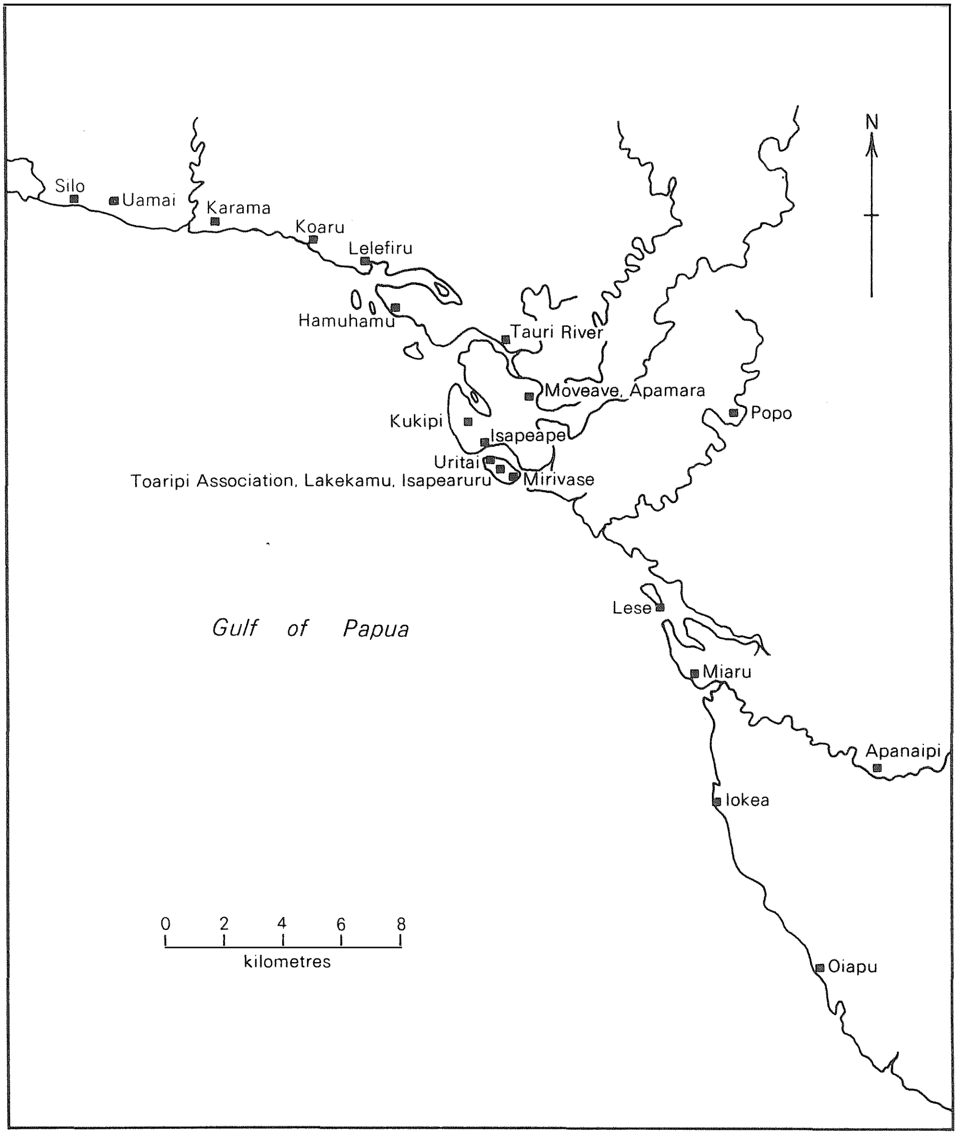

Fig. 2. Kukipi area: location of co-operatives, 1968.

share of capital held in village co-operatives. The total share capital held by emigrants is very important in the overall structure and accede to such pressures may well precipitate a collapse of the co-operative movement in the area. Share capital of primary societies remained fairly static until the end of 1962-63. It increased noticeably however in the subsequent years to $135,909 by the end of March 1969, although aggregate membership had not changed much after 1963-64.

Table 2.1

Kukipi co-operative area:
statistical summary for primary societies, 1955-68*

Year ended 31 March	Number	Membership	Share capital	Turnover				Net surplus	Net surplus dis-tributed	Statutory reserves	Pro-visions for depre-ciation	Invest-ments#	Fixed assets at cost
				Store	Copra	Other**	Total						
			$	$	$	$	$	$	$	$	$	$	$
1956	15	3,013	54,332	81,422	59,244		140,666	n.a.	9,874	n.a.	n.a.	n.a.	n.a.
1957	15	3,014	61,474	86,140	62,926	44	149,110	n.a.	5,226	n.a.	n.a.	n.a.	n.a.
1958	15	3,016	60,800	61,180	31,824		93,004	n.a.	2,320	24,248	n.a.	n.a.	n.a.
1959	16	3,180	61,718	65,660	39,602		105,262	n.a.	968	24,260	n.a.	n.a.	n.a.
1960	16	3,181	61,622	77,854	81,528		159,382	n.a.	1,828	24,280	n.a.	27,512	n.a.
1961	17	3,272	67,486	88,830	63,200		152,030	4,238	14,252	28,158	2,140	25,180	5,884
1962	18	3,273	71,082	91,254	51,436	152	142,842	12,122	4,550	30,520	4,036***	36,728	6,340
1963	18	3,284	72,620	105,194	58,090	422	163,706	18,830	-	33,166	4,516	39,848	15,686
1964	18	3,330	85,402	128,000	68,152	26,232	222,384	18,652	23,714	36,862	7,254	36,356	18,546
1965	19	3,381	93,510	158,562	72,988	61,406	292,956	29,248	17,146	45,644	5,914	46,178	23,126
1966	20	3,576	105,492	191,500	84,392	70,908	346,800	49,284	38,199	54,283	8,187	46,952	27,730
1967	20	3,581	120,041	200,686	78,794	75,570	355,050	33,650	20,445	58,542	11,420	46,954	36,052
1968	20	3,572	135,909	197,119	56,348	74,412	327,879	5,274	20,133	61,374	18,269	46,954	54,345

* All figures, except those for turnover, net surplus and net surplus distributed are cumulative totals at the end of each period.

** Includes mainly timber and crocodile skins.

*** Includes $800 asset replacement reserve.

\# Include interest earning assets only.

n.a. Not available

Sources: RCS Annual Reports, 1955-56 to 1967-68; Files CR 20-4-2 to 20-4-12; statistics work sheets in the Registry of Co-operative Societies (Headquarters).

Trading results of most societies in the Kukipi area were generally more satisfactory in comparison with other areas. Much of the growth in store sales since 1962-63 derived from the rise in purchasing power of villagers resulting from sales of copra, timber and other produce and the normal growth in Administration expenditure in the area. Copra turnover rose steadily in most years over the period to $84,392 in 1965-66; it fell somewhat in the following year and more noticeably in 1967-68.[1] Moveave sawmill, one of the largest co-operative ventures in the country, came into operation during 1963, adding substantially to the purchasing power of villagers through payments for log purchases, labour and other services.[2] Proceeds from sale of crocodile skins by the Isapearuru Co-operative Society exceeded $30,000 in 1965-66, but fell drastically in the ensuing year and in 1967-68 the receipts amounted to only $5,538, largely through the shooting out of crocodiles in coastal areas.

Total annual net surplus of primary societies increased during the period 1960-61 to 1965-66 from $4,238 to $49,284. Much of the increase was contributed by the Isapearuru Society and Moveave sawmill. The lower crocodile skin sales by the Isapearuru Society in the next two years contributed substantially to a 32 per cent drop in the aggregate net surplus in 1966-67 and to a much more drastic fall in the following year to only $5,274. The marked drop in copra turnover of primary societies in 1967-68 also contributed to the sharp reduction in their total net surplus in that year. The net surplus distributed to members fluctuated annually, reaching the highest level at $38,199 in 1965-66 and then falling to $20,445 in the following year. A large part of the $20,133 distributed in 1967-68 represented profits earned in the preceding year. Net surpluses accumulated in statutory reserves increased each year to a total of $61,374 at the end of March 1968.

In general, the Kukipi co-operatives have been relatively successful in copra marketing and store trading, despite the

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[1] There is little scope for increasing copra production in Toaripi and Moripi-Iokea areas due to limited amount of land available for new plantings. The main potential for output increases above the high level of 1965-66 is along the Kaipi-Melaripi coast, where inactive societies and poor transport facilities have inhibited production.

[2] Sawmill records show that these payments totalled about $36,000 in 1967. A more detailed account of the sawmill's operations is presented later in this chapter.

problems of management (thefts and credit sales) and the competition from private traders which affected different organisations in varying degrees. The other co-operative ventures in the area were not as successful. As shown below in the case studies, both the M.V. Toaripi and the rice project of the Toaripi Association showed promises of success in the earlier stages but their efficiency declined after a few years and losses were incurred. Similarly, the Moveave Society's sawmill was a considerable success until 1967-68 when it was on the verge of total collapse, although this was largely due to marketing difficulties beyond the control of the organisation.

The relative success in copra marketing and store trading is partly explained by the absence of efficient private traders. There has been strong resistance to European traders establishing themselves in the area. The resistance of the local people themselves has been increased by the poor transport facilities, which make distribution of store goods and collection of copra slow and expensive. Although there are many indigenous private traders, they were largely unsuccessful through lack of adequate finance, credit transactions and overall mismanagement.[1] Nevertheless, they have had an adverse effect on the turnover of a number of co-operative stores, particularly in Moveave where it is estimated that they account for about two thirds of the store goods sold.

However, there has been some disillusionment with the co-operatives as they failed to realise many of the expectations of early supporters, although the extent of this varies from village to village. For example, as mentioned later, disillusionment is significantly greater in Moveave and Uritai than in Iokea. Overall, the degree of disillusionment with co-operatives in the Kukipi area is perhaps not as great as in many other areas. But there have been occasional pressures towards disintegration of the larger enterprises. The sources of the pressure, however, were largely social rather than economic. Heatoare and Heavala people wanted to split the Moveave Co-operative Society even though the larger unit was necessary for the operation of the sawmill and could carry out trading functions more efficiently if given full support. Also, within the Toaripi Association, the Toaripi villagers alternated between wanting to expel the Moveave and wanting to withdraw themselves. The rise of private indigenous traders in recent years is more than anything a return to tra-

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[1] In January 1968, sixty-four private trading licences were held by the Eastern Elema resident in the Kukipi sub-district, which does not include the Kaipi-Melaripi villages.

ditional economic units (the sub-clans or smaller economic units). This is despite the fact that in nearly all cases there is little, if any, economic gain in private trading for the active traders themselves. Although the pressures for disintegration have weakened somewhat lately, there has been no return to the former level of enthusiasm for the co-operatives.

The Toaripi Association of Co-operatives Limited

This organisation was originally formed by the Toaripi people to facilitate the purchase of a small coastal vessel. The proposal for its formation was first discussed at a meeting in May 1946, held at Uritai to consider the Administration's plan for establishing co-operatives in the Toaripi villages. It was originated by an indigenous mission schoolteacher, Posu Semesevita, and was enthusiastically accepted by all seven villages[1] represented at the meeting. The Association was formally set up in 1950. By then some funds had already been collected, and the Registrar of Co-operative Societies had placed an order for the construction of a 46 foot scow, M.V. Toaripi, which was subsequently estimated to cost about \$14,700.[2] Most of the finance was raised through interest-free loans from the Toaripi co-operatives,[3] and the vessel was delivered towards the end of November 1951.

Both the composition and functions of the Association were changed in 1954. A couple of years earlier the Registrar had suggested that it be reorganised into a larger body encompassing the whole of Eastern Elema. This was done against a background of great rivalry amongst the various groups and there was considerable resistance to the idea from the Toaripis. There were undoubted advantages in enlarging the capital base of the Association's operations, but an appeal to this alone was not sufficient. Earlier the Moripi and Moveave people had derided the idea of forming the Association and naturally this attitude was resented by the Toaripis. In addition, the latter did not wish to lose control over their Association, and feared domination by the better educated villagers from Iokea. But the Registrar continued to press for the enlarged Association,

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[1] These were Uritai, Popo, Isapeape, Kukipi, Marikea, Hamuhamu and Lelefiru.

[2] This included the costs of insurance and delivery from Brisbane to Port Moresby. (File CR 21-7-2, part 1, f.13).

[3] In August 1951, the loans from seven village co-operatives totalled \$14,860. (File CR 21-7-2, part 1, f.36).

which eventually came into being in March 1954. The membership was then increased from seven to fifteen primary societies and the share capital totalled $29,586. Four more societies became members subsequently and the total share capital gradually increased to $67,675 by the end of March 1968. When the enlarged Association was formed the value of its fixed assets (at cost) totalled $15,541, of which the Toaripi accounted for $14,811. The Toaripi remained an important aspect of the operations for several years after the reorganisation although much of the emphasis had shifted to wholesale trade and marketing of copra. Later the range of activities was extended further to include rice milling, marketing of crocodile skins, operation of tractor and outboard motor, and post office and savings bank agencies. Details of revenue from various sources are presented in Table 2.2.

The M.V. Toaripi. Records of the earlier operations of this vessel are incomplete, but it is estimated that a working surplus of approximately $9,230 was earned from the time of its arrival in November 1951 until March 1954, when the last accounts for the original Association were compiled. Thereafter the operations were not as successful, losses being incurred in five out of ten years from 1954-55 to 1963-64.

Several factors contributed to this decline in profits. As the vessel lacked a reliable mechanic in its crew, most repairs had to be done in Port Moresby where it often remained idle for long periods. Breakdowns were fairly frequent and in the later years the annual survey costs rose to as high as $4,600. A less important factor was the upward trend in wages, resulting partly from rising wages in other employments in the Kukipi area and in Port Moresby and partly from pressures exerted by employees themselves. A further reason for the decline in profits was poor management. There were irregularities in the collection of fares and frequently the vessel remained moored for unnecessarily long periods in the home villages of crew members, most of whom were usually Toaripis.

Substantial losses were incurred by the vessel from March 1961 to September 1962. This prompted the Registry of Co-operative Societies to recommend its sale to help overcome the problem of liquidity then facing the Association. The recommendation, however, was rejected by a narrow majority at a special general meeting at the end of October 1962. The Registry was not satisfied and continued to apply pressure, including a threat to withdraw supervision of the Association. But it was not until March 1964 that the vessel was sold to the Administration for $10,000.

Table 2.2

The Toaripi Association of Co-operatives Limited Trading Results, 1955-68
($)

Year ended 31 March	M.V. Toaripi*	Wholesale trade			Commissions				Rice milling*	Tractor*	Out-board motor*	Interest and divi-dends**	Net surplus
		Turnover	Gross surplus	Per cent gross sur-plus to turnover	Copra marketing	Crocodile skin marketing	Post office agency	Savings bank agency					
1955	2,814	100,882	2,490	2.5	2,002							124	4,939
1956	-1,140	71,744	1,379	1.9	1,640							136	- 459
1957	5,186	71,639	4,901	6.8	1,846							416	7,697
1958	- 672	58,034	7,900	13.6	794							856	4,190
1959	366	70,880	5,262	7.4	1,202							-	1,704
1960	- 640	95,510	5,804	6.1	1,926							218	-2,192
1961	4,726	83,096	2,544	3.1	3,444							252	5,068
1962	-4,396	98,708	3,786	3.8	1,430				n.a.			498	-6,554
1963	142	107,137	1,274	1.2	3,274				n.a.			584	- 179
1964	-1,902	124,640	4,966	4.0	3,160				n.a.			40	- 46
1965		165,746	8,096	4.9	4,470	1,976			82			1,340	7,254
1966		182,903	5,813	3.2	5,781	2,435			148			984	173
1967		209,986	17,044	8.1	5,493	637	693		314	-331	253	1,055	11,206
1968		195,591	10,776	5.5	2,672	436	277	229	-629	-404	96	1,424	-4,174

* Surplus after deducting direct operating expenses.

** Mainly interest earned on statutory and other reserves kept in savings bank deposits which totalled $12,790 at 31 March 1968. Dividends were from shares held in other co-operative enterprises, mainly in the Federation of Co-operative Associations which accounted for $22,132 of $25,054 of shares held at the end of March 1968.

n.a. Not available.

Sources: Files CR 21-7-2, parts 1-10, financial statements; CR 20-2-8 (Konedobu), f.18.

The conflict over the sale of the Toaripi is of wide significance. No doubt the vessel had provided the Eastern Elema villages with a transport service that was not previously available. A large part of the welfare gain of early copra marketing and trade store operations of the co-operatives in the area should be attributed to this service. Even when other shipping services were provided along the coast, they were inferior to those provided by the Toaripi, which visited nearly all societies once in every two or three trips to Port Moresby. In addition it had brought its owners, especially the original owners, great prestige and emotional satisfaction for which they were prepared to pay. On the other hand, the action taken by the Registry was probably necessary if the villagers were to learn to divorce capital assets from the emotion and implications of status that might prevent the assets being used as effectively as possible. Nevertheless the cost must be recognised. It includes a weakening of the incentive to invest and the incentive to become involved in co-operative economic activity.

Wholesale trade. This was developed on a large scale from 1954-55, when sales exceeded $100,000. But sales fell sharply in 1955-56 and again in 1957-58 owing mostly to substantial reductions in purchasing power in the villages caused by lower copra prices.

The Association obtained its supplies mainly from the Federation of Co-operative Associations (FCA) in Port Moresby, while over 90 per cent of its sales were to member societies and the rest were to nonco-operative enterprises such as indigenous private traders and church missions. Deliveries to the societies were made either through its bulk store at Kukipi or directly from the FCA vessels. In both cases invoices were issued by the Association, but the mark-ups were different, being 12.5 per cent on cost for goods passing through Kukipi and 5 per cent for direct deliveries.[1] For direct deliveries the purchasing societies had to pay stevedoring and freight charges from Port Moresby, while for goods passing through the Association's bulk store they paid freight only from Kukipi. Nevertheless, costs to purchasing societies were generally lower for direct deliveries, especially to those closer to Port Moresby. Only a small proportion of the Association's

[1] Mark-up on sales to private traders and missions was 17.5 per cent, except for building items required for construction of churches, in which case the mark-up was only 7.5 per cent.

sales, however, were conducted by this method.[1] In part this was due to difficulties of landing goods at many coastal villages but a more important reason was inflexibility and lack of foresight on the part of officials of individual societies.

As shown in Table 2.2, gross surplus from wholesale trade varied markedly from year to year. The unusually high rate of gross surplus to turnover in 1957-58 was to some degree due to errors in invoicing and stock calculation, while the relatively low rate for most other years was largely a result of lack of proper stock controls, undisclosed credit sales and thefts by employees. In some years, high freight and stevedoring charges were also causative.[2] There was considerable pressure on the staff to grant credit or give free goods to villagers who often felt that the staff should use the goods in their control to fulfil personal obligations, which went beyond kin ties. The marked improvement in the rate of gross surplus in 1966-67 corresponded with the appointment of a new secretary from outside the 'credit-theft' system and who had acquired a great deal of knowledge and experience in co-operative business over a long period of employment with the Registry of Co-operative Societies. The decline in 1967-68 was largely due to higher freight costs, which rose to $13,477 from $8,814 in the previous year.[3] Another factor was the greater use of direct deliveries of merchandise from the Federation of Co-operative Associations.

Copra marketing. This involved making arrangements for the sale of member societies' copra to the Copra Marketing Board on a commission basis.[4] Income from copra thus varied with

[1] In the first eight months of 1967 only 19.5 per cent of the sales by the Association involved direct deliveries; only the easternmost societies - Oiapu and Iokea - obtained over 50 per cent of their supplies by this method.

[2] The percentage of freight and stevedoring charges to turnover ranged between 5.9 and 7.7 between 1958-59 and 1963-64, compared with 4.2 per cent in 1957-58.

[3] The percentage of freight and stevedoring charges to turnover in 1967-68 rose to 7.4 from 4.7 in 1966-67.

[4] This practice was also followed by the other co-operative associations engaged in copra marketing business. Generally, the services provided by them to member societies included the provision of book-keeping and banking facilities and, where necessary, the transport of copra to central collection points. Proceeds from copra sales were not sent to the societies directly but were received by the associations, which credited

the rate of commission and the value of sales by member societies. Initially the rate of commission was 2.5 per cent of the value of sales but this was raised to 5 per cent sometime early in the 1960s. The very low amount of commission recorded for 1957-58 was primarily due to a sharp reduction in copra prices.

Rice milling. This was started in 1962 following a surge of interest in some villages in rice growing. The Association bought paddy from the villagers and sold milled rice to member societies. For a long time the milling was done by hiring a mill owned by the Roman Catholic Mission at Terapo. The Association had acquired its own mill in 1962, but it was not put into operation until September 1967.[1] This venture suffered a severe setback during 1967-68, when sales amounted to only \$601, compared with \$2,421 in 1966-67 and \$1,402 a year earlier. In part this was due to poor quality of rice resulting from harvesting immature paddy and insufficient drying before milling. Another reason was competition from the Terapo Catholic Mission, which had earlier supported the Association's rice project. The Mission had attracted much of the production from the Catholic section of Moveave village, partly through a higher price offered for paddy and partly because of its influence among the Catholics. Conflict between some Moveaves and the officials of the Association was also a contributing factor.

Crocodile skin marketing. This was started during 1964. Initially the marketing was done on behalf of individuals on a commission basis. Later, when the Isapearuru Co-operative Society was formed to purchase crocodile skins from the villagers, the Association served as a marketing agent for the Society. Sales of crocodile skins increased rapidly for a while, but the sharp decline in commission received by the Association after 1965-66 was almost entirely a result of reduction in sales caused by the shooting out of crocodiles in coastal areas.

Tractor operating. During 1966 a tractor and trailer were purchased for \$1,067, mainly to facilitate transport of goods

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(Footnote 4 continued)
their member societies' accounts with the amounts due to them after deducting transport costs and commission. In most cases the costs of services provided by the associations were noticeably lower than the commissions received by them. Copra business thus tended to subsidise other aspects of association's operations, especially wholesale trade activities.

[1] The total cost of purchase and installation of the mill amounted to \$1,339.

from Lelefiru to Koaru and Karama and copra back to Lelefiru. But the tractor proved too light for the conditions and considerable difficulties were experienced in obtaining its spare parts after minor breakdowns. It did not remain in operation for long and in July 1967 a more suitable heavier tractor was bought for $3,366. The operating losses were largely due to heavy depreciation charges.

Table 2.2 shows that the Association realised overall net surplus in only eight out of fourteen years up to 1967-68.[1] Poor management and relatively higher wages bill were the main factors responsible for the generally declining net surplus between 1957-58 and 1961-62.[2] The latter was partially a consequence of the commonly held attitude that the Association existed to help the people and this included the provision of high levels of employment and wages. Absolute levels of wage payments, however, declined between 1963-64 and 1965-66 despite rising wholesale turnover, but rose again in the next two years owing to employment of additional staff and a substantial increase in weekly wages paid to the new secretary.[3] The sharp drop in net surplus in 1965-66 was substantially due to the unusually large provision of $5,732 for doubtful and bad debts. The marked improvement in the following year was principally a result of record gross surplus from wholesale trade and a considerable reduction in the provision for doubtful and bad debts. The sharp drop in net trading result in 1967-68 reflected a marked decline in both wholesale and copra business as well as a deterioration in credit controls.

Table 2.3 shows that there was an improvement in the overall financial position of the Association in 1966-67, but it deteriorated considerably during 1967-68. By the end of 1967-68 the Association's liquidity problem had become very serious and it was barely able to meet day to day commitments. This was primarily due to an increase in the amount owing by trade debtors which rose by 47 per cent in 1966-67 and by 67 per cent in 1967-68. Member societies accounted for 95 per cent

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[1] Most of the surpluses were distributed to member societies as bonus shares and thus kept within the business. The amounts distributed (including cash payments) totalled $9,816 in 1965-66, $7,699 in 1966-67 and $3,197 in the following year.

[2] Except for 1960-61, the total wages paid increased each year from $1,520 in 1957-58 to $3,624 in 1961-62. The ratio of wages to annual turnover rose from 2.6 per cent to 3.7 per cent over that period.

[3] Total wage payments increased from $2,955 in 1965-66 to $5,569 in 1966-67 and $7,086 in 1967-68.

Table 2.3

The Toaripi Association of Co-operatives Limited: assets and liabilities, as at 31 March, 1966-68

	1966 $	1967 $	1968 $
Current assets			
Cash on hand and at bank	16,100	2,430	3,803
Trade debtors	16,674	24,518	40.854
Stock	18,563	24,976	18,255
Other	1,000	6,412	3,776
	52,337	58,336	66,688
Less current liabilities			
Trade creditors	27,719	12,475	27,621
Other		2,389	5,000
	27,719	14,864	32,621
Working funds	24,618	43,472	34,067
Add investments			
Shares in other co-operatives	23,742	23,764	25,054
Unsecured loan	2,000	2,000	2,000
Savings bank deposits	12,068	12,425	12,790
	37,810	38,189	39,844
Add fixed assets			
Original value	22,105	25,186	32,126
less provision for depreciation	13,572	16,392	20,033
	8,533	8,794	12,093
	70,961	90,455	86,004
These funds were represented by:			
Deferred liabilities	8,562	8,562	8,562
Add proprietorship			
Share capital	52,932	64,755	67,675
Statutory reserves	9,569	12,242	12,242
Other reserves	1,291	1,291	1,291
Profit and loss appropriation	- 1,393	3,605	- 3,766
	62,399	81,893	77,442
	70,961	90,455	86,004
Ratio of current assets to current liabilities	189%	392%	204%

Source: File CR 21-7-2, part 10, comparative balance sheet.

of the amount outstanding at the close of March 1968.[1] Society indebtedness had increased largely because many co-operatives had undertaken building programmes which involved replacement of old stores of bush materials by more permanent structures. Another factor was the need for working capital by Moveave sawmill to finance large stock levels in a period when sales difficulties were experienced. The liquidity problem was

[1] In contrast, in September 1964 the amount owed by societies was insignificant, while the Association itself owed the societies (excluding Moveave) $27,412. (File CR 21-7-2, part 7, f.147). This was indeed a unique situation among co-operative associations in Papua New Guinea.

accentuated by the tendency to carry large stocks of wholesale goods, although the total was reduced from $24,976 at the end of March 1967 to $18,255 a year later.

However, the debt owing to trade creditors was more than halved during 1966-67, largely through running down cash balances, but in the following year the figure again reached the 1965-66 level. By far the principal creditor was the Federation of Co-operative Associations. It accounted for $23,172 of the $27,621 outstanding at the end of March 1968.

In an attempt to assist the Association out of the financial crisis, a sub-branch of the Federation was formed at Kukipi in October 1968. It took over the trading functions of the Association whose role then changed from that of trading to assisting the Registry of Co-operative Societies in the supervision of member organisations.

The Uritai and Mirivase Co-operative Societies

Co-operatives in Uritai village and its small, adjacent offshoots, Mirivase and Lalapipi, were introduced in late 1946. At first two primary societies, Morovelavi and Uritai, were established to market copra and operate small trade stores. The former drew its membership from one sub-clan, the latter from the rest of the villagers. About three years later, in November 1949, under the influence of the London Missionary Society and the expatriate co-operatives officer in the area, the two organisations combined to form a new Uritai Co-operative Society. Much of the early enthusiasm for co-operative activity in the villages derived from the planned arrival of the M.V. *Toaripi*.

From the beginning the Uritais were impatient with supervision from the Registry of Co-operative Societies, although they lacked the appropriate skills and attitudes that would have allowed them to run their societies without supervision. The deficiency in book-keeping was partly met by the courses conducted by the Registry at Kerema and Kukipi, which were attended by several Uritais, and by the time the new Society was registered in March 1954, a number of them were technically capable of keeping the accounts fairly well. But it was doubtful whether their attitudes to business transactions were conducive to successful operation by themselves of a large scale economic enterprise. There were several cases of stealing from the Society by employees, but these did not evoke any outcry from members. Stealing was not considered immoral by members themselves. Rather, it was the continued assertion of an attitude that the co-operative should help individuals when they needed help, because the individual members had put in share capital so that they would receive such assistance. The self-confidence that had led the Uritais to challenge the advice of Registry officers and the reluctance to abandon attitudes inimical to the profitable operation of the business were to remain important throughout the history of the Society.

At the end of March 1954 the Uritai Co-operative Society had a membership of nearly 300. Of these, two-thirds were from the main Uritai village and the remainder from Mirivase and Lalapipi. Share capital stood at $7,102. Neither membership nor share capital varied significantly until about the middle of 1961, when the Society was split into two parts, one drawing membership from the main Uritai village, the other, Mirivase Co-operative Society, drawing membership from Mirivase and Lalapipi. The reconstituted Uritai Co-operative Society began operations with 196 members and $4,886 in share capital, compared with Mirivase's 108 members and share capital of $2,376.

By the end of March 1966 membership of the Uritai Society had grown to 202, and share capital to $7,184. Practically the whole of the increase in share capital occurred through two bonus share issues which were made, despite considerable opposition from members, to finance the construction of a new store of permanent materials. The share capital did not change again until 1968-69 when it rose by $163, also through issue of bonus shares. Statutory reserves at the end of that year totalled $3,455.

The capital structure of the Uritai Society was threatened several times in the late 1950s and early 1960s by attempts by large numbers of members to withdraw their contributions. In several cases members wanted to use their share capital to finance private trading. To some extent these attempts represented a disenchantment with the Society. There was a tendency to return to smaller economic units, more in line with traditional organisation. The attempts, however, were thwarted by the refusal of the Registry to grant permission for withdrawal.

The Mirivase Co-operative Society grew more rapidly than the parent Society after their separation. In November 1967 it had only 112 members, but its share capital had increased to $6,524. Only $270 of the increase in share capital derived from fresh cash contributions and $3,608 was through four separate bonus share issues. There was little opposition to the bonus share issues because, in contrast to the Uritai Society, the large net surpluses earned by it had enabled substantial cash distributions to be made concurrently with bonus shares.

Trading results of the two societies are presented in Table 2.4. It reveals considerable variations in copra turnover from period to period. Copra Marketing Board prices and weather conditions were responsible for part of the fluctuations, but a more important factor was that of morale, working both through the value of copra produced by the villagers, and through the volume of copra marketed through their own societies rather than neighbouring societies. Tension within the Uritai Society sometimes manifested itself in its members patronising societies other than their own. Since the creation of the Mirivase Society, the proportion of total copra sales from the Uritai villagers handled by it has steadily increased. The copra potential of Mirivase village is fairly small and it is likely that the trend in relative turnovers of the two Societies was a result of patronage of Mirivase Society by members of Uritai rather than an increase in the proportion of total copra output produced by members of Mirivase Society. The causes of this tendency are not fully understood. It may be that the more successful operation of the Mirivase Society and the more regular payments of rebates had attracted Uritai people, who marketed their copra on the share numbers of friends and relatives in the Mirivase Society and received part of the resultant rebate.

The combined copra turnover of the two societies never again reached the high level of 1954-55, when the co-operative spirit was still strong among members. Then copra-making was considered 'co-operative work' and was done for the service of the society as well as for cash. Turnover was low throughout the period 1957-58 to 1962-63 which began with two years of low prices, but production remained low when prices rose again. People felt let down because co-operatives had not made them rich as they had expected, and there was considerable weakening of co-operative spirit during that period. Higher turnover of the two societies taken together after 1962-63 reflects both an upward trend in copra prices and an increasing preparedness to carry out transactions with the societies for the sake of the cash income alone.

Trade store turnover of the Uritai Co-operative Society showed no upward trend between 1954-55 and 1959-60 but there were marked fluctuations from year to year within that period. There was some correlation between these fluctuations and variations in copra turnover, reflecting lower purchasing power in years of low copra sales. The morale factor mentioned in regard to fluctuations in copra turnover was also important in this context. The very low turnover of 1959-60 was partly a result of a marked increase in private trading at about that time. There was considerable improvement in store turnover in 1960-61

Table 2.4

The Uritai and Mirivase Co-operative Societies trading results, 1954-69
($)

Period	Copra: Turnover	Copra: Weekly turnover*	Copra: Gross surplus	Copra: Per cent gross surplus to turnover	Copra adjustment	Trade store: Turnover	Trade store: Weekly turnover*	Trade store: Gross surplus	Trade store: Per cent gross surplus to turnover	Net surplus
URITAI SOCIETY										
2/3/54-25/3/55	9,306	169	2,034	21.9		12,656	230	1,564	12.4	2,774
26/3/55-19/3/56	2,580	51	814	31.6		9,518	188	1,168	12.3	1,242
20/3/56-13/3/57	5,868	115	740	12.6		11,886	233	1,110	9.3	1,128
14/3/57-28/2/58	2,704	50	474	17.5		11,720	217	378	3.2	140
29/2/58-21/3/59	4,256	83	714	16.8	732	13,968	274	240	1.7	908
22/3/59-25/3/60	3,582	68	278	7.8	1,756	9,368	177	- 64	-	922
26/3/60-10/3/61	4,832	97	122	2.5	468	16,098	322	752	4.7	480
11/3/61-12/3/62**	2,678	78	346	12.9	724	8,190	157	-276	-	414
13/3/62- 9/3/63	2,684	52	168	6.3	444	5,850	112	864	14.8	1,384
10/3/63-26/2/64	2,786	52	412	14.8	368	8,886	164	1,342	15.1	1,716
27/2/64-26/3/65	2,370	46	148	6.2	664	10,856	209	1,412	13.0	1,454
27/3/65-29/3/66	3,098	60	445	14.4	514	9,953	191	580	5.8	1,590
30/3/66- 3/7/67	4,325	66	114	2.6	930	13,278	201	-748	-	-773
4/7/67-19/3/68	1,178	32	49	4.2	368	6,726	182	542	8.1	175
20/3/68- 6/3/69	5,658	113	944	16.7	517	8,070	161	1,064	13.2	1,883
MIRIVASE SOCIETY										
5/9/61-12/3/62	986	37	120	12.2		6,444	239	864	13.4	728
13/3/62- 9/3/63	1,468	28	102	6.9	94	10,884	209	2,108	19.4	1,890
10/3/63-26/2/64	2,926	56	-106	-	214	14,080	271	1,892	13.4	1,390
27/2/64-26/3/65	2,832	54	72	2.5	634	17,080	328	2,024	11.9	2,094
27/3/65-29/3/66	3,148	61	403	12.8	692	19,957	384	1,812	9.1	3,990
30/3/66-31/7/67	4,769	72	- 41	-	1,048	27,524	417	2,457	8.9	2,607
1/8/67-14/11/67	604	36	21	3.5	357	6,476	381	346	5.3	373

* Weekly turnover is given due to irregular accounting periods.
** During this period Mirivase and Lalapipi villagers withdrew from the Uritai Society and formed the Mirivase Society.
Sources: Files CR 21-7-15, parts 1 and 2 and CR 21-7-21, financial statements.

and, taking Uritai and Mirivase Societies together, it continued to increase at a high rate until 1966-67. The Mirivase Branch Store, which later became part of the Mirivase Society, was opened during 1960-61, and the upward trend in turnover largely derived from increasing government expenditure at Kukipi station, adjacent to Mirivase village. The formation of the Lakekamu Co-operative Society amongst Administration employees at Kukipi station slowed only slightly the upward trend in store sales. In 1967 the Department of District Administration shifted its Kukipi sub-district headquarters to Malalaua, and the lower weekly sales of both Uritai and Mirivase Societies in more recent periods may be a reflection of this. However, the Mirivase Society had a remarkably high trade store turnover for a relatively small membership, reflecting a considerable amount of support from non-members, principally because its storeman kept more regular trading hours than did the storeman of Lakekamu and Uritai Societies, and the store (made of bush materials) was stocked more intelligently.

The overall operations of the Uritai Society indicated a remarkable degree of success, despite a history of mismanagement resulting in credit sales and pilfering by its employees.

The 1960-61 and in the first half of 1961-62 the Mirivase Branch of the Uritai Society achieved high gross profits on store operations while the main store at Uritai incurred losses. This, in fact, was the main cause that led to the formation of the Mirivase Society, which took over the operations of the Branch. For a number of years the new Society operated even more successfully than the former Mirivase Branch, with substantial gross profits on rising turnover resulting in high net surpluses. The Uritai store also worked considerably better for several years after the separation. But, in general, the Uritai Society has failed to fullfil the hopes of its early supporters, although it has provided a reasonably efficient copra marketing and store trading service which accounts for its continued support despite the disillusionment on the part of many of its members.

The Iokea Co-operative Society Limited

This Society was initiated in 1949 with members drawn from all sub-clans in Iokea village except the Morovelavi sub-clan, which had earlier organised a separate society. At that time there were also many small unprofitable private trade stores operated, mostly for prestige, by villagers who had returned after accumulating some savings through wage employment in Port Moresby. In October 1950 most of the private trade stores and the society organised by the Morovelavi sub-clan were disbanded, and the Iokea Co-operative Society was enlarged.

By early 1951 the Society had a share capital of $2,000 and a membership of nearly 300. Over the next three years it became well-established, with share capital rising to $4,072 by March 1954. This figure changed little until, in response to requests for more share purchases, the amount rose from $4,110 in September 1956 to $6,176 in April 1957. Twelve years later in May 1968 the figure was $14,141, while the membership stood at only 341. About 80 per cent of the increase in share capital from 1957 came from bonus share issues between 1960-61 and 1964-65 motivated by the need for additional capital to finance the construction of a new store of more permanent materials. Statutory reserves stood at $7,169 in May 1968 while general reserves totalled $984.

The main activities of the Society included copra marketing and store trading, although it also experimented with a small citrus fruit orchard and a dairy farm, and acquired a savings bank agency in 1966-67 and post office agency in the following year.

Details of the Society's overall trading results are shown in Table 2.5.

Variations in weekly copra sales were due largely to price fluctuations, while the relatively higher ratio of copra gross surplus to turnover during much of the 1950s was principally a result of more conservative prices paid for copra purchased from villagers. However, since the Copra Marketing Board prices were altered fairly frequently, some period to period changes in gross surplus reflected only alterations in the differential between purchase and sales prices. The lower ratios of gross surplus to turnover were also at times caused by loss of stock through dehydration and thefts by employees.

By and large, store turnover followed a similar pattern as copra sales. This was to be expected since copra was the main source of cash income in the village. In the later period store sales were maintained at a high level despite the introduction of strong competition in late 1966 from a privately owned trade store set up adjacent to the co-operative store.[1] Store trading,

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[1] This store was founded and managed by a former employee of the Iokea Co-operative Society. The business was run as a partnership with thirteen members and a share capital of $535. There were three large shareholdings and the remainder of only $10 or $5 each. The shareholders were also members of the Iokea Society.

however, was not as profitable an enterprise as copra marketing, and the very poor results of 1963-64 to 1966-67 were due principally to large scale undisclosed credit sales.

The Society's dairy farm project was unique for co-operatives in Papua New Guinea. In 1957 ten young Jersey cows and one Jersey bull were purchased by the Registrar of Co-operative Societies on behalf of the Society for $580. At that time little was known about the disease and insect problems of the area, and investigation caused considerable delay in starting the farm. The cattle, reduced in number by several sales, did not arrive in Iokea until late 1958. The project proved unprofitable in the early years because the villagers did not like fresh milk and failed to regard it as an equivalent of the tinned milk they bought in large quantities from the store. But the members refused to sell the cattle which to them constituted an important status symbol. Eventually dairying was abandoned and the farm converted to the production of beef for which there was high demand. In early 1968 the farm comprised one bull, three cows and two calves.

As indicated in Table 2.5, the overall economic performance of the Society was relatively sound throughout its history. Positive operating net surplus was realised in every accounting period, and large copra price adjustments contributed to high net profit in several years, especially in 1965-66 and 1966-67. Consequently, as shown in Table 2.6, fairly large and frequent distributions were made to members in the form of dividends, rebates and bonus shares. In addition, the Society, in the late 1950s, considerably enhanced the general village welfare by donating a water supply scheme costing over $1,600.

Several factors contributed to the successful operation of the Society. From the start, its major asset was its relatively well-educated members and the high ethical value they attached to the unity of the village. Both the high level of education (probably superior to any other Eastern Elema village) and the ethical attitude toward village unity are a tribute to the work

(Footnote 1 continued)
The store offered a better service to customers than the co-operative store, staying open for longer and more regularly and at times holding stocks of commodities of which the co-operative store was out of stock. Sales of store goods from mid January 1967 to the end of January 1968 totalled $6,111. The value of copra sold to the Copra Marketing Board amounted to $1,120 for ten months until the end of January 1968. There were two other private trade stores in Iokea village in early 1968, but these were of little consequence.

Table 2.5

The Iokea Co-operative Society Limited trading results, 1952-68
($)

Period	Copra					Trade store				Dairy and cattle		Net surplus
	Turnover	Weekly turnover	Gross surplus	Per cent gross surplus to turnover	Copra adjustment	Turnover	Weekly turnover	Gross surplus	Per cent gross surplus to turnover	Turnover	Gross surplus	
13/6/52-18/3/53	4,856	121	948	19.5		6,180	154	1,048	17.0			756
19/3/53- 6/3/54	8,170	163	2,088	25.6		15,306	306	1,338	8.7			1,792
7/3/54-31/3/55	14,922	266	4,192	28.1		14,588	228	1,214	8.3			4,474
1/4/55-20/3/56	5,528	108	340	6.2		12,052	236	1,532	12.7			240
21/3/56- 3/4/57	9,552	177	2,006	21.0		13,110	243	1,680	12.8			2,524
4/4/57-27/3/58	5,374	105	1,092	20.3		10,336	203	1,032	10.0			986
28/3/58-16/3/59	5,946	117	1,754	29.5	958	8,894	174	510	5.7			2,294
17/3/59-17/3/60	6,490	125	566	8.7	2,698	10,646	205	1,360	12.8			3,680
18/3/60-18/2/61	7,360	142	1,112	15.1	1,458	8,940	173	1,286	14.4			2,676
19/2/61-22/2/62	8,704	164	898	10.3	994	14,708	278	1,132	7.7	14	-146	1,888
23/2/62-21/2/63	8,190	158	500	6.1	896	13,380	257	1,830	13.7	98	-142	2,490
22/2/63-21/3/64	15,970	307	1,542	9.7	1,228	23,830	458	1,286	5.4	196	-144	2,828
22/3/64-18/2/65	13,396	258	778	5.8	-	18,560	357	470	2.5	198	- 88	2,632
19/2/65-16/3/66	12,771	246	1,293	10.1	3,640	22,982	442	-35	-	322	138	4,758
17/3/66- 6/4/67	16,052	309	1,480	9.2	4,722	24,910	441	133	0.5	273	269	6,262
7/4/67-15/5/68	10,689	184	2,307	21.6	-	19,589	338	1,765	9.0	100	100	1,773

Source: File CR 21-7-4, parts 1-3, financial statements.

Table 2.6

The Iokea Co-operative Society Limited
net surplus distributions, 1952-68
($)

	Dividends	Rebates	Bonus shares
1952-53			
1953-54			
1954-55		970	
1955-56		1,388	
1956-57	2,056		
1957-58		1,002	
1958-59		968	
1959-60			
1960-61	934	1,066	1,458
1961-62			
1962-63			
1963-64		1,800	2,706
1964-65	256		2,186
1965-66	846	4,173	
1966-67	512	3,186	
1967-68	209	1,802	

Source: File CR 21-7-4, parts 1-3, financial statements.

of the adjacent Moru Mission, operated by the London Missionary Society since before the turn of the present century. Although the Co-operative failed to realise all the early hopes of its supporters, there was no disillusionment comparable to that in Uritai, and member loyalty, no doubt strengthened by frequent cash distributions of net surplus, remained strong throughout. In addition, the Co-operative almost always had a competent secretary, who was usually supported by a Board of Directors consisting of men of relatively sound basic education and strongly motivated to work for the success of the Society. For the most part the Society was managed by the Iokeas themselves without much supervision from the Registry of Co-operative Societies.

The Moveave Co-operative Society Limited[1]

In December 1952 two existing Moveave village societies, Heatoare and Heavala, combined to form the Moveave Co-operative Society. Both the Heatoare and Heavala Societies were engaged in copra marketing and store trading, but since their inception in early 1948 the former wanted to obtain a boat and the latter a sawmill. Inadequate capital resources compelled the Heatoares to abandon the hope of acquiring a boat, but the Heavalas remained committed to the sawmill idea. The amalgamation of the two Societies was encouraged by Administration officials as a means of providing capital for the proposed sawmill and at the same time ease tension among Moveave groups. Some pressure for the amalgamation had also come from the villagers anxious

[1] For a detailed study see Wilson and Garnaut (1968:chs 7-16).

to have unity within Moveave. The sawmill, however, was not installed until 1963. In the meantime the new organisation functioned as a copra marketing and store trading enterprise.

Initially the Moveave Co-operative Society had a membership of about 400 and share capital of $2,340. Share capital increased very slowly until the 1960s, despite several appeals for fresh contributions to finance the proposed sawmill. In March 1961 it amounted to only $5,860, but thereafter increased to $26,989 by the end of March 1968. There was very little change in total membership throughout the period. Substantially the whole of the increase in share capital had occurred through bonus share issues. Large profits on sawmill operations (see Table 2.7) and the project's continued need for more working capital provided the capacity and the rationale for bonus share issues. About 62 per cent of the share capital belonged to Heavalas who constituted 68 per cent of total membership. Statutory reserves at the end of March 1969 stood at $9,902.

As shown in Table 2.7, copra turnover varied considerably between periods. Only some of the fluctuations were caused by changes in copra prices. The periods 1956-57, 1957-58 and 1961-62, when weekly copra sales were very low, were also periods of considerable tension between Heavala and Heatoare. On several occasions the latter tried to withdraw their capital contributions. When these attempts failed many of them tried to hurt the Society by marketing copra with the neighbouring Tauri River Society. The low figure for 1963-64 derived mainly from a sudden heavy demand made on village labour supply by the commencement of sawmill and logging operations, while the marked improvement during 1968-69 was related to a considerable reduction in these activities. The negative trading results from 1963-64 to 1966-67 were due mainly to thefts and resale of copra to the Society.

Table 2.7 also gives the results of store trading. Turnover of store goods was much more stable than copra sales. The sudden jump in weekly store sales to a much higher level since 1963-64 was predominantly an outcome of unprecedented growth in villagers' incomes brought about by the sawmill through wages and other payments. No doubt sales would have been greater had it not been for competition from indigenous private traders who became increasingly important after about 1961-62.[1] Between

[1] In early 1968 there were twenty-one licensed private trade stores operated by Heavalas and Heatoares. Although most of these were small and uneconomic, their combined turnover was about twice that of the co-operative store. The largest of them had a liquor licence and was housed in a new building of permanent materials costing over $2,000. It was owned jointly by eight persons, with the largest share belonging to a very senior employee of the Society.

Table 2.7

The Moveave Co-operative Society Limited trading results, 1954-69
($)

Period	Copra				Trade store				Sawmill			Net surplus
	Turnover	Weekly turnover	Gross surplus	Per cent gross surplus to turnover	Turnover	Weekly turnover	Gross surplus	Per cent gross surplus to turnover	Turnover	Surplus*	Per cent surplus to turnover	
6/3/54-30/3/55	3,336	60	1,472	44.1	5,920	106	262	4.4				1,296
31/3/55- 2/3/56	3,646	73	636	17.4	5,994	118	804	13.4				1,066
3/3/56-25/3/57	2,370	43	196	8.3	7,968	145	1,222	15.3				684
26/3/57-12/3/58	1,664	33	134	8.1	5,290	106	402	7.6				140
13/3/58- 9/3/59	3,850	74	836	21.7	7,166	138	-488	-				1,202
10/3/59-27/3/60	n.a.	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
28/3/60-14/3/61	6,546	131	356	5.4	6,870	137	788	11.5				1,156
15/3/61- 7/3/62	1,764	35	222	12.6	6,390	125	644	10.1				1,286
8/3/62- 4/3/63	4,708	91	310	6.6	8,258	159	848	10.3				618
5/3/63-31/3/64	528	9	-196	-	13,806	265	504	3.7	24,844	2,233	9.0	2,324
1/4/64-31/3/65	2,354	49	- 84	-	17,626	339	1,284	7.3	41,092	5,482	13.3	6,870
1/4/65-15/3/66	3,474	69	-325	-	19,160	383	2,351	12.3	40,004	4,013	10.0	7,273
16/3/66-31/3/67	2,715	50	-329	-	20,690	383	-668	-	66,598	10,870	16.3	10,884
1/4/67-31/3/68									68,712	8,321	12.1	9,608
1/4/67-31/5/68	3,301	54	692	21.0	30,065	493	2,008	6.7				
1/6/68-31/3/69	7,068	164	1,200	17.0	24,988	581	802	3.2				1,450**
1/4/68-30/9/68									17,901	-8,231	-	

* After deducting all production, administrative and sales costs.

** Excluding sawmill operations.

1960-61 and 1965-66 the Society's store was managed by an experienced storeman. This manifested itself in high ratio of gross surplus to store turnover throughout most of that period. The unfavourable result of 1966-67 followed a decline in the quality of store management reflected in large credit sales and thefts of goods. A new storeman was appointed in June 1966 and, although credit was still given, there was an improvement in the overall performance of the store.

The Society's sawmill is the only project of its kind established on a co-operative basis in Papua New Guinea. While some of the finance for it was raised internally, reliance on funds from outside the enterprise was considerable. The outside sources included the former Native Loans Board, a trading bank and the Toaripi Association. Deferred liabilities to these institutions reached \$38,304 at the end of September 1965 but declined progressively in later years (see Table 2.8). Some of the reductions, however, were achieved through greater access to trade credit from the Toaripi Association.[1]

Details of plans for the installation of the sawmill depended on advice from Administration officials. It was evident that close expatriate supervision would be required for some time and a co-operatives officer was therefore posted to Moveave. Although the project's manager, a Moveave man with training in sawmilling from the Administration, played an increasingly important role in management, the resident co-operatives officer continued to influence policy decisions and maintain fairly close supervision of overall operations. The Society's Board of Directors took little part in sawmill management or policy decisions. Several members of the Board regarded their duties as being concerned solely with copra marketing and store trading, despite the sawmill's far greater quantitative importance.

Though handicapped by occasional mechanical breakdowns, difficulties of marketing timber, and internal conflicts, the sawmill achieved remarkable results for several years, with timber sales rising from \$24,844 in 1963-64 to \$68,714 in 1967-68 and the ratio of operating surplus to turnover ranging between 9.0 per cent and 16.3 per cent in that period[2] (see Table 2.7). Despite opposi-

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[1] The sawmill's trade debts outstanding to the Association amounted to \$14,083 at the end of March 1968. (File CR 21-7-17, part 6, f.54).

[2] The early success of the sawmill to some extent helped heal the dissension between Heavalas and Heatoares. At first the latter viewed the sawmill simply as a Heavala project and refused to co-operate. Indeed, the sawmill, built on Heavala land and drawing timber from Heavala land, tended to employ mostly Heavalas.

Table 2.8

The Moveave Co-operative Society Limited deferred liabilities, 1963-68
($)

Date	Native Loans Board*	Toaripi Association	Trading bank overdraft	Total
21/6/1963	8,358	-	-	8,358
20/9/1964	6,481	4,263	-	10,744
30/9/1965	11,634	9,310	17,360	38,304
30/9/1966	9,209	5,000	12,080	26,289
30/9/1967	6,876	2,000	6,800	15,676
21/5/1968	6,876	2,000	4,160	13,036

* Native Loans Board advanced a total of $15,870 ($10,000 in 1962 and $5,870 in early 1965).

Sources: Wilson and Garnaut (1968:144); File CR 21-7-17, part 5, f.191 and part 7,f.138.

-tion from some members, much of the surplus earned each year was retained within the business by issuing bonus shares to finance debt repayment and expansion, thus reducing the reliance on outside sources for funds.

During 1968, however, the sawmill encountered serious difficulties. The demand for its timber fell drastically because of generally depressed market conditions in the timber industry and there was little sign of an early recovery. Marketing problems were accentuated because the Society did not have a timber sale yard in Port Moresby. To prevent the sawmill from closing down, the Registry of Co-operative Societies attempted to develop export markets for walnut flitches, but the prospects were not very promising. The sawmill also suffered from deterioration in the quality of management and a prolonged mechanical breakdown, which lasted from June to August of that year. Logging operations were curtailed and even suspended completely in some months causing much dissatisfaction among villagers whose incomes fell as a result. Some groups, resentful of the manager, increased their pressure for his dismissal. A heavy operating loss was incurred for the six months up to the end of September 1968, and the future of an important co-operative venture which showed considerable promise for several years appeared uncertain. It is unlikely that it would regain its former significance in the near future, owing to marketing difficulties and to a somewhat lesser extent management problems and conflicts within the Society.

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Chapter 3

New Ireland

The co-operative movement in the New Ireland district[1] was started during 1950. In the following year the New Ireland Co-operative Association Limited[2] was formed, and by 1954 the movement appeared well entrenched in the villages, with co-operatives handling practically the whole of the copra produced by the villagers and supplying much of their consumer goods requirements. A summary of major statistics for primary societies from 1953-54 to 1967-68 is given in Table 3.1.

Although co-operative activities in the district continued to grow until 1956-57, there was no marked increase in member participation in the functioning of the societies. Because of inadequate managerial and accounting skills members were unable to cope satisfactorily with the complexity of business

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[1] This covers New Ireland and outlying islands including New Hanover, Tingwon, Mussau, Emira, Tabar, Lihir, Tanga and Djaul. The islands are inhabited by several language groups. On New Ireland itself the major language groups include Kara, Nalik, Noatsi, Mandak, Barok, Patpatara and Susurunga. The District's headquarters is at Kavieng on the north eastern tip of New Ireland. Transport within the district is by coastal ships and roads. The east coast of New Ireland is well served by a major road covering a distance of about 180 miles between Kavieng and the sub-district office at Namatanai in the south. Minor roads or tracks exist along the coasts in most other areas but often these are unsatisfactory and heavy reliance is placed on coastal vessels. Contact with the rest of the world for trade purposes is almost entirely through Kavieng, which is the only town of any significance in the district.

[2] Until the introduction of the Co-operatives Societies Ordinance 1965, it was known as the New Ireland Native Societies' Association Limited.

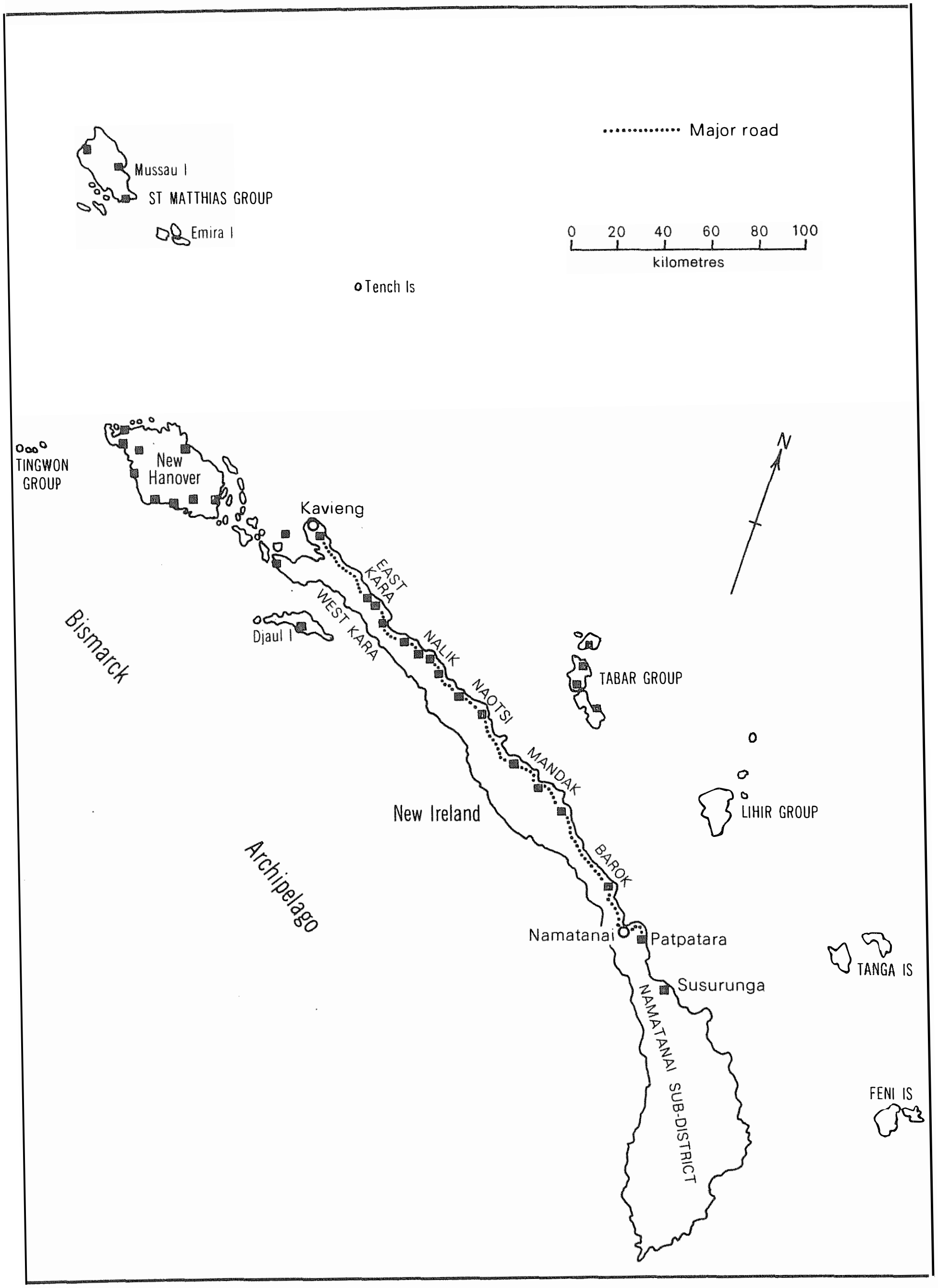

Fig. 3. New Ireland District: location of co-operatives, 1967.

organisation, and considerable reliance was placed on supervision by Administration officers.

During 1957-58 there was a widespread recession in co-operative activities throughout the country. The New Ireland district was seriously affected. Copra turnover of primary societies in the district fell by 36 per cent over the previous year and sales of other produce and store goods declined by 72 per cent and 49 per cent, respectively. The recession in this area began with the failure of the shell market where the price per pound to the producer fell from 25 cents to 10 cents, and the production of shell fell drastically. Copra prices, which had started to fall in the previous year, suffered a further setback and this caused a sharp reduction in copra production. The situation was exacerbated by the issuing of additional peddling licences to European and Chinese traders. This led to an intensification of peddling activities especially on the east coast of New Ireland between Kavieng and Namatanai. Members of some societies lived in villages several miles apart and even where the co-operatives operated branch stores they had to travel long distances to sell their produce and obtain trade goods. This prompted many of them to deal with peddlers who took their vehicles to even more remote villages. The peddlers also offered slightly higher prices for copra than the co-operatives in anticipation of copra price adjustment by the Copra Marketing Board. In addition, they bought whole nuts which were subsequently converted into copra. Many villagers found this a more convenient way of selling their produce even though it yielded lower returns. Barter in the form of trade goods and large quantities of bread, previously not available to many villagers, were among the other inducements used by Chinese peddlers. Some copra was still marketed through the co-operatives, but often this was of poor quality and the rate of rejection by the Copra Marketing Board was high.

Other factors also contributed to the 1957-58 recession in co-operative activities in New Ireland. There was a dearth of properly trained storemen to manage the societies' stores, and the Registry of Co-operative Societies was unable to maintain close supervision of individual societies due to staff shortages. Consequently both thefts by employees and credit sales (often undisclosed) were rife and contributed to low trading surpluses or even losses in many societies. The result was paucity or, in some cases absence of cash surplus distributions. This led to disillusionment with the co-operatives and a decline in member loyalty. There was little appreciation of the aims and techniques of co-operation.

Members tended to regard their societies merely as an avenue for the sale of their produce or the purchase of trade goods. In many cases the directors lacked enthusiasm and held their meetings only infrequently.[1]

The recession continued almost unabated into the following year and one society was wound up. Members' dissatisfaction with co-operatives continued to grow, particularly on the east coast of New Ireland. To counteract private competition, the societies raised their copra prices somewhat but they could not gamble on the anticipated price adjustment by the Copra Marketing Board. They also bought whole nuts from members but found this unprofitable. Only the substantial copra price adjustment received earlier in the year saved many of them from incurring a net loss. The Administration considered it undesirable to restrict free competition by limiting the number of peddling licences.[2] The improvement in societies' turnover during 1959-60 was effected mostly by societies other than those on the east coast of New Ireland where a number were on the verge of liquidation.

By and large, co-operative activities in the district declined during the 1960s, although there was a noticeable improvement in the trading results of societies in 1965-66 due mainly to higher copra prices and closer supervision by Registry officers. Apart from the adverse effects of low copra prices from mid 1960 to early 1963, there was a growing tendency on the part of members, particularly along the east coast of New Ireland, to engage in private trading either individually or in small groups outside the co-operative framework. A number of them began to buy coconuts for conversion into copra, which was then sold direct to the Copra Marketing Board. Moreover, most societies suffered from undercapitalisation. Some of them which had members scattered over wide areas, lacked adequate branch store facilities and this made it more difficult for them to maintain members' support in the face of mounting competition from private traders. This led to the reorganisation of the larger unwieldy societies into smaller independent units. In 1961-62 the South East Kara Society was liquidated and replaced by five autonomous bodies and another large society was split up into four new ones. In the following year the Mussau and Emira Society was reorganised into four new societies, three

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[1] These problems continued to affect most societies in the later years as well.

[2] File CR 21-6-1, part 1, ff.123-133; 147-148.

Table 3.1

New Ireland co-operative area:
statistical summary for primary societies, 1954-68*
($)

Year ended 31 March	Number of societies	Member-ship	Share capital	Turnover				Net surplus	Net surplus distri-buted	Statutory reserves	Provisions for depre-ciation	Invest-ments***	Fixed assets at cost
				Store	Copra	Other**	Total						
1954	21	11,514	62,006	54,584	297,600	23,124	375,308	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1955	21	10,652	86,504	76,820	248,596	40,628	366,044	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1956	25	11,868	98,076	105,894	232,104	58,568	396,566	n.a.	18,124	n.a.	n.a.	n.a.	n.a.
1957	25	11,977	99,184	118,806	254,454	55,874	429,134	n.a.	15,146	42,028	n.a.	n.a.	n.a.
1958	25	10,081	121,930	60,132	162,908	15,588	238,628	n.a.	21,692	49,356	n.a.	n.a.	n.a.
1959	24	8,694	130,238	60,260	190,110	3,920	254,290	n.a.	7,578	52,210	n.a	n.a.	n.a.
1960	24	8,603	133,766	100,132	241,844	4,930	346,906	n.a.	11,378	62,508	n.a.	62,508	n.a.
1961	21	8,292	141,480	132,936	158,448	7,616	299,000	-14,014	46,210	59,484	10,740	56,800	28,072
1962	28	8,269	148,458	92,552	173,298	3,528	269,378	3,080	6,206	56,248	11,630	61,606	22,680
1963	39	8,557	158,354	103,502	145,198	92	248,792	17,932	3,932	57,642	16,840	74,916	34,676
1964	43	8,481	162,930	61,606	116,602	-	178,208	9,504	120	61,624	9,932	77,462	22,258
1965	48	8,363	166,600	81,508	103,576	4,204	189,288	15,904	12,382	66,402	14,518	69,342	32,772
1966	49	8,376	171,817	116,983	151,738	16,080	284,801	24,504	12,493	71,975	17,112	75,553	38,359
1967	50	8,947	212,472	89,722	125,942	6,625	222,289	16,050	46,630	75,767	20,183	76,903	44,925
1968	53	9,152	221,118	75,196	146,439	22,222	243,857	3,691	8,500	78,761	27,233	78,980	56,566

* All figures, except those for turnover, net surplus and net surplus distributed are cumulative totals at the end of each period.

** Includes mainly shell until 1965-66 and thereafter mainly cocoa.

*** Include interest earning assets only.

n.a. not available

Source: RCS Reports 1953-54 to 1967-68; Files CR 20-4-2 to 20-4-12; statistics work sheets in the Registry of Co-operative Societies (Headquarters).

on Mussau and one on Emira, and the Palmatias Society on New Hanover was split up into eight new enterprises. Several more societies came into existence in the next two years through the same process. The reorganisation of the larger societies into smaller units was designed to improve member participation, increase the volume of co-operative trade and bring in additional share capital.

Another factor which hampered co-operative activities in the district was lack of adequate shipping facilities for societies not served by road transport. For several years the New Ireland Co-operative Association owned and operated small ships for the benefit of member societies. But these ships could not cope adequately with the demand for shipping. Some relief was provided by privately owned vessels but these were generally unreliable. In early 1962, on the advice of a Registry officer, the Association issued a five-year shipping contract to a local Chinese businessman to ship out of Kavieng all cargo required by the societies and bring in their copra on the return trip. The contractor purchased one of the Association's vessels (M.V. Ninsa I), and agreed to provide a monthly service to each member society. This arrangement proved to be unsatisfactory for the co-operatives as the contractor was unable to provide them with regular shipping due to his preoccupation with other business activities which included general trading and copra plantation. It was estimated that during 1965 over 2,000 bags of co-operative copra were rejected by the Copra Marketing Board purely because of deterioration suffered through prolonged storage necessitated by inadequate shipping. The costs of these rejections were estimated to be $4,400.[1] Inadequate shipping also resulted in large amounts of cash being tied up in copra stocks thus considerably reducing the cash available for buying members' produce (even if the storage facilities were not fully utilised), and depleting of stocks of store goods which could not be replaced for lengthy periods. The overall effect was that the business of some societies virtually ceased for weeks, even months, until shipping became available. The Registry officers considered that there was no satisfactory alternative to the acquisition of a suitable vessel by the co-operatives themselves. This led to the formation of the New Ireland Co-operative Transport Society Limited in 1966 and its vessel, M.V. Ninsa II was brought into service in early 1968.

[1] This included copra reconditioning charges and wastage in reconditioning. File CR 21-6-1 (Rabaul).

Despite the increase in the number of societies and total share capital contributed by members during the 1960s, the co-operative movement in the New Ireland district has declined in relative importance since the 1957-58 recession. This is particularly noticeable along the east coast road where there has been a great deal of disillusionment with the co-operatives over the years through their poor economic performance and paucity of cash rebates. Competition from private traders continues to be intense in this area. With comparatively poor management, insufficient finance and lack of adequate support from members, the co-operatives have not been able to counteract this competition effectively. Several societies have virtually ceased store trading and their members sell copra either to private traders or directly to the Copra Marketing Board. In most other areas, particularly on the smaller islands, private competition is either not so strong or non-existent, and the co-operatives continue to be a main source of store goods to villagers and handle a large proportion of the copra produced by them. The introduction of Ninsa II has considerably eased the transport problem of these societies, but they still suffer from undercapitalisation and poor management. Inadequate staff does not permit close supervision of their activities by the Registry of Co-operative Societies.

The New Ireland Co-operative Association Limited

This organisation was set up in Kavieng in 1951, almost concurrently with the introduction of primary societies in the New Ireland District. It was formed by the primary societies[1] mainly to supply them with trade goods on wholesale terms and to facilitate the marketing of copra and shell. The Association also provided transport facilities as well as some book-keeping and banking services for members and for short periods operated a small retail store, a stevedoring agency and a market for local products.

In May 1952 the Association had 18 members and $22,138 share capital. Membership rose as the number of primary societies in the district increased. By 1966 it had risen to 46. Its share capital on the other hand, rose sharply in 1954-55 to $63,576. This represented an increase of 187 per cent during the year. The Association continued to accumulate fixed assets to facilitate transport in the district and there

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[1] As with nearly all secondary and tertiary co-operative institutions in the country, the initiative for its establishment had come from the Registry of Co-operative Societies.

was constant need for more capital. But the next increase did not take place until 1957-58 when the total rose by 30 per cent to $82,742. The efforts of the Registry staff in the district in the early 1960s to raise the share capital to $140,000[1] were to a large degree frustrated by the general lack of enthusiasm for co-operatives that had developed in the area following the 1957-58 recession. The total in March 1968 amounted to only $102,474.[2]

The Association's trading results from 1952 to 1968 are shown in Table 3.2. By 1953-54 it was operating on a fairly large scale. Copra marketing had reached a high level and sales of store goods and shell amounted to $79,901 for that year. Separate figures for store trading and shell trading are not available until 1958-59. However, the proportion of shell sales apparently was high, averaging nearly one-third of total turnover, until 1957-58, when shell prices fell drastically and shell became difficult to sell at any price. After a few more years the shell business disappeared completely and turnover consisted entirely of wholesaling store goods.

Wholesale trade. Data on early operations are incomplete. The Association began wholesaling with a mark-up of 5 per cent on purchase price plus freight and stevedoring costs. Outward freight from Kavieng was debited to purchasing societies. There was a marked improvement in wholesale business during 1960-61 although the extent of it was exaggerated through incorrect invoicing and stock valuation. The improvement was partly a reflection of greater honesty on the part of new employees and partly caused by an increase in mark-up to about 12.5 per cent. From the beginning, however, management was poor and considerable reliance was placed upon Registry officers. Credit sales were excessive and lack of ready cash to meet day-to-day commitments was a continuous problem.

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[1] File CR 21-6-2, part 3, f.174 and part 4, f.7.

[2] It is interesting in this context to note that while the Association was experiencing great difficulty in attracting additional share capital, the societies responded favourably to requests to have $28,000 of their proceeds of copra price adjustments by the Copra Marketing Board in 1966 converted into shares in the New Ireland Co-operative Transport Society. The total share capital of this Society amounted to $51,513 in December 1968. (File CR 21-6-60, part 2, f.12.). No doubt, the relative ease with which this capital was raised was in part due to the fact that the Society was formed to acquire a prestigeous capital asset in the form of the vessel Ninsa II.

During 1961-62 the wholesale procedures were reorganised under the direction of a co-operatives officer. The practice of obtaining all store supplies from local firms was abandoned and the Association began to import part of its requirements directly from overseas: hardware and drapery mostly from Hong-kong and bulk grocery lines mainly from Australia. Moreover, both office and bulk store procedures were revised and severe restrictions were imposed on credit sales. However, the mark-up rate of 10 per cent was used for much of the year and the ratio of gross surplus to turnover of 15.1 per cent to some extent reflected errors in invoicing and stock valuation.

There was a considerable improvement in wholesale trading results during 1965-66. This was in part due to closer super-vision by Registry officers and increased demand for goods by some societies. Also, during that year, mark-ups on drapery and hardware were increased to 15 per cent and 20 per cent, respectively, to compensate for the slow movement of these lines. This was a major factor contributing to the even higher ratio of gross surplus to turnover in 1966-67 and 1967-68. Sales in these two years, however, dropped markedly as more societies along the east coast road either ceased or curtailed their trading activities.

Copra marketing. The rate of commission on copra marketed by the Association was raised in 1957-58 from 2.5 per cent on the value of sales to 5 per cent in an attempt to partly offset the decline in receipts from sales of shell and store goods. There was no further alteration in the rate and the fluctuations in the amount of commission received in the sub-sequent years reflected changes in copra prices and the volume of the produce handled by the Association. Much of the copra commission received between 1965-66 and 1967-68 was on account of increases in the quantities of copra channelled through the Association by societies in areas other than those along the east coast road where the copra trade of the societies on the whole declined progressively during the 1960s.

Transport services. Very early in its history the Asso-ciation started operating transport services. By 1954 it owned and operated five motor vehicles and four small coastal vessels, including M.V. Ninsa I with carrying capacity of 280 bags of copra. The decision to acquire these assets was taken largely because of the inadequacy of outside transport ser-vices, but was also to some degree motivated by the desire to own them for their value as symbols of status rather than means of production.

Table 3.2 shows that the vessels operated profitably for the first few years, but incurred substantial losses over the

Table 3.2

The New Ireland Co-operative Association Limited
trading results, 1952-68
($)

Period	Wholesale trade: Turnover*	Wholesale trade: Gross surplus*	Wholesale trade: Per cent gross surplus to turnover	Other turnover*	Gross surplus on other turnover*	Total turnover	Total gross surplus	Copra Commission	Transport services: Coastal vessels**	Transport services: Trucks (excluding smaller vehicles)**	Interest***	Net surplus
16/5/52-31/3/53						33,255	961	2,663	n.a.	-306	n.a.	886
1/4/53-15/2/54						79,901	1,629	7,725	1,414	-1,088	n.a.	4,870
16/2/54-31/3/55						132,128	4,435	8,681	855	-1,624	53	6,423
1/4/55-31/3/56						137,010	4,975	7,262	2,318	-1,492	266	6,541
1/4/56-31/3/57						164,305	6,237	7,814	2,001	893	458	8,937
1/4/57-31/3/58						131,102	9,301	6,359	-5,086	495	1,209	-1,600
1/4/58- 8/4/59	110,241	4,944	4.5	10,842	3,731	121,083	8,675	9,918	-12,789	98	983	-7,450
9/4/59- 7/3/60	112,418	5,533	4.9	9,397	2,666	121,815	8,199	10,988	-522	261	737	2,715
8/3/60-31/3/61	169,885	21,478	12.6	3,025	-32	172,910	21,446	10,449	-4,275	-3,056	2,330	4,423
1/4/61-31/3/62	112,138	16,956	15.1	9,232	830	121,370	17,786	9,858	12,145	-1,162	1,028	16,028
1/4/62-31/3/63	133,678	12,982	9.7	620	-306	134,298	12,676	6,970	-1,558	-142	1,418	8,514
1/4/63-31/3/64	98,300	7,584	7.7			98,300	7,584	3,416	23	-1,515	1,534	-1,766
1/4/64-15/2/65	102,746	5,850	5.7		5,244#	102,746	11,094	2,938	-652	-1,430	1,902	-146
16/2/65-13/3/66	148,911	14,614	9.8		-5,315#	148,911	9,299	7,754	231	-1,545	3,114	652
14/3/66- 3/5/67	101,219	12,891	12.7		55#	101,219	12,946	7,285	1,318	-186	4,388	5,193
4/5/67- 6/5/68	92,786	12,423	13.4			92,786	12,423	5,755	-721	-189	2,821	996

* No separate figures available prior to 1958-59.

** Surplus after deducting direct operating expenses.

*** Mainly interest on statutory and other reserves kept in Administration loans, fixed deposits and loans to other co-operatives.

\# Realised through revaluation of stocks of shell.

n.a. Not available

Source: File CR 21-6-2, parts 1-8, financial statements.

period 1957-58 to 1960-61. On the other hand, the trucks (not including the smaller vehicles) sustained losses between 1952-53 and 1955-56 and again continually from 1960-61. Both the vessels and trucks were generally underutilised and careless handling and absence of competent mechanics contributed to high operating costs. Data on pricing of the transport services are incomplete; for most part it appears that the charges were similar to those of other operators. In 1968, however, the Association was operating a truck between Kavieng and Namatanai and its charges were well above the rates charged by private trucking firms in Kavieng.

The losses incurred by the vessels and vehicles constituted a heavy drain on the finances of the Association, which was continually under a threat of illiquidity. This instigated a major change in the method of providing transport services. In 1961-62, under the guidance of a Registry officer, all vessels, except the 30 ft M.V. Enuk, and several of the vehicles were sold.[1] An arrangement was made with a Chinese businessman for the provision of shipping services to member societies on a five-year contract basis. But, as already noted in this chapter, the arrangement proved unsatisfactory for the co-operatives which eventually formed the New Ireland Co-operative Transport Society to acquire M.V. Ninsa II. A substantial part of the finance required for the purchase of this vessel was provided by the Association in the form of a loan to the new organisation. In May 1968 the loan totalled $55,344 of which $31,118 was raised by realising depreciation reserve investments.[2] The Association also played a part in the management of Ninsa II.

Despite the losses incurred by the transport services, the Association's overall operations yielded net surplus in all but four accounting periods between 1952-53 and 1967-68, although in some instances (notably in 1960-61 and 1961-62) the actual amount was somewhat exaggerated through errors in invoicing and stock valuation in connection with the wholesale trade. The very high net surplus figure recorded for 1961-62 was in part due to 'profit' on sale of vessels and motor vehicles mentioned earlier. In most cases, however, the net

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[1] The receipts from the sales exceeded the book value of the assets sold by approximately $13,000, which mainly accounted for the unusually large operating surplus for vessels in 1961-62. The operating losses of the vessels in earlier years were to some extent overstated through excessive depreciation charges.

[2] File CR 21-6-2, part 7, f.171.

result would not have been nearly as favourable without receipts of copra commission and, to a much lesser degree, interest on statutory and depreciation reserves invested in Administration loans and bank fixed deposits.

The trading results were adversely affected by lack of suitably trained and honest staff. Wage rates were noticeably lower than those paid by the Administration for similar employment and consequently the Association could not attract the best of the available talent. Clerical staff was often below the required level which meant that office records could not be kept up to date and stock controls were inadequate. Over much of the period, the Association relied heavily on the staff of the Registry for managerial assistance. This reliance was to some extent reduced following the employment of a more capable secretary in June 1963.

Table 3.3 shows that the financial position of the Association deteriorated considerably during 1967-68. Both the amounts owing to trade creditors and the amount outstanding from trade debtors showed marked increases. Non co-operative enterprises accounted for 68 per cent of the total outstanding to creditors at the end of the year. This was in marked contrast to the situation at the end of the previous three years when most of the trade debt owed by the Association was held within the co-operative movement. Credit sales to member societies had risen sharply during 1967-68 and several societies owed the Association amounts well in excess of 50 per cent of their share capital contributions in the Association. There was also a tendency to carry unnecessarily large quantities of wholesale stocks although the value of stock on hand at the end of 1967-68 was $6,160 less than a year earlier. Overstocking was most pronounced in hardware and drapery lines. These stocks moved slowly and orders for them tended to be placed almost indiscriminately with nearly all travelling sales representatives despite advice to the contrary from Registry officers. Both credit transactions and stocks increased further during the ensuing 5 months. Stocks on hand on 15 October 1968 were valued at $31,777, while the amount outstanding to trade creditors totalled $28,050 and trade debtors owed $42,397.[1]

Throughout 1968 the Association was critically short of working funds. Some relief was provided by a small overdraft limit obtained from a commercial bank. The increase in share capital was very slight and it was unlikely that the Association would be able to augment its funds significantly through further contributions from member societies.

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[1] File CR 21-6-2, part 8, f.23.

Table 3.3

The New Ireland Co-operative Association Limited
assets and liabilities, 1965-68
($)

	15 February 1965	13 March 1966	3 May 1967	6 May 1968
Current assets				
Cash on hand and at bank	12,456	30,643	4,574	10
Trade debtors: societies	22,910	15,313	17,386	33,168
others	6,260	2,600	1,842	2,083
Stock	40,120	32,674	29,359	23,199
Other	20	923	20,757	467
	81,766	82,153	73,918	58,927
Less current liabilities				
Trade creditors: societies	21,712	21,451	7,708	5,763
others	10,886	5,506	2,984	12,442
Bank overdraft	-	-	-	2,042
Other	58	1,048	582	810
	32,656	28,005	11,274	21,057
Working funds	49,110	54,148	62,644	37,870
Add investments				
Shares in P.N.G. Co-operative Security Society Ltd	404	404	808	808
Loan to New Ireland Co-operative Transport Society Ltd	-	-	-	55,344
Administration loans	10,000	10,000	10,000	10,000
Bank fixed deposits	31,118	31,118	31,118	-
	41,522	41,522	41,926	66,152
Add fixed assets				
Original value	46,124	46,799	42,552	46,097
less provision for depreciation	27,686	32,787	33,305	37,067
	18,438	14,012	9,247	9,030
	109,070	109,682	113,817	113,052
These funds were represented by:				
Proprietorship				
Share capital	98,016	98,016	99,638	102,474
Statutory reserves	9,914	10,044	11,343	11,360
Profit and loss appropriation	1,140	1,622	2,836	- 782
	109,070	109,682	113,817	113,052
Ratio of current assets to current liabilities	250%	293%	656%	280%

Source: File CR 21-6-2, part 7, ff.49, 169 (comparative balance sheets).

The Nalik Co-operatives

The Nalik people constitute one of the major language groups occupying the east coast of New Ireland between Kavieng and Namatanai. Their territory begins about 43 miles from Kavieng and stretches for approximately 21 miles. It extends a considerable distance inland but only the coastal strip is intensively cultivated. Although the interior is a potentially rich agricultural land, all contemporary Nalik villages are located close to the beach. The migration to the coast of the populations of several inland villages after European contact is the source of present day land disputes which tend to impede group activity among the Nalik people.

However, in 1950 in the first flush of co-operatives in New Ireland, the Nalik Co-operative Society was established with membership drawn from the whole of the Nalik area. Early support was strong, but inadequate branch store facilities, incompetent management, traditional animosities and competition from private traders contributed to poor trading results and erosion of member loyalty. Traditional animosities were intensified by differential support from different groups. Some groups alleged the lack of adequate support from others as a cause of the Society's weakness, and were discouraged from supporting it themselves.

In 1961-62, in an attempt to rejuvenate the co-operative movement in the area, the Nalik Co-operative Society was liquidated and four new societies - Munalan, Digona, Lafi and Fabola - were formed in its place. But by early 1967 three of the new societies had ceased operations and the fourth closed down later in the year. In looking more closely at Fabola, the most successful of the new societies, further insight may be gained into the reasons for the failure of many other east coast co-operatives.

<u>The Fabola Co-operative Limited</u>. This started operating in November 1961 with $2,390 in share capital and 159 members drawn from four southern Nalik villages: Lamalaua, Bol, Fatmilak and Kafkaf. With more members from Fatmilak than other villages and with a branch store of the old Nalik Society still in existence, Fatmilak became the main trading centre.

As shown in Table 3.4, early operations of the Society were at a relatively high level. The high turnover of 1962-63 largely reflected the surge of enthusiasm that accompanied the formation of the new enterprise. But in 1963-64 monthly store turnover fell by about 37 per cent and copra sales by approximately 71 per cent. Members became dissatisfied with the price paid by the Society for their copra. Many organised themselves into small groups and sold their copra direct to the Copra Marketing Board. This yielded higher returns and at the same time enabled different groups to work only with their kin and clansmen.

However, a new peak of activity was reached in 1965-66, largely because the Society raised its copra purchase price from 4 cents to 5 cents per pound. The revival was also partly due to the efforts of an American graduate volunteer worker, attached to the Registry and entrusted with the task of rejuvenating the east coast societies. But the overall interest in the co-operative movement remained low.

Activity continued at a fairly high level in the first half of 1966-67. Copra purchase price was not altered despite a reduction in prices paid by the Copra Marketing Board. This, together with a high rate of rejection due to poor quality, resulted in a gross loss on copra trading during that period. Subsequently, under the direction of a co-operatives officer (but not without considerable resistance from members), the purchase price was lowered to 3 cents per pound, a level clearly below that received from direct delivery to the Copra Marketing Board after allowing for freight charges. This was immediately followed by a drastic reduction in copra sold through the Society. The purchase price was later raised to 4 cents per pound but this too was considered inadequate. In 1967-68 copra trading ceased altogether and store sales, which tended to vary with copra turnover, became negligible.

The effect of low purchase prices for copra was exacerbated by the failure to pay cash rebates frequently in accordance with members' expectations. The first distribution of net surplus was made in 1965-66 and of the total of $1,576 distributed over the years only $549 was in cash and the rest in bonus shares. The failure to distribute in cash a substantial part of receipts of copra price adjustment intensified members' desire to sell their produce direct to the Copra Marketing Board.

Inefficient management also had an adverse effect. Staff dishonesty and the failure to collect undisclosed outstanding debts from members were important causes of the poor results from store trading after 1963-64. In addition, the Society lacked strong leaders of its own and relied heavily on the New Ireland Co-operative Association and Registry staff for leadership.

However, during 1968 members once again revived their interest in the Society. Copra turnover between March and August that year totalled $1,453 and yielded a gross surplus of $208. The revival of store trade was held in abeyance until the old stocks were cleared.

The Nalkul Cocoa Growers' Co-operative Limited. This was another co-operative formed within the southern Nalik villages during the 1960s. It began as a rural progress society with membership drawn from Lamalaua, Bol, Fatmilak, Kafkaf and Kama villages. Of the 82 original members, over half were from Fatmilak and most of these also belonged to the Fabola Co-operative Limited. As early as 1956 the villagers had collected

Table 3.4

The Fabola Co-operative Limited trading results, 1961-68
($)

Period	Trade Store		Copra		Copra adjustment	Net surplus
	Turnover	Gross surplus	Turnover	Gross surplus		
29/11/61-17/2/62	471	110	430	77	-	115
18/ 2/62-26/3/63	2,511	497	2,482	100	440	787
27/ 3/63-27/2/64	1,324	200	605	19	330	281
28/ 2/64-21/4/65	1,647	67	1,478	100	123	- 6
22/ 4/65- 8/3/66	2,830	-22	2,780	35	352	405
9/ 3/66-16/3/67	1,499	-32	1,143	-190	627	224
17/ 3/67-22/3/68	91	-37	-	-	137	40
23/ 3/68-28/8/68	33	-14	1,453	208	-	94

Source: File CR 21-6-30, financial statements.

some money to form a Nalik Cocoa Project, no doubt inspired by the Tolai Cocoa Project on the Gazelle Peninsula. But the plan did not immediately materialise and the money was deposited in a bank. In 1961 a Fatmilak villager spent six months learning about cocoa at the Kerevat Experimental Station on New Britain. On his return to the village he started growing his own cocoa and instructed others in planting.

In November 1964 the residents of Fatmilak and surrounding villages decided to establish a cocoa fermentary at Fatmilak. Plans for the project were drawn up by DASF officers who also made arrangements for the purchase of all necessary materials and supervised its construction. Much of the labour required for building was provided free by members. The initial cost of the project amounted to approximately $950, which was raised mostly through share capital contributions. By March 1969 membership had increased to 94 and share capital totalled $3,546.

Initially the Society's purchase price of wet cocoa beans at 5 cents per pound was higher than the prices offered by Chinese and European competitors. It paid for the produce periodically and members had to arrange their own transport to Fatmilak, a distance of several miles in some cases. The competitors, on the other hand, offered cash at the time of delivery and later raised their price to 5 cents. In addition, the Chinese trader purchased wet beans at any point along the main road and for a number of villagers a European plantation was more conveniently located than the Society's fermentary. Nevertheless, member support for the Society was generally strong and in 1967 steps were taken to combat the competition. A few members agreed amongst themselves to carry wet beans to the road at the same time and then hire a truck for transport to Fatmilak, and it was decided that payments for the produce would be made regularly every fortnight. As indicated in Table 3.5, the Society has

Table 3.5

The Nalkul Cocoa Growers' Co-operative Limited
trading results, up to 31 March 1969
(cocoa marketing)

Period	Purchases $	Turnover $	Gross surplus $	Per cent gross surplus to turnover	Net surplus $
Up to 31/3/66	254	547	26	4.8	224*
1/4/66-31/3/67	2,236	3,537	1,114	31.5	570
1/4/67-31/3/68	4,604	8,137	2,901	35.7	1,927
1/4/68-15/3/69	4,858	8,575	3,598	42.0	2,355

* Realised largely through $324 interest received on bank deposits.

Sources: Files 23-3-1(1) (DASF, Kavieng) and CR 21-6-65, financial statements.

achieved a considerable degree of success. In 1968-69 its fermentary facilities were enlarged to cope with the increasing throughput of cocoa beans.

Of the two co-operatives in the Nalik area, Nalkul was clearly more successful. Fabola, too, flourished in its early years, and it is possible that enthusiasm for Nalkul will also wane with time.

Competition from outside trading was no more intense in the case of copra than cocoa. However, one important difference was that indigenous private traders were in competition with the copra but not the cocoa co-operative. Much capital is needed for a cocoa fermentary, as is technical skill, which must be obtained from the Administration. It is virtually impossible for clan or kin groups to own and operate a fermentary whereas it is a relatively simple matter for them to arrange the transport of copra to the Copra Marketing Board depot at Kavieng. Thus any preference for working in smaller rather than larger groups has little chance of being expressed in the case of cocoa trading. On the general question of competition, it is relevant that Nalkul always kept its purchase price as high as possible and as high as those offered by its competitors. Fabola, on the other hand, found that member loyalty would not stretch far enough to cover large price disadvantages vis à vis alternative means of marketing produce.

Another difference between the two societies was in the manner of supervision. Neither society provided its own leadership, although this was less true of Nalkul than Fabola. Agricultural officers spent much more time on supervision of Nalkul than co-operatives officers did on Fabola. Some of the effects were clear: the former did not suffer from credit giving or thefts by employees. Others were less tangible but no less important, such as the general boost to morale of having outside people genuinely and constantly interested in the affairs of the society.

The Namatanai Co-operatives

The co-operative movement was first introduced in the Namatanai sub-district during 1955-56 when three primary societies, the South East Patpatara, North East Patpatara and Susurunga were formed to facilitate the marketing of copra. Owing to the shortage of staff, a co-operatives officer was not posted to Namatanai, and supervision of the societies was carried out from Kavieng. By the end of 1958-59 members had lost interest in the societies and all three had ceased operations. Apart from lack of close supervision, irregular shipping and competition from Chinese traders were the main factors that led to the erosion of morale and decline in member loyalty. The collapse of these societies, however, was not the end of the movement in the sub-district. During the 1960s several requests were made to the Department of District Administration (DDA) for assistance in the re-establishment of indigenously owned marketing facilities. One of the reasons for the renewal of interest in co-operatives was the reduction in prices offered by Chinese traders for copra and coconuts after the collapse of the old societies. Eventually the Namatanai and Susurunga Marketing Co-operatives were formed on the east coast in 1965 and 1966 respectively, and another copra marketing society was started on the west coast in the middle of 1968.

The Namatanai and Susurunga Societies began under the sponsorship of the Namatanai Local Government Council. Initially their management structure resembled closely that of the Council and for a while their affairs were supervised by DDA officers. The association of the Societies with the Council and their close contact with DDA officers, however, were weakened after the posting of a co-operatives officer to Namatanai in July 1967.[1]

The Namatanai Marketing Co-operative Limited. This Society serves 17 villages of the Patpatara language group, stretching over a distance of about 10 miles from Bakan village in the north of the sub-district headquarters to Kudukudu in the south. Its membership grew from 213 in mid 1967 to 388 in March 1969, while share capital increased from $3,218 to $6,075. Many of

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[1] DDA officers were reluctant to hand over the supervision of the Societies to Registry officers; they were proud of the way the Societies had developed under their guidance and were concerned that any changes might hurt them. Registry officers, on the other hand, were critical of the poor financial records and looseness of organisation under DDA. There was little co-operation between the two groups of Administration officers.

the members formerly belonged to the defunct South East Patpatara and North East Patpatara Societies whose assets were taken over by the new organisation.

The Society confined its activities to copra marketing including the provision of drying facilities and transport of coconuts and copra within the area covered by it. Its storage centre was at Namatanai and the produce was either shipped to the Copra Marketing Board at Rabaul or sent by road to the Board's depot at Kavieng.

Trading results of the Society are presented in Table 3.6. From the start enthusiasm among members was high and nearly all their produce was sold to the Society. The Society's buying price of 5 cents per pound was initially higher than those offered by Chinese and European competitors, but the latter subsequently raised their prices to match that of the Society. The lower weekly turnover between May 1966 and May 1967 was due partly to inroads made by the competitors and partly to poor seasonal conditions. But the Society regained its position during the next period, mainly through an increase in membership. Later it started buying copra in the Sokirik area on the west coast and on Lihir Island; this was the main factor responsible for the doubling of weekly sales during the nine months between June 1968 and March 1969.

Table 3.6

The Namatanai Marketing Co-operative Limited trading results, 1965-69 (copra marketing)

Period	Turnover $	Weekly turnover $	Gross surplus $	Per cent gross surplus to turnover	Copra adjustment $	Net surplus $
23/7/65-18/5/66	22,344	520	1,502	6.7	-	475
19/5/66-10/5/67	24,315	477	2,196	9.0	2,794	3,078
11/5/67-28/6/68	31,574	533	2,931	9.3	2,772	2,336
29/6/68-25/3/69	39,823	1,032	3,658	9.2	6,353	7,029

Source: File CR 21-12-25, financial statements.

However, operating expenses, in particular transport costs both within the area and from Namatanai to Copra Marketing Board depots,[1] were high. But apparently there was little

[1] The cost of road transport to Kavieng was generally $10 per ton while the cost of private shipping to Rabaul was a dollar higher. But with the arrival of M.V. Ninsa II, the shipping cost was reduced to $10 per ton and most of the produce was sent to Rabaul by this vessel, although the road transport was more frequent and thus had the advantages of drawing less on working capital and a lower risk of spoilage.

leakage through thefts and errors in payment. The net surpluses were mostly passed on to members in the form of cash rebates. Up to March 1969 a total of $9,284 was paid out. This, together with the high purchase price of copra paid to members, was no doubt the main reason for their continued enthusiasm and support for the Society.

The Susurunga Marketing Co-operative Limited. Members of this Society, totalling 801 in February 1969, are spread over 18 coastal villages of the Susurunga language group, stretching southwards from Balai village, about 10 miles south of Namatanai, for about 30 miles to Porobunbun. Unlike the Namatanai Society's villages, which occupy a flat coastal plain easily traversed by truck, the component villages of Susurunga are separated by rugged hills and creeks that cannot be crossed even by tractor in periods of heavy rain. The Society began operations with a share capital of $1,462 of which $1,288 represented assets of the old Susurunga Society which had become defunct by the end of 1958-59. In February 1969 its share capital amounted to $5,525.

This Society's activities were also confined to copra marketing. To facilitate this, it transported members' coconuts to driers located at convenient places throughout its area of operations and their copra to its central storage point. Originally, outside transport, usually a tractor belonging to the Namatanai Local Government Council, was hired for this purpose. In May 1967, a second-hand tractor and trailer unit was purchased, but the tractor suffered frequent breakdowns and its maintenance was both difficult and expensive.

Initially the Society purchased copra at 3.5 cents per pound but this was gradually raised to 5.5 cents by the end of November 1968. Soon afterwards the selling price of copra fell and the buying price was reduced to 4 cents per pound by the following March. All copra bought was shipped to Rabaul. Freight cost was high, being $11 per ton for private shipping and $10 per ton on M.V. Ninsa II. Also, shipping services tended to be irregular which meant that the Society was periodically short of funds due to accumulation of stock.

Table 3.7 gives the Society's trading results. Compared with the Namatanai Society, both the turnover and net surplus were noticeably lower. The only disbursements to members consisted of $3,825 in cash rebates and dividends during 1968-69. Apart from heavy transport costs and irregular shipping, the trading results were greatly affected by competition from Chinese traders, one of whom owned several trade stores in the area and was determined to break the Society by offering higher prices for copra and selling store goods on credit on the understanding that

Table 3.7

The Susurunga Marketing Co-operative Limited trading results, 1966-69 (copra marketing)

Period	Turnover $	Weekly turnover $	Gross surplus $	Per cent gross surplus to turnover	Copra adjustment $	Net surplus $
17/10/66-31/3/67	5,554	234	315	5.7		-55
1/ 4/67- 7/3/68	16,423	336	1,045	6.4	171	738
8/ 3/68-28/2/69	21,588	422	1,533	7.1	5,134	3,992

Source: File CR 21-12-26, financial statements.

villagers would pay in copra. Although the Society's turnover increased during 1968-69, members' enthusiasm for the organisation had decreased during that period.

The Namatanai and Susurunga Societies were formed in an area where the co-operative movement had already existed and died, a situation quite unique for Papua New Guinea. Both societies began with strong member support, free from reluctance by the earlier failure. This may have been because the Local Government Council sponsorship prevented the people seeing the new enterprises as co-operatives of the old type. But both societies suffered from heavy transport costs and competition from non-indigenous traders. Although they were instrumental in the raising of copra prices paid by other buyers, private competition, especially in the case of Susurunga, was severe and with their relatively thin financial resources, they had difficulty in maintaining member loyalty.

Chapter 4

Rabaul-Kokopo

As in other areas in Papua New Guinea, villagers in the sub-districts of Rabaul and Kokopo[1] initially responded enthusiastically to the idea of forming co-operatives to engage in consumer goods trade and marketing of primary produce. The first co-operative in this area was formed at Raluana in late 1952. By March 1954, there were nineteen primary societies and a secondary organisation, the New Britain Co-operatives' Association Limited,[2] had been established. The operations of the Association and two primary societies, Bitaulagumgum and Wolavolo, are discussed in some detail later in this chapter. First, a brief survey of the co-operative movement in the area as a whole is presented.

Most of the societies were formed by a natural grouping of people from six or more villages. Their individual membership ranged between 200 and 1,200, but in most cases it was around 450. Initially the support for the co-operatives was strong, but unexpectedly they suffered an early setback. For the first six months to the end of September 1954, turnover of the societies totalled $153,008. A slight downturn became

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[1] The two sub-districts cover the Gazelle Peninsula and the nearby islands in the East New Britain District. The Gazelle Peninsula is one of the most developed as well as densely populated areas in Papua New Guinea. Most of the inhabitants are Tolais, who have had a long experience with cash economy and are among the better educated and more sophisticated groups of people in the country. The transport system in the Gazelle Peninsula is highly developed with most of the Tolai villages connected by a network of good roads and only a few miles from the townships of Rabaul and Kokopo.

[2] Until the introduction of the Co-operative Societies Ordinance 1965, this was the New Britain Native Societies Association Limited.

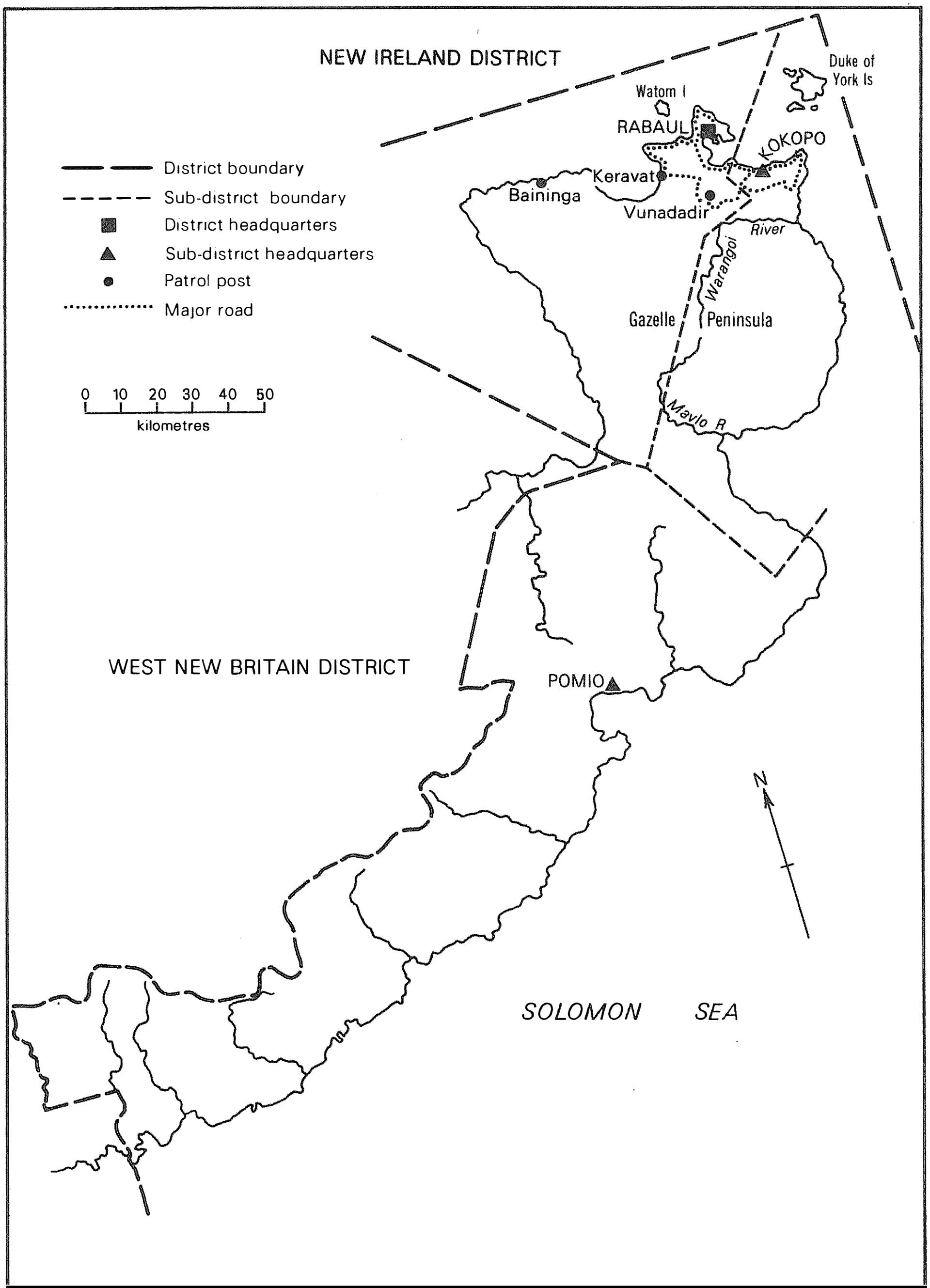

Fig. 4. East New Britain.

evident in the next six months with total turnover falling to $137,152, and the societies began to accumulate losses. The downturn gathered considerable momentum during 1955-56. For the first six months of that year, 12 of the societies showed losses totalling $23,073, and the Profit and Loss Appropriation Account of the New Britain Association at the end of that period indicated a debit balance of $16,379.[1] Four societies were liquidated during the year. The recession continued into 1956-57. Although the rate of decline in turnover had slowed down, the total amounted to only $110,290, the lowest for any year between 1955-56 and 1967-68 (see Table 4.1).

Several factors contributed to the above recession. Both copra and store trading activities were affected.

The decline in copra trade began with the introduction, during 1954, of higher quality standards for produce bought by the Copra Marketing Board. This resulted in large quantities of co-operative copra being rejected or downgraded. Attempts by Administration officers to raise the quality of co-operative copra were not very successful as the villagers were able to sell their produce without any difficulty to numerous Chinese traders who were prepared to buy poor quality copra.

Store trading by the co-operatives suffered through lack of adequate working funds. Earlier, in the initial burst of enthusiasm, a majority of them had spent much of their subscribed capital on building stores with more permanent material instead of using the local bush material. This, combined with the reduction in proceeds from copra, meant that they did not have sufficient funds to adequately stock their stores. For many societies this problem was exacerbated by the fact that earlier they had injudiciously purchased large quantities of goods which could not be sold readily. Thefts by society employees, free distributions of goods and large scale undisclosed credit sales aggravated the situation even further. Active competition from private trade stores, notably those owned and operated by Chinese, also had an adverse effect. The private stores in Rabaul and Kokopo were easily accessible to the villagers and were much better stocked. For reasons of inadequate finance, poor management and insufficient supervision, the co-operative stores were not able to counteract private competition.

Members expected to receive large cash rebates from their societies. In the early stages of the co-operative movement

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[1] File CR 21-12-1, part 1, f.108.

in the area, excessive emphasis was placed on cash rebates in order to attract members. When the expected rebates were not forthcoming, members rapidly lost interest in their societies. Moreover there were two main cash crops: copra and cocoa (one sold through the co-operatives, the other through the Tolai Cocoa Project[1]). This implied divided loyalties, which also could have contributed to the weakening of members' allegiance to the co-operatives, particularly as the marketing of cocoa through the Tolai Cocoa Project appeared to be so much more successful.

During 1955-56 the co-operatives officer in the area assumed much greater responsibility for the administration and financial control of the individual enterprises, including the New Britain Association. Rates of pay for co-operative employees were revised and surplus staff dismissed. All purchases of store goods required his prior approval and only orders for essential quick moving lines were sanctioned. Several branch stores were closed down and stock control systems introduced. A set costing system was instituted to facilitate more accurate evaluation of trading accounts. Cash transactions of the co-operatives were placed under direct supervision of Registry staff who also made more regular inspections of all aspects of their activities.

Table 4.1 gives a summary of the major statistics for primary societies from 1955-56 to 1967-68.

Under the strict supervision of the Rabaul staff of the Registry, the complete collapse of the co-operative movement in the Gazelle Peninsula in the mid 1950s was averted. Compared with the previous year, the aggregate turnover of the societies even rose by 16 per cent during 1957-58, the year in which co-operatives in other areas in Papua New Guinea were experiencing widespread recession. By 1959 most of the weaker societies had been liquidated and 1958-59 was the first time all existing societies showed a net surplus.[2] Their trading results continued to improve over the next two years and to hold members' interest much of the net surplus earned was distributed as cash rebates. To a large extent the improvements during 1959-60 and 1960-61 were a result of a considerable growth in members' incomes from cocoa production and higher copra prices.

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[1] This was established in the early 1950s under Administration sponsorship to operate cocoa fermentaries and provide supervisory and marketing facilities and services. For a detailed account, see Epstein (1968:chapter 6).

[2] File CR 20-2-5 (Rabaul).

Table 4.1

Rabaul-Kokopo Co-operative area:
statistical summary for primary societies, 1955-68*

Year ended 31 March	No. of societies	Membership	Share capital	Turnover				Net surplus	Net surplus distributed	Statutory reserves	Provisions for depreciation	Investments**	Fixed assets
				Store	Copra	Other	Total						
			$	$	$	$	$	$	$	$	$	$	$
1956	17	11,234	108,060	76,160	56,058		132,218	n.a.	5,312	n.a.	n.a.	n.a.	n.a.
1957	16	9,328	93,270	60,046	50,244		110,290	n.a.	2,940	2,406	n.a.	n.a.	n.a.
1958	15	8,262	82,638	61,786	66,218		128,004	n.a.	3,646	3,148	n.a.	n.a.	n.a.
1959	11	6,945	64,882	69,662	83,180		152,842	n.a.	2,404	7,224	n.a.	n.a.	n.a.
1960	12	6,790	66,264	127,058	138,280		265,338	n.a.	18,904	11,546	n.a.	11,546	n.a.
1961	12	6,827	74,324	159,388	163,892		323,280	18,756	15,356	15,360	15,090	15,468	31,482
1962	13	7,022	104,802	120,568	115,888		236,456	48,120	46,104	23,996	18,950	29,368	33,278
1963	14	7,272	108,744	145,752	76,374		222,126	16,152	234	27,582	23,144	36,832	38,678
1964	14	7,755	109,426	165,894	91,968		257,862	16,840	26,050	30,518	27,276	46,194	39,958
1965	15	7,951	117,730	176,964	44,236	14	221,214	23,368	25,616	36,076	31,806	59,250	42,940
1966	15	7,972	131,338	145,504	47,295	216	193,015	18,273	26,006	40,531	34,026	61,823	60,000
1967	15	7,972	136,646	128,147	82,249	35	210,431	11,048	1,912	41,264	36,597	65,209	62,047
1968	17	8,494	148,267	120,012	18,360	569	138,941	8,178	8,288	47,239	41,052	70,862	67,571

* All figures, except those for turnover, net surplus and net surplus distributed are cumulative totals at the end of each period.

** Include interest earning assets only.

n.a. Not available.

Sources: RCS Annual Reports, 1955-56 to 1967-68; files CR 20-4-2 to 20-4-12; and statistics Work Sheets in the Registry of Co-operative Societies (Headquarters).

In 1961-62, however, there began a fresh decline in total sales revenue of the societies. By and large, the downturn continued in the later years and had become very serious by 1967-68.

The reduction in copra trade began with a sharp drop in copra prices. But, despite more favourable prices since 1963-64, the volume of copra handled by the co-operatives declined drastically. By 1967-68 all societies had virtually ceased copra trading. The performance of the societies was greatly affected by more intense competition from Chinese traders, who not only offered higher purchase prices but also attracted many customers with unsolicited gifts of cigarettes, tobacco, clothing, and so on. The situation was aggravated by the development of a new market for whole nuts among the indigenous people. Several villagers in the immediate Rabaul area bought large quantities of whole nuts from more distant areas for making copra which was mostly sold to Chinese traders. There was also a marked increase in direct sales to the Copra Marketing Board which was readily accessible to most villagers. During the 1960s a large number of Tolais acquired their own vehicles (either individually or jointly with clan members) and began to deliver their copra directly to the Copra Marketing Board. Many others also dealt directly with the Board as there was an abundance of motor vehicles which could be hired without much difficulty. Society members clearly found this method of selling more attractive as they received the full benefit of copra price adjustments by the Board. Meanwhile the copra price adjustments received by the societies were usually lost in making up the losses incurred on their trade store operations. In most cases very little (if any) was passed on to members.

In contrast to copra trade, the drop in store trade of the societies in the period following 1960-61 was not as drastic. In fact, their total store sales increased markedly over the period 1962-63 to 1964-65. At about that time, however, the Tolais were showing a considerable interest in and support for the credit union movement and becoming much more interested in operating their own businesses. Small trade stores proliferated in most villages. Although most of these stores became moribund after a couple of years of operation, they diverted a sizeable amount of trade away from the co-operatives already seriously affected by continued strong competition from Chinese and, to a lesser extent, European traders. This, combined with the overall reduction in copra revenue and growing dissatisfaction with the co-operatives, contributed to the decline in the societies' store sales after 1964-65.

It is clear that those members who consciously sought certain economic objectives rejected the co-operative form of organisation as a means of achieving them. Among others there was a widespread feeling that their societies had let them down. Most societies were inefficient and incurred sizeable losses for prolonged periods; cash rebates to members were small and most irregular. Effective leadership at both the societies and association level could have helped to hold members' interest and loyalty; but this was lacking. Boards of Directors of the societies seldom met and were ineffectual.

Inadequate supervision by the Registry, owing to staff shortages, also contributed to the decline in the co-operative movement in the Gazelle Peninsula. Moreover, by 1967-68 the general political situation in the area had deteriorated and became much worse in the later years. Indigenous dissatisfaction with the activities of the Administration had become much more widespread. And as the co-operatives had come to be regarded as Administration projects, support for them declined even further.

The New Britain Co-operatives' Association Limited

This enterprise was formed in November 1953 with 19 members and $58,996 in share capital. Its activities expanded rapidly and by the end of 1954 $39,084 had been spent on acquiring fixed assets, including a bulk store and other buildings, several motor vehicles, and a small vessel (M.V. Larwas) to service the Duke of York islands and the west coast of Namatanai.[1] But, along with the primary societies, the Association suffered an early setback. Several primary societies were liquidated and its membership fell to 15 by March 1957 and declined further in the next two years. About eight years later a number of societies from Kandrian and Talasea in West New Britain became non-voting members by subscribing the minimum $6 each to share capital. In August 1968 there were 12 voting and 17 non-voting members and share capital amounted to $59,470.

A summary of the Association's trading results up to March 1969 is presented in Table 4.2.

Wholesale trade. This was the most important aspect of the Association's operations. Apart from reductions in purchases by member societies, the downturn in sales during 1954-55 to 1956-57 was a result of inadequate finance, overstocking of

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[1] The vessel, however, operated unprofitably and was sold in early 1956.

unsuitable slow moving items and general mismanagement. The higher turnover in the late 1950s and early 1960s was substantially a result of stricter supervision of co-operatives by Registry staff and increases in villagers' cash income from copra and cocoa production. Also, in the early 1960s there was a marked increase in sales to non-members, in particular to co-operatives in West New Britain and indigenous private traders in the Gazelle Peninsula. These sales accounted for 31 per cent of the total in 1961-62 and 35 per cent in the following year. The Association thus became liable for payment of income tax at the same rate as a joint stock company.[1] Consequently, on the advice of the Registry, sales to private traders were reduced. This was partly responsible for the downturn in turnover from 1963-64 to 1966-67. In the last two years of this period the reductions were more significantly due to the deterioration in the performance of member societies. Trade with non-member co-operatives continued, however. To avoid liability for income taxation, the Rules of the Association were amended to enable such enterprises to become non-voting members with right to participate in the distribution of profits, by acquiring at least one fully paid $6 share.

Despite considerably higher annual turnover, the gross surplus to turnover ratio was much lower throughout the period 1959-60 to 1966-67, compared with 1958-59. In 1964 the mark-up on cost of all sales was raised by 2.5 per cent from 5 per cent for members and 7.5 per cent for non-members, but the ratio of gross surplus to turnover remained low. This was mainly because of lack of proper stock controls (resulting in pilfering and losses through obsolescence and deterioration of slow moving items) and incorrect invoicing. The situation became worse during 1965-66 with a relaxation in the amount of direct supervision by the Registry, partly because of staff shortages and partly in an effort to encourage a greater degree of self-reliance on the part of the Association staff.

In late 1966 a programme of reorganisation of the wholesale procedures was introduced. A senior co-operatives officer was posted to Rabaul, and a Tolai with several years of experience within the Registry was appointed as secretary of the Association.

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[1] A co-operative enterprise in Papua New Guinea is exempt from payment of income tax provided at least 90 per cent of its transactions in any given year in each field of activity has been with its members. (Territory of Papua and New Guinea, 1959-68.) 'The income tax ordinance', sections 150 to 154.

Table 4.2

The New Britain Co-operatives Association Limited trading results, 1954-69
($)

Period	Wholesale trade			Commissions*	Copra recon- ditioning**	Copra trading**	Copra adjustment	Trucks**	Net surplus
	Turnover	Gross surplus	Per cent gross surplus to turnover						
1/ 9/54-30/9/55	134,822	-1,705	-	1,735				-4,972	-16,471
1/10/55- 6/3/56	24,690	1,673	6.8	683				399	-3,348
7/ 3/56- 1/3/57	62,987	4,108	6.5	1,295	201			1,346	2,269
2/ 3/57-28/2/58	62,890	2,733	4.3	1,660	260			1,792	-1,387
1/ 3/58- 3/3/59	74,547	5,336	7.2	2,132	226		388	-168	5,182
4/ 3/59- 3/3/60	163,878	9,435	5.8	3,437	757		1,062	-927	10,133
4/ 3/60-28/2/61	169,916	7,511	4.4	4,675	984		-	-1,816	6,181
1/ 3/61-28/2/62	158,840	6,338	4.0	3,158	718		-	-944	1,068
1/ 3/62-28/2/63	188,078	10,462	5.6	2,698	406	198	-	-1,244	2,014
1/ 3/63-29/2/64	177,748	7,690	4.3	2,288	428	124	866	-1,200	1,062
1/ 3/64-28/2/65	166,930	6,994	4.2	1,564	432	1,098	-	-578	1,332
1/ 3/65-28/2/66	148,405	5,180	3.5	1,567	1,048	56	1,538	-1,493	-1,322
1/ 3/66-31/3/67	137,324	5,447	4.0	4,456	431	128	329	n.a.	-3,595
1/ 4/67-31/3/68	227,625	24,468	10.7	n.a.	n.a.	n.a.	n.a.	n.a.	7,226
1/ 4/68-31/3/69	289,350	34,246	11.8	n.a.	n.a.	n.a.	n.a.	n.a.	13,481

* Mostly from selling members' copra.

** Surplus after deducting direct operating expenses.

n.a. Not available.

Source: Files CR 21-12-1, part 1 (for 1/9/54-30/9/55); CR 21-12-2 (Rabaul), part 3 (for 23/8/65-28/2/66); CR 21-12-2, parts 1-7 (for other periods); financial statements.

Under the direction of the new Registry officer, a more aggressive trading policy was pursued. The range of stock was widened considerably in an effort to minimise the amount of buying from outside sources by members. Until early 1967 the Association purchased most of its store requirements locally from Chinese and European firms at varying prices depending upon the quantities involved and the policy of the individual firms. Only about 10 per cent of the requirements were imported directly from overseas; these included such items as rice and canned meat and fish. The new policy was to import most of the supplies directly from overseas - groceries mainly from Australia and hardware and drapery largely from Hongkong and Japan - and to restrict local purchases to a small number of items required in small quantities and thus uneconomical to import directly. Thus in 1967-68 direct imports accounted for 74 per cent of the value of total purchases and the proportion increased to 85 per cent during the first half of the following year.

The policy with regard to mark-up was also changed. Under the new system the rate of mark-up was not fixed but fluctuated and varied for different items, depending on the retail prices charged by the Chinese and European firms in Rabaul and Kokopo. The aim was to provide goods to societies at prices which would enable them to sell to individuals at prices lower than but not higher than the local retail prices. Consequently, the mark-up on some items was small, even nil at times; on others a considerable mark-up was possible, depending on the landed cost of the goods concerned. This system involved a constant contact with the local retail market. Generally, however, for imported goods the mark-up for member societies ranged between 20 to 30 per cent on landed cost in the case of hardware (including kitchenware) and between 10 to 20 per cent on landed cost for groceries and textiles, while non-members were charged an additional 2.5 per cent. For sales of locally purchased goods, non-members were charged a commission of 5 per cent, while member societies were generally supplied at cost plus 2.5 per cent.

The effects of the above changes are reflected in much greater turnover and gross surplus during 1967-68 and 1968-69. A very large proportion of the increases in turnover, however, were due to larger sales to societies in West New Britain and to orders placed by the New Ireland Co-operative Association (and to a lesser extent the Manus Co-operative Association) for bulk items such as rice, sugar and canned fish and meat.

Copra trade. The Association's income from copra was derived from three sources, namely commission on sales on behalf of primary societies, reconditioning, and trading (buying and selling) on its own account.

Of the three sources, copra commission was by far the most important. Initially the rate of commission was 2.5 per cent, but this was subsequently doubled. The decline in the amount of commission received after 1960-61 was due to both lower copra prices and reductions in the quantities marketed through the societies.

Copra reconditioning was undertaken because of higher quality standards required by the Copra Marketing Board and the unwillingness of the villagers to produce good quality copra. The Association's reconditioning charges were well below those of private entrepreneurs; this enabled some saving for the societies and helped them compete with private traders willing to buy poor quality produce.

The Association started copra trading on its own account on a small scale in June 1962. It bought copra mostly from areas close to Rabaul at prices the same as those offered by the societies. It was expected that the Association would save in transport cost because of its proximity to the Copra Marketing Board Depot in Rabaul. This activity, however, remained relatively unimportant and had virtually ceased by 1968 owing to the general decline in villagers' interest in marketing their produce through the co-operatives.

Trucks. As shown in Table 4.2, the operation of trucks was largely unsuccessful. The losses were due principally to mismanagement and heavy costs of repairs.

The overall trading results of the Association were by and large unsatisfactory, with a net loss or only a small net profit recorded for most periods. But, as indicated in Table 4.2, the situation changed dramatically after 1966-67 and relatively large net profits were realised in the next two years. This was almost entirely the result of the reorganisation of the wholesale business and the very close supervision exercised by the co-operatives officer at Rabaul.

Despite the improvements in net profit after 1966-67, the Association was extremely short of cash funds. The total amount outstanding from debtors rose sharply during 1967-68 and remained at a high level in the following year (see Table 4.3). This was partly in response to a relaxation in restrictions on credit sales to societies. There was also a considerable build-up of stocks, some of which were slow moving and were deteriorating in value. At the end of March 1969, the stocks on hand were valued at over $94,000, an amount equivalent to approximately a third of the 1968-69 wholesale

Table 4.3

The New Britain Co-operatives' Association Limited:
assets and liabilities, 1966-69
$

	28 February 1966	31 March 1967	31 March 1968	31 March 1969
Current assets				
Cash on hand and at bank	-	11,748	-	-
Bank balances held on behalf of societies and employees	-	-	6,975	1,131
Debtors and prepayments	28,263	24,565	62,341	55,156
Stocks	31,240	16,069	49,296	94,264
Other	792	631	283	-
	60,295	53,013	118,895	150,551
Less current liabilities				
Bank overdraft	4,711	-	20,378	21,961
Creditors and accrued expenses	10,626	13,034	44,536	73,201
Amounts held on behalf of societies and employees	-	418	6,975	1,131
Other	955	476	-	-
	16,292	13,928	71,889	96,293
Working funds	44,003	39,085	47,006	54,258
Add investments*	10,839	11,231	11,942	12,766
	54,842	50,316	58,948	67,024
Add fixed assets				
Original value	28,455	30,643	33,435	42,632
less provision for depreciation	17,362	18,834	22,287	27,139
	11,093	11,809	11,148	15,493
	65,935	62,125	70,096	82,517
These funds were represented by:				
Proprietorship				
Share capital	59,368	59,368	59,452	63,590
Statutory reserves	4,362	4,362	6,089	8,347
Asset replacement reserve	594	594	594	594
Profit and loss appropriation	1,611	-2,199	3,961	9,986
	65,934	62,125	70,096	82,517
Ratio of current assets to current liabilities	370%	381%	165%	156%

* Include mainly Administration loans.

Source: Files CR 21-12-2 (Rabaul), part 3 (for 28/2/1966); CR 21-12-2, parts 4-7 (for others), financial statements.

turnover. This amount was obviously excessive, especially as ships from overseas called in at Rabaul at regular intervals and the stocks could be replenished without undue delay. While the total amount outstanding from debtors and stocks on hand rose substantially, increases in the share-holders' funds available for use within the enterprise were relatively very small. The Association thus had to rely heavily on trade creditors and trading bank overdraft in order to remain in business. However, with the establishment of the Co-operative Wholesale Society, the Association ceased to function as a trading organisation after March 1969.

The Wolavolo Native Society Limited

This enterprise was formed in early 1954 with members drawn from five neighbouring villages - Bitakapuk, Rapui, Ngatur, Tagi Tagi No. 2 and Wairiki - about 10 miles inland from the coast between Rabaul and Kokopo. At the time of its registration as a society in August 1958, it had 351 members and $3,510 in share capital. Its membership rose to 413 by March 1961 and the share capital remained constant at $6,281 after 1962-63.

Table 4.4 gives a summary of the Society's trading results. After a poor start, both the store trading and copra marketing activities of the Society were suspended for several months during 1955. But thereafter, sales of both store goods and copra increased markedly each year through to 1960-61. At first the improvements in trading results were largely due to the closer supervision provided by Registry staff, but during 1959 and 1960 higher copra prices and growth in villagers' income from cocoa production were also important contributing factors.

The year 1961-62, however, marked the beginning of a downward trend in the Society's activities. Sales of both store goods and copra fell sharply. In the case of copra, the decline continued uninterrupted and after 1965-66 no sales were recorded. Store turnover also fell each year, except in 1964-65 when it in fact rose by 114 per cent over the previous year owing to a sharp increase in sales to indigenous private traders who were for a brief period during that year encouraged to obtain their supplies through the Society. Business with private traders who were not members of the Society was discontinued when they failed to pay for the goods promptly after delivery.

The rapid decline in the Society's business in the years following 1960-61 was due to a combination of factors, including the sharp drop in copra prices during 1961-62, availability of a ready market for coconuts and poor quality copra outside the co-operative framework, easy access to well stocked non-indigenous retail stores at Rabaul and Kokopo, proliferation of small indigenous private trade stores in the villages,[1] undisclosed credit sales, and staff dishonesty. These factors also had an adverse effect on several other primary societies in the Rabaul-Kokopo area. In the case of Wolavolo, the situ-

[1] In late 1967 there were no fewer than ten such stores in the Bitakapuk-Wairiki area. Several of them were owned by members of the Wolavolo Society.

ation was greatly aggravated by internal disputes arising from inter clan rivalries and opposition from a number of villagers to supervision of the Society's affairs by Registry officers.

Disputes among members were evident even in the early stages of the Society. In 1958 a rival organisation, the Paparatava Progress Society, was formed with about 70 members belonging to a number of small clans which were on friendly terms with one another. It began with its members cultivating garden cash crops (mainly sweet potatoes) on a collective basis and subscribing $10 each from the proceeds to establish a consumer store at Bitakapuk. Although many of its members also belonged to the Wolavolo Society, the Paparata Society functioned outside the jurisdiction of the Registry of Co-operative Societies. It obtained most of its supplies from the large firms at Rabaul, and with overlapping membership and a store located only a few yards from that of the Wolavolo Society, competed actively for consumer spending.

Table 4.4

The Wolavolo Native Society Limited Trading Results, 1954-68
($)

Period	Trade store		Per cent gross surplus to turnover	Copra				Net surplus
	Turnover	Gross surplus		Turnover	Gross surplus	Per cent gross surplus to turnover	Copra adjustment	
1/4/54- 2/5/55	2,285	-133	-	2,662	-204	-	-	-591
3/5/55-27/3/56*	n.a.	n.a.		n.a.	n.a.		-	n.a.
28/3/56-13/3/57	3,172	473	14.9	396	94	23.7	n.a.	270
14/3/57-11/3/58	4,381	730	16.7	1,179	288	24.4	n.a.	382
12/3/58-13/3/59	7,504	756	10.1	2,596	654	25.2	n.a.	610
14/3/59-10/3/60	10,490	1,446	13.8	3,722	168	4.5	268	768
11/3/60-10/3/61	14,212	2,294	16.1	10,222	676	6.6	n.a.	2,030
11/3/61- 9/3/62	9,140	746	8.2	4,116	428	10.4	1,218	2,032
10/3/62-21/3/63	7,738	278	3.6	2,974	- 50	-	660	-68
22/3/63-20/3/64	7,353	628	8.5	630	nil	-	405	140
21/3/64-22/3/65	15,716	1,410	9.0	284	nil	-	144	802
23/3/65-11/3/66	5,662	349	6.2	96	- 18	-	106	-214
12/3/66-19/7/67	3,700	n.a.		nil	-		26	-1,028
20/7/67-30/4/68	2,982	-781	-	nil	-		-	-1,347

* The business was suspended from May to December 1955 because of the unsatisfactory results in the previous period.

n.a. Not available

Source: File CR 21-12-6, financial statements.

Villagers' support for the Wolavolo Society was at no stage enthusiastic and eroded rapidly after 1960-61 when poor trading results precluded it from distributing rebates. Considerable difficulties were experienced in convening general meetings, while the directors were ineffectual and held their meetings infrequently at irregular intervals. By April 1968 the Society had virtually ceased operations and went into voluntary liquidation later in that year.

The Bitaulagumgum Co-operative Limited

This society was formed during 1953 and registered a few months later in February 1954. Initially its area of operations covered the villages of Bitagalip, Ulugunan, Takubar, Livuan, Ramale and Katakatai, but was subsequently extended to other villages within a few miles of the township of Kokopo. Its membership increased from 414 in 1954 to 537 by 1967, while share capital rose from $4,130 to $21,322. The Society's trading results are summarised in Table 4.5.[1]

The store business expanded rapidly in the late 1950s and remained at relatively high levels in the later years, although weekly sales fell in the early 1960s and again continually after 1966. Gross surplus on store trading was high for most periods, but the exceptionally high ratio of gross surplus to turnover for April 1968 to February 1969 was principally due to excessive mark-ups.

Copra marketing was a much more important source of revenue than store trading in most periods until the end of 1966. Income from copra also fluctuated markedly. Apart from variations in selling prices, copra turnover was greatly affected by active competition from private traders (mostly Chinese) and the villagers selling increasing quantities of their produce directly to the Copra Marketing Board. The Society's purchase price of copra was raised during 1961-62, but it was still below that offered by Chinese traders. Increasingly, members became disenchanted with the Co-operative. The quantity of copra marketed through it dropped sharply in 1964-65. But instead of raising the purchase price to the level offered by private traders, the Society decided to impose fines on members selling copra to Chinese traders; the amount of individual

[1] Until the establishment of a branch in November 1962, all business was conducted from the Society's premises built on the coast less than a mile from the Kokopo shopping centre. The branch, located at Bitapaka (about five miles inland from the main store), confined its operations to store trading except for very small quantities of copra handled during 1968 and 1969. Its customers consisted of mainly staff and patients of a nearby hospital. The branch was by and large unprofitable and its operations were eventually terminated in January 1970. Its failure was in the main due to staff dishonesty, irregular business hours, credit sales and lack of adequate control over cash and stock. Also, the staff at the branch lacked proper training and experience, and supervision from the Registry was insufficient.

Table 4.5

The Bitaulagumgum Co-operative Limited
trading results, 1956-70*
($)

Period	Trade stores**				Liquor				Copra						
	Turn-over	Weekly turn-over	Gross surplus	Per cent gross surplus to turn-over	Turn-over	Weekly turn-over	Gross surplus	Per cent gross surplus to turn-over	Turn-over	Weekly turn-over	Gross surplus	Per cent gross surplus to turn-over	Copra adjust-ment	Net sur-plus	Net surplus distri-buted***
13/ 3/56-12/ 3/57	3,910	75	475	12.1					13,268	255	1,952	14.7	n.a.	1,418	1,254
13/ 3/57- 7/ 3/58	2,936	57	292	9.9					16,814	327	1,760	10.5	n.a.	490	1,650
8/ 3/58- 9/ 3/59	11,671	223	968	8.3					27,452	524	8,410	30.6	4,782	7,232	40
10/ 3/59- 8/ 3/60	19,070	366	2,405	12.6					36,793	706	3,834	10.4	11,514	14,831	9,212
9/ 3/60- 8/ 3/61	19,798	380	2,791	14.1					50,431	967	4,062	8.1	6,593	5,834	7,669
9/ 3/61- 8/ 3/62	16,145	310	2,765	17.1					41,599	798	5,970	14.4	6,529	14,932	13,944
9/ 3/62-26/ 3/63	16,693	305	537	3.2					21,853	400	55	0.3	5,550	4,608	4
27/ 3/63-25/ 3/64	24,009	462	2,900	12.1					26,989	519	820	3.0	3,546	6,192	9,328
26/ 3/64-25/ 3/65	36,968	709	3,844	10.4					11,784	226	188	1.6	4,678	7,336	9,756
26/ 3/65-17/ 2/66	26,709	568	3,010	11.3	16,784	357	1,563	9.3	17,462	372	2,329	13.3	4,062	9,531	7,562
18/ 2/66- 6/12/66	26,118	626	738	2.8	15,621	375	-2,130	-	50,831	1,219	3,556	7.0	3,763	3,007	32
7/12/66-24/ 7/67	12,273	382	1,072	8.7	8,940	278	379	4.2	5,106	159	685	13.4	-	597	5
25/ 7/67- 3/ 4/68	10,700	295	-1,444	-	8,514	235	-150	-	6,017	166	466	7.7	5,158	1,914	4,025
4/ 4/68-17/ 2/69	13,178	288	3,191	24.2	9,333	204	474	5.1	8,878	194	1,971	22.2	1,254	5,617	n.a.
18/ 2/69-23/ 3/70	12,701	223	-1,162	-	4,525	79	-729	-	1,549	27	-243	-	2,170	-1,912	n.a.

* Results of both the main store and the Bitapaka branch are combined. The branch store began trading on 27 November 1962 and closed down in January 1970.

** Excluding liquor trade, except for about three months during the period 26/3/64-25/3/65. Liquor licence was obtained in December 1964.

*** Includes mainly cash rebates, dividends and bonus shares.

n.a. Not available.

Source: File CR 21-12-5, parts 1-2, financial statements.

fine varied with the quantity of copra involved and money thus collected was to be used for the general welfare of the village of the member concerned. Although this scheme remained in force from March to December 1966, only two members were fined, one \$10 and the other \$5. It no doubt contributed to the spectacular rise in copra turnover during 1966. It was discontinued after one of the leaders broke the rule, and members reverted to selling their produce to Chinese traders on a large scale, thus contributing to a slump in the Society's copra trade which remained at a low level thereafter and practically disappeared altogether in 1969.

Liquor trading was started in December 1964 in an attempt to strengthen members' interest in the organisation. But the venture was largely unprofitable. As shown in Table 4.5, average weekly liquor turnover (including sales of beer) was relatively high in the first two years, but slumped in 1967 and then progressively declined to only \$79 between February 1969 and March 1970. The Society frequently obtained its supplies on a retail basis from a nearby Chinese store, thus denying itself the benefits of wholesale buying. Its selling prices, on the other hand, often did not include sufficient mark-ups, and some items (notably beer) were even sold at prices below the retail rates in Rabaul and Kokopo. In addition, controls over liquor stocks were far from adequate.

The overall operations of the Society, however, yielded substantial net surplus in most periods, despite active competition from private traders. Much of the success was due to the relatively efficient management and strong member loyalty; the latter was partly in response to fairly regular distribution of rebates and dividends, as indicated in Table 4.5. From 1954 through to 1967 the Society had an honest and capable secretary-cum-storeman, and the directors were generally enthusiastic. For some time each director spent a week at a time working at the main store in return for about 50 cents per day, thus acquiring some familiarity with the functioning of the Society. The quality of management, however, deteriorated after 1967. At the same time there was a marked increase in anti-Administration activities and political unrest in the villages, undoubtedly contributing to the decline in member loyalty and the consequent drop in the volume of business handled by the Society. A large net loss was recorded for the period between February 1969 and March 1970 and the Bitaulagumgum Co-operative Limited, for many years the most prosperous primary society on the Gazelle Peninsula, was also on the verge of total collapse along with most other co-operatives in the area.

Chapter 5

The Finschhafen Marketing and Development Co-operative Limited

The area of operations of this enterprise covered the Huon Peninsula and Siassi Islands in the Finschhafen sub-district on north east New Guinea. This was the scene of heavy war-time activity, and Finschhafen, the sub-district headquarters, itself was an important centre of operations. After World War II the villagers, no doubt greatly inspired by their earlier contact with the foreign troops, showed considerable interest in acquiring material wealth. While some of the energy associated with this was channelled into cargo cult type movements,[1] much effort was also devoted to more purely economic outlets. Thus large numbers of coffee trees were planted in the highland areas while in the coastal regions there was a marked increase in interest in copra production. Also, in the early 1950s, several villages had organised communal collections of funds in an endeavour to establish their own trading enterprises and facilitate the marketing of their produce. Marketing facilities, however, were unsatisfactory and Administration officers in the sub-district felt the need for some form of co-operative organisation to overcome this problem.

About the mid 1950s the Lutheran Mission was also beginning to show interest in the promotion of economic development of the local people. And in 1957 an attempt was made to establish a co-operative society under a joint sponsorship of the Administration and the Mission, which had already set up several trade stores and acquired a coastal vessel, partly with the aid of indigenous subscriptions of capital but mainly using its own funds. The proposal was strongly supported by the Registry of Co-operative Societies, but the Mission was reluctant to surrender autonomy over its assets to Administration officers and eventually refused to participate in the venture.

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[1] See Harding (1967).

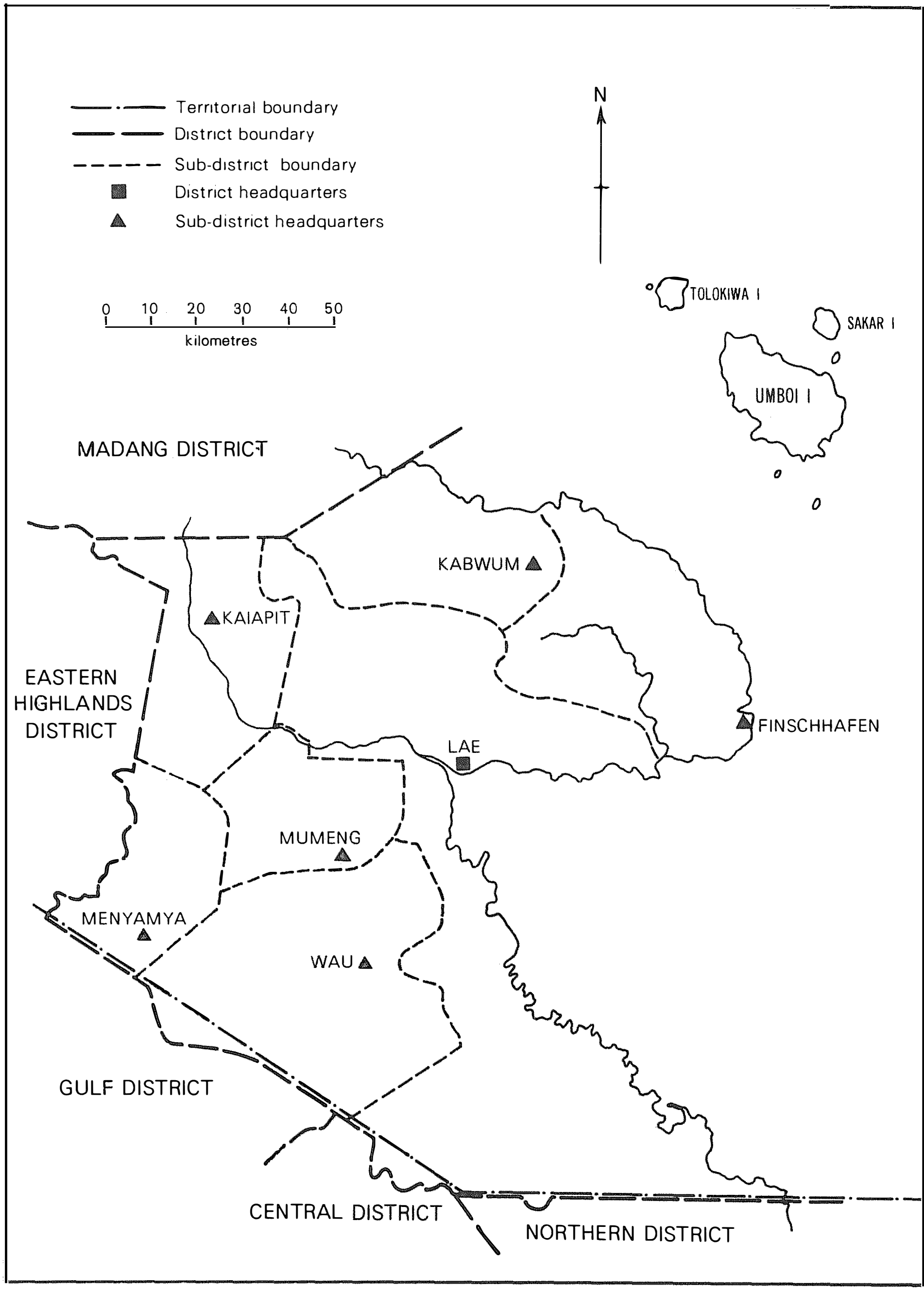

Fig. 5. Morobe District.

Instead, the Mission created an autonomous organisation, the Native Marketing and Supply Limited (commonly known as Namasu), a joint stock company with shares held by itself and the local people.[1]

The independent entry of the Lutheran Mission into the produce marketing and goods trading field naturally put pressure on the Administration to do something for the villagers who preferred Administration rather than mission guidance. Thus during 1958 the Finschhafen Marketing and Development Co-operative Limited (FMDC)[2] was formed under Administration sponsorship to engage in produce marketing, wholesaling and retailing of consumer goods, and in related activities.

The FMDC began operations with a membership of 3,577 and $19,594 in share capital. The qualification for membership was at least two fully paid shares available in one dollar units. Members with no fewer than 20 fully paid shares qualified as shareholders[3] and only they enjoyed voting rights and some other privileges. While all members were entitled to cash dividends when declared, only shareholders were eligible to receive cash rebates and bonus shares; rebates accruing to other members were credited to their capital accounts to bring their holdings up to shareholder level. By the end of March 1967 the total membership had risen to 8,787, of which 5,414 were shareholders, and share capital amounted to $95,959. Two years later the share capital totalled $101,075.

The Society's area of operations, the most extensive of any primary co-operative in the country, was made up of several membership and production areas. These included Siassi, Sio, Kalasa, Dedua, Kotte, Yabim, Hube and Kabwum. The changing patterns of membership and capital contributions in these areas over the period 1961 to 1967 are shown in Table 5.1.

From its head office and central bulk store at Buki on the coast near the sub-district headquarters, the FMDC attempted to serve its members through a network of produce buying points and trade store branches. In 1968 there were ten buying points and five branch stores. The highland areas were served by coffee buying points at Pindiu, Mindik and Kalalo

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[1] For a detailed study of Namasu, see Fairbairn (1969).

[2] Until the introduction of the Co-operative Societies Ordinance 1965, it was known as the Finschhafen Marketing and Development Society or FMDS.

[3] Until March 1966, the qualification was at least ten fully paid shares.

Table 5.1

The Finschhafen Marketing and Development Co-operative Limited membership and share capital by areas, 1961-67

Area	10 January 1961				31 March 1966				31 March 1967			
	Membership		Capital		Membership		Capital		Membership		Capital	
	Number of persons	Per cent of total	$	Per cent of total	Number of persons	Per cent of total	$	Per cent of total	Number of persons	Per cent of total	$	Per cent of total
Siassi	1,079	17.5	3,996	9.5	1,525	19.5	15,996	20.0	1,580	18.0	11,672	12.2
Sio	1,095	17.8	8,446	20.0	932	11.9	9,598	12.0	883	10.0	10,214	10.6
Kalasa	542	8.8	3,858	9.1	676	8.6	7,198	9.0	753	8.6	9,239	9.6
Dedua	541	8.8	3,880	9.2	425	5.4	3,999	5.0	453	5.2	5,184	5.4
Kotte	1,159	18.8	9,884	23.4	614	7.8	6,399	8.0	845	9.6	13,103	13.7
Yabim					236	3.0	2,399	3.0	257	2.9	2,826	2.9
Hube	1,752	28.4	12,174	28.8	2,401	30.7	23,995	30.0	2,722	31.0	26,460	27.6
Kabwum					1,021	13.0	10,398	13.0	1,294	14.7	17,261	18.0
Total	6,168	100.0	42,238	100.0	7,830	100.0	79,982	100.0	79,982	100.0	95,959	100.0

Source: Files CR 21-2-1, ff.63-64; CR 21-2-2, part 6, f.40; Co-operative Office, Finschhafen.

and by branch stores at Pindiu and Kabwum which engaged in wholesale as well as retail business. The coastal buying points at Sio, Sialum and Wandokai purchased both coffee and copra, while the branch store at Sio also engaged in both wholesaling and retailing. Only copra was purchased from the Siassi Islands, which were served by produce buying points at Barim and Aupwel but not branch store facilities. In the vicinity of the Society's headquarters, there were retail branch stores at Gagidu and Dreger, while coffee and copra from this region were bought at Buki itself or by a buying clerk operating from the Society's vessel, M.V. Vitiaz.

The dual function store-buying points at Kabwum, Pindiu and Sio were superior to isolated buying points from the standpoint of economies in transport. In addition, in so far as the store sales at these places provided the cash required for purchasing produce, the dual function establishments alleviated the problem of the head office advancing cash to buying points with attendant dangers of clerks running short of money for buying produce and having to turn people away. The co-existence of the branch stores with the buying points also to some extent provided an additional incentive to the indigenous people to sell their produce in order to obtain cash to satisfy their demand for trade goods.

Transport and communications throughout the sub-district are exceedingly difficult. Road transport is extremely limited and confined mostly to the coastal region on both sides of Buki. Except for the very narrow coastal plain, the terrain of the Huon Peninsula is characterised by steep mountains. Many people in outlying highland areas thus had to spend anything up to two to three days to carry their produce to the nearest buying point and the Society was completely dependent upon air and sea transport for maintaining its produce marketing and store supply operations. One of the major problems facing the FMDC was to ensure that as far as possible co-ordinated transport links existed between its central bulk store and the outlying buying points and branch stores as well as between the central bulk store and Lae, where the produce was sold and store goods purchased.

The Society relied upon chartered aircraft operating out of Lae to serve the highland areas. Its establishments at Pindiu, Mindik and Kabwum were located near airstrips which could accommodate aircraft up to Otter size. There is also an airstrip at Wasu, which performed the function of a holding depot and served the buying point at Kalalo and also the establishment at Kabwum. The branch stores were kept in stock by back-loading store goods on aircraft chartered for transporting coffee. However, because of difficulties in obtaining chartered aircraft and unfavourable weather conditions for aviation, there were occasions, particularly during flush periods, when coffee stockpiled at the buying points. In addition, delays by branch storemen in informing the Buki headquarters of their stock situation frequently resulted in the co-existence of excess stocks in slow-moving items with marked deficiencies in fast-moving lines.

The Siassi Islands and the mainland coastal areas were served by the Society's M.V. Vitiaz, which had been acquired in June 1959 for $19,500. With cargo capacity of ten tons, the vessel operated almost continuously. Despite this, there were frequent complaints from various coastal people that the Society's provision of shipping services was far from adequate. Apart from serving the outlying coastal buying points and branch stores, the Vitiaz carried produce from Buki to Lae and store goods on return.

Table 5.2 indicates that the Vitiaz incurred heavy operating losses. No doubt, the vessel provided an essential service within the framework of the Society's activities, thus contributing to the profits earned on produce and store trading (see below), but with better organisation and management there could have been some reductions in the extent of the losses incurred. One of the main reasons for the continual losses was the fact that the Vitiaz was mostly occupied with shifting produce from the outlying areas to Buki. This meant that frequently outside shipping had to be used to shift produce and store goods between Lae and Buki, the more profitable run in the vessel's operations.[1] Although attempts were made to

Table 5.2

M.V. Vitiaz net operating results

Period	$
Up to 15/6/1960	- 3,034
16/6/60-31/3/61	+ 28
1/4/61-31/3/62	- 3,154
1/4/62-31/3/63	+ 1,346
1/4/63-31/3/64	- 3,086
1/4/64-31/3/65	- 1,470
1/4/65-31/3/66	- 2,300
1/4/66-31/3/67	- 6,437
1/4/67-31/3/68	- 4,898
1/4/68-31/3/69	+ 1,494

Source: Files CR 21-2-2, parts 1-7;
CR 21-2-2(A), part 1, financial statements.

[1] The freight rate for both produce and store goods conveyed by the Vitiaz between Lae and Buki was $9 per ton, compared with $8 per ton between Buki and the outlying coastal buying points and branch stores.

reduce the reliance on outside shipping, with only one Society vessel operating over such a large area this problem was largely unavoidable. But there was some scope for improvements in the speed of the vessel's turn-arounds at the various ports of call and in the stringency with which freight was charged on produce and store goods and fares collected from its passengers.

Coffee marketing

Coffee was bought by the Society in parchment form. At first all purchases were at a single price of 20 cents per pound. In February 1961 a grading system was introduced, with grades X, Y1 and Y2 (all Arabica). This was purely a device to encourage the production of better quality coffee and the classification into grades was not retained through processing. In February 1967 members in the coastal areas were offered 19 cents per pound for grade X, 17 cents for Y1 and 13 cents for Y2. At the highland buying points deductions of 3 cents per pound for grades Y1 and Y2 and 2 cents per pound for grade X were made to compensate for the cost of airfreighting. Non-members were paid a uniform price of 10 cents per pound at all centres, but the quantities purchased from them were insignificant. Table 5.3, which also indicates the relative importance of the various buying points with respect to coffee operations, shows that by far the largest amount of coffee purchased fell into category Y1 while grade X was relatively unimportant.

Until September 1963, the FMDC sold all its parchment coffee to the DASF, which took full responsibility for the business of processing and selling. Thereafter, the Society retained ownership of its coffee stocks through processing to the point of sale at the green bean stage. DASF acted as its marketing agent, grading the produce according to international quality standards, and negotiating with buyers and making arrangements with a private enterprise in Lae for drying and processing of parchment and delivery to overseas vessels. Payments for the coffee, however, were made direct to the FMDC. At one stage, about the mid 1960s, the Registry of Co-operative Societies considered the idea of the Society establishing its own coffee processing mill at Buki. The idea was eventually abandoned, mainly because the Registry estimated that savings in processing and transport costs would not justify the estimated capital expenditure of about $40,000.[1]

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1 File CR 21-2-2, part 5, f.63.

Table 5.3

The Finschhafen Marketing and Development Co-operative Limited
coffee purchases, 1965-67
(lbs)

Buying point	1965-66*			1966-67*			1967 (April-September)		
	X	Y1	Y2	X	Y1	Y2	X	Y1	Y2
Kabwum	1,462	53,569	3,133	1,608	78,401	19,246	1,619	39,318	7,759
Kalalo	2,277	29,329	18,566	4,178	17,987	9,155	5,781	26,258	5,506
Pindiu		19,926	6,223		41,253	2,038	2,820	9,583	792
Mindik		9,643			14,533	1,936		176	
Buki		81,274	3,697	2,190	54,477	13,081	77	3,422	1,672
Wandokai		40,775	2,951	1,079	40,402	7,489	486	17,382	1,656
Sialum	110	5,865	7,254		13,066	11,160	4,284	7,878	3,727
Sio		682	891		4,616	1,074		4,716	1,658

* Year ended 31 March

Source: Compiled from monthly data available in the Registry of Co-operative Societies, Finschhafen.

Moreover, there was also the problem of obtaining suitable staff to operate and manage the proposed mill. The Registry's view was that the Society could well use the people with the required qualifications and experience to increase the efficiency of its existing operations without embarking upon a new venture.

A summary of coffee trading results of the FMDC from its inception until 1968-69 is presented in Table 5.4. Although there were considerable variations in the volume of trade from year to year, coffee operations yielded a gross surplus in all periods except 1961-62. The very marked growth in the quantity of coffee purchased during the period ended 31 March 1961 was primarily due to the fact that the enterprise was still comparatively new and its membership was growing rapidly and also because coffee trees in the area were coming to

Table 5.4

The Finschhafen Marketing and Development Co-operative Limited
coffee trading results, up to 1968-69

Period	Purchases of parchment Quantity* tons	Value** $	Turnover** $	Gross surplus** $	Per cent gross surplus to turnover
Up to 15/6/1960	46.4	25,574	22,360	3,984	17.8
16/6/60-31/3/61	98.0	38,552	42,836	2,180	5.1
1/4/61-31/3/62	47.6	12,418	17,926	-2,366	-
1/4/62-31/3/63	53.3	17,254	18,658	174	0.9
1/4/63-31/3/64	76.9	19,512	19,736	8,114	41.1
1/4/64-31/3/65	132.8	41,972	85,758	22,676	26.4
1/4/65-31/3/66	131.0	54,447	81,598	21,216	26.0
1/4/66-31/3/67	151.0	64,799	104,646	19,446	18.6
1/4/67-31/3/68	n.a.	52,701	89,781	10,745	12.0
1/4/68-31/3/69	n.a.	60,267	65,916	3,491	5.3

n.a. Not available.

Sources: * D.A.S.F. office, Finschhafen

** Files CR 21-2-2, parts 1-7; CR 21-2-2(A), part 1, financial statements.

maturity for the first time. The turnover during that period thus increased despite a fall in world coffee prices. But the fundamental factor underlying the slump in coffee trade from 1961-62 to 1963-64 was the continued decline in world prices, which necessitated a sharp reduction in the prices offered to growers. As indicated earlier, the introduction of the coffee grading system in February 1961 was the occasion for a sharp reduction in prices paid to producers. The grading system itself, which led to rejections of poor grade produce as part of an attempt to establish a uniformly acceptable market quality, was a further source of disenchantment for growers. And rumours that the DASF (and hence the Society) might not buy coffee added grist to the mill. Growers not only declined to increase their plantings but also failed to harvest what they had or to look after trees already planted so that much coffee died or was overgrown. Thus by 1962-63 the number of trees in production in the sub-district had shrunk to 682,000, compared to 1,138,000 in 1960-61.[1] Profitability on coffee operations further suffered during that period because of discrepancies arising from the dishonesty of buying clerks, particularly at Pindiu and Kalalo.[2]

The sharp increase in coffee turnover during 1964-65 was a result of a dramatic upturn in the world coffee prices. As mentioned already, the Society had by then commenced selling its coffee as green bean, with the DASF acting as marketing agent and a private enterprise in Lae doing the processing. Prices received for green bean rose from 28.5 cents per pound in February 1964 to 31 cents in March, 31.5 cents in April, 32.5 cents in May, 38 cents in September and 40 cents in February 1965.[3] The comparatively high trading surpluses for 1963-64 and 1964/65 suggests that higher prices could have been paid to growers, but it was considered wiser to restrain increases in buying prices in case of a resumption of the slump in the world market. In April of 1964 though, the return to the grower was raised by 2.5 cents per pound on all grades; a further increase in purchase prices took place in the following October and grade standards were relaxed to a certain extent so that the interest of producers and prospective growers was once more stimulated.

During 1966-67, however, there was a considerable slackening in the world market for coffee and the relatively

[1] File CR 21-2-2, part 4, f.237.

[2] File CR 20-2-9, f.7.

[3] File CR 20-2-11, f.145.

unfavourable conditions continued into the following year. The price per pound for the FMDC coffee shipments fell from 36 cents in April 1966 to as low as 30 cents in March 1967 and towards the end of that year it was around 32 cents. In February 1967 buying prices offered to members were adjusted downward by three cents per pound on all grades of coffee. The increase in the quantities of coffee purchased and sold by the Society during 1966-67 were more than sufficient to compensate for the decline in selling prices, most of which occurred too late to substantially affect the trading results for that year. The sharp declines in coffee trading results in the next two years were due to continued depressed conditions in the world coffee market and the failure of the Society to reduce the prices paid for parchment accordingly.

Copra marketing

As shown in Table 5.5, the bulk of the Society's copra came from the Siassi Islands, Sio, and the coastal regions in the vicinity of Buki. Prices paid to producers were varied from time to time to take account of fluctuations in prices received from the Copra Marketing Board. Thus in 1966-67 members were paid 3 cents per pound, compared with 4 cents in the preceding year. Non-members were offered only 2 cents per pound, but the quantities purchased from them were negligible. As with coffee purchases, there was the problem of maintaining cash advances to various buying points at a level adequate to buy all the available copra.

Table 5.5

The Finschhafen Marketing and Development Co-operative Limited copra purchases, 1966-67 (lbs)

Buying point		1966	1967 (Jan.-Sept.)
Buki		120,406	180,341
Barim	) Siassi Islands	47,480	118,457
Aupwel	)	90,836	13,453
Sio		107,676	44,588
Sialum		29,356	15,064
Kalalo		18,606	11,396
Wandokai			5,856

Source: Compiled from monthly data available in the Registry of Co-operative Societies, Finschhafen.

The Society's copra trading results are presented in Table 5.6. The results obtained largely reflected fluctuations in copra prices, although the sharp drop in sales in 1966-67 was, to a significant degree, the result of severe drought conditions which had affected the output of copra in the Siassi Islands and on the northern coast of the Huon Peninsula, while the dramatic increase in turnover in 1968-69 was in part also due to extension of copra buying to new areas, particularly in the Siassi Islands. To some extent the trading results were adversely affected by stock losses. This was particularly serious in the early years when the produce was purchased all along the coast in baskets, sugar bags, and so on, and dumped in the hold of the Vitiaz, without accurate records being kept of the quantities purchased at the various buying points. It was thus impossible to keep a check on the quantities bought by each buying clerk. The only reliable records which could be kept under such conditions were for receivals into the central bulk store and shipments to the Copra Marketing Board from Buki. But these records were not sufficient to maintain an adequate check on the activities of the individual buying clerks. The problem was partly overcome by the adoption, during 1963-64, of a policy of centralising all stock for particular areas at one or two points, such as at Barim and Aupwel in the case of the Siassi Islands, where the produce was bagged and marked for shipment to Buki. The effectiveness of this system, however, was limited by the lack of secure produce holding sheds at a number of these points.

Table 5.6

The Finschhafen Marketing and Development Co-operative Limited copra trading results, up to 1968-69

Period	Turnover $	Gross surplus $	Per cent gross surplus to turnover
Up to 15/6/1960	26,090	7,090	27.2
16/6/60-31/3/61	17,828	2,572	14.4
1/4/61-31/3/62	15,630	1,840	11.8
1/4/62-31/3/63	17,252	920	5.3
1/4/63-31/3/64	17,554	3,318	18.9
1/4/64-31/3/65	26,324	4,786	18.2
1/4/65-31/3/66	40,910	4,915	12.0
1/4/66-31/3/67	20,398	1,309	6.4
1/4/67-31/3/68	23,849	3,522	14.8
1/4/68-31/3/69	54,238	10,058	18.5

Source: Files CR 21-2-2, parts 1-7; CR 21-2-2(A), part 1, financial statements.

Despite the fluctuations in the value of sales, copra marketing was an important source of revenue to the Society, although its relative position vis-a-vis coffee after 1963-64 was considerably lower except in 1968-69. In 1963-64 copra accounted for 47 per cent of the combined turnover of the two crops. Its contribution fell to as low as 23 per cent in 1964-65 and remained at relatively low levels until 1968-69 when it rose dramatically to 45 per cent.

Store trading

Because of the scattered membership and the difficulties of transport and communications, it was not possible for the FMDC to satisfy the needs of all its members for trade store goods on a retail basis. Provision was therefore made for wholesale outlets through the branch stores at Pindiu, Kabwum and Sio. As mentioned earlier in this chapter, these branches also sold goods on a retail basis, while the branches at Gagidu and Dreger engaged solely in retailing. Wholesaling and retailing activities were very rarely combined within a co-operative enterprise in Papua New Guinea.

Until the commencement of trading by the New Guinea Mainland Co-operative Union Limited in the middle of 1968, the FMDC obtained all its store supplies from private merchants in Lae. Goods were transported to the central bulk store at Buki, preferably by the _Vitiaz_, and then channelled to the various branch stores. Members of the Society who had access to branches which engaged in wholesale business were able to obtain their requirements in bulk at wholesale rates, while those wishing to buy in small quantities had to pay retail prices. In many cases members who bought in bulk were private retailers operating in more remote areas. Non-members, on the other hand, were charged retail prices irrespective of whether they bought in bulk or in small quantities. Nevertheless, they accounted for a sizeable proportion, averaging approximately 25 per cent, of the total store sales over the period 1965-66 to 1968-69.

Wholesale prices were calculated on the basis of landed cost (including freight expenses from Lae) at the central bulk store plus 10 per cent, while retail rates involved a further levy of 10 per cent on wholesale prices. Where applicable, both the wholesale and retail prices at branch stores included additional mark-ups to cover the cost of freight from Buki. Thus goods sold at the highland branches, Kabwum and Pindiu, were subject to an additional levy of 4 cents per pound to allow for the expense of airfreighting. In the case of Kabwum, which was served by sea from Buki to Wasu and by air from Wasu, the prices also incorporated seafreight at the rate of $8 per ton, which was the freight charged by the _Vitiaz_ for transport from Buki to outlying areas. Additional levy for freight from Buki was not applicable with regard to the coastal branches at Gagidu and Dreger both of which were located within a close distance from the central bulk store. Goods sold at Sio, however, carried a mark-up of $8 per ton on account of freight from Buki charged by the _Vitiaz_.

Store trading results up to 1968-69 are summarised in Table 5.7. Aggregate store sales practically doubled during 1964-65, compared with the preceding financial year, and remained at high levels in the ensuing years. These were also years of relatively large turnovers on coffee and, to a much lesser degree, copra operations.

Table 5.7

The Finschhafen Marketing and Development Co-operative Limited store trading, total turnover and gross surplus, up to 1968-69

Period	Turnover $	Gross surplus $	Per cent gross surplus to turnover
Up to 15/6/1960	2,968	252	8.5
16/6/60-31/3/61	18,542	1,212	6.5
1/4/61-31/3/62	21,622	2,604	12.0
1/4/62-31/3/63	26,324	2,922	11.1
1/4/63-31/3/64	27,486	2,048	7.5
1/4/64-31/3/65	55,998	6,616	11.8
1/4/65-31/3/66	50,880	5,783	11.4
1/4/66-31/3/67	69,118	6,789	9.8
1/4/67-31/3/68	65,863	-865	-
1/4/68-31/3/69	75,672*	9,338**	12.3

* Includes $14,811 of sales made at the Buki bulk store.
** Includes $917 of surplus earned on trading at the bulk store.

Source: Files CR 21-2-2, parts 1-7; CR 21-2-2(A), part 1, financial statements.

Although the overall performance of the stores as a whole was by and large satisfactory, there were considerable differences in the results of the various branches. The results obtained by the branches during the period 1962-63 to 1967-68 are given in Table 5.8. Of the total of ten branches operating at various times during that period, only four functioned reasonably successfully for more than two or three years. These were the branches at Gagidu and Dreger in the neighbourhood of Buki and at Pindiu and Kabwum in the highlands. The branches at Oligidu and Gubua had a very short-lived existence, while those at Aupwel and Barim in the Siassi Islands and at Wandokai on the coast north of Buki performed so poorly that they were closed down during 1967. The branch at Sio was started only in 1966-67 and its scale of operations was still very low in 1967-68 in comparison with the other four branches in operation during that year.

Profitability on store operations was adversely affected by several factors, of which credit giving (largely to fulfil traditional social obligations) and straight out dishonesty on the part of storemen were not least in importance. There is little doubt that unrecorded credit sales were substantially responsible for the poor trading results obtained at Pindiu during 1962-63 and 1963-64[1] and for the loss at Wandokai in

[1] File CR 20-2-9, f.38.

Table 5.8

The Finschhafen Marketing and Development Co-operative Limited store trading results by branches, 1962-68*

Branch	1962-63			1963-64			1964-65			1965-66			1966-67			1967-68		
	(1) $	(2) $	(3) %	(1) $	(2) $	(3) %	(1) $	(2) $	(3) %	(1) $	(2) $	(3) %	(1) $	(2) $	(3) %	(1) $	(2) $	(3) %
Gagidu	15,786	2,156	13.7	13,286	1,046	7.9	15,734	2,156	13.7	12,244	504	4.1	12,240	1,634	13.3	9,485	1,519	16.0
Dreger							2,554	342	13.4	10,439	1,261	12.1	17,711	1,114	6.3	20,610	584	2.8
Pindiu	7,370	278	3.8	6,186	260	4.2	20,834	3,292	15.8	12,330	1,944	15.8	21,598	3,442	15.9	23,811	1,748	7.3
Kabwum	1,056	262	24.8	6,132	688	11.2	12,868	1,560	12.1	14,002	2,862	20.4	13,590	296	2.2	9,224	-5,159	-
Sio													2,615	194	7.4	2,733	443	16.2
Oligidu				502	64	12.7												
Wandokai				924	112	12.1	1,734	-656	-	286	5	-	173	-70	-			
Aupwel							1,374	- 6	-	776	-127	-	759	9	-			
Barim				456	-122	-	950	- 72	-	800	-667	-	432	170	39.4			
Gubua	2,112	226	10.7															

* Breakdown of figures prior to 1962-63 is not available.

(1) Turnover

(2) Gross surplus

(3) Percentage of gross surplus to turnover.

Source: File CR 21-2-2, parts 1-7, financial statements.

1964-65.[1] And both credit giving and pilfering from cash accounts were the principal factors in the sharp downturn in gross surplus at Dreger and Kabwum during 1966-67.[2] As with produce marketing, lack of proper stock controls also had detrimental effects on store operations. Thus store trading in 1963-64 suffered because of drastic reductions in prices made in an endeavour to clear large quantities of dead stocks.

The branch at Kabwum presented special problems with respect to the handling of stock because of the use of the transit depot at Wasu for channelling goods from Buki which led to many accounting difficulties with goods often arriving uncovered by bills of lading or invoices. Several improvements in the stock control system were made during 1967 to enable spot checks to be carried out regularly and efficiently. A system of stock cards was introduced at the Buki bulk store to facilitate recording of stock movements, and all goods sent to branch stores were to be covered by invoices and bills of lading, while storemen were to maintain docket books for recording sales. The effectiveness of this system of controls, however, was very largely dependent upon the ability of Registry officers to exercise close supervision.

Petrol and oil trading

This was started on a small scale during 1963 under an arrangement with the Mobil Oil Company. Trading results are summarised in Table 5.9. Although the scale of operations increased after 1964-65, income from this source remained relatively insignificant in the overall framework of the FMDC.

Table 5.9

The Finschhafen Marketing and Development Co-operative Limited petrol and oil trading results, 1963-69

Year ended 31 March	Turnover $	Gross surplus $	Per cent gross surplus to turnover
1964	1,026	114	11.1
1965	2,614	174	6.7
1966	10,196	1,540	15.1
1967	7,895	2	-
1968	10,435	-1,436	-
1969	n.a.	1,367	-

n.a. Not available

Source: Files CR 21-2-2, parts 1-7; CR 21-2-2(A), part 1, financial statements.

1 File CR 20-2-11, f.143.

2 File CR 21-2-2, part 7, f.88.

The overall financial position

The overall net trading results of the FMDC are presented in Table 5.10, while a summary of its assets and liabilities as at the end of March 1966 to 1969 appear in Table 5.11.

Table 5.10

The Finschhafen Marketing and Development Co-operative Limited net trading results, up to 1968-69 ($)

Period	Net surplus	Net surplus distributed*
Up to 15/6/1960	9,128	-
16/6/60-31/3/61	5,350	2,810
1/4/61-31/3/62	-6,514	100
1/4/62-31/3/63	3,398	-
1/4/63-31/3/64	7,136	-
1/4/64-31/3/65	27,164	15,816
1/4/65-31/3/66	35,045	-
1/4/66-31/3/67	- 409**	22,212
1/4/67-31/3/68	-5,844	n.a.
1/4/68-31/3/69	9,386	n.a.

* Includes cash distributions and bonus shares; separate figures are not available.

** Excluding $400 directors' honoraria, which is included in the audited profit and loss account.

n.a. Not available.

Sources: Files CR 21-2-2, parts 1-7; CR 21-2-2(A), part 1, financial statements; RCS Annual Reports, 1960-61 to 1967-68, statistical summaries.

From the point of view of net surplus, the two most successful years were 1964-65 and 1965-66. One of the main reasons for the negative net result in the following year was a marked increase in operating loss incurred by the *Vitiaz* (see Table 5.2). The operating loss of the *Vitiaz* fell slightly but remained at a high level in 1967-68. This, together with adverse movements in coffee and trade store operations, contributed largely to an even larger net loss for that year. On the other hand, substantial improvements in the operating results of the trade stores, copra marketing and the vessel accounted for the net profit in 1968-69.

The FMDC required a relatively large amount of liquid funds to finance its trading operations. Coffee trading, in particular, required large amounts of cash funds to be tied up in stocks on their way to market. Transport bottlenecks in highland areas often led to stockpiling of coffee at buying points and thus placed a heavy strain on cash funds from time to time. This problem was intensified at any given time by the occurrence of coffee flush which did not seem to follow any well defined pattern. Slowness in finding coffee buyers also on occasions placed some pressure on the available funds. None of these difficulties, however, applied so acutely to copra trading. Purchases of this crop were comparatively even from month to month and the *Vitiaz* was able to clear stocks from coastal

Table 5.11

The Finschhafen Marketing and Development Co-operative Limited assets and liabilities, as at 31 March 1966-69
($)

	1966	1967	1968	1969
Current assets				
Cash on hand at bank	40,012	31,901	16,541	20,973
Debtors	16,067	28,381	16,341	4,213
Stocks	42,099	47,388	33,078	42,153
	98,178	107,670	65,960	67,339
Less current liabilities				
Creditors and accrued expenses	9,437	27,359	18,889	14,310
Bank overdraft	-	23,341	-	-
Provision for income tax	12,380	1,701	-	2,200
	21,817	52,401	18,889	16,510
Working funds	76,361	55,269	47,071	50,829
Add investments				
Administration loans	30,880	23,640	23,640	23,640
Interest bearing deposits		12,292	12,292	12,292
Other deposits		3,933	-	-
Shares in other co-operatives	1,874	1,874	12,204*	13,430*
	32,754	41,739	48,136	49,362
Add fixed assets				
Original value	n.a.	49,581	54,283	58,572
Less provision for depreciation	n.a.	22,687	27,718	33,712
	22,156	26,894	26,565	24,860
	131,271	123,902	121,772	125,051
These funds were represented by:				
Proprietorship				
Share capital	79,982	95,959	100,715	101,075
Statutory reserves	17,494	20,295	20,295	21,832
Profit and loss appropriation	33,795	7,648	762	2,144
	131,271	123,902	121,772	125,051
Ratio of current assets to current liabilities	450%	205%	349%	408%

* Includes $10,000 shares held in the New Guinea Mainland Co-operative Union Ltd

n.a. Not available.

Source: File CR 21-2-2, part 7, comparative balance sheet, f.209; File CR 21-2-2(A), part 1.

buying points with reasonable frequency. In addition, the operations of the Copra Marketing Board ensured that copra was sold quickly, provided there were no delays in transporting it from Buki to Lae.

Until 1966, the Society financed all its day to day activities as well as the acquisition of fixed assets from internal sources, mostly by drawing upon share capital and, to a lesser extent, accumulated net surpluses. The ratio of current assets to current liabilities was generally well above the 200 to 250 per cent considered within the Registry as sufficient for an enterprise like the FMDC to maintain purchasing and marketing operations. But a large proportion of the working funds was usually tied up in stocks and there were occasions when the pressure on the available cash funds was quite considerable, particularly since 1964-65 when the volume of business had risen very substantially without corresponding large increases in fresh share capital contributions by members. Thus during 1966 the Society was forced to obtain an overdraft limit of $30,000 from a trading bank mainly to finance coffee purchases. And the overdraft of $23,341 was largely responsible for the unusually low ratio of current assets to current liabilities of 205 per cent at the end of March 1967.

Member participation and management structure

Member participation in the management of the FMDC was strictly limited. Because of the sprawling nature of the enterprise and regional differences, provision was made for any group of at least ten shareholders in different membership areas to convene meetings to discuss matters affecting the Society. Members who did not qualify as shareholders[1] were permitted to attend these meetings but were not entitled to vote. Voting was conducted on the basis of one vote per shareholder irrespective of the number of shares held. One of the main functions of the area meetings was to elect delegates to the Society's annual and special general meetings, which constituted the policy-making authority in relation to matters such as the purchase of fixed assets and the distribution of accumulated profits. The delegates were elected on the basis of one delegate for every 200 shareholders resident in each area. They were required to vote at the general meetings in accordance with instructions given them at their area meetings[2] and to report the proceedings of the general meetings to future area meetings. This pattern of organisation, however, failed to achieve active member participation, owing mainly to transport difficulties which contributed to the problems of organising area meetings regularly. Transport difficulties were also an obstacle to the establishment of direct contact between staff of the Registry and members of the Society. Hence the flow of information from the centre of the Society's operations to members was very spasmodic and so, in consequence, was the flow of members' wishes to the centre.

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[1] To qualify as a shareholder, a member was required to hold at least 20 fully paid one dollar shares.

[2] Voting at general meetings was on the basis of one vote per delegate irrespective of the number of shareholders represented by him or the number of shares held by such shareholders.

The Society's Board of Directors normally consisted of eight delegates, one from each of the membership areas. It dealt mainly with staff matters[1] which included employment, dismissal and fixing of wages, the authority to give any direction to any employee in order to further the aims of the Society. But owing to transport problems, it was often difficult to raise the required quorum of five delegates and Board meetings were therefore not held regularly at the prescribed three monthly intervals. Partly for this reason and partly because of lack of managerial skills on the part of the indigenous people, management decisions were by and large left to the Management Committee, comprising two directors appointed by the Board, the Society's general secretary, two DASF officers (the project manager and the agricultural officer at Finschhafen) and the senior co-operatives officer in the area. This Committee was introduced in 1964 and replaced the former Produce Committee, which was formed in 1961 to deal with matters relating to the handling of primary produce. The Management Committee was responsible to the Board of Directors for the proper conduct of all aspects of the Society's business, particularly the marketing of primary produce and the operation of the M.V. Vitiaz. Its terms of reference included the power to fix the prices paid to members and non-members for produce and to enforce produce grade standards. Thus the Management Committee, which met fairly regularly at least once a month, played a pervasive role in the affairs of the Society. This, in effect, meant that the management of the FMDC was virtually in the hands of the expatriate Administration officers, as these were the only people on the Committee qualified and able to take managerial initiatives. Discussions at the Management Committee meetings were generally dominated by the Administration staff (in particular, the agricultural officer), while the general secretary usually confined himself to recording the proceedings, and the directors merely to asking for clarifications on some of the issues under consideration.

Throughout, the DASF officers were responsible for undertaking managerial initiatives with respect to pricing policies and transport arrangements for produce and for maintaining the routine but essential accounting and stock control procedures for produce operations. The Registry staff, on the other hand, were responsible for the preparation of financial statements and supervision of store trading activities. With regard to store trading, they were particularly concerned with

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[1] Except matters relating to the employment of the Society's general secretary. These were dealt with by general meetings.

the system stock control. Transport arrangements for store goods were made by the Registry staff in consultation with the DASF officers. This provided the most obvious managerial link between the two groups of Administration officers, since the policy as far as possible was to back-load store goods on produce pick-up runs, whether by the Society vessel or by chartered aircraft. Only the more routine matters in both store trading and produce marketing were handled by the indigenous staff of the FMDC.

The Society's directors were generally reluctant to offer a reasonable salary to attract a manager with suitable training and experience and, at the same time, did not wish to employ an indigenous person from an area other than the Finschhafen Sub-District. Thus, with the existing level of education and skills among the Society's staff, there was ample justification for the heavy Administration involvement in management. However, the question remains as to whether the system adopted was so designed as to ensure maximum efficiency in operation and, even more importantly, the dissemination of skills in order to bring about indigenous participation in management as rapidly as possible. The splitting up of authority between the DASF and the Registry staff (and to a lesser extent between the DASF officers themselves) tended to cause operating inefficiencies and acted as a barrier to the dissemination of skills, despite efforts at co-ordination through the Management Committee, because of confusions arising in the minds of the Society's staff as a result of different emphases or even outright differences in some cases in the orders given by different officers.[1]

Nature of competition and member loyalty

The FMDC was not the only business enterprise operating in the area covered by it. Its two most important competitors were Namasu Ltd and the Kabwum Company. It was estimated that in 1965 the FMDC purchased 142 tons of coffee and 166 tons of copra, while Namasu Ltd bought 148 tons of coffee and 184 tons of copra, and the Kabwum Company 40 tons and 10 tons of the

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[1] This problem was particularly noticeable with regard to the operations of the Society's vessel. Frequently there was active rivalry between the Administration officers as to whose responsibility it was to plan the operations of the vessel. This meant that the master of the *Vitiaz* was not always certain as to whose instructions to follow.

two crops respectively.[1] Apart from produce marketing, these two competitors also engaged in trade store activities. Other competitors of lesser importance included private traders in the vicinity of the Society headquarters and the Australian Lutheran Mission which was active in the Siassi Islands.

Namasu is owned predominantly by indigenous shareholders. Its operations cover the whole of the Huon region with the exception of the Siassi Islands.[2] In 1968-69 it was operating more produce buying points and trade stores than the FMDC. In addition, it had four vessels serving along the coast, compared with the Society's one, but like the FMDC, it relied on chartered aircraft for the highland areas. The Kabwum Company, on the other hand, belongs to a European entrepreneur. With its own light aircraft based at Kabwum, the Company has a considerable advantage over other produce buyers in the area. It also operates a vessel along the Huon coast and out to the Siassi Islands.

It is difficult to assess the extent to which price competition affected the Society's business. In late 1967 prices paid for produce by Namasu and the FMDC were roughly comparable, with the former having a slight edge. In the sphere of store trading, a comparison of the prices charged on standard items by the Society and Namasu in the Buki area in late 1967 did not reveal any marked discrepancies and, as far as it could be ascertained, this was the general pattern. The best example of effective price competition was in the Siassi Islands where a competitor retailed goods roughly at Lae prices and had thus cornered the market at the expense of the FMDC.

The extension of credit cannot be regarded as an element in competition between the Society and Namasu, since the policy of both organisations was against credit sales. Private non-indigenous traders in the vicinity of Buki, however, were offering credit to the customers and had thereby attracted more business.

In practice, the main factor which caused Society members (many of whom held shares in both the FMDC and Namasu) and others to switch their loyalties from one organisation to another was simple inability to sell their produce at a buying

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[1] File CR 21-2-1, ff.86-87.

[2] Namasu also operates in areas not covered by the FMDC, including extensive inland areas of the Morobe District (including the Finschhafen Sub-District); Eastern Highlands; coastal areas from Lae to Madang, and to some extent south of Lae.

point because the clerk had run out of cash. In some cases inability to buy the goods they desired was due to the fact that a store had run out of certain lines of stock. Thus, in order to compete effectively, given the area and types of economic activities involved, the various trading organisations had to provide adequate transport arrangements as far as possible, to ensure regular pick-up of produce and supplies of store goods. It also had to establish branch stores in conjunction with buying points. This would minimise the inconveniences of providing cash for produce purchases, spread the burden of transport costs, and provide an incentive for selling produce to the organisation concerned. Of course, Namasu faced many of the same sorts of problems as the FMDC in endeavouring to fulfil these objectives, but it was managerially and financially better equipped to do so. In the Kabwum area, the Kabwum Company has demonstrated a capacity for taking the initiative from its rivals, partly because of its aircraft based at Kabwum itself and partly because it maintained a well stocked trade store.

Reorganisation of the FMDC

The question of reorganising the FMDC into a number of cooperatives on the conventional society/association pattern that existed in most other parts of Papua New Guinea, was raised within the Registry on several occasions. Initially the idea was rejected partly because of the prevalence of the view that the presence of a single enterprise was an important factor in developing a common bond among the scattered and different peoples of the Finschhafen Sub-District. But to the extent that the structure of the FMDC failed to achieve a significant amount of member participation, doubt was cast on the degree to which it had established unity among the different groups. It is probable that the more flexible society/association structure would have provided a link between the various groups, at the same time catering more adequately for the regional differences which were largely responsible for the dissatisfaction among members in some areas.

It was not until mid 1968, however, that steps were taken to change the structure of the Society. Thirteen new primary societies and an association were to be formed. The association was to be located at Buki in the premises occupied by the FMDC, while the primary societies were to be established at Siassi, Kalalo, Sio, Dedua, Kalasa, Kotte-Yabim, Mindik, Pindiu, Kabwum, Konge, Indagen, Dirim and Yalumet. Formation meetings of seven of the proposed societies had already been held by the middle of March 1969. All new societies were to raise fresh share capital in their respective areas, and they were to engage principally in the marketing of primary produce and trade store operations. The Association, on the other hand, was eventually to undertake direct negotiations (instead of the DASF acting as agents) with prospective buyers of coffee belonging to member societies; to act as agent for the marketing of copra; to maintain a well-stocked wholesale store; and to operate a larger vessel in addition to arranging air charters for the transport of produce and store goods.

It was expected that the new structure would promote increases in co-operative membership and share capital, provide greater opportunities for members to participate in the affairs of their respective organisations, raise the level of efficiency, and generally have a beneficial effect on the morale of members in different areas.

Chapter 6

The Atzera Rural Co-operative Limited

This enterprise was started in 1962 as a rural progress society to facilitate the marketing of cash crops grown by the indigenous people in the Kaiapit Sub-District.[1] Later its area of operations was extended to include Dumpu and Nahorawa census divisions.[2] Prior to its establishment nearly all indigenous output of cash crops in the Kaiapit Sub-District was

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[1] This is part of the Morobe District and covers the upper Markham valley and adjacent hills stretching over an area of approximately 1,400 square miles. Its population, numbering some 18,000 persons in 1968, is scattered in 95 villages spread throughout the sub-district. See Department of District Administration, 1968, Village Directory, p.95 (hereafter, Village Directory). Most of the residents, however, occupy the valley flat areas of Atzera, Onga, Lower Leron, Lower Yaros and Amari, which together form a rectangle about 30 miles long and 16 miles wide. Except for Onga, these areas are readily accessible by a network of village roads. The soils on the valley floor are fairly rich, of alluvial type, though throughout there are patches of gravel land on the old river beds. The foothills, covered with soil washed down from the hills, are also suitable for cultivation. The other areas (Waffa, Upper Leron, Upper Yaros and Markham Headwaters) are generally mountainous and suffer from poor communications. The people throughout the sub-district speak dialects of the Atzera language and form a fairly homogeneous group, with a local government council established in the early 1960s. (File 6-2-5A, part 1, DASF, Lae.)

[2] Both Dumpu and Nahorawa census divisions are in the Ramu River valley in the Madang District. Dumpu has an area of 214 square miles and seven villages, while Nahorawa covers 430 square miles and has twenty-seven villages. In 1968 Dumpu had a population of about 800 and Nahorawa about 5,700. See Village Directory 1968, p.88. The output from these areas was relatively small.

sold to the DASF at its local Agricultural Extension Centre. Transport of the produce from the villages was provided free of charge by the DASF, but the prices paid locally were slightly lower than those offered by buyers for deliveries made in Lae, about 80 miles away on the coast from Kaiapit, the Sub-District headquarters. The amount of produce sold to the DASF locally was quite considerable; in 1960-61 it included 87 tons of peanuts in shell and 14 tons of copra.[1] Departmental facilities, however, were limited, and as cash cropping in the Sub-District was increasing rapidly, an alternative method of selling the produce had become necessary.

Initially the villagers were reluctant to join the Society. At the time of its registration in December 1962, it had only about 500 members and $5,080 in share capital. But by March 1966 membership had risen to 1,164 and share capital to $26,482. The share capital continued to rise each year, mostly through bonus share issues, and reached a total of $48,747 by April 1969.

The Society commenced trading in October 1962, but did not immediately acquire its own storage and transport facilities because of inadequate funds. In fact, its first building - a bulk store-and-office at Mutsing on the Highlands (Markham) Road about seven miles from the Kaiapit Sub-District headquarters - was not built until September 1964. Its first vehicle was not purchased until about a year later. In the meantime both storage and transport of produce within the sub-district were provided without charge by the DASF. Later, staff quarters and a wholesale trade store were also constructed at Mutsing and more vehicles were purchased, but in early 1969 the DASF was still providing free transport of produce within Dumpu and Nahorawa.

Produce marketing

Throughout, the Society was chiefly concerned with the marketing of peanuts, the main cash crop in the Kaiapit Sub-District, although it also handled coffee, copra, centrosema, cocoa and lucaena. Table 6.1 gives a summary of produce trading results, while the relative importance of various crops to total produce turnover is indicated in Table 6.2.

Members close to Mutsing were able to sell their produce at the Society's bulk store. For others, buying points with storage sheds (usually of bush material) had been established

[1] File 6-2-5A, part 1, DASF, Lae.

at Atzunas, Ragiampun, Gainaron, Leron Bridge, Dumpu and Bobirumpum. Although attempt was made to choose buying point locations which would minimise travelling time by the villagers, some still had to travel up to one and a half days or even more to sell their produce. The Society's vehicles were used to transport the produce from the buying points to its bulk store; a charge of 10 cents per bag of peanuts and coffee was levied to meet the operating expenses of the vehicles.

Peanuts. These are grown mainly on the floor of the Markham valley. Good soil yields two or three crops per year, while poor soil produces only one crop. The soil requires considerable preparation before planting, and the crop, mostly of white spanish variety, takes about three months to come to full maturity.

The Society purchased peanuts while still in shell.[1] In 1967 the price paid to growers was 5 cents per pound. Most of the peanuts bought were exported after hulling to Australia. Occasionally the DASF purchased small quantities in shell as part of its programme to explore foreign markets, particularly in New Zealand. All exports passed through Lae. The hulling, grading, bagging and transportation of the produce to Lae were undertaken by two European planters in the Kaiapit Sub-District, at the cost of 1.66 cents per pound of kernels and 1.25 cents per pound of oil culls. The DASF provided storage facilities in Lae and made the necessary shipping arrangements (including the preparation of appropriate documents). Both these services were provided free of charge. Export prices for peanuts had remained fairly steady for several years; in 1967 the overseas buyers were paying 15 cents per pound for kernels and 6.5 cents per pound for oil culls (f.o.b. Lae).

As indicated in Table 6.1, the value of peanuts sold by the Society rose very rapidly to $131,086 in 1966-67, but

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[1] There were considerable differences in the quantities sold by individual growers. The author visited the Atzunas and Ragiampun buying points on 12 September 1967. On that day fourteen individuals sold peanuts at Atzunas and seven at Ragiampun. The quantities sold ranged from 2 to 16 bags at Atzunas and from 1 to 15 bags at Ragiampun. In both places the weight per bag varied from 60 to 100 pounds. There were also large differences in the quantities of other crops sold on that day. Payments for peanuts at the two buying points totalled $461 and $147, respectively. The highest single payment at Atzunas was $143 for peanuts and the lowest was 12 cents for centrosema. At Ragiampun the highest was $56 for peanuts and the lowest 72 cents for centrosema.

Table 6.1

The Atzera Rural Co-operative Limited
produce marketing, turnover and gross surplus, 1962-69

	Peanuts			Coffee			Centrosema			Copra			Other crops*			Total		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
	$	$	%	$	$	%	$	$	%	$	$	%	$	$	%	$	$	%
1/10/62- 24/ 4/63	8,612	n.a.	n.a.	546	n.a.	n.a.	n.a.	n.a.	n.a.	482	n.a.	n.a.	316	n.a.	n.a.	9,956	1,418	14.2
25/4/63- 25/3/64	39,048	3,345	8.6	3,162	699	22.1	4,739	838	17.7	5,101	1,475	28.9	4,825	1,174	24.3	56,875	7,531	13.2
26/3/64- 22/3/65	73,478	17,033	23.2	3,661	608	16.6	3,784	952	25.2	5,010	823	16.4	3,026	278	9.2	88,959	19,694	22.1
23/3/65- 23/3/66	92,504	17,494	18.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5,245	832	15.9	n.a.	n.a.	n.a.	118,699	20,456	17.2
24/3/66- 31/3/67	131,086	25,549	19.5	19,805	3,195	16.1	11,102	3,155	28.4	2,978	513	17.2	5,693	131	2.3	170,664	32,543	19.1
1/4/67- 1/4/68	103,534	20,324	19.6	12,100	2,052	17.0	8,531	2,551	29.9	5,374	998	18.6	4,680	-393	-	134,219	25,532	19.0
2/4/68- 16/4/69	82,009	25,190	30.7	17,727	4,494	25.4	8,724	3,188	36.5	6,654	2,875	43.2	1,674	1,017	60.8	116,788	36,764	31.5

(1) Turnover

(2) Gross surplus

(3) Percentage of gross surplus to turnover

* Include cocoa and lucaena

n.a. Not available

Source: File CR 21-24-6, parts 1-2, financial statements.

dropped markedly in the following two years. In 1968-69 it amounted to only $82,009, a fall of 37 per cent when compared with the peak reached two years earlier. This was due entirely to a decline in the quantity of peanuts marketed through the Society, purchases in 1968-69 amounted to only $51,008 which were 38 per cent lower than in 1966-67. The share of peanuts in the total turnover of primary produce was also noticeably lower in 1968-69, although the produce remained by far the most important source of revenue to the Society.

Competition from expatriates was strong throughout. The Society did not buy its own tractors and other equipment required for the cultivation of peanuts until early 1969. There were a number of indigenously owned tractors but these were not properly maintained and were frequently out of commission. Hence, from the start, two expatriate planters frequently made arrangements with indigenous growers to prepare their land and plant the crop, while the villagers took the responsibility for weeding and harvesting and agreed to sell their produce to the planters. During 1968 two more expatriates with tractors and other equipment started working under contract. They worked on lots of 50 to 100 acres up to the planting stage in return for part of the acreage and an undertaking by the villagers that they would sell their output to them at the ruling price. This price was standardised at 5 cents per pound in shell throughout the sub-district.

A proposal for the purchase of a tractor by the Society was put forward by some members as early as July 1964, but DASF officers were opposed to the idea mainly on the ground that the members did not fully appreciate the costs involved in tractor operations. Moreover, at that time, there were thirteen indigenously owned tractors in the area, and instead of allowing the Society to buy a tractor, the officers proposed the formation of a tractor owners' association to facilitate the ploughing of members' land. This proposal, however, was abandoned through lack of support from the people concerned. By 1967 the number of indigenously owned tractors with attachments had risen to 25. Most of these were group owned, and occasionally some were hired out for ploughing at the cost of $6 per acre. But certain factors operated against group ownership of tractors. Divided responsibility was probably the main one. Group members were generally reluctant to contribute funds for buying fuel and to carry out repairs. Because of this, group owned tractors were by and large underutilised.[1]

[1] DASF officers once attempted to establish a tractor fund, to which each owner (group or individual) was to contribute $50 for the purpose of carrying out repairs to damaged tractors.

Table 6.2

The Atzera Rural Co-operative Limited relative contributions of different crops to total turnover of primary produce, 1962-69 (per cent) *

Period	Peanuts	Coffee	Centrosema	Copra	Other** crops	Total
1/10/62-24/4/63	86.5	5.5	n.a.	4.8	3.2	100.0
25/4/63-25/3/64	68.7	5.6	8.3	8.9	8.5	100.0
26/3/64-22/3/65	82.6	4.1	4.3	5.6	3.4	100.0
23/3/65-23/3/66	77.9	n.a.	n.a.	4.4	17.6	100.0
24/3/66-31/3/67	76.8	11.6	6.5	1.7	3.3	100.0
1 /4/67- 1/4/68	77.1	9.0	6.4	4.0	3.5	100.0
2 /4/68-16/4/69	70.2	15.2	7.5	5.7	1.4	100.0

* See Table 6.1 for turnover of various crops.

** Mainly cocoa and lucaena, but for the period 23/3/65 to 23/3/66 coffee and centrosema are also included.

n.a. Not available

Over much of the period, most of the repair and maintenance work on tractors belonging to members of the Society was done free of charge by a DASF officer, who had conducted the affairs of the Society on a full time basis for several years until early 1968 when he left Administration employment. In the next few months many of the tractors went out of use for want of repairs, and the Society lost a considerable amount of business to expatriate tractor operators. Eventually, in May 1969, it was forced to buy three tractors together with disc ploughs, harrows and peanut planters, to counteract private competition.

The Society's tractors were expected to work on members' land in lots of at least 30 acres. The cost of preparing the soil and planting peanuts, estimated at $15 per acre (including seeds), was to be recovered after harvest.[1] But before carrying out the work, DASF officers were to inspect the area for suitability and report to a credit committee, consisting of three members appointed by the Society's Board of Directors, to supervise the loans with the help of DASF staff. The Society also planned to give loans to members operating their

1 (continued)
The idea received little co-operation from the people concerned. Only three owners contributed to the fund which ceased to exist after the amount collected had been exhausted. But later, in 1967, a group at Ragiampun village successfully established a fund with a levy of 50 cents per bag of peanuts produced by growers using their tractor. This covered fuel and minor repairs.

1 The estimated return to growers was $56 per acre, based on 0.5 ton of peanuts in shell at 5 cents per pound.

own tractors to cover the cost of tractor operations and seeds. In return, the members receiving credit were to guarantee that they would sell their produce to the Society.

Coffee. Most of the coffee produced by members was of Arabica variety, which grows in the hills on both sides of the Markham Valley. Robusta grows on the valley floor and the foothills, but the amount produced by members was relatively unimportant. The Society purchased coffee in parchment form at different prices depending on quality and variety. In 1967-68 the prices (per pound) were 17.5 cents for Arabica Grade X, 14.5 cents for Arabica Grade Y1 and 12 cents for Arabica Grade Y2 and Robusta. The Society did not undertake any coffee processing. After some drying, the entire amount bought was delivered to the DASF, Lae, which in 1967-68 was offering 20 cents per pound for Arabica Grade X, 17.5 cents per pound for Arabica Grade Y1 and 15 cents per pound for Arabica Grade Y2 and Robusta. Hulling, bagging and shipping of the produce was undertaken by the DASF. The higher turnover of coffee after the mid 1960s, as shown in Table 6.1, was principally due to growth in output as new trees came into production.

Centrosema. This crop grows wild on the floor of the Markham Valley. The Society purchased the seed from the villagers at the price of 12 cents per pound and sold it to the DASF for 18 cents per pound. Turnover of this crop reached the peak in 1966-67, when it amounted to $11,102. But owing to contraction in overseas market, the quantity sold fell in the next two years. In 1968-69 it amounted to only 21.6 tons, compared with 27.5 tons in 1966-67. Until the imposition in 1967 of import restrictions on this crop by Australia, most of the output bought by the DASF was exported to Queensland.

Copra. The coconut palms in the Kaiapit Sub-District are grown mainly on the foothills. Copra production by the villagers increased rapidly from the estimated 8 tons in 1958-59 to 28 tons two years later.[1] In addition to the copra produced, sizeable quantities of nuts were sold at roadside stalls where the villagers had no difficulty in obtaining 10 cents per nut. Some took their nuts to Goroka and sold them for as much as 25 cents each. Copra was purchased by the Society at 3.5 cents per pound and sold to the Copra Marketing Board in Lae. Until 1965 it was the second most important crop handled by the Society. Gross revenue from this source remained fairly steady and averaged about $5,100 per year between 1963-64 and 1965-66, but fell substantially in the

[1] File 6-2-5A, part 1, DASF, Lae.

following year because of fall in production as well as lower prices. The value of sales increased sharply in the next two years mainly as a result of higher prices paid by the Copra Marketing Board.

Other crops. These include cocoa and lucaena, but the production of the latter had virtually ceased during 1968-69. The production of cocoa by the villagers in the area covered by the Society did not commence until 1965 and their enthusiasm for it was soon dampened by the low price offering at that time. There was little interest in extending the area allocated to this crop and only a few growers harvested it regularly. The Society purchased the wet cocoa beans at 1 cent per pod and provided free transport from the villages to Mutsing where it did the fermenting, drying and sorting. The produce was then sold to private buyers in Lae. Cocoa accounted for practically the whole of the income from the sale of 'other crops' in 1968-69 as shown in Table 6.1.

Store trading

Although the Atzera Society was originally set up to engage solely in the marketing of primary produce, from time to time there were suggestions, usually by its members, for the establishment of a wholesale and retail store. But the idea of branching into store trading was opposed by DASF. It was not until late 1967 that a store was set up at Mutsing following a unanimous decision of members present at a general meeting earlier during that year.

The store's activities, however, were confined to wholesale trading with privately owned indigenous trade stores and individuals wishing to buy their requirements in bulk. Its scale of operations was relatively small, with stocks consisting mainly of grocery and hardware lines. It faced active competition from three expatriate stores,[1] two of which were located at Mutsing itself and one at Kaiapit Sub-District headquarters. Store sales from the commencement of trading until the middle of April 1969 totalled $6,512, while the gross surplus from this venture amounted to $397 or 6.1 per cent of aggregate turnover.

The overall financial position

In terms of net surplus earned, Atzera was one of the most prosperous co-operative enterprises in Papua New Guinea.

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[1] One of these stores was subsequently purchased by the Society. (See footnote, p.114.)

Table 6.3 indicates that its net surplus more than doubled during 1964-65 and remained at a high level throughout. The financial position of the Society, as shown in Table 6.4, was therefore sound. Until 1971 nearly all funds required for various purposes were raised internally, mainly through the retention of profits.[1] Of the total net surplus of $111,802 earned over the years until the middle of April 1969, $22,448 had been transferred to statutory reserves, and $32,914 distributed to members as cash rebates and dividends. The balance was kept within the business through bonus share issues ($32,533) and as undistributed profits. The Society had an overdraft arrangement with a trading bank up to a limit of $20,000, but this was seldom drawn upon and was never fully utilised.

Table 6.3

The Atzera Rural Co-operative Limited
net surplus and distributions, 1962-69
($)

Period	Net surplus	Distributions		
		Cash rebates and dividends	Bonus shares	Total
1/10/62-24/4/63	1,076	nil		
25/ 4/63-25/3/64	7,568	nil		
26/ 3/64-22/3/65	19,301	9,800	3,990	13,790
23/ 3/65-23/3/66	18,286	5,698	8,542	14,240
24/ 3/66-31/3/67	28,301	9,848	2,973	12,821
1/ 4/67- 1/4/68	15,923	5,355	17,028	22,383
2/ 4/68-16/4/69	21,347	2,213	nil	2,213

Source: File CR 21-24-6, parts 1-2, financial statements.

Atzera's prosperity was predominantly based on the favourable market for peanuts and the very close supervision and other assistance provided by the DASF. Although the output of peanuts in the Kaiapit Sub-District had grown considerably during the 1960s, the prices remained stable throughout.

[1] In early 1971 the Society purchased a 1,600 acre plantation from an expatriate businessman. The plantation, located within the Kaiapit Sub-District comprised a number of enterprises including peanut growing, beef cattle breeding, trade store and oil and tractor agencies. The entire outfit was bought for about $160,000, of which $100,000 was borrowed from the Papua and New Guinea Development Bank.

Table 6.4

The Atzera Rural Co-operative Limited:
assets and liabilities, 1966-69
($)

	23 March 1966	31 March 1967	1 April 1968	16 April 1969
Current assets				
Cash on hand and at bank	5,620	2,457	2,918	20,401
Debtors	17,009	29,839	22,088	1,582
Stock	7,992	1,882	3,848	11,151
Other	-	-	475	-
	30,621	34,178	29,329	33,134
Less current liabilities				
Creditors	-	3,726	-	15
Bank overdraft	5,779	-	8,946	-
Other	4,000	2,756	1,812	853
	9,779	6,482	10,758	868
Working funds	20,842	27,696	18,571	32,266
Add investments				
Shares in other co-operatives	-	-	8,000	8,050
Administration loans	9,480	9,480	22,330	26,972
Bank fixed deposits	-	5,579	-	-
	9,480	15,059	30,330	35,022
Add fixed assets*				
Original value	11,678	17,483	26,694	34,045
Less provision for depreciation	1,546	3,908	6,700	11,410
	10,132	13,575	19,994	22,635
	40,454	56,330	68,895	89,923
These funds were represented by:				
Proprietorship				
Share capital	26,482	30,552	48,485	48,747
Statutory reserves	9,285	14,945	18,180	22,448
Other reserves	976	-	-	-
Profit and loss appropriation	3,711	10,833	2,230	18,728
	40,454	56,330	68,895	89,923

* Mainly buildings and vehicles

Source: File CR 21-24-6, parts 1-2, financial statements.

Supervision and management

From the beginning the DASF maintained a close supervision over the affairs of the Society. One of its expatriate officers worked full-time with the Society for several years until early 1968, performing the secretarial duties and playing a decisive role in policy decisions. In the Dumpu area an expatriate agricultural officer and his indigenous assistant devoted most of their time to the Society's affairs, including the purchase of crops and making transport arrangements.

The direct involvement of the DASF in the management of the enterprise was necessary in the initial stages because of lack of suitable indigenous persons to assume the responsibilities. When the Society was formed, there were very few, if any, local residents in the Kaiapit Sub-District with sufficient basic education to receive training as clerks.[1] Little effort was made to recruit employees from other areas because DASF officers felt that they would not be readily acceptable to members and their employment could cause resentment.

However, the prolonged close connection between the DASF and the Society produced a barrier to the development of managerial autonomy. The Society's Board of Directors, which consisted of villagers with little business experience and practically no formal education, felt no urgency in trying to appoint a paid secretary so long as the DASF provided an officer to do the work. And it is also questionable whether the Administration officers concerned pursued the matter of finding a suitable person far enough or made a concerted effort to induce the Society to employ its own secretary, an outsider if necessary. It was not until July 1967 that a trainee book-keeper-and-storeman was employed for the first time. Certainly the Society had made excellent financial progress and had achieved a high degree of stability. But little was done over the years to train clerical staff and encourage members to participate in the functioning of the enterprise. In 1968 the resignation of the DASF officer mentioned above had created a serious gap in management, which was then left in the hands of relatively inexperienced local staff. The position had improved somewhat by early 1969, but it was still far from satisfactory. Later in that year, another expatriate DASF project manager was posted to Kaiapit to look after the affairs of the Society. In February 1970 the Society appointed its own expatriate manager and about a year later an expatriate was also engaged as accountant.[2]

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[1] Administration schools were introduced in the area only in 1961. Prior to that education was entirely in the hands of the Lutheran Mission.

[2] The cattle breeding enterprise of the plantation acquired in early 1971 was placed under a separate organisation, Ampam Pty Limited, a fully owned subsidiary of the Society. This, too, was managed by an expatriate, who was formerly employed as stock manager on the same property.

Chapter 7

The Lake Murray Co-operative Limited

This was one of the three primary co-operatives in the Western district which began as buyers' clubs in 1960. All three (Lake Murray, Kiunga and Morehead) were initially sponsored by officers of the Department of District Administration (DDA). Their original objective was principally to engage in store trading in order to improve the conditions under which store goods were available to villagers and at the same time give them an introduction to co-operative principles.

The buyers' clubs did not confine their operations to store trading for very long. In 1961 they started marketing crocodile skins. This venture not only promised to be profitable but was in part motivated by the fact that private traders at that time were paying very low prices to the village people for their crocodile skins and also because the Administration was concerned that some of the villagers had been trading with people from the Dutch (now Indonesian) side of the border and considered that the best way of stopping this was to provide an alternative method of marketing through the buyers' clubs.

The Lake Murray Buyers' Club started trading in a small way with merely $908 in share capital collected by a patrol officer from 452 members scattered over a wide area. But its scale of operations expanded rapidly and large amounts of profits earned were retained within the business through bonus share issues. At the time of its registration as a formal co-operative in August 1962, the membership had remained at the initial level but the share capital had risen to $4,524. Thereafter, the number of members increased gradually to a total of 822 by the end of 1967. The share capital, on the other hand, grew much more rapidly. In February 1969 it amounted to $64,423, of which $55,664 had been raised through issues of bonus shares.

With its head office at Lake Murray patrol post and branches at Miwa, Mipan, Kavianaga and Obo, the Lake Murray Buyers' Co-operative (or Society) served the villages of the Lake Murray

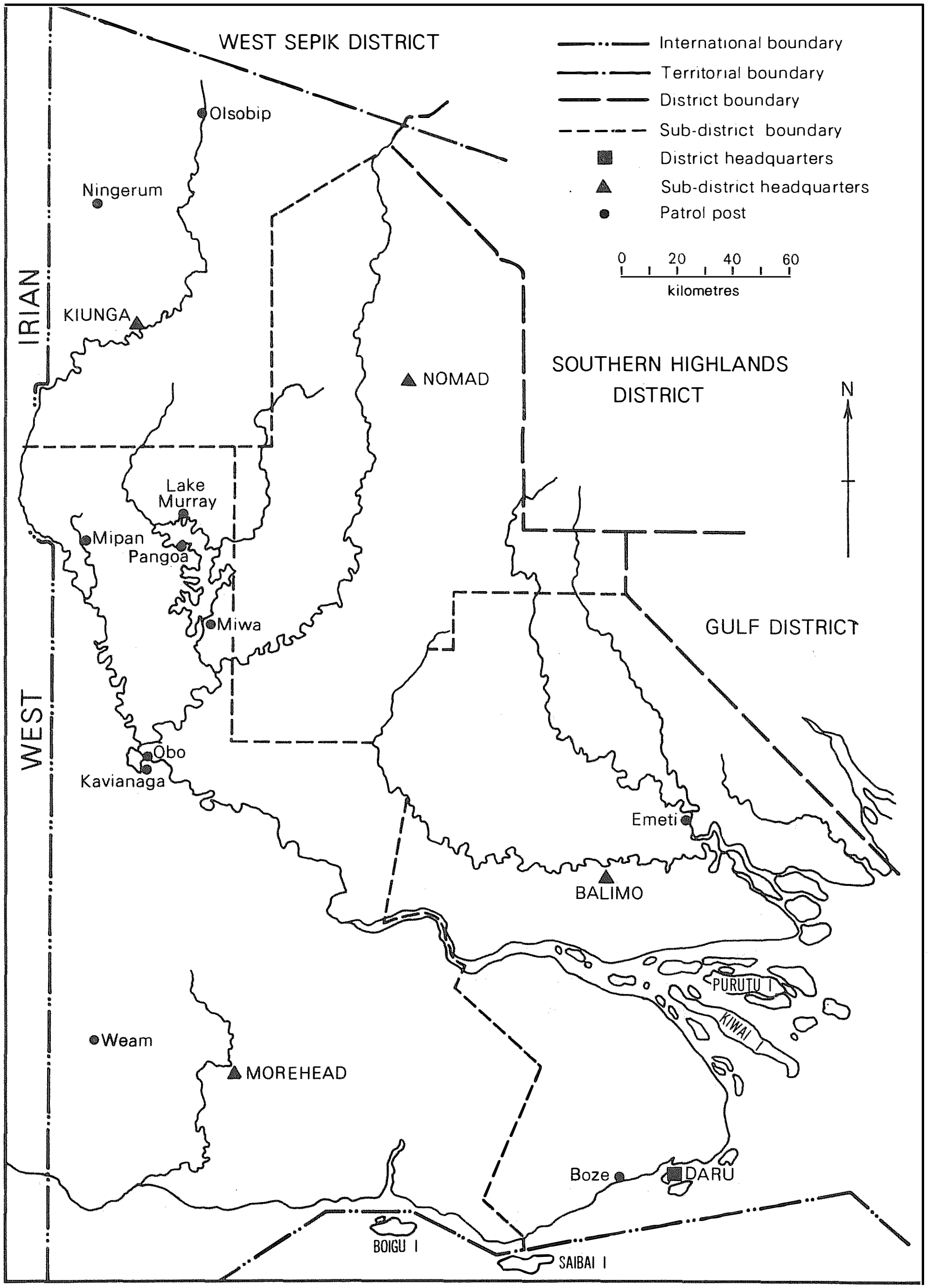

Fig. 6. Western District.

and Middle Fly census divisions.[1] In 1968 the head office establishment consisted of a retail trade store-and-office, a bulk store, a crocodile skin storage shed, and staff quarters. The branches each had a retail store and the Obo branch had a bulk store as well. All buildings, with the exception of the trade store-and-office at Lake Murray, were built of local bush material.

From the start the management of the Society was almost entirely in the hands of expatriates. For the first few years virtually all policy and management decisions were taken by the successive expatriate patrol officers at Lake Murray. One of these officers later left the employment of the Administration and joined the Society as its full-time manager from January 1967 until the middle of 1969. The Society's first Board of Directors was selected in 1962 by the patrol officer. To facilitate convening of meetings, the board members were picked from villages relatively close to Lake Murray patrol post. Although administratively convenient, this procedure was later found to be politically unwise because of inter-village rivalries. So, since 1964, each of the 21 villages covered by the Society selected its own representative. But the directors held their meetings infrequently and because of lack of general education and business experience they took little part in management and policy decisions.

Store trading

Initially the enterprise did not have sufficient funds to buy large quantities of stocks, and for the first few months

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[1] According to figures gathered by a DDA census patrol, the two census divisions in December 1967 had a combined population of over 3,200 persons scattered over 21 villages (12 in Lake Murray and 9 in Middle Fly). The villages are divided into several tribes: Bagua, Kuni, Iungum, Pari and Aewa in the Lake Murray and Jimakani, Komak, Wamak, Inges, Sangisi and Kuem in the Middle Fly census division. The majority of the Lake Murray and Middle Fly people share a common clan system, but the clan links have not overcome tribal division. Before the establishment of official Administration control in 1946, the various tribes continually warred with each other. Since then tribal warfare has ceased but strong rivalries and animosities still exist. The area covered by the Society is lowlying with extensive tracts of rain forest and swamps. There are no vehicular roads and virtually all transportation is by water. The land is generally infertile and commercial agriculture is non-existent. The only successful exploitation of the area's natural resources has been the production of crocodile skins.

supplies were obtained only against firm orders. But the business expanded rapidly, particularly following the introduction of crocodile skin trading. By the end of 1961 one of the main problems in the store was to keep up the supply of stocks. At first all goods were ordered from the Daru branch of an expatriate firm at a discount of 10 per cent on its local retail prices. As the scale of operations expanded, the Society started buying wholesale from Port Moresby and Cairns (in Queensland).

It was never the policy of the Lake Murray Society to make large profits on store trading. Initially, as a consumer organisation, the aim was to keep prices as low as possible. With the commencement of crocodile skin marketing, this policy became even more important. Lower prices for store goods helped attract the lucrative crocodile skin trade away from private traders. Although the policy was to sell goods with a mark-up of about 20 per cent, the storemen, particularly at the branches, frequently sold at prices below cost.

Shipping was a major problem almost from the beginning. When the volume of store sales was very small, shipping from Daru was provided free of charge by the Administration. As the volume of sales increased, commercial shipping had to be arranged. The Administration helped out whenever possible on a commercial basis but its vessels were unable to cope with the demand for shipping. The freight rates on vessels belonging to private traders were very high. In addition, the traders were often unwilling to carry for the Society which was their most serious competitor. The irregularity of shipping caused intermittent shortages of trade goods. Hence in 1965 an agreement was reached with a Daru trader, who undertook to keep up the Co-operative's supply of store goods with his vessel if the latter sold its crocodile skins to him. This arrangement was mutually advantageous as the service provided by the trader was satisfactory and his prices were comparable with those offered by other crocodile skin dealers at Daru. By 1966 the Society was large enough to charter vessels direct from Port Moresby to Obo at the junction of the Fly and Strickland Rivers.[1] From Obo, goods were taken to Lake Murray and the branch stores by the M.V. Lake Murray, a 26 ft launch acquired by the Society during that

[1] In 1967 freight rate from Port Moresby to Lake Murray via Daru was \$56 per ton - \$16 from Port Moresby to Daru and \$40 from Daru to Lake Murray - while the charge from Port Moresby direct to Obo was only \$36 per ton.

year to carry cargo to the branch stores and collect crocodile skins.[1] Later, a direct Cairns/Daru shipping service was established and, following the introduction of the M.V. River Fly in December 1967 by the Transfly Co-operative Shipping Society Limited,[2] the charters from Port Moresby to Obo were stopped. Goods ordered from both Port Moresby and Cairns were then delivered to the Transfly Co-operative Shipping Society at Daru and transported to Lake Murray or Obo on the River Fly. Supplies required urgently were at times air-freighted by chartered aircraft from Daru to Pangoa, which could accommodate aeroplanes of the size of Piper Aztec.

Results of store trading are presented in Table 7.1. Relatively large gross profits were earned for several years until the setting up of the branch stores.[3] The poor results from 1966-67 onwards were due entirely to unsatisfactory management and dishonesty on the part of the storemen.

Except for the initial period when the scale of operations was relatively small, controls over both stock and cash were far from adequate. This problem became much more serious following the establishment of the branches which did not receive close supervision because of their distances from the head office[4] and transport difficulties. Goods were received into the bulk stores at Lake Murray or Obo and issued out to the main retail store and branch stores on request. Retail prices were set by the manager at Lake Murray, but there was little control over the quantities issued to each store or on prices actually charged by branch storemen. If cash received from store sales was not sufficient to cover expenditure on crocodile skin purchases at any branch store, the manager forwarded additional cash to the branch concerned. Sales were recorded on dockets, but these records, especially at the branches, were generally unreliable. In 1967 an attempt was made to institute a system of stock control whereby goods

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[1] The Society also obtained a peddler's licence to enable it to engage in direct sales of store goods from its launch on trips to and from the various branches.

[2] See Chapter 10.

[3] The branch at Miwa was opened in 1965, while the Mipan and Kavianaga branches were started in May 1966 and the one at Obo in April 1967.

[4] The approximate distance by water between the various branches and the head office were: Miwa 35 miles, Kavianaga and Obo 100 miles, and Mipan 200 miles.

Table 7.1

The Lake Murray Co-operative Limited
store trading results, 1960-69

Period	Turnover $	Average weekly turnover $	Gross surplus $	Per cent gross surplus to turnover
Nov. 1960 - 23/8/62	5,748		1,632	28.4
24/8/62 - 3/4/63	3,380	147	564	16.7
4/4/63 - 18/7/64	10,908	162	1,410	12.9
19/7/64 - 26/3/65	15,688	438	4,012	25.6
27/3/65 - 29/3/66	44,804	852	5,071	11.3
30/3/66 - 12/4/67	41,285	763	-13,762	-
13/4/67 - 30/4/68	71,524	1,303	962	1.3
1/5/68 - 25/2/69	30,566	711	- 7,650	-

Source: File CR 21-17-3, parts 1-2, financial statements.

were checked out of the bulk stores to the retail stores and the retail value of the goods was recorded. The manager also intended to carry out monthly inspection of the branches. The recording of the value of goods sent out to each branch was an important step forward, but this was far from sufficient as the branch stores remained practically unsupervised. The lack of proper controls over cash and stock at the branches created an ideal condition for large scale credit sales and thefts by employees to take place.

Although the branch trade stores were generally unprofitable, they were beneficial to the Society to the extent that they were largely responsible for increasing its share of the very lucrative crocodile skin trade (see below). The branch stores no doubt provided a useful service for the people of the villages concerned. Before they were opened, the southern Lake Murray and Middle Fly people sold most of their crocodile skins to private traders who could offer on the spot trading facilities. A common complaint about the branch stores was that they often ran out of essential items for long periods. On such occasions the people switched their support back to private traders if they happened to be in the area.

Crocodile skin marketing

During much of the 1960s crocodile skins were by far the most important source of cash income to the village people in the Lake Murray area. The Society bought the skins from the villagers either at its main store at Lake Murray or at the branches at prices varying only according to quality and size. The grading of crocodile skin was difficult, even for an expert. So many factors had to be taken into account that there was considerable scope for variations in grading. The Society's storemen were instructed to use high standards.

Only two gradings were used and the policy was not to accept putrified skins or those with excessive scale slip.[1] This system was followed fairly rigidly at the main store but there was little check on grading at the branches.

The Society never experienced any difficulty in selling its crocodile skins. In fact, the demand for the produce was usually very high and keen competition existed among buyers. For the first three years all skins were shipped direct to a Sydney firm, which advanced a substantial part of each payment on notification of a consignment and paid the balance after the skins were received and graded. There was complete accounting for the skins, as the buyer gave details of payment for each skin and these were checked with the duplicates of consignment notices. Direct shipments to Sydney, however, were stopped at the end of 1963 when an expatriate businessman at Daru became the local agent for the buyer. Thereafter, the skins were delivered to the agent. Although this meant that the Society was paid sooner and that risks involved in shipping to Sydney were borne by the buyer, the agent did not keep proper records and dealings with him proved unsatisfactory. Hence, during 1964, the Society started selling to other buyers at Daru. In September 1966 a tender system of marketing was introduced.[2] Under this system, all co-operatives in the Western district shipped their crocodile skins to Daru where arrangements for tenders were made by the co-operatives officer when enough skins (generally at least 300) were on hand. The skins were sold in three lots only - one each for the Lake Murray, Kiunga and Morehead Societies. Each lot went to the highest bidder, provided the bid was above the reserve price based on the highest current price list available at Daru. The tender system was not followed when consignments of skins from the societies were small and it appeared that there would be considerable delay before enough skins were on hand to

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[1] On the Society's price list in December 1967, prices for first grade skins varied from $4 for 10 inch belly to $49.50 for 45 inch belly. For second grade skins, prices ranged between $2 and $15 for 10 inch and 21 inch bellies, respectively.

[2] The decision to introduce this system was taken at a conference at Daru in late July 1966. This was attended by the Western district Dictrict Commissioner, a number of DDA staff (including those directly involved in the promotion of the buyers' societies), the co-operatives officer at Daru and the Acting Assistant Registrar of Co-operatives for Papua Region. (File CR 21-17-1, f.157).

arrange a sale. On such occasions the co-operatives officer made arrangements for the skins to be sold to the Daru buyer who offered the highest price at the time.

Prices paid by the buyers did not fluctuate greatly over the years. A comparison of the price lists of one of the major buyers indicated a rise from \$1.29 per inch for first grade large scale bellies with 12 inches and over in width in January 1963 to \$1.50 per inch for bellies from 12 to 19 inches; and \$1.80 per inch for larger bellies in December 1967. Similar increases were evident for skins of other qualities and sizes. Under the tender system of marketing the highest bid was normally at least 10 per cent and frequently up to 40 per cent above the reserve price. Thus the prices received by the Society were usually approximately twice as much as it paid the villagers. Consequently, as shown in Table 7.2, gross surplus on skin trading generally tended to fluctuate around 50 per cent of the value of sales.

Income from crocodile skins was subject to seasonal variations. When the lakes and swamps were low, the crocodiles were much easier to find. Generally, water in the lakes and swamps falls from August to December and rises rapidly thereafter with the commencement of wet season. But there is no fixed pattern as the levels of many lakes and swamps depend on the amount of water flowing in the Fly and Strickland Rivers as well as on local seasonal conditions. For example, when both the Fly and Strickland Rivers are flooding, water banks up and the Herbert River flows backwards, quickly flooding Lake Murray. This could happen in the Lake Murray dry season. Thus crocodile skin production in the Lake Murray area could depend on seasonal conditions in the Western Highlands district which contains the headwaters of the Strickland

Table 7.2

The Lake Murray Co-operative Limited crocodile skin trading results, 1960-69

Period	Purchases \$	Average weekly purchases \$	Turnover \$	Average weekly turnover \$	Gross surplus \$	Per cent gross surplus to turnover
Nov. 1960 - 23/8/62	n.a.	n.a.	9,970		4,040	40.5
24/8/62 - 3/4/63	n.a.	n.a.	3,476	109	2,044	58.8
4/4/63 - 18/7/64	11,206	167	19,884	295	9,350	47.0
19/7/64 - 26/3/65	12,220	340	27,112	755	14,628	54.0
27/3/65 - 29/3/66	55,808	1,061	104,744	1,991	47,314	45.2
30/3/66 - 12/4/67	23,991	443	58,574	1,083	36,673	62.6
13/4/67 - 30/4/68	21,455	392	40,405	739	16,681*	41.3
1/5/68 - 25/2/69	16,750	390	43,723	1,017	25,055	57.3

n.a. Not available

* The drop in gross surplus was largely due to relatively lower prices received and heavy expenses incurred in air freighting skins to Daru.

Source: File CR 21-17-3, parts 1-2, financial statements.

River. The very large increase in income from crocodile skin trade during 1965-66, as shown in Table 7.2, was principally due to exceptionally dry conditions.

From the long term point of view, the main problem facing the Society was the decline in crocodile population through excessive hunting. Indeed this was true in other crocodile areas in Papua New Guinea as well. Most people connected with the crocodile skin industry predicted its extinction unless steps were taken to protect crocodiles. But as the living habits of crocodiles were not fully known, no one was certain of the best steps to take. However, the Crocodile Trade (Protection) Ordinance of 1966 was passed and came into effect in late 1968 after suitable regulations had been prepared. The legislation provided for the licensing of the people engaged in the crocodile skin trade, limitation on the size of an individual's catch, restriction on the size of crocodiles caught, and closed seasons. It prohibited trading in crocodile skins of belly width of 20 inches and over in most parts of Papua New Guinea, including the Western district. This provision was designed to protect crocodiles considered to be breeders. However it led to a virtual collapse of the crocodile skin industry in the Western district.

The overall financial position

Table 7.3 shows the overall net trading results of the Society. Despite the decline in net surplus after 1965-66, the overall financial position of the enterprise was still sound in February 1969, although the ratio of current assets to current liabilities, as indicated in Table 7.4, was considerably below the level in March 1966. The prosperity of the Society was fundamentally based on the incomes it received

Table 7.3

The Lake Murray Co-operative Limited net trading results, up to 1968-69 ($)

Period	Net surplus	Distributions to members: Cash rebates and dividends	Distributions to members: Bonus shares
	$	$	$
Nov.1960- 23/8/62	5,571	n.a.	3,616
24/8/62 - 3/4/63	2,463	n.a.	-
4/4/63 - 18/7/64	10,519	n.a.	1,808
19/7/64 - 26/3/65	17,873	n.a.	1,514
27/3/65 - 29/3/66	49,557	n.a.	42,241
30/3/66 - 12/4/67	17,205	n.a.	6,485
13/4/67 - 30/4/68	6,548	15,607	-
1/5/68 - 25/2/69	5,718	-	-
	115,454	n.a.	55,664

Source: File CR 21-17-3, parts 1-2, financial statements.

from marketing crocodile skins. The contraction of this business in recent years therefore presented a serious threat to its existence. It is unlikely that there will be a reversal of this trend in the crocodile skin industry for several years. Diversification into timber milling was undertaken on a very small scale and failed to produce positive results. More recently members were encouraged to plant rubber and rice, but their response was not significant. In any case, in view of the uncertain market for rubber and the members' lack of technical knowledge about rubber production, it is unlikely that this product will assume much importance in the Lake Murray area.

Table 7.4

The Lake Murray Co-operative Limited: assets and liabilities, 1966-69
($)

	29 March 1966	12 April 1967	30 April 1968	25 February 1969
Current assets				
Cash on hand and at bank	61,617	10,145	13,756	16,752
Debtors	83	3,762	8,328	5,563
Stocks	4,633	16,110	20,120	9,754
Other	-	3,574	-	-
	66,333	33,591	42,204	32,069
Less current liabilities				
Creditors	4,803	8,565	15,410	7,782
Other	-	627	7	-
	4,803	9,192	15,417	7,782
Working funds	61,530	24,399	26,787	24,287
Add investments				
Shares in Transfly Co-op. Shipping Society Ltd	-	11,000	29,000	29,000
Shares in PNG Co-op. Investments Ltd	-	-	-	50
Loan to Kiunga Co-op. Ltd	-	-	4,000	-
Interest bearing deposits	17,060	48,784	19,784	29,784
	17,060	59,784	52,784	58,834
Add fixed assets				
Original value	n.a.	16,473	16,473	20,473
less provision for depreciation	n.a.	2,080	4,879	8,477
	7,030	14,393	11,594	11,996
	85,620	98,576	19,165	95,117
These funds were represented by:				
Proprietorship				
Share capital	55,655	62,916	64,585	64,423
Statutory reserves	16,520	19,960	21,269	22,412
Profit and loss appropriation	13,445	15,700	5,311	8,281
	85,620	98,576	91,165	95,117
Ratio of current assets to current liabilities	1,381%	365%	274%	412%

Source: File CR 21-17-3, parts 1-2, financial statements.

Although the future of the Lake Murray Co-operative now appears uncertain, its achievements in the past when crocodiles were plentiful were considerable. One of the results of the enterprise was an increase in the material possessions and living standards of the villagers. It would be wrong to attribute this entirely to the Society. The people no doubt would have earned large cash incomes by selling crocodile skins whether the Society had existed or not. But the Co-operative did provide an alternative marketing outlet for crocodile skins and was thus directly responsible for a considerable increase in prices offered to villagers by private traders. In addition, it had the effect of lowering the prices and increasing the range and availability of consumer goods in the villages. The higher prices for crocodile skins and lower prices for store goods, combined with the cash disbursements by the Society, meant that the village people were materially much better off than they would have been if the Co-operative had not existed. The extent of the benefits to members as a whole would have been greater with better management.

However, the crocodile skin industry necessitated hardly any alteration in the working habits of the Lake Murray people. Crocodile hunting is a profession very much suited to semi-nomadic hunters and gatherers. Trading in crocodile skins was extremely profitable and involved little sustained effort on the part of the villagers, who at the same time lacked adequate knowledge of alternative profitable economic outlets. The contraction of this industry left them virtually unprepared for alternative productive activities.

Chapter 8

The Chimbu Coffee Co-operative Limited

About a fifth of the coffee output of Papua New Guinea is produced in the Chimbu District.[1] With the exception of a few mission plantations, all coffee in the district is grown by the local people in small coffee gardens interspersed with food gardens in all valleys up to, and sometimes above, the recognised maximum altitude level of 6,000 ft.[2] Growers have come to depend heavily on coffee income and trade stores have mushroomed in the district selling food and other goods. No doubt coffee has brought much wealth to the district, but the sharp fall in world coffee prices since 1965 has brought home the danger of becoming dependent on one cash crop. At the moment no real alternative is in sight. Most of the plantings, however, took place before 1960. In the last few years growers have been discouraged from further plantings both by the Administration and by falling prices.[3]

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[1] The district has an area of approximately 3,260 square miles (see Village Directory, 1968, pp.45-50) and at the end of June 1970 the indigenous population was estimated to be about 185,000 persons (Commonwealth of Australia, Territory of New Guinea Report for 1969-70, p.223).

[2] The valley floors in the Chimbu district are on the average 5,000 ft above sea-level and the mountains rise to over 15,000 ft.

[3] Virtually the whole of the output of coffee of Papua New Guinea is exported. World coffee exports are subject to regulation by the International Coffee Organisation (ICO) through export quotas. In Papua New Guinea a Coffee Marketing Board was set up in 1963 with authority to buy and sell coffee, determine maximum and minimum buying and selling prices for coffee, and, most importantly, to control exports. Not all these powers, however, are at present exercised by the Board. Disposal of coffee is handled by individual exporters who are registered with the Board. The world output of coffee is in excess of demand and the official policy in Papua New Guinea is therefore not to encourage further plantings. Fortunately for Papua New Guinea the export quota allocated to it by the ICO does not include exports to Australia.

With the growth of Chimbu coffee output in the early 1960s, an expatriate owned company, the Highland Produce Buyers Limited, was formed to engage in buying, processing and marketing of coffee. It established a factory near Kundiawa and by 1964 it had become one of the largest enterprises of its kind in the country, with annual turnover exceeding $200,000. However, in August 1963 the District Commissioner at Goroka reported that the above factory might be up for sale and suggested that the Administration should look at the possibility of purchasing it so that '...the Chimbu people may be taught something of the cost factors involved with regard to coffee processing and marketing; and business principles relating to primary production'.[1] As a result the Registrar of Co-operative Societies went to the area to investigate the feasibility of forming a co-operative. In his report, submitted in early October 1963, the Registrar described the Highland Produce Buyers Limited as a highly profitable enterprise and recommend the establishment of a co-operative, provided a suitable manager could be found, to take over its operations. On the strength of this recommendation, the Kundiawa Coffee Society Limited was formed in early 1964.[2] The Company agreed to sell its fixed assets and stock-in-trade for $70,000, with an initial deposit of $20,000 and the balance to be paid over the first six months, interest free. Overdraft and other liabilities were to be settled by the vendors, while additional equipment to the value of $13,000 was to be purchased at cost by the Society.[3]

Early enthusiasm for the Society was considerable. A Registry officer had estimated that up to $400,000 of share capital could be raised from potential members. The first $20,000 was collected by Registry officers in just tén days of commencement of subscriptions in late January 1964. But by the time of the actual takeover in the following April, share contributions had slowed down and only $45,000 had been collected. An arrangement therefore had to be made with a trading bank for an overdraft of $50,000. At the end of March 1970, share capital amounted to $302,596, still well below the original estimate of $400,000.

Membership of the Society is restricted to residents of eleven areas - Chuave, Elimbari, Nambaiyufa, Sinasina, Waiye

[1] File CR 21-26-3 (S), part 1, f.1.

[2] In 1967 the name was changed to Chimbu Coffee Co-operative Limited.

[3] File CR 21-26-3 (S), part 1, f.85.

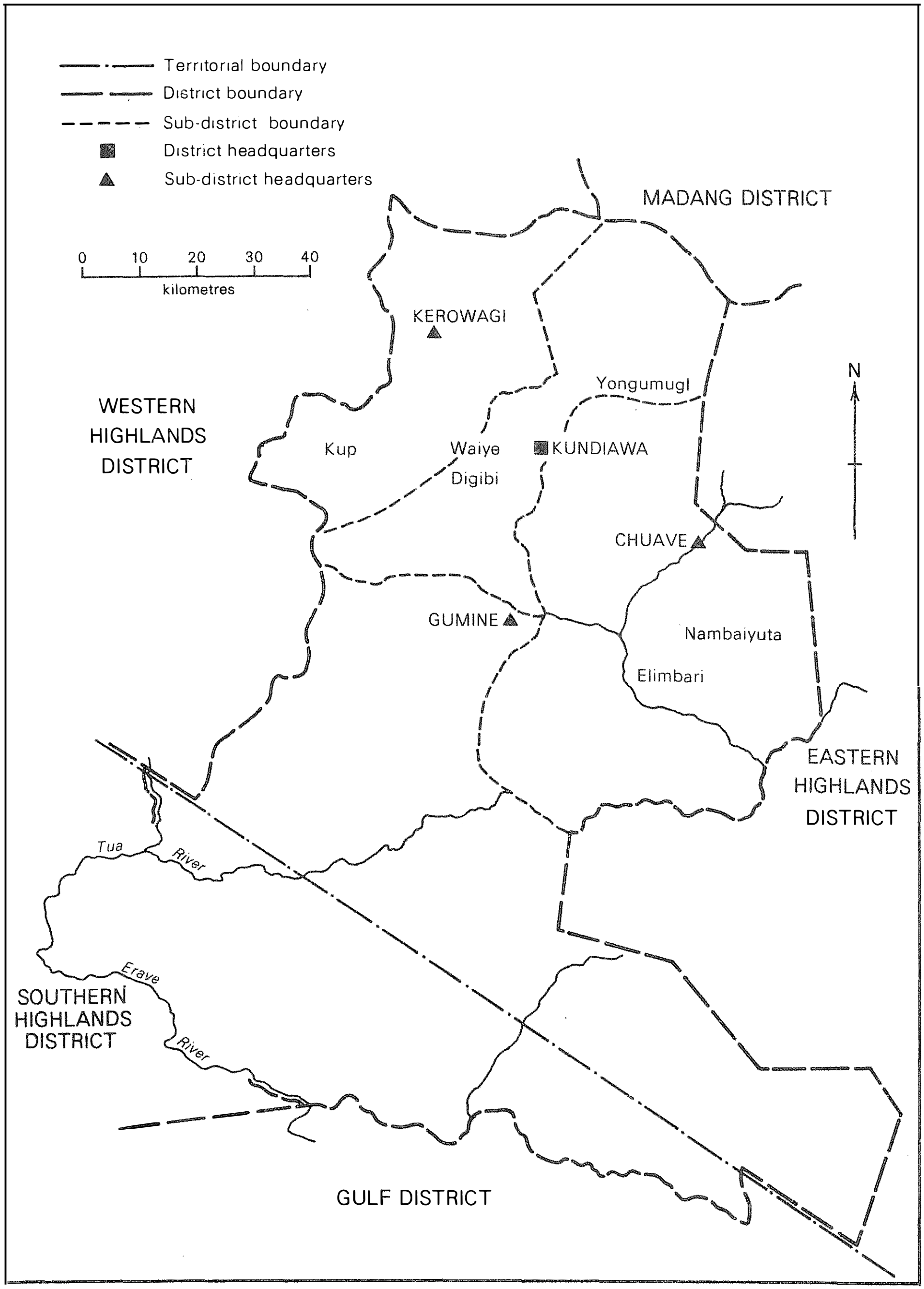

Fig. 7. Chimbu District.

Digibe, Kup, Yongumugl, Kerowagi, Gumine, Gembogl and Watabung. At the end of March 1970, the total membership exceeded 11,500. The majority of them were coffee growers and some were private coffee buyers who sold to the Society. Initially the minimum share qualification for membership was one share unit of $20. This was amended in June 1966 to one fully paid share of $2 in order to attract more members. When a member acquired ten fully paid $2 shares he became known as a shareholder. Both members and shareholders are entitled to any dividend declared by the Society. But while the shareholders received their rebates in cash, for members the rebate was credited to their share capital. Only shareholders participated in bonus share issues.

Shareholders within an area may convene an area meeting at any time to discuss matters concerning the Society. These meetings elected delegates to the Society's general meetings for a term of one year on the basis of one delegate for every 200 shareholders resident in the area. Members with fewer than ten fully paid $2 shares did not vote at these meetings.

At each annual general meeting eight of the delegates were elected to constitute the Board of Directors. Also at these meetings progress for the past year was discussed and the method of distribution of net surplus, if any, decided upon. Special general meetings were also convened from time to time for particular purposes. Only delegates voted at the general meetings.

The Board of Directors had power to control the operations of the Society. There was also an Executive Committee consisting of the Society's chairman, two directors and the resident co-operatives officer acting in an advisory capacity. This was set up to make decisions on behalf of the Board of Directors and it could be convened at very short notice to deal with urgent matters.

In practice, however, the operations of the Society were mostly controlled by its general manager, who was always an expatriate because the Registry and the Society's Board of Directors considered that an indigenous person with appropriate knowledge and experience was not available.[1] Until the end of 1969 four different persons had successively occupied the position. The services of two of them were considered to be unsatisfactory by the Board of Directors and the Registry,

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[1] During 1970 another expatriate was engaged as secretary/accountant. The workshop manager, who worked for the Society for about 2½ years until the middle of 1970, was also an expatriate.

which always kept in close touch with the Society's affairs and directly supervised the allocation of surpluses, investment of statutory reserves and negotiations for loan finance.

Although coffee remained by far the most important aspect of the Society's operations throughout, a number of subsidiary activities were also undertaken. The latter included wholesale and retailing of trade goods, petrol and oil trading, and several agencies. For management purposes the various activities were separated into coffee and wholesale divisions. While the Coffee Division was confined exclusively to coffee business, all other activities were handled by the Wholesale Division. The Coffee Division was managed directly by the general manager whose duties included, *inter alia*, direct control of coffee buying and negotiation of sales, supervision of factory operation, making financial arrangements, and allocation of transport. Although the general manager was responsible for the overall operations of the Society, the functioning of the Wholesale Division was left almost entirely to an indigenous wholesale manager.

Coffee Division

The Society buys coffee in parchment form, processes and then sells it as green beans.

Parchment intake. There has been a considerable change in the method of purchasing parchment since the Society took over from the Highland Produce Buyers in April 1964. At that time the Society owned only three vehicles and all purchasing was done by three buyers, including the general manager. In recent years the intake of parchment has been from three sources, factory buyers, depot buyers, and private buyers. Both factory and depot buyers were in the employment of the Society, which supplied them with vehicles for buying operations.[1] But whereas the former delivered coffee daily to the factory, the latter were based in different areas and brought coffee to the factory at the end of each week. Private buyers, on the other hand, operated their own vehicles at their own costs and sold parchment to the Society. During coffee flush in July 1967 there were ten private buyers dealing

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[1] Despite the rough terrain, the Chimbu district is remarkably well serviced with roads, most of which are trafficable (except after heavy rain) by four-wheel drive vehicles. Few coffee growers have their coffee gardens more than two or three miles from the nearest access roads. The Society buyers used Toyota Landcruisers with load capacity of 1.5 tons.

with the Society.[1] They accounted for 23 per cent of the total parchment intake during that month; factory buyers on the other hand, made up 33 per cent; depot buyers 44 per cent.[2] The general manager estimated that in off-season private buyers supplied 40 per cent, factory buyers 40 per cent, and depot buyers 20 per cent.

Coffee depots were set up in areas where it was expected that large volumes of coffee would be sold to the Society, although the members in various areas tended to regard a depot as a prestige asset and often demanded that buyers be based in their area. During the 1968 flush period eight depots were in operation. These were located in Watabung, Chuave, Dom, Kup, Nambaiyufa, Koge, Kerowagi and Elimbari. The depots at Chuave and Kerowagi were on Society land; the others were on land belonging to members. Typically, these establishments consisted of thatch huts for storing coffee, sheltering vehicles and accommodating coffee buyers and other Society staff assisting them. Their costs of construction and upkeep were met by the Society. At the end of each week the coffee, accumulated in the depots, was shifted to the factory by larger trucks owned by the Society. This system obviated the need for buyers delivering coffee daily to the factory and, with sufficient coffee coming from an area, it represented a considerable saving in buying expenses.

Table 8.1 shows that the average price paid for parchment was considerably lower in 1968-69 than in the first year of operation. There were marked variations in the prices offered by various Society buyers, depending on the extent of competition from private buyers and moisture content of parchment. During 1964-65 selling prices for green beans were high, averaging about 38 cents per pound, compared with about 31 cents in 1968-69, and the Society therefore could afford to pay about 20 cents per pound for parchment. In the following year green bean prices dropped and the Society resolved to lower its buying price to 17.5 cents per pound for produce bought from members and to 15 cents in case of non-members. Up to that stage member loyalty had been excellent. But when the price fall was announced growers began selling their produce to any buyer offering a competitive price. A further change in the Society's buying prices was announced later in 1966. Despite the announcements, the average price actually

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[1] These included five indigenes, four expatriates and the Catholic Mission at Mingende.

[2] Based on figures extracted from the factory purchase book.

Table 8.1

The Chimbu Coffee Co-operative Limited
coffee parchment purchases, 1964-69

	Quantity (tons)	Average price (cents per lb)
12 months to April*		
1965	1,591.47	20.98
1966	2,436.54	20.31
11 months to March**		
1967	1,904.37	20.66
12 months to March**		
1968	2,324.37	15.41
1969	2,212.55	15.84

Sources: * File CR 21-26-3 (S), part 9, f.217.

** File CR 21-26-3 (L), part 2, ff.62-64, 127.

paid did not fall below 20 cents per pound until 1967-68. Nevertheless, member loyalty had continued to decline and the number of private buyers who took parchment out of the district had increased.

Several private buyers who did not sell to the Society represented large expatriate enterprises. A few came from as far as Minj and Goroka. In early 1968 the Society was offering 17 cents per pound for parchment delivered to the factory, with a 10 per cent differential applied for wet coffee. But this was considered inadequate by many private buyers and large quantities of coffee continued to be taken out of the district. One private buyer, an expatriate from Minj, could supply up to one million pounds of dry parchment per year but he refused to do so at 17 cents per pound. One million pounds was equivalent to about a fifth of total annual intake of parchment by the Society. And the fact that this buyer was from Minj, outside the Chimbu district, serves to illustrate the lack of support for the Society.

Competition from private buyers intensified considerably during 1968-69. Earlier during that year the Society attempted to counteract this by raising its buying prices.[1] At one stage it was offering growers 17.5 cents per pound for dry and 13 cents per pound for wet parchment, compared with about 16 cents offered by its competitors. The Society, as well as the competitors, bought large quantities of wet parchment and wastage in processing reached very high levels. For 1968-69 as a whole

[1] Attempts of Chimbu leaders to compel the villagers to sell their parchment only through the Society were unsuccessful.

the wastage rate for the Society was nearly 41 per cent, compared with 27 per cent during 1964-65 (see Table 8.2). At the same time green bean selling prices remained relatively low.

Table 8.2

The Chimbu Coffee Co-operative Limited factory production, 1964-70

	Parchment intake (tons)	Processed green beans (tons)	Wastage rate (per cent)
12 months to April**			
1965	1,591.47	1,103.66	27.2
1966	2,436.54	1,832.99	26.4
11 months to March**			
1967	1,904.37	1,395.61	27.5
12 months to March***			
1968	2,324.37	1,599.77	31.2
1969	2,212.55	1,312.04*	40.7
1970	n.a.	n.a.	31.2

* Computed by author by applying wastage rate to parchment intake.

n.a. Not available

Sources: ** File CR 21-26-3 (S), part 9, f.217.
***File CR 21-26-3 (L), part 2, ff.62-64.

The overall effect was that the Society's financial position was very severely strained. In desperation, on the advice of the Registry, a special general meeting held in October 1968 decided to reduce the purchase price for parchment to 13 cents per pound for the Society buyers and 14.5 cents per pound for deliveries to the factory. In addition, the directors were instructed not to consider raising the buying prices until the wastage rate was reduced to a reasonable level as determined by the general manager. A fresh drive for more share capital was also launched, but the response was disappointing. Most existing members were unwilling to make additional contributions and only a few new members were attracted. By the end of March 1969 total share capital had reached $298,590 - only $16,385 above the figure a year earlier.

Factory operations. The Society processes parchment only up to green bean stage. This involves drying of parchment (to 12 per cent moisture content), hulling, polishing, sorting, grading and bagging. Most operations are performed mechanically. Details of green beans produced are shown in Table 8.2.

Factory operations follow a strong seasonal pattern, with relatively high levels of activity during the coffee flush which usually occurs between April and September each year. At the height of the flush the factory operates almost continuously with labour employed both day and night. In the 1967 flush over eighty persons were generally employed on a day shift and about thirteen worked during the night. In contrast, in the off-season only one 10-hour day shift was worked and the number of factory workers usually did not exceed sixty.[1] The significance of the coffee flush is further brought out by Table 8.3, which gives figures for parchment intake during the flush and off-season, respectively, for three calendar years from 1965 to 1967.

Table 8.3

The Chimbu Coffee Co-operative Limited: comparison of factory production during the coffee flush and off-season, 1965-67
(tons)

		1965	1966	1967
Total parchment purchases		2,555.7	2,063.1	2,240.1
1 April to 30 Sept.	Purchases for the 6 months	1,709.2	1,646.2	1,820.2
	Per cent of total	66.8	79.9	81.3
	Average monthly intake for period	284.9	274.4	303.4
	Highest monthly intake	342.8	571.7	542.0
	Month of highest intake	May	July	June
Rest of year*	Purchases for these 6 months	846.5	416.9	419.9
	Per cent of total	33.2	20.1	18.7
	Average monthly intake for period	141.1	69.5	70.0

* Refers to six months from 1 January to 31 March and 1 October to 31 December.

Source: Calculated from coffee purchase figures kept by the Society.

The factory output capacity, however, was limited. As a result stocks of parchment usually accumulated during the flush period. This problem was not serious in 1964 compared to later years when the intakes of parchment were much higher. At times during the 1966 and 1967 flush the parchment storage space of approximately 350 tons was very nearly full of coffee awaiting processing. The delay in processing meant that large sums of money were tied up in parchment for relatively lengthy periods, thus accentuating the pressure on the Society's already inadequate financial resources.

At the time of the takeover from the Highland Produce Buyers, the factory equipment was used to turn out less than 400 tons of green beans annually. In 1967 the factory equipment was still based on the original machinery, with some additions. Although the output capacity in 1967 was 250 tons per month, much of the equipment was outdated and maintenance costs had risen substantially over the previous three years.

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[1] Most of the factory workers (about sixty during the coffee flush and forty in the off-season) in 1967 were sorters, as the Society's electronic sorters were not functioning. Sorting was not done on the night shift.

During 1966 a plan was drawn up for reorganising the factory so that daily parchment intake (even during the flush) could be processed the same day, thus eliminating build-up of stock and consequently reducing the amount of crop finance required. The proposed reorganisation was estimated to cost $115,000. But as finance was not readily available there was no immediate hope of implementing it in its entirety. It was not until 1968 that the Society was able to raise a loan of $14,400 from the Papua and New Guinea Development Bank. Part of this loan was for installing a new rotary drier to avoid the risk of failure of the two obsolete driers in use at that time. The rest was for a power plant, pre-conditioning units for regulating coffee moisture content evenly, heat exchanger, and conversion of furnaces for driers to be fired using coffee husks. The reorganisation proposal could not be further segmented because of its essentially co-ordinated nature. And for some time afterwards the factory continued to function with basically the same machinery as at the time when the reorganisation plan was first proposed. In September 1970 a private coffee mill at Kerowagi was purchased by the Society for $40,000[1] with finance raised through the sale of its wholesale division (see below). As this mill was not intended to be used for coffee processing, the machinery was later removed to the factory near Kundiawa.

<u>Coffee sales</u>. It was not until 1967 that the selling of green beans was organised properly. Prior to that processed coffee was sold to firms within the country at the highest price offered and there was no co-ordination between coffee buying and selling operations. No doubt this was principally the result of a rapid turnover of general managers during that period.

From 1967 attempts were made to co-ordinate the buying of parchment with sales of green beans. Contracts for sale of green beans were then negotiated at least a month in advance. The volume of coffee committed for sale was geared to any uncommitted parchment or green bean on hand plus expected purchases for that month. And in most cases the buying price of parchment for each month was set at the maximum possible level determined by the weighted average price of coffee forward sold, less costs and the desired profit margin. Although not generally enforced, the policy was also that if at any time all contracts had been filled the buying price of parchment was to be lowered to a 'safety' price of 13 cents per

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1 File CR 21-26-3 (S), part 14, f.181.

pound which was relied on to yield a margin of profit at the worst expected selling price, and when more contracts had been negotiated the buying price was to be again raised to obtain the required volume more quickly.

Although local sales continued, in 1967-68 the Society also began to export coffee directly. Exports to the USA alone during that year totalled 250 tons. Much larger volumes were exported in later years and the Society became one of the largest exporters of local coffee. The export sales were negotiated through a broker at a charge of 1.5 per cent of sales. The selling price for each contract was negotiated separately either by the broker or by the general manager, with the minimum price determined on the basis of prevailing world coffee prices from information released by the International Coffee Organisation.[1] The aim was to offer coffee at competitive prices based on world prices taking freight costs to different ports into account.[2] It was found that the sales negotiated through the broker were close to 1 cent per pound more favourable than other sales.

However, the Society was not able to export all its coffee directly because of the Coffee Marketing Board regulations. The Board holds stamps from the International Coffee Organisation to the extent of the country's export allowance and issues these stamps to registered exporters if an export contract is approved. To keep exports to Australia and other overseas countries in step with the quota, in each quarter the Board fixes the proportion of coffee to be sent to Australia; this proportion applies for all exporters. This sytem is effectively enforced since no coffee is accepted by importers unless the required ICO stemps are attached. In 1967-68 the proportion was usually fixed to ensure that 25 per cent of external sales went to Australia. This was well below the 30 per cent of total imports which Australian firms were required to accept from Papua New Guinea and it meant that the prices received from exports to Australia were the least favourable. The effect of this on the Society was that while it was not short of offers from the more lucrative markets in the USA and Europe where apparently its coffee had already gained a good reputation, these offers could not be accepted

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[1] Four classifications of prices were released; vis: colombian, mild arabica, other milds, and robusta. For sales to the USA the colombian classification was used as a guide, while sales to Australia were on the basis of prices for 'other milds'.

[2] The ICO prices released are on ex-dock New York basis.

until a proportional volume had been sold to Australian buyers. Hence the overall policy was to sell as much as possible to Australia and then sell as much as permitted by the Coffee Marketing Board ratio to buyers in the USA and Europe. Any output that could not be sold in that way was to be offered to local firms. There was no fear of the Society not being able to sell all its output of green beans. Indeed on several occasions it had to buy green beans from other producers to fulfil its forward contracts.

All exports were sold on an f.o.b. Lae basis, while most other sales were on a d.i.s. (delivered into store) Goroka basis. Freighting of green beans was usually undertaken by private contractors who charged up to 1 cent per pound to Lae.

Coffee trading results. These are summarised in Table 8.4. In the first year of operations the future appeared very promising. As mentioned earlier, there was considerable enthusiasm for the Society and member loyalty was excellent. Green bean production tripled and, with the failure of the Brazilian crop, 1964-65 was a good year for coffee with the Scoiety's output commanding very favourable prices. In the following year green bean production rose further by 66 per cent, and the value of sales exceeded $1,400,000. But green bean prices dropped during that year and, although the Society resolved to lower its parchment buying prices, the actual prices paid to growers remained, on the average, above 20 cents per pound during 1965-66 and 1966-67. This, together with relatively higher buying and processing costs (compared with 1964-65), largely accounted for the poor trading results for those two periods. On the other hand, the very noticeable improvement during 1967-68 was basically due to a sharp reduction in parchment buying prices (see Table 8.1) and the introduction of better marketing arrangements, while the slump in 1968-69 was in the main caused by the marked increase in wastage in processing (see Table 8.2) due to large quantities of very wet parchment purchased by the Society in an attempt to counteract the competition from private buyers.

Wholesale Division

As the subsidiary activities of the Society grew in scope, difficulty was experienced in separating costs and finance of coffee operations from those associated with other activities. Partly for this reason and partly to promote efficiency in control of operations and accounting, the Wholesale Division was created to handle all activities other than coffee. The separation took effect from the beginning of August 1967 with the completion of a new building at Kundiawa to accommodate most of the subsidiary activities.

Table 8.4

The Chimbu Coffee Co-operative Limited
coffee division trading results, 1964-70
($)

Period	Sales	Purchases*	Buying expenses	Processing expenses	Delivery expenses	Workshop expenses	Power house expenses	Administrative expenses	Other expenses	Profit**
12 months to April [1]										
1965	914,776	747,960			6,330				100,920***	117,362
1966	1,400,194	1,108,301			14,269				220,161***	24,875
11 months to March [1]										
1967	1,044,851	892,519			19,550				170,007***	-54,001#
12 months to March [2]										
1968	1,125,003	802,312	66,079	62,568	22,288	14,512	3,201	31,307	12,661	112,236
1969	973,948	802,577	66,691	75,454	39,049	17,540	7,022	28,954	17,607	-87,872
1970	1,059,265	863,738	50,400	48,293	42,933	18,613	3,727	10,245	17,736	63,067

* Include some green bean purchases.

** After taking account of other incomes and stocks on hand.

*** Including buying, processing, workshop, power house and administrative expenses.

\# This was later adjusted to - $44,935, owing to change in depreciation rates.

Source: 1 Files CR 21-26-3 (L), part 1, f.5; CR 21-26-3 (S), part 9, f.198.

2 File CR 21-26-3 (A), audited financial statements.

Of the various activities incorporated in the Wholesale Division, wholesale trade in store goods was by far the most important. It grew up from backloading of coffee purchasing trucks to deliver goods to members. For some time the wholesale turnover was limited by lack of adequate storage space and goods used to be stored all around the coffee factory site. The turnover rose substantially in 1967-68 after the completion of the new building which provided ample storage space.

Apart from selling goods to both members and non-members, the Wholesale Division was also responsible for ordering all supplies for the Coffee Division. The latter accounted for about 50 per cent of the total sales of the Wholesale Division. While the supplies for the Coffee Division were invoiced out at landed cost plus a charge of 2.5 per cent, the other sales were generally at competitive prices, similar to those charged by other Kundiawa stores. The main advantage held by the Society was that it could deliver the goods within the areas served by it. Two or three vehicles were normally assigned to the Wholesale Division for that purpose and all coffee purchasing vehicles called in before proceeding to any area to pick up goods for that area.

Retailing of store goods was started principally as a service for employees at the Society's coffee factory. Until the beginning of August 1967 there was only one retail store and this was located at the factory. With the completion of the building for the Wholesale Division, another retail store was set up mainly for the benefit of customers of the bulk store.

Petrol and oil trading was also an important activity in the Wholesale Division. It was started in 1964 under an arrangement with an oil company. Most of the sales, however, were to the Society itself and the Administration.

Details of the Wholesale Division trading results, including commissions from agencies, are given in Table 8.5. The poor performance in 1968-69 was basically due to mismanagement and staff dishonesty. The Society's general manager was concerned mainly with the coffee operations and ignored the activities of the Wholesale Division. Competition from private traders, a few with peddler's licence, was also a contributing factor. The Society itself started peddling store goods during 1968, but this proved to be largely unprofitable owing to sharp rises in the amounts spent on fuel and wages. Payments for overtime work, ostensibly undertaken to counteract private competition, also increased together with other

Table 8.5

The Chimbu Coffee Co-operative Limited
Wholesale Division trading results, 1964-70
($)

Period	Wholesale: Turnover	Wholesale: Gross surplus	Wholesale: Per cent gross surplus to turnover	Gross surplus retailing	Gross surplus petrol and oil trading*	Agency commissions**	Profit***
12 months to April [1]							
1965	22,297	1,656	7.4	4,801	- 830		n.a.
1966	89,387	9,819	11.0	238	10,310	456	n.a.
11 months to March [1]							
1967	62,559	3,267	5.2	-5,605	4,659	1,364	n.a.
12 months to March [2]							
1968	159,472	21,889	13.7	-3,447#	8,037	1,736	8,132
1969	241,726	-18,150	-		- 359	3,952	-50,923
1970	15,457	- 5,431	-		-1,550	2,044	-21,050

* Includes bowsers trading.

** The Society operated air travel, savings bank, vehicle dealer, and insurance agencies.

*** Overall profit for the Wholesale Division.

\# Includes a loss of $891 on fresh fish trading.

n.a. Not available.

Source: 1 Files CR 21-26-3(L), part 1, ff.4-5; CR 21-26-3(S), part 9, f.198.
2 File CR 21-26-3(A), audited financial statements.

operating costs. Moreover, an investigation by the Registry at the end of January 1969 revealed that the bulk store was generally overstocked. Most drapery and hardware items and building materials were slow moving and had remained in stock for over two years, while some basic food items were in a state of deterioration. It was estimated that the stocks, excluding supplies for the Coffee Division, could realise between $25,000 and $30,000, over a period. The amounts owing to trade creditors at the time totalled $57,757 and bank overdraft amounted to $80,665, while $25,998 was expected to be recovered from trade debtors (excluding the Coffee Division).[1]

The financial position of the Wholesale Division was thus critical. Its operations (except agency functions) were therefore suspended during 1969-70 while the newly established Co-operative Wholesale Society (CWS)[2] attempted to clear the stocks. This accounted for the low turnover for that year. The CWS considered the possibility of taking over the operations, but decided against it. Because of lack of finance and suitable staff, the Society itself could not continue with its subsidiary activities. Eventually, later in 1970, the wholesale building was sold to the Chimbu Local Government Council for $42,000,[3] and, as mentioned earlier, most of this went into buying a coffee mill at Kerowagi.

The overall financial position

This is summarised in Tables 8.6 and 8.7; the former shows the net trading results and surplus distributions while the latter gives a summary of assets and liabilities.

In 1969-70 the Society was in a state of almost total collapse. Poor management, decline in member loyalty and inadequate funds were the main contributing factors. The accumulated debit balance of $253,135 in the Profit and Loss Appropriation Account at the end of March 1970 meant that only $93,015 was left in the proprietorship funds totalling $346,150.

The Society was short of funds for both working and fixed capital purposes almost from the beginning. This problem became much more critical in the later years. Attempts to raise additional share capital yielded only negligible results in recent years. And because of the Society's poor trading record

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[1] File CR 21-26-3 (S), part 11, ff.78-79.

[2] See Chapter 9.

[3] File CR 21-26-3 (S), part 15, f.23.

Table 8.6

The Chimbu Coffee Co-operative Limited
net trading results, 1964-70
($)

Period	Net surplus	Distribution to members: Cash rebates and dividends	Bonus shares
	$	$	$
12 months to April [1]			
1965	113,629	41,928*	-
1966	26,521	883	27,486
11 months to March [2]			
1967	-71,598		
12 months to March [2]			
1968	89,623	17,772 [3]	-
1969	-165,791	35,770 **	-
1970	- 9,747		

* Includes honoraria paid to directors.
** This amount appeared as provision for rebates and dividend in the audited Balance Sheet as at 31 March 1968. The actual distribution was made during 1968-69.

Sources: 1 File CR 21-26-3(S), part 4, ff.147-163 and part 6, ff.26-47.
2 File CR 21-26-3(A), audited financial statements.
3 RCS Annual Report 1967-68, Table 2B.

and erosion of members' interest in the enterprise, it is doubtful whether significant contributions would be forthcoming in the near future.

The complete collapse of the Chimbu Coffee Co-operative was averted largely by extensive borrowing. Only very small amounts, however, were made available by lenders for fixed capital purposes. These included loans from the Commonwealth Development Bank of Australia for purchasing motor vehicles and from the Papua and New Guinea Development Bank for factory equipment. Nearly all borrowing was for working capital purposes through trading bank overdraft and short term crop loans from the Reserve Bank of Australia. In 1969-70 the Administration had guaranteed trading bank overdraft up to a limit of $200,000.[1] The seasonal crop loans were also guaranteed by the Administration. They were available specifically for parchment purchases at the interest rate of 4.5 per cent per annum, compared with over 6 per cent per annum payable on trading bank overdraft. The first of these loans was approved during 1966-67 and was for an amount of $40,000.[2] The approvals in the subsequent years amounted to $350,000 for 1967-68,[3] $400,000 for 1968-69[4] and $600,000 for 1969-70.[5]

[1] File CR 21-26-3 (L), part 2, f.38.

[2] RCS Annual Report 1966-67, p.10.

[3] File CR 21-26-3 (L), part 1, f.50.

[4] Ibid., f.49.

[5] Ibid., part 2, f.38.

Table 8.7

The Chimbu Coffee Co-operative Limited
assets and liabilities, as at 31 March, 1967-70
($)

	1967	1968	1969	1970
Current assets				
Cash on hand and at bank	18,896	9,813	12,988	28,959
Trade debtors	6,632	57,101	55,868	11,619
Stocks	101,062	172,833	71,486	72,937
Other*	6,246	6,772	8,242	22,143
	132,836	246,519	148,584	135,658
Less current liabilities				
Trade creditors	14,738	34,639	51,999	26,144
Bank overdraft	48,468	122,771	156,200	193,737
Provision for rebates and dividends	-	35,770	-	-
Other	27,023	16,997	21,175	33,094
	90,229	210,177	229,374	252,995
Working funds	42,607	36,342	-80,790	-117,337
Add investments				
Administration loans	20,000	20,000	20,000	20,000
Shares in other co-operatives	15,000	20,200	20,310	20,310
	35,000	40,200	40,310	40,310
Add fixed assets				
Original value	n.a.	269,005	275,293	264,586
Less provision for depreciation	n.a.	82,064	103,056	92,056
	161,187	186,941	172,237	172,530
	238,794	263,483	131,757	95,503
These funds were represented by:				
Long term liability	-	-	5,759	2,488
Proprietorship:				
Share Capital	281,593	282,205	298,590	302,596
Statutory reserves	28,030	43,554	43,554	43,554
	309,623	325,759	342,144	346,150
Less debit balance in Profit and loss appropriation account	70,829	62,276	216,146	253,135
	238,794	263,483	125,998	93,015
	238,794	263,483	131,757	95,503
Ratio of current assets to current liabilities	147%	117%	65%	54%

* Includes expenditure carried forward - $1,904 as at 31 March 1967 and $880 and $176 as at 31 March 1969 and 1970, respectively.
n.a. Not available.

Source: File CR 21-26-3(A), audited financial statements.

Although the result of coffee trading had improved substantially during 1969-70, the overall financial position of the Society remained extremely precarious. Assuming continued improvement in trading performance, the Society, in the absence of large amounts of fresh share capital contributions by members, will still have to rely very heavily on borrowed funds. And without Administration guarantee, it is most unlikely that the Society will be able to raise the necessary loan funds from outside the co-operative movement. Funds from within the co-operative movement in Papua New Guinea are not likely to be available on such a large scale for a long time.

Chapter 9

Federation

The co-operative movement in Papua New Guinea has an apex structure through which the strengths of the co-operatives are combined at various levels. Until recently the full apex system existed only in Papua, although by 1963-64 primary societies in fourteen major areas throughout the country had organised themselves into secondary associations to facilitate the marketing of primary produce and act as wholesale supply centres for consumer goods. In Papua the associations in turn had formed the Federation of Co-operative Associations Limited (FCA), principally to provide central importing, wholesaling and warehousing facilities.[1] A large part of this chapter is devoted to this enterprise, which dominated the co-operative scene for over a decade and paved the way for the establishment of a larger federation including co-operatives in both Papua and New Guinea. The rest of the chapter is concerned with this new federation and associated institutions.

The Federation of Co-operative Associations Limited

Although membership in this organisation was open to all registered co-operative associations, only those in Papua found it convenient to join. Its original membership comprised the Central District, Toaripi, Ihu, and Abau Associations. The Kairuku Association joined the group in 1959-60, while the two remaining secondary co-operatives in Papua (the Misima and Milne Bay Associations) did not become members until 1961-62. The members provided funds through share capital contributions

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[1] The FCA was known as the Federation of Native Associations Limited (FNA) until the introduction of the Co-operative Societies Ordinance 1965. It was formed in 1956 following the liquidation of the Institute of Economic Services Limited, which was established in Port Moresby in the early 1950s to channel stationery and other office requisites to co-operatives in Papua.

and long term cash deposits. A few primary societies also made funds available to the FCA in the form of long term cash deposits.[1] Details of share capital and long term deposits held with the FCA are given in Table 9.1. Of the total share capital of $165,316 at the end of March 1968, the Milne Bay Association accounted for $56,628, while the Central District Association held $43,208; Toaripi $22,132; Abau $18,448; Ihu $12,320; Misima $7,376; and Kairuku $5,204.[2]

Table 9.1

The Federation of Co-operative Associations Limited: share capital, and deposits by co-operatives, 1958-68
($)

31 March	Share capital	Deposits	Total
1958	36,800	34,814	71,614
1959	42,000	57,706	99,706
1960	56,000	66,158	122,158
1961	86,688	65,706	152,394
1962	94,828	66,296	161,124
1963	109,828	66,608	176,436
1964	121,180	66,608	187,788
1965	130,400	66,608	197,008
1966	130,400	66,608	197,008
1967	130,400	66,964	197,364
1968	165,316	69,574	234,890

Sources: RCS Annual Reports, 1957-58 to 1967-68; Files CR 21-20-1, part 4, ff.172 and 210, part 5, f.170; CR 21-20-1(A), part 1, f.56, part 2, f.227.

The FCA opened for business in Port Moresby in November 1956. Its operations were confined largely to wholesale trade in consumer goods and running motorised cargo-passenger vessels along the Papuan coast.[3] At various times, it also engaged in a number of subsidiary activities. These included an insurance agency, copra reconditioning, and operation of a large freezer unit to promote orderly marketing of fish.[4] As an insurance

[1] The long term deposits with the FCA were made out of amounts accumulated in statutory and depreciation reserve funds of the respective organisations.

[2] File CR 21-20-1(A), part 2, f.213.

[3] For a number of years the FCA operated a semi-trailer to facilitate wholesale trading in the vicinity of Port Moresby. This activity proved to be unprofitable and the vehicle was sold during 1963-64.

[4] Mainly crayfish from the Kairuku Fishing Co-operative Limited, which was formed in 1961 by the coastal people near Yule Island in the Gulf of Papua, about 70 miles west of Port Moresby.

agent, it handled coverages on co-operative owned vessels and other classes of insurance normally undertaken by co-operatives, except covers on motor vehicles. The agency was maintained for several years until about the end of 1964-65, when a separate co-operative was formed specifically to engage in insurance business. The FCA also assisted in the provision of co-operative education and generally helped promote the movement throughout the country. It represented the movement in Australia and in 1967 established formal contact with co-operatives in other countries by becoming a member of the International Co-operative Alliance.

Wholesale trading. The FCA was set up primarily as a central importing and wholesale organisation. By amalgamating their purchasing power, the individual co-operatives in Papua expected to obtain their supplies on wholesale terms or better and realise other economies associated with large scale buying. The Toaripi, Ihu, Abau and Kairuku Associations dealt almost exclusively through the FCA since it was established. The Milne Bay Association, on the other hand, obtained most of its requirements directly from local firms and also supplied the Misima Association. For several years the Central District Association also bought a large proportion of its supplies directly from local firms, mainly because it found it more convenient to deal with them on behalf of member societies in the Port Moresby area which had large turnovers and thus had to be supplied very frequently. But in November 1960 this enterprise merged with the FCA in an attempt to eliminate double handling and streamline the distribution of merchandise to societies formerly served by the Association.[1]

In the initial stages, the FCA obtained a large proportion of its merchandise from local companies. Later, increasing amounts were imported from overseas. For a time the quantities of various items held in stock were limited and it was thus not possible to provide a constant supply of all goods required by member associations. Nevertheless, the associations were asked to forward all their orders to the FCA, which supplied as much as possible from its own stocks. The unfilled portions of the orders were transferred to FCA order forms and forwarded to the local firms which offered the lowest wholesale prices. The firms were instructed to send the goods direct to the relevant associations and raise charges directly against them. At first the associations were not charged for making the

[1] Under the terms of the merger, the Association acquired some fully paid shares in the FCA and remained a separate legal entity, while the latter took over its trading functions as well as its assets and liabilities.

arrangements for purchases from the local firms. In October 1959 a new system was instituted. This involved the firms charging the FCA for the merchandise and the latter in turn debiting the associations the invoice costs plus a commission of 2.5 per cent. The commission was subsequently raised to 3 per cent. This procedure reduced the number of accounts previously kept by the association secretaries and book-keepers and, at the same time, provided the FCA with additional funds to defray its expenses.

Direct importation of goods from overseas was commenced in 1958. Initially it was confined to flour from Australia, but the range was progressively widened to include other bulk goods such as rice, sugar and canned meat and fish. From early 1962 drapery (including ready made clothes) and later hardware lines (mainly household requirements) were included among the list of items imported regularly. While the bulk food items were obtained mainly from Australia, drapery and hardware lines were imported from the Far-East through sales representatives who visited the country at regular intervals. By 1967-68 imports accounted for about 55 per cent of total purchases of over $688,000.

The expansion in direct importation meant that co-operatives were able to obtain a wider range of merchandise at prices lower than generally charged by the local firms. For a period the imported goods were supplied to associations with a margin of only 5 per cent on all costs including customs duty. This proved insufficient and in late 1961 the mark-up was raised to 10 per cent. A further alteration was made during 1963-64 when the standard 10 per cent mark-up was abandoned with respect to drapery and hardware lines. Each of these items subsequently carried a separate mark-up but the prices charged did not exceed the prevailing local prices.[1]

For about a decade the entire operations were conducted from Port Moresby. Eventually a branch office was opened at Samarai by taking over the trading functions of the Milne Bay Association, which used to obtain its merchandise directly from local sources and overseas.[2] The branch was set up in an attempt to strengthen

[1] In March 1967, the mark-up on imported adults' clothing was 20 per cent, children's clothing 25 per cent; kitchenware 25 per cent, groceries 12 per cent. On some other items it was as much as 30 per cent. (File CR 21-20-1, part 9, f.76.)

[2] The FCA took over the Association's stocks, debtors and creditors in return for shares amounting to $34,496 (File CR 21-201(A), part 2, f.213), and leased the Association's bulk store facilities at Samarai at an annual rental of $4,280 (File CR 21-20-1, part 9, f.174). The shares issued to the Milne Bay Association accounted for almost the whole of the increase in share capital of the FCA during 1967-68 (see Table 9.1).

the apex structure and obtain more favourable terms from suppliers of merchandise through the amalgamation of orders. Its formation was first suggested by the Registrar of Co-operative Societies in December 1958, but it did not come into operation until the beginning of July 1967. The delay was largely caused by opposition from the Association, partly because of dissatisfaction with the service provided by the FCA in the past, and partly due to the influence exerted by one of the senior employees who feared that the establishment of the branch would undermine his position by reducing his scope and powers. Reluctance on the part of some officers of the Registry to implement a scheme which would have interfered with their routine work, was also a contributing factor.[1]

Branches were also proposed for Rabaul and Lae. This scheme was subsequently abandoned because it '...would have created too much of a financial and managerial strain on the existing Federation as well as creating an organisation with Papuan identity and an unbalanced structure'.[2] Instead, another plan, involving liquidation of the FCA and reorganisation of the co-operative structure into a comprehensive nationwide apex system, was conceived by Registry officers. But while the new design was under consideration, a sub-branch of the FCA was set up at Kukipi in October 1968 by taking over the trading operations of the Toaripi Association, which, as mentioned in Chapter 2, was then in serious financial difficulties.

Wholesale trading results of the FCA are summarized in Table 9.2. The marked increase in turnover during 1967-68 was due to the newly established branch at Samarai. For the nine months that the branch had been in operation during that year, its turnover was $60,000 in excess of the sales made by the Milne Bay Association over a comparable period in the previous year. This was primarily due to opening up of wholesale co-operative societies by small indigenous trade store operators in the Rabaraba area and formation of new co-operatives in Esa'ala and Losuia. In contrast, the turnover of the head office declined by approximately $51,000 or 8.4 per cent from $605,666 in 1966-67. This was mainly through cessation of store trading by societies at Porebada, Saroa and Gurufore in the Port Moresby-Rigo area, and restriction of credit sales beyond a prescribed limit to societies in Kairuku and Abau which dealt directly with the FCA. The

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1 File CR 21-20-7, f.42.

2 File CR 21-30-1, f.57.

Samarai branch also accounted for approximately one-third of the total gross surplus for 1967-68, while the gross surplus earned by the head office in that year was 23 per cent lower than for the previous year.

The wholesale trading results were adversely affected by inefficient bulk store and office management. This was a major problem facing the FCA throughout. A detailed audit conducted in June 1960 by a Registry officer revealed many serious shortcomings in bulk store and office procedures. It showed that stock control was practically non-existent and ordering of merchandise was done very haphazardly. There was no internal checking system in operation and the records generally were unsatisfactory. Cash control was inadequate and banking was done at irregular intervals.[1] Following this audit, the records were brought up to date and improvements made to office and bulk store procedures under the direct supervision of a senior Registry officer. As a result there was a marked improvement in the trading figures during the second half of 1960-61 in comparison with the first six months of that year. Subsequent audit reports, however, frequently made reference to the unsatisfactory state of office and bulk store records and unsound business practices.

Another factor which seriously affected the wholesale business was the failure of many associations and societies to make prompt payments each month for the merchandise supplied to them. In many instances the accounts remained unpaid for several months, largely because of credit sales and general mismanagement at the association and society levels and the inability of the FCA to enforce strict credit control. In April 1961 the amount owed by debtors totalled $51,792, nearly all of which was contained within the co-operative movement.[2] One of the largest debtors was the Poreporena and Hohodae Co-operative Society Limited.[3] In early 1962 it owed

[1] File CR 21-20-1(A), part 2, f.221.

[2] File CR 21-20-1, part 3, ff.67-70.

[3] This was one of the first formal co-operatives to be established in Papua New Guinea. It was formed at Hanuabada, near Port Moresby, in 1948. For about a decade it operated quite successfully, with sales rising up to about $102,000 for the year ended 31 March 1958. Thereafter, it incurred heavy losses and in December 1963 the FCA took over the operation of its Hanuabada stores in an attempt to recover the outstanding debts. The FCA operated the stores until some time in 1968 when the Society ceased to function altogether. In December 1967 the

Table 9.2

The Federation of Co-operative Associations Limited wholesale trading results, 1956-68

Year ended 31 March	Turnover Total $	Turnover Per cent change	Gross surplus Total $	Gross surplus Per cent change	Per cent gross surplus to turnover
1957*	11,526	-	1,774		15.4
1958	44,172	-	n.a.		
1959	112,272	154.2	n.a.		
1960	298,748	166.1	n.a.		
1961	315,624	0.6	10,998		3.5
1962	516,596	63.7	25,328	130.3	4.9
1963	449,180	-13.1	21,906	-13.5	4.9
1964	492,170	9.6	39,324	79.5	8.0
1965	556,636	13.1	31,328	-20.3	5.6
1966	585,755	0.5	60,009	91.6	10.2
1967	605,666	0.3	60,043	-	9.9
1968	774,710	27.9	68,356	13.8	8.8

* From November 1956.

n.a. Not available

Sources: RCS Annual Reports 1956-57 to 1967-68; Files CR 21-20-1, part 3, f.140 and part 4, ff.173 and 211; CR 21-20-1(A), part 2, f.223, and CR 21-30-1, f.10.

the FCA about $14,000.[1]

The problem of debtors became so serious that in July 1963 it was decided to charge interest on all debts outstanding for more than a month and restrict credit to associations up to a limit of 50 per cent of their respective share capital investment in the FCA.[2] The latter evoked a favourable response from a number of associations and societies, and the decision to charge interest on overdue accounts was therefore not enforced. But, as shown in Table 9.5, the debts outstanding rose again. At the end of March 1968 provision for debtors less doubtful debts totalled $129,711.

Large amounts of outstanding debts were often a source of financial embarrassment to the FCA. At times it had difficulty in meeting sight drafts for imports. In February 1961, for example, it had only about $8,000 to meet sight drafts to the extent of $14,000.[3] The position eased somewhat during

(Footnote 3 continued)
Registrar of Co-operative Societies issued an order for its liquidation, which was completed during 1970. The collapse of the Poreporena and Hohodae Co-operative Society was in the main due to excessive credit sales, thefts, internal squabbles between rival groups and general mismanagement.

1 File CR 20-2-8 (Konedobu), f.40.

2 File CR 21-20-1, part 5, f.182.

3 File CR 21-20-1, part 3, f.119.

1961-62, when the associations consented to have their proceeds from sale of copra to the Copra Marketing Board credited direct to their accounts with the FCA. But shortage of cash remained a continual problem. Eventually the FCA was forced to arrange an overdraft limit with a trading bank to augment its cash funds. At the same time there was a significant rise in the amounts outstanding to local firms on account of merchandise supplied by them. As indicated in Table 9.5, the total amount owing to trade creditors at the end of March 1968 was $137,360. This was partly a result of the rise in trade debtors and partly due to a considerable build up of stock on hand.

Shipping. With the steady expansion in co-operative business, the Registry persuaded the FCA to provide shipping services along the Papuan coast. Over the years the use of privately owned vessels by the co-operatives had proved to be unsatisfactory. Private ships were often not available when required. Consequently the associations were frequently short of store goods and experienced considerable difficulty in shipping copra to the Copra Marketing Board. On occasions large quantities of copra deteriorated in storage along the coast simply because shipping was not available at the appropriate time. Another rationale for the FCA engaging in shipping was the desire to retain within the co-operative movement the freights paid out to private enterprises.

The first vessel acquired by the FCA was the M.V. Equatorian Trader, a 56 ft long scow designed and built in Australia. It was delivered at Port Moresby in May 1959. But two months later the vessel was sold to the Administration. Though the Equatorian Trader was well built and suitable for operations in the deeper waters on the east coast of Papua, its draught proved too deep to be safely used over the bars and river mouths on the west. Another factor which prompted the sale was that the Registry wanted to avoid additional financial burden on the FCA in the form of increased fixed assets to capital ratio. The fixed assets to capital ratio at that time (including long term cash deposits by co-operatives) was approximately 70 per cent.[1]

Part of the proceeds from the sale of the Equatorian Trader was set aside for the purpose of obtaining a more suitable vessel. The remainder was used for buying the M.V. Moutuana, a 60 ft long vessel built in 1938 at Kwato, near Samarai, from the Milne Bay Association for operation until the new

[1] File CR 21-20-1, part 1, f.298.

ship was acquired. The Moutuana also proved unsafe for navigation in the shallow waters and was sold after about six months of service.

The next vessel, the M.V. Hiri, was specially designed so that it could safely negotiate the dangerous bars of the Vailala, Tauri and Lakekamu Rivers and the port of Kerema on the west coast of Papua and also operate in the deeper waters on the east. The Hiri, designed and built by the same naval architect and builders as the Equatorian Trader, is 60 ft long and has a carrying capacity of approximately 600 bags of copra or 45 tons of general cargo plus a few deck passengers and some bulk fuel and freezer goods. Its capital cost was initially estimated at $36,000.[1] By the time it was completed the cost had risen to $66,585.[2]

The Hiri commenced operations in early May 1962. As shown in Table 9.3, it operated profitably for several years. The vessel, however, was unable to cope with the volume of shipping required by the co-operatives. Some relief was provided by the other co-operatively owned vessels (viz: M.V. Magi, M.V. Toaripi and M.V. Lilivaso),[3] but these were much smaller and were often inefficiently run. Thus the co-operatives to some extent still relied upon private shipping for their supplies and transport of produce. Encouraged by the early favourable performance of the Hiri, the Registry persuaded the FCA to obtain a larger vessel to operate along with the Hiri. The aim was to become completely independent of private shipping and at the same time avoid proliferation of small uneconomic co-operatively owned vessels.

Table 9.3

M.V. Hiri: operating results, 1962-67
($)

Period	Surplus	Loss
3/5/62-31/3/63	7,218	
1/4/63-31/3/64	6,650	
1/4/64-31/3/65	7,702	
1/4/65-31/3/66	9,588	
1/4/66 31/3/67	361	
1/4/67 30/6/67		9,802

Source: Files CR 21-20-1, part 9, f.158; CR 21-20-1(A), part 2, f.48, f.232.

1 File CR 21-20-6, part 3, f.85.

2 Ibid., part 9, f.145.

3 The Magi was owned by the Abau Association, the Toaripi belonged to the Toaripi Association and the Lilivaso was jointly owned by the Milne Bay and Misima Associations.

Tenders for the construction of the new vessel, M.V. Papua, were called during 1965. The quotations, ranging between $118,000 and $130,000,[1] were far in excess of the estimates prepared by the Registry. But the plan was not abandoned, as it was estimated that the vessel could '...earn ample income to cover the outlay in 7 years'.[2] The final capital cost of the vessel amounted to $154,860.[3] A large proportion of the finance was raised by borrowing: $54,000 from a trading bank and $40,000 from other co-operatives. The remainder was raised internally, mainly through realising the depreciation reserve fund investments.

The Papua is 10ft longer and has a considerably larger carrying capacity than the Hiri.[4] It began operating in October 1966. But contrary to the predictions made by the Registry, it incurred substantial losses. For the first few months until the end of March 1967 the loss amounted to $2,602.[5] During the next three months both vessels incurred heavy losses; the Papua $11,280 and the Hiri $9,802.[6] Both were working below capacity and operating expenses were high. From 1 July 1967 the vessels were leased on an annual rental to the newly formed Co-operative Shipping and Freezer Society Limited. But they continued to incur heavy losses. (See Table 10.1.) During 1967-68 the Papua was frequently out of commission because of engine troubles and other repairs. The Co-operative Shipping and Freezer Society was unable to meet rental payments and its activities were therefore taken over by the FCA at the beginning of November 1968. Subsequently, with the creation of the new apex structure, the FCA was wound up and the operations of the vessels were handed over to the Co-operative Wholesale Society.

The overall financial position. Table 9.4 gives the overall net trading results of the FCA, while a summary of its assets and liabilities is presented in Table 9.5. There was a marked deterioration in the overall financial position during 1966-67 and 1967-68. The ratio of current assets to current liabilities at the end of March 1968 was well below the

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1 File CR 21-20-1, part 7, f.179.

2 Ibid., part 8, f.11.

3 Ibid., part 9, f.145.

4 Both vessels were designed and built by the same naval architect and builders.

5 File CR 21-20-1(A), part 2, f.48.

6 Ibid., f.232.

Table 9.4

The Federation of Co-operative Associations Limited
net trading results, 1960-68*
($)

Year ended 31 March	Net surplus	Net surplus distributed**
1961	290	700
1962	6,528	3,244
1963	6,738	200
1964	22,188	10,610
1965	-8,654	9,688
1966	33,926	-
1967	-4,426	-
1968	-14,659	-

* Statistics for earlier years are incomplete.

** Mostly in the form of bonus shares.

Source: RCS Annual Reports 1960-61 to 1967-68.

level of 200 to 230 per cent desired by the Registry.[1] Although the value of fixed assets (at cost) increased sharply during 1966-67,[2] the ratio of proprietorship to all assets dropped from 57 per cent to 33 per cent over the two years from the end of March 1966. The latter indicated an increase in undercapitalisation, which had arisen through '...a gradual process of continuous expenditure (out of long term liabilities) on capital assets and expansion of activities necessitating the carrying of larger stocks and a larger amount of debtors'.[3] The FCA was unable to overcome the problem of undercapitalisation because of the losses incurred in the later years and its inability to raise additional share capital.

Management. Inefficient management was probably the most serious problem encountered by the FCA throughout its entire history. This became more acute in the later years with the expansion in the volume of business. The management at all levels was always in the hands of indigenous employees under overall supervision of expatriate Registry officers until 1966 and thereafter they were assisted by accountants supplied by the Australian Volunteers Abroad organisation. The senior executives had received initial training within the Registry and were among the most influential local persons in the co-operative movement. But the FCA did not have a sufficient number of suitably trained and experienced staff to adequately

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[1] Ibid., f.225.

[2] The increase was almost entirely due to acquisition of the M.V. Papua.

[3] File CR 21-20-1(A), part 2, f.226.

handle the scale of operations involved. Its Board of Directors, consisting of a representative from each member association, was required to meet at least once in every three months. Matters requiring attention during the interval were handled by an Executive Committee, comprising the chairman, secretary, a director, and a representative of the Registrar of Co-operative Societies acting in an advisory capacity. Though the Board consisted of only local people, the Registry always exercised a great deal of influence over policy decisions.

Table 9.5

The Federation of Co-operative Associations Limited assets and liabilities, as at 31 March, 1964-68 ($)

	1964	1965	1966	1967	1968
Current assets					
Cash on hand and at bank	7,344	14,030	9,176	7,277	25,278
Trade debtors less doubtful debts	27,256	34,930	39,298	53,511	129,711
Stock on hand	76,130	68,528	89,404	93,845	126,598
Other	3,478	1,990	12,720	20,599	14,752
	114,208	119,478	150,598	175,232	296,339
Less current liabilities					
Bank overdraft	-	13,524	9,734	35,131	40,730
Trade creditors	31,108	56,780	45,814	38,451	137,360
Other	9,064	8,980	6,455	41,259	7,994
	40,172	79,284	62,003	114,841	186,084
Working funds	74,036	40,194	88,595	60,391	110,255
Add investments*	41,134	65,754	26,424	28,783	29,406
	115,170	105,948	115,019	89,174	139,661
Add fixed assets					
Original value	130,294	143,378	184,352	306,461	319,949
Less provision for depreciation	33,860	48,544	64,282	84,354	122,368
	96,434	94,834	120,070	222,107	197,581
	211,604	200,782	235,089	311,281	337,242
These funds were represented by:					
Long term liabilities					
Deposits by co-operatives	66,608	66,608	66,608	66,964	69,574
Loan for M.V. Papua	-	-	-	85,089	94,000
	66,608	66,608	66,608	152,053	163,574
Proprietorship					
Subscribed capital	121,180	130,400	130,400	130,400	165,316
Statutory reserves	12,372	14,482	21,119	21,119	21,119
Other reserves	1,754	1,938	3,291	3,291	3,291
Profit and loss appropriation account	9,691	-12,646	13,671	4,418	-16,058
	144,996	134,174	168,481	159,228	173,668
	211,604	200,782	235,089	311,281	337,242
Ratio of current assets to current liabilities	284%	151%	243%	153%	159%
Ratio of fixed assets plus investments to proprietorship	95%	120%	87%	158%	131%
Ratio of proprietorship to all assets	58%	48%	57%	37%	33%

* Comprised mainly Administration loans. The sharp drop in investments during 1965-66 was due to realisation of depreciation reserve investments to meet part of the cost of the M.V. Papua.

Source: File CR 21-20-1(A), part 1, f.56; part 2, ff.227, 231.

The new apex structure

For the most part, the services provided by the FCA were unsatisfactory, and the enterprise was unable to make further progress owing to financial and managerial constraints. There was a considerable amount of dissatisfaction and frustration at association and society levels. Partly because of this and partly due to the growing desire on the part of co-operatives in areas not represented in the FCA to be included in a national tertiary organisation, a new apex structure in the form of the Papua New Guinea Federation of Co-operative Unions Limited and associated institutions was introduced in late 1968. The new framework was designed to enable a more effective utilisation of the capital accumulated by the co-operative movement through amalgamation of purchasing power under one import and wholesale enterprise, and at the same time promote closer ties between co-operatives throughout the country.

The plan for the new structure was first formulated within the Registry during 1967. As the reorganisation was to involve major structural changes, two experts from Australia were commissioned to carry out a feasibility study.[1] In their report, submitted in June 1968, they concluded that 'The concept of a Territory-wide Federation is a grand one, but it is also indispensable to the present needs of the Co-operative Movement' (Savage and Kidston 1968:125). The plan put forward by the Registry was endorsed as '...well conceived and sound in all broad essentials', and it was recommended that the proposed reorganisation should be instituted despite the current shortage of skilled staff within the co-operative movement (Savage and Kidston 1968:1).

<u>The New Guinea Mainland Co-operative Union Limited</u>. This was a prelude to the new apex structure. It was formed in June 1967, chiefly to engage in wholesale trade in consumer goods and other merchandise required by members and provide them with storage facilities in Lae for their output of primary produce. The foundation members were the Chimbu Coffee Co-operative Limited, Finschhafen Marketing and Development Co-operative Limited and the Atzera Rural Co-operative Limited. Eventually the membership was to include all co-operatives in the Chimbu, Morobe and Northern Districts and possibly the Sepik and Madang Associations. The share capital contributed by members amounted to $55,750 at the end of September 1968.[2] By far the largest

[1] The cost of the study amounted to approximately $6,000, of which $3,000 was contributed by the Administration and the remainder by the FCA.

[2] File CR 21-30-4, part 2, f.11.

shareholder was the Chimbu Coffee Co-operative, which accounted for $20,000 or about 36 per cent. The other two foundation members were also major shareholders, contributing a total of $18,000.

The New Guinea Mainland Co-operative Union, however, did not commence business until about the end of June 1968. For the first three months of operation its wholesale turnover amounted to $84,223, of which the Chimbu Coffee Co-operative accounted for $44,119. Sales comprised mainly bulk food items such as rice, flour, sugar and canned meat and fish, as well as some hardware and drapery lines. Most of the supplies were imported directly from Australia and Hongkong. Imports constituted $76,513 or 71 per cent of the total purchases until the end of September 1968. A gross surplus of $4,586 or 5.4 per cent of total turnover was realised, but after allowing for expenses and including other incomes, a net loss of $848 was recorded.[1] The ratio of gross surplus to wholesale turnover for the three months fell short of the 7 per cent expected by the management. This was largely due to incorrect invoicing which at times resulted in sales at below wholesale prices.[2]

<u>The Papua New Guinea Federation of Co-operative Unions Limited</u> (PNG Federation). The establishment of this enterprise in November 1968 involved the creation of three more regional unions. These were the West Papua Co-operative Union Limited, East Papua Co-operative Union Limited and the New Guinea Islands Co-operative Union Limited. The initial membership of the West Papua Union consisted of the Abau, Central District, Kairuku, Toaripi and Ihu Associations, while the East Papua Union comprised the Milne Bay and Misima Associations and the New Guinea Islands Union included the associations in the New Guinea Islands region.

According to the reorganisation plan (see Fig.8), the Federation of Co-operative Associations was to be liquidated and its share capital refunded (by book entries) to member associations. These associations in turn were to acquire shares in their respective unions by contributing cash, balance between debtors and creditors, stock and, where appropriate, fixed assets. The M.V. <u>Papua</u> and M.V. <u>Hiri</u> were to be taken over by the Co-operative Shipping and Freezer Society. Share capital of the New Guinea Islands Union was to be raised in a similar manner.

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1 File CR 21-30-4, part 2, f.10.

2 <u>Ibid</u>., f.8.

The regional co-operative unions were set up primarily as electoral bodies designed to facilitate a balanced and representative directorate to the PNG Federation. As they were not intended to perform trading functions, their cash, stocks and debtors and creditors were transferred to the PNG Federation in return for shares, but they retained the ownership of fixed assets.

The PNG Federation has its office in the Co-operative Secretariat Limited.[1] But, like its member unions, it was not intended to undertake trading activities. A subsidiary institution, the Co-operative Wholesale Society Limited (CWS), was created for that purpose. It was planned that later another subsidiary of the PNG Federation would be established to handle the marketing of co-operative produce. Apart from exercising control over its subsidiary enterprise(s), the PNG Federation was expected 'To give leadership and motivation and to provide co-ordination for the development of the various sections of the Movement' (Savage and Kidston 1968:51).

Co-operative Wholesale Society Limited. This was set up principally as a central importing, warehousing and wholesaling organisation. It is wholly owned by the PNG Federation, except for four shares nominally held by the four regional unions, which do not have voting rights. Share capital was raised by transfer of cash, stock and debtors and creditors from the PNG Federation.

With its head office in Lae and branches in Port Moresby, Samarai, Lae and Rabaul and a sub-branch at Kukipi, the CWS began supplying the societies with their stores requirements from 1 April 1969. Later, branches were also established at Sohano and Lorengau. The branches in Port Moresby and Samarai and the sub-branch at Kukipi took over the stocks and debtors and creditors of the Federation of Co-operative Associations, which ceased to function when the CWS commenced operations. The New Guinea Mainland Co-operative Union and the New Britain Association also ceased trading at the same time. Their stocks

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[1] This organisation was formed in Port Moresby about the middle of 1968 by the Papua New Guinea Co-operative Investments Limited, Papua New Guinea Co-operative Security Society Limited, Co-operative Shipping and Freezer Society Limited and the Federation of Co-operative Associations Limited. It acts as the information bureau for the co-operative movement and provides secretarial services, including calling of Board meetings and maintaining records of minutes. Its services extend to its original members as well as the PNG Federation, Co-operative Wholesale Society Limited and the West Papua Co-operative Union Limited.

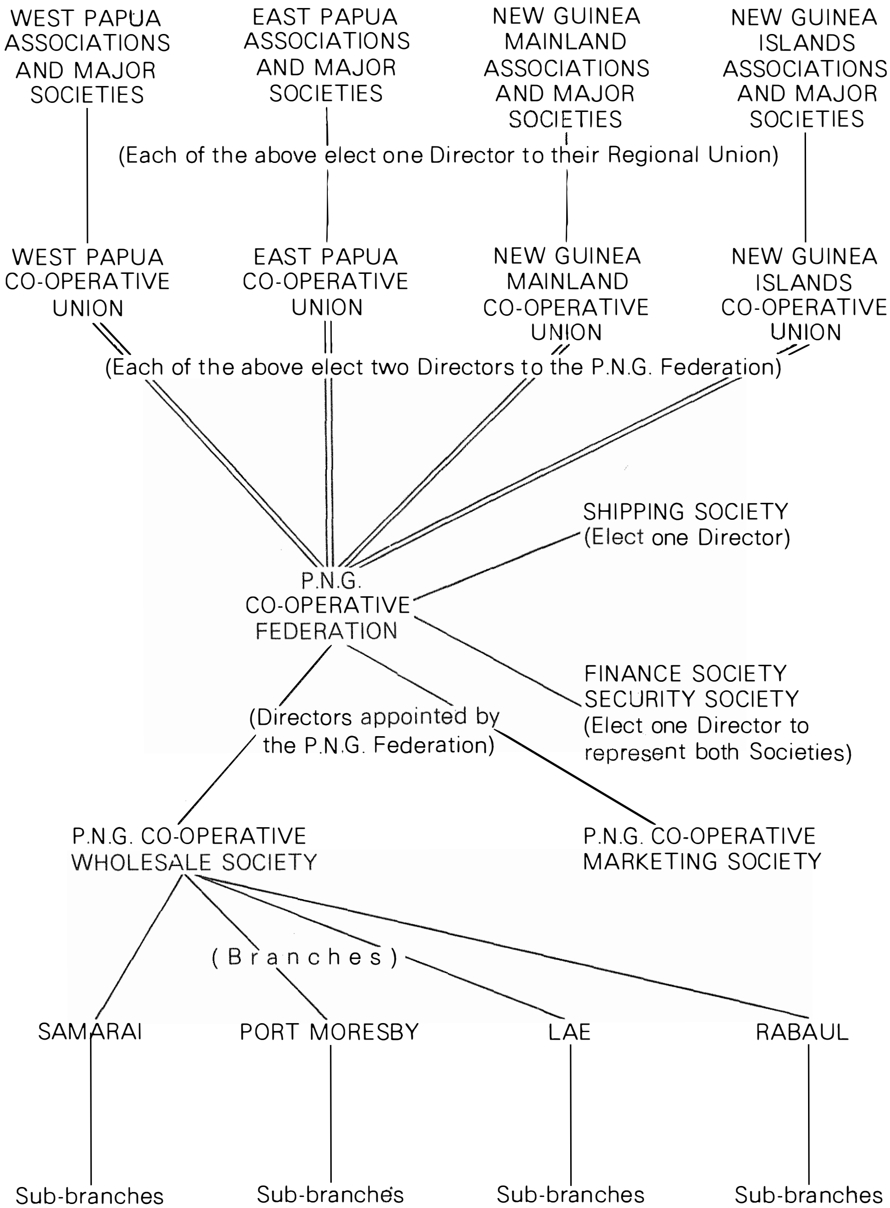

Fig. 8. Plan for the re-organisation of the co-operative movement in Papua New Guinea.

and debtors and creditors were transferred to the CWS branches in Lae and Rabaul, respectively. Similarly, the establishment of branches at Sohano and Lorengau involved taking over the trading functions of the Bougainville and Manus Co-operative Associations, respectively. As the CWS did not plan to own many fixed assets, except for items such as houses for head office executive staff, it conducts its business from rented premises, mostly belonging to the various co-operative unions.

A large proportion of the merchandise handled by the CWS is imported directly from Australia[1] and the Far East. All branch orders for overseas purchases are processed through the head office, but shipments are made direct to the branches. The latter are responsible for meeting all sight drafts and paying clearing expenses for which they are reimbursed by the head office at regular intervals. Local purchases by branch managers are confined to small quantities to meet temporary shortages or supply societies with items not normally kept in stock.

Although competition with private firms is not a primary objective, the CWS policy is to sell goods as cheaply as possible. Its prices are therefore frequently lower than those charged by private firms. Payments by societies for goods supplied to them are made directly to the head office. Their proceeds from copra sold to the Copra Marketing Board are also sent direct to the CWS which credits the individual societies with the appropriate amounts.

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1 Many Australian suppliers apparently prefer to deal through established agencies in Australia. Frequently buyers with agencies in Australia are given a discount of 5 per cent while others are offered only 2.5 per cent. Mainly because of this, the CWS established a fully owned subsidiary company, the CWS Agencies Pty Limited, only a few months after it commenced operations. The subsidiary shared office facilities with its parent organisation and later a branch was to be set up in one of the major centres in Australia. The aim was that the subsidiary would handle all agency work for the CWS and also have dealings with non-co-operative enterprises. In the proposal for the setting up of the subsidiary, it was estimated that it would save the CWS about $10,000 per year through additional discounts from Australian suppliers. (File CR 21-31-1(c), ff.8-9). Its operations, however, were suspended after a few months because it was unable to secure sufficient orders from non-co-operative enterprises.

In the first year until the end of March 1970, the turnover totalled $1,831,750. Gross surplus amounted to $182,485 or about 10 per cent of the turnover. But, after taking into account other incomes and allowing for expenses (including a substantial provision for doubtful debts), the enterprise was expected to show a net loss of the order of $100,000.[1]

The operations of the CWS during 1969-70 were handicapped by inadequate finance and poor management. Its share capital at the end of that year amounted to only $100,895 and additional finance had to be raised through trading bank overdraft. The management was virtually in the hands of expatriates, who occupied the three most senior positions (general manager, accountant and merchandising manager) in the head office. Indigenous persons with suitable training and experience were not available. The expatriate staff were expected to train the local employees for senior managerial positions. A number of senior indigenous employees at the branches, however, were dissatisfied with the employment of expatriates and disliked the control over their activities from the head office. This caused a certain amount of tension and also contributed to inefficiency at the branches.

The trading result achieved by the CWS during 1969-70 was also greatly affected by the poor performance of a large number of primary co-operatives. Whether or not the CWS will become a successful business enterprise will be conditioned to a large extent, no doubt, by the results obtained by primary societies which it is basically designed to serve. Indeed, the trading results of primary societies will determine the future of the co-operative movement as a whole.

[1] File CR 21-31-1(A), part 5, f.6.

Chapter 10

Service Co-operatives

During the 1960s a number of service organisations were introduced to facilitate the marketing of primary produce and distribution of consumer goods by member co-operatives. They included three shipping societies, an insurance organisation and a central finance society.

Shipping societies

Quite early in the history of the co-operative movement in Papua New Guinea it became apparent that inadequate shipping services would present a major problem. Most coastal vessels were owned and operated by large private trading concerns, which were not prepared to have their ships call into small anchorages to service societies in remote areas and were generally reluctant to carry co-operative cargo. This meant that co-operatives were frequently short of store goods while their produce deteriorated in storage. Attempts were made to solve this problem by acquisition, mostly by co-operative associations, of several small ships to operate within limited areas. The carrying capacity of these vessels ranged from 14 to 180 bags of copra and little space existed for passenger transport. The crafts lacked freezer facilities and usually no provision was made for carrying bulk kerosene and diesel fuel for sale to co-operatives. Most of them were inefficiently operated and frequently incurred losses.

The approach to co-operative shipping changed markedly during 1962 with the acquisition of the M.V. Hiri by the Federation of Co-operative Associations. As already mentioned in Chapter 9, this vessel provided a noticeable improvement in shipping services available to co-operatives along the Papuan coast, but it was unable to cope adequately with the demand for shipping, and some three and a half years later the FCA introduced a larger vessel, the M.V. Papua, to operate along with the Hiri.

About the time when the _Papua_ was introduced, considerable emphasis was placed by the Registry on establishing separate co-operatives to concentrate exclusively on the provision of shipping and related services. This led to the formation of the Co-operative Shipping and Freezer Society Limited, Transfly Co-operative Shipping Society Limited and the New Ireland Co-operative Transport Society Limited. The aim was to facilitate the acquisition of larger vessels, equipped with freezers and other facilities, by pooling the financial resources of a number of co-operatives. Most individual associations and societies were unable to acquire such vessels without seriously straining their financial resources.

The Co-operative Shipping and Freezer Society Limited (CSFS). This organisation was formed in June 1967. Membership in it was open to all registered associations and primary societies, but voting rights were restricted to members with at least 1,000 fully paid shares available in one dollar units. It was anticipated that initially the Toaripi and Milne Bay Associations would contribute $4,000 and $2,000, respectively, while the other Papuan associations would subscribe $1,000 each, and societies $100 each.

The CSFS purchased the M.V. _Magi_ from the Abau Association in return for fully paid shares amounting to $15,250, and leased the M.V. _Hiri_, M.V. _Papua_ and the Port Moresby freezer facilities from the FCA at an annual rental with effect from 1 July 1967.

Between them the above vessels serviced co-operatives all along the Papuan coast. Occasionally they were also made available on charter to outside organisations. Initially the _Papua_ operated mainly on the north-west of Port Moresby as far as Beara, while the _Magi_ went as far as Magarida on the other side of the capital. The _Hiri_, on the other hand, was stationed at Samarai and serviced the Milne Bay area, Trobriand Islands, Esa'ala, Losuia and Baniara, and sometimes went as far north as Lae. Co-operatives in the Misima area were serviced by the M.V. _Lilivaso_, which formerly belonged to the Milne Bay and Misima Associations. The CSFS operated this vessel for a few months until it was sold to the Louisiade Local Government Council on the understanding that co-operative vessels will not compete with the _Lilivaso_ in the Misima area.

However, as indicated in Table 10.1, the operations of the CSFS proved to be unprofitable. For the fifteen months until 30 September 1968 a net loss of $59,971 was recorded. The vessels, especially the _Papua_, frequently functioned well below capacity because of insufficient shipment of consumer

Table 10.1

The Co-operative Shipping and Freezer Society Limited
operating results, 1 July 1967 to 30 September 1968
($)

	Papua	Hiri	Magi	Lilivaso*	Freezer	Total
Operating income	53,735	25,437	9,935	2,296	2,151	93,554
Less operating expenses:						
Rental	43,083	13,141	-	-	1,903	58,127
Other	34,976	25,875	18,240**	694	3,368	83,153
	78,059	39,016	18,240	694	5,271	141,280
Operating loss	24,324	13,579	8,305	-	3,120	49,328
Operating profit				1,602		1,602
Overall operating loss						47,726
Add general expenses						15,070
						62,796
Less:						
other income						617
stock of spare parts						2,208
						2,825
Net loss						59,971

* This vessel was sold on 25 December 1967.
** Includes provisions for depreciation ($2,375)

Source: File CR 21-20-5, part 2, f.178.

goods and decline in the volume of copra handled by co-operatives.[1] The Papua also proved unsuitable for several small anchorages which frequently had to be bypassed owing to unfavourable weather and tide conditions. In addition, it was often out of commission for repairs due to engine troubles and damages caused by mishandling. The freezer at Port Moresby was also underutilised as the co-operatives engaged in fishing and crayfishing were unable to maintain a regular supply. A large section of it was therefore sublet to a private fishing enterprise belonging to expatriates.

The activities of the CSFS were greatly handicapped by inadequate share capital. By the end of 1967 only about $12,000 had been subscribed. Although the figure was raised to $41,825 by 30 September 1968,[2] it was $18,146 below the debit

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[1] The decline in the volume of copra handled by co-operatives was mainly due to an increase in direct sales by members to the Copra Marketing Board and a fall in copra production as a result of the 1965 drought which did not affect the palms until much later, and increased consumption of nuts was due largely to population increases.

[2] About one-third of this amount was represented by fully paid shares issued to the Abau Association in payment for the M.V. Magi.

balance in the Profit and Loss Appropriation Account. Current liabilities at that date totalled $94,661 - $31,949 above current assets - while fixed assets (after provisions for depreciation) amounted to only $13,803.[1]

The Society's financial position was therefore critical. It was unable to honour its debt obligations and at the same time it was doubtful whether it could operate the vessels profitably. About 70 per cent of its current liabilities consisted of amounts owing to the FCA, mainly on account of unpaid rentals on the vessels, and most of the remainder comprised debts outstanding to local firms. Although the FCA in turn owed the CSFS some $40,000, it found it necessary to take over the operations of the vessels as from the beginning of November 1968 in an attempt to recover the balance of the amount owing to it. As noted earlier, the FCA itself ceased trading at the end of 1969. The operations of the vessels were then taken over by the CWS on an agency basis. But the vessels continued to incur losses. Eventually, in early 1971, the Papua was placed on the market for sale.

The Transfly Co-operative Shipping Society Limited. This is jointly owned by the Lake Murray, Kiunga and Morehead Co-operatives. For several years these societies experienced considerable difficulty in securing reliable shipping for the transport of consumer goods from Daru to their stores.[2] This was a cause of much dissatisfaction among the local people and frustration on the part of Administration officers trying to assist the societies. A proposal to form a co-operative to own and operate a vessel in the area was first put forward by the District Commissioner at Daru in November 1964. But no immediate action was taken by the Registry because of lack of staff to supervise the operation of such an enterprise. In the following year, however, the proposal gained a considerable amount of support within the Registry and the Transfly Co-operative Shipping Society was formed towards the end of 1965.

The District Commissioner at Daru had envisaged that the Society would acquire a vessel with cargo capacity of about 15 tons, for approximately $18,000.[3] But the Registrar of

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[1] File CR 21-20-5, part 2, f.180.

[2] Daru is the administrative centre and the only seaport for the Western district. It is serviced by ships, normally not larger than 100 tons, but sometimes up to 500 tons, from Port Moresby and Australia. All three co-operatives are located inland and are accessible to small ships (up to about 50 ft long and with shallow draught) for most parts of the year, unless there is a prolonged dry season as in 1965.

[3] File 18-1-11, f.2, (Department of District Administration, Daru).

Co-operative Societies preferred a somewhat scaled down version of the M.V. Hiri. Accordingly, the M.V. River Fly, acquired by the Society, was 51 ft long and has cargo capacity of about 30 tons. Originally it was also equipped with a freezer but this was later removed because of limited use on board the ship. The initial contract price for the construction of the vessel was $37,960. At the end of March 1968, the actual cost (including the costs of equipment and installations) amounted to $48,069.[1] Finance was raised entirely through share capital contributions. Of the total share capital of $64,000 in September 1968, the Lake Murray Co-operative had subscribed $29,000.

The Society did not become active until the arrival of the River Fly in November 1967. In addition to shipping services, it provided temporary storage at Daru for member societies' crocodile skins and store goods and also engaged in a limited amount of store trading. Its operations were largely controlled by the co-operatives officer at Daru. The Society's Board of Directors, consisting of representatives of each member co-operative,[2] seldom met because of long distances involved in travelling. Owing to lack of suitably trained staff, the co-operatives officer also performed the more important office duties for the Society.

The performance of the River Fly was disappointing. At first considerable difficulties were experienced in putting it into operation because of engine troubles. It was fitted with an engine which could not be serviced readily in the Western district and had high fuel consumption. The vessel was also poorly designed, particularly for up-river work and was too large for the volume of shpping available. On outward journeys to Morehead, Lake Murray and Kiunga it carried store goods normally up to only 50 to 75 per cent of capacity, while on return trips to Daru it was virtually empty except for a few crates of crocodile skins. Between 1 April 1968 and 30 April 1969 the vessel earned a gross income of $21,809, but after allowing for provision for depreciation and other expenses an operating loss of $3,928 was recorded. Overall, the Society incurred a net loss of $6,476 during that period.[3]

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[1] File CR 21-17-6, part 1, f.155.

[2] Each member elected one director for every $5,000 contributed as share capital, but no member was allowed to appoint more than three directors and the total membership of the Board was limited to nine.

[3] File CR 21-17-6, part 2, ff.3, 18 and 21.

The Transfly Co-operative Shipping Society was formed at the time when the business of its member co-operatives was increasing rapidly and the shipping services available to them were inadequate. The situation had changed substantially by 1969. There is now a direct shipping service from Port Moresby to Kiunga mainly to cater for oil drilling activities, and other private shipping interests are operating out of Daru within the district. This has diverted most of the private freighting from the River Fly. There has also been a marked decrease in store turnover of member co-operatives owing to a decline in crocodile skin trade, thus further reducing the cargo carried by the vessel. Since 1969 the River Fly has been operating mostly on private charters, transporting fuel required for oil drilling activities in the Western District.

The New Ireland Co-operative Transport Society Limited. Co-operatives in the New Ireland area were also handicapped by poor shipping services. As already mentioned in Chapter 3, the shipping services provided by the New Ireland Association were inadequate and private shipping was generally unreliable. A proposal that the New Ireland co-operatives should acquire a Hiri type vessel was put forward by the Registrar of Co-operative Societies in 1964. Although this received the general approval of the New Ireland Association, it was not until mid 1966 that thirty-eight primary societies and the New Ireland Association combined to form the New Ireland Co-operative Transport Society for that purpose. The vessel, M.V. Ninsa II, designed and constructed by the same naval architect and builders as the Hiri and the Papua, was delivered in October 1967, 70 ft in length with a carrying capacity of 100 tons of general cargo or 1,000 bags of copra, as well as some bulk fuel and about thirty passengers on deck. The capital cost amounted to $147,117.[1]

About a third of the finance required for the vessel was raised through share capital contributions, which totalled $51,513 in December 1968.[2] The initial contributions from member societies represented all their receipts of copra price adjustments for 1966, amounting to $28,000. The rest of the finance was obtained by borrowing within the co-operative movement (mainly from the New Ireland Association and member societies) as well as from outside sources, including $42,000 from a commercial bank and $4,000 from a local government council.[3] The loans outstanding in December 1968 totalled $88,594.[4]

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[1] File CR 21-6-60, part 1, f.114 and part 2, f.12.

[2] Ibid., part 2, f.12.

[3] Ibid., part 1, f.114.

[4] Ibid., part 2, f.12.

The *Ninsa II* was not put into service until several weeks after delivery because of repairs necessitated by extensive damages sustained during the delivery voyage. Originally, it was intended that the vessel would service mainly societies on Djaul, Tingwon, New Hanover, Mussau, Emira, Tabar, Lihir, Tanga and Namatanai. Kavieng was to be the focal point, although it was envisaged that when servicing the co-operatives in the southern part of the District it would be more practical to deliver copra to the Copra Marketing Board at Rabaul on New Britain. But the operating costs of servicing the New Ireland co-operatives proved to be high, while the volume of business available from them was not sufficient for full utilisation of the ship's capacity. Budgeting for *Ninsa II* was based on what the Registry considered to be an irreducible minimum of copra cargo available. A drop in the volume of copra handled by the co-operatives just prior to the completion of the vessel seriously upset this calculation. The many factors were drought conditions, the tension arising from cultism on New Hanover and West New Ireland (resulting in increased competition from private traders), the emergence on an unprecedented scale of the practice of villagers bypassing their co-operatives and consigning their copra direct to the Copra Marketing Board. The number of privately owned small ships also increased in an unforeseen manner, thus further aggravating the situation of too many ships and too little cargo. The services of *Ninsa II* were therefore extended to Bougainville, Buka and Rabaul on a regular basis and occasionally to Manus Island.

The New Ireland Co-operative Transport Society incurred a net loss of $20,339 for the period from the commencement of operations until the end of March 1969.[1] In the following year the net loss amounted to $13,425.[2] The losses were principally due to underutilisation of the vessel's capacity, large depreciation provisions and heavy repair and survey expenses. Apart from inadequate freighting available, the underutilisation of the vessel was caused by mismanagement resulting in less than optimum turnaround and frequent diversions and alterations to schedules in mid-voyage without the knowledge of the agents.

The *Ninsa II* continued to perform poorly. At the beginning of September 1970 it was hired out on charter to a private firm in Rabaul for a year at $1,000 per month.

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1 File CR 21-6-60, part 1, f.45.

2 *Ibid*., f.110.

In general, co-operative shipping has not been a profitable undertaking. The realisation of profit, however, was not the major objective. According to the present Registrar of Co-operative Societies

> Every effort is made to run the ships to make a surplus or at least break-even, but this is not the salient consideration. If a loss is made it must be borne equitably by the co-operatives being serviced. However, all co-operative ships have been acquired with a view to providing a service and to avoid having societies forced out of business due to unfair trading practice by financially stronger competitors.[1]

Certainly, in many areas co-operative vessels provided a useful service which otherwise would not have been available, or at best inadequately provided. But undoubtedly, in many cases their operating losses would have been much smaller with better management and if the vessels were more suitable for the particular needs of the co-operatives.

Co-operative insurance

By 1960 co-operatives in Papua New Guinea had accumulated a considerable amount of assets which required insurance against various types of risks. These assets included buildings, stocks in trade, vehicles, vessels and a variety of equipment. The value of the vessels alone exceeded $173,000 and insurance premiums on them totalled more than $8,000 per annum. The Registry therefore proposed the formation of a co-operative, at first partly to underwrite marine insurance only but subsequently to include other classes of covers as well. Thus in May 1962, the Federation Security Society was formed by the Milne Bay, Abau and Toaripi Associations, and the Federation of Co-operative Associations.

Initially the operations of this Society were closely interwoven with those of the Federation of Co-operative Associations. A complete separation of the activities of the two organisations occurred during 1964. The Society's secretary had received three months of training as an employee of the Queensland Insurance Company Limited. (The latter, at that time held most of the insurance business offered by co-operatives in Papua New Guinea.) The name of the Society was then changed to Co-operative Security

[1] File CR 21-31-1, f.1.

Society and later to Papua New Guinea Co-operative Security Society Limited.

By the end of March 1968, the Society's membership, consisting mostly of co-operative associations (although it was open to all registered co-operatives) had increased to eighteen. Share capital was the main source of funds available to it. This increased from $7,640 in March 1963[1] to $35,714 six years later.[2] Despite this increase, the Society's financial resources were not sufficient to enable it to underwrite the full extent of the insurance covers required by its members. Its underwriting risks were therefore shared with the Queensland Insurance Company. Initially, when the risks were confined to marine insurance, the Society was required to accept only 20 per cent (but not exceeding $4,000) of the total risk on each hull insured. The rest was underwritten by the Queensland Insurance Company.[3] The agreement with the Company was reviewed at the end of March each year and by 1966-67 the proportion of the risk accepted by the Society had risen progressively to 60 per cent (but not exceeding $12,000) of the sum insured on each hull. The total risks underwritten by the Society during 1965-66 amounted to $37,144.[4]

At the beginning of 1967 it began underwriting some selected lines of fire risks. This, too, was done in conjunction with the Queensland Insurance Company on similar basis as hull insurance. Accordingly, during 1967-68 it accepted 20 per cent (or the maximum of $2,000) of the risk on each fire insurance and the balance was underwritten by the Company.

The Society also acted as agent for the Queensland Insurance Company. As such, it handled all classes of covers including workers' compensation, offered by the Company and negotiated insurance for most co-operatives and some local government councils. Commissions from the agency were an important source of revenue.

Table 10.2 shows the operating results of the Society. Despite the improvements in net surplus, the overall financial position of the enterprise became precarious over the years.

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1 RCS Annual Report, 1962-63, Table 1.

2 File CR 21-20-4, part 5, f.15.

3 The marine insurance taken out by co-operatives covered only total loss of ship. Owing to high premium charges, partial damage to hull was not insured.

4 File CR 21-20-4, part 2, f.184.

Table 10.2

The Papua New Guinea Co-operative Security Society Limited operating results, 1963-69 (year ended 31 March) ($)

	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
Income						
Premiums	532	648	1,340	2,094	3,193	3,911
Commissions			2,044	2,845	3,139	4,445
Other		2	220	232	1,564	3,277
	532	650	3,604	5,171	7,896	11,633
Expenses						
Wages and salary		184	1,584	1,811	2,108	n.a.
Other	128	462	1,388	1,692	2,204	n.a.
	128	646	2,972	3,503	4,312	5,943
Net surplus	404	4	632	1,668	3,584	5,690
Distributions*				382	1,571	2,850

n.a. Not available

* All distributions of net surplus were in the form of bonus shares.

Source: File CR 21-20-4, part 2, f.182; part 3, f.87; part 4, f.17· part 5, f.15.

While the risks accepted by it rose steadily, the supply of funds became increasingly inadequate. Fortunately it never had to make a payout on a policy. Co-operatives did not respond enthusiastically to appeals for additional share capital, while the total amount outstanding from debtors rose very sharply after 1966-67. In the two years from the end of March 1967 the share capital increased by only 26 per cent to $35,714; in contrast, the amount owing from debtors (mostly members) rose by 177 per cent to $26,413. The effect of this was, in part, reflected in a marked increase in the amount owing to creditors, which rose from $625 to $6,364 over the same period.[1]

Because of the worsening financial position of the Society, the Co-operative Insurance Company of Australia Limited (CIC Ltd)[2] was requested to conduct a survey with the object of devising a more satisfactory method of operation. It was concluded that the Society could not succeed as an underwriter on account of its exposure to liabilities far in excess of

[1] File CR 21-20-4, part 3, f.86 and part 5, f.15.

[2] This organisation was founded in Victoria shortly after World War I. With its head office in Melbourne and a network of State branches (in Victoria, New South Wales, South Australia, Tasmania and Queensland) it has developed an extensive underwriting business. No less than 210 co-operative institutions throughout the Commonwealth are affiliated with it as shareholders. Its share capital and reserves at 30 June 1968 stood at $235,660 and $3,183,979, respectively. (From Balance Sheet and Report of the CIC Ltd as at 30 June 1968, as quoted in File CR 21-20-4, part 4.)

capacity and its income from premiums was insufficient to make profitable re-insurance arrangements. But the CIC Ltd itself became interested in extending its operations to Papua New Guinea and put forward several proposals which were subsequently accepted by both the Society and the Registry. Accordingly, from the end of March 1969, the Society ceased to function as an underwriter and cancelled all its arrangements with the Queensland Insurance Company. Instead, it affiliated with the CIC Ltd by subscribing the minimum $40 required as share capital contribution and became its chief local agent.[1]

The CIC Ltd started its business in Papua New Guinea through a newly created fully owned subsidiary, the CIC Insurance Pty Limited.[2] Part of the agreement was that after two years the CIC Ltd would establish a semi-autonomous local branch with the same status as a State branch in Australia and a Board of Directors on which nominees of the Society would constitute a majority.

The CIC Ltd does not underwrite life policies, but provides a wide range of covers, including third party and comprehensive motor vehicle insurance and workers' compensation insurance. As agent, the Papua New Guinea Co-operative Security Society handles all classes of covers offered by the CIC Ltd and earns commission on all insurance arranged through it.[3] In addition, being the sole member of the CIC Ltd in Papua New Guinea, it is entitled to receive all distributions out of profits resulting from business transacted by it locally.

It is no longer necessary for the Society to be heavily capitalised. Thus the original plan was to reduce its share capital to around $8,000, partly by offsetting some of the debts outstanding from members. The CIC Ltd has rescued the Society from a dangerous situation which could have resulted in financial disaster had any sizeable claim for payment been made.

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[1] Members of the Society are also eligible to become full agents of the CIC Ltd.

[2] The formation of the subsidiary was necessary as the CIC Ltd could not operate in Papua New Guinea under that name without contravening Section 136 of the Co-operative Societies Ordinance, 1965. The subsidiary is based in Lae.

[3] By the end of March 1971, the Society had already received $14,352 in commission from the CIC Ltd. (File CR 21-20-4, part 5, f.211.)

Finance society

The establishment of a co-operative finance society was first proposed in May 1959. The proposal stemmed from the desire on the part of senior Registry officers to make the co-operative movement financially more self sufficient. The aim was to utilise a greater proportion of depreciation and statutory reserves of the individual organisations for inter-co-operative loans, as a number of co-operatives were experiencing difficulty in obtaining finance for developmental purposes. However, it was not until late 1964 that steps were taken to seek the support of the individual co-operatives. They were asked to agree to transfer their reserve investments from Administration bonds and savings and fixed deposits with commercial banks, to the proposed organisation. By December 1967 a sufficient number of co-operatives had expressed their intention to participate in the scheme and the Papua New Guinea Co-operative Investments Limited was formed.

Soon afterwards a former employee of the Reserve Bank of Australia was engaged to investigate the feasibility of this new enterprise and formulate working procedures. In his report, the investigator expressed doubt as to whether such an organisation was warranted, especially as the Papua and New Guinea Development Bank was anxious as well as able to assist the co-operatives with finance required for developmental purposes. Moreover, in his opinion, the reserve funds of the co-operatives were properly invested. It was doubtful whether a sufficient amount of these funds would be transferred quickly enough to make the enterprise a viable proposition.[1]

The scheme, however, was not abandoned because the Registry saw the opportunity of using the enterprise as an investment and guarantee organisation on behalf of those co-operatives seeking investment avenues and financial assistance. Collections of share capital therefore continued, although the response from the co-operatives was disappointing at first. Provision was made for two classes of shareholders: voting members contributed $200 each and non-voting members $50 each. By August 1968, about seven months after share capital collections began, only $11,350 of the target of at least $16,000 had been received.[2] But member organisations had commenced transferring their investments in Administration bonds and savings bank deposits, as well as fixed deposits as these matured, in return for interest bearing deposits in the new enterprise.

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[1] File CR 21-20-3, part 2, ff.208-210.

[2] *Ibid.*, f.239.

The plan was that the Papua New Guinea Co-operative Investments would not start lending to its members until a total of at least $400,000 in deposits had been received. At the end of March 1970, the deposits totalled only $243,564 and the share capital amounted to $16,150.[1] During the following year the deposits reached $508,174. The share capital increased to $17,450 and an unsecured loan of $250,000 was made to the Co-operative Wholesale Society,[2] which was desperately short of cash funds. Other investments by the Papua New Guinea Co-operative Investments at the end of March 1971 comprised interest bearing trading bank deposits $119,320, overseas investments $146,000 and Administration bonds $6,270.[3] Most of the trading bank deposits were held as security for loans granted by the bank to the Co-operative Wholesale Society. The overseas investments represented amounts placed at call or at a month's notice with building societies in Australia.

As the business of finance is a risky undertaking, extreme caution should be exercised by the Papua New Guinea Co-operative Investments in lending in order to safeguard the interests of its member organisations. The fact that a very large proportion of members' reserves is concentrated in one enterprise makes its success much more vital. The projects to be financed by this enterprise should therefore be judiciously selected and loans properly supervised. Ultimately its success will depend upon the effectiveness with which the loans are utilised by recipient organisations.

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1 File CR 21-20-3, part 2, f.146.

2 <u>Ibid</u>., part 4, f.80.

3 <u>Ibid</u>.

Chapter 11

Supervision, education and training

The level of general education among the indigenous people is on the whole very low and the knowledge of modern business methods and practices is practically non-existent in most villages. In such an environment the success of the co-operative movement among the local people must, to a large degree, depend upon the quality of supervision and the effectiveness of the programme of co-operative education, including training in business procedures. So far the supervision of co-operative activities has been almost entirely in the hands of the Registry of Co-operative Societies. The provision of co-operative education, on the other hand, has for many years been the joint responsibility of the Administration and the co-operative movement itself. Recently the United Nations Development Program (Special Fund) has also undertaken to provide a substantial amount of aid in this field.

The Registry of Co-operative Societies

With the enactment of the Co-operative Societies Ordinance 1948,[1] the Co-operative Section in the then Department of District Services and Native Affairs became the Registry of Co-operative Societies. Its principal officer was appointed with full statutory authority to the role of the Registrar of Co-operative Societies. In November 1955 the Department of District Services and Native Affairs was abolished and reorganised as the Department of Native Affairs. The Registry of Co-operative Societies became a section in the Division of Development and Welfare within the re-organised department. In the new establishment the Registrar was immediately responsible to the Chief of Division of Development and Welfare and not, as previously, directly to his departmental head. This, in effect, meant that the status of the Registry was to some

[1] This legislation was subsequently re-enacted as the Co-operative Societies Ordinance 1950.

extent downgraded. In early 1962 the Registry was transferred to the Division of Business Training and Management in the newly established Department of Trade and Industry. But there was no improvement in its relative status as the Registrar remained a section head, immediately responsible to the chief of his division. The situation did not change for several years thereafter.

The relative status of the Registry had an important bearing on both the quality and the extent of supervision available to co-operatives. Because of higher salaries and better opportunities for promotion in other branches of the Administration and elsewhere, serious staff losses occurred through resignations. Considerable difficulties were encountered in recruiting new officers with suitable training and experience. The number of unfilled vacancies in the Registry was usually very high. As at the end of March 1967 only 78 (61 per cent) of the total of 128 positions (excluding 29 indigenous trainees) on the establishment were filled.[1] This, together with the increase in the number of co-operatives scattered over a very wide area and difficulties of transport and communication, meant that the Registry was unable to provide adequate supervision to most co-operatives.

It was not until March 1968 that the status of the Registry was raised. This involved the formation of the new Division of Co-operative Extension within the Department of Trade and Industry, and re-classification of various positions, including the elevation of Registrar to Chief of Division. The reorganisation also resulted in the creation of four new posts: one research officer and three regional inspectors. Another important change in the administrative structure occurred in late 1970 when the new Department of Business Development was created with the Division of Co-operative Extension as one of its two divisions. These changes undoubtedly reflect a more firm acceptance by the Administration of the policy of promoting the co-operative form of organisation as a means of increasing indigenous participation in the economic life of Papua New Guinea.[2]

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[1] RCS Report 1966-67, p.5.

[2] In recent years there has been a considerable amount of pressure from various sources placed upon the Administration to increase indigenous involvement in both the ownership and operation of business enterprises. Maximum participation by the local people at all levels has now become one of the main objectives of the Administration's current development plan. (Administrator, <u>The Development Programme Reviewed</u>, 1971, p.3.)

The elevation of the Registry to divisional status was designed primarily to bring about a salary structure and promotional opportunities which would place the Registry in a more favourable position to attract and retain suitable staff both expatriate and local. However, there was little change in the staff situation during the year following the reorganisation. As shown in Table 11.1, the number of positions filled remained well below the establishment.

Nearly all senior staff of the Registry have always been expatriates. Table 11.1 shows that of the thirty officers with the status of co-operatives officer grade 2 and above engaged in extension work in March 1969, all but five were from overseas. No indigenous person was represented on the inspectorial staff. The concentration of local officers in the lower ranks was a direct consequence of their relatively poorer educational background and inadequate training facilities available for them.

The Registry staff have always been directly involved in the management of most co-operatives, including preparation and analysis of financial statements, stock-taking, costing and budgeting. In addition, the senior officers generally exercised a considerable amount of influence on most important policy decisions. Often decisions on the nature and scale of operations of a co-operative, its mark-up and commission rates, employment and wages policies and investment policy were taken first by these officers. Their ideas were seldom openly challenged by members. In most co-operatives there was considerable moral force behind official advice, although in a few cases members with definite ideas on some aspects of policy and management resisted strong pressure from their advisors. Clashes between Registry officers and members occurred only infrequently. They usually resulted from official advice to a co-operative to dismiss an employee involved in extensive granting of credit, or in theft. Members, who themselves frequently shared in the credit or the contraband, and who in any case shared the moral attitudes that the co-operative should give credit to needy members, often refused to dismiss the employee. On several such occasions, Registry officers were able to enforce their ideas only by threatening to withdraw supervision altogether or by blunt use of official statutory powers.[1]

[1] In many instances members did not consider credit-giving as improper and indeed saw it as a social service that their co-operative should provide to needy members. Perhaps the situation could have been better handled by establishing, where appropriate with members' approval, a small special assistance fund, strictly controlled by management and use reported frequently to the Board, instead of dismissing co-operative employees involved in credit-giving.

Table 11.1

The Registry of Co-operative Societies
staff establishment and appointments, as at 31 March, 1968-69

	1968		1969			
	Establishment	Positions filled	Establishment	Positions filled		
				Total	Local	Overseas
Headquarters (Port Moresby)						
Chief of Division (Registrar)	1	1	1	1		1
Typist	1	1	1	1		1
Clerk	1	1	1	1		1
Clerical assistant	1	1	1	1	1	
Extension						
Assistant Registrar (Headquarters)	1	1	1	1		1
Assistant Registrar (Field)	3	3	3	3		3
Co-operatives officer Grade 3	15*	12	15	12	2	10
" " Grade 2	16*	16	16	14	3	11
" " Grade 1	44	24	44	29	21	8
Co-operatives assistant Grade 3	4	4	4	2	2	
" " Grade 2	6	6	6	6	6	
" " Grade 1	30	23	30	19	19	
Typist	1	1	2	2		2
Audit and Inspection						
Chief Inspector (Headquarters)	1	1	1	1		1
Regional Inspector	3	-	3	1		1
Co-operatives Inspector Grade 3 (Headquarters)	3*	1	3	1		1
" " Grade 2 (Headquarters)	1*	1	1	1		1
Research						
Principal Research Officer (Headquarters)	1	-	1	-		
Sub-totals	133	97	134	96	54	42
Trainees (non-establishment)	27	27**	30	53**	53	
Total	160	124	164	149	107	42

* In the 1967-68 *Annual Report of the Registrar of Co-operative Societies*, the establishment positions for co-operatives officer grades 3 and 2 and co-operatives inspector grades 3 and 2, respectively, were combined.

** Includes grade 1 co-operatives officers whose promotion was pending.

Source: RCS Report 1967-68, p.3, 1968-69, p.3.

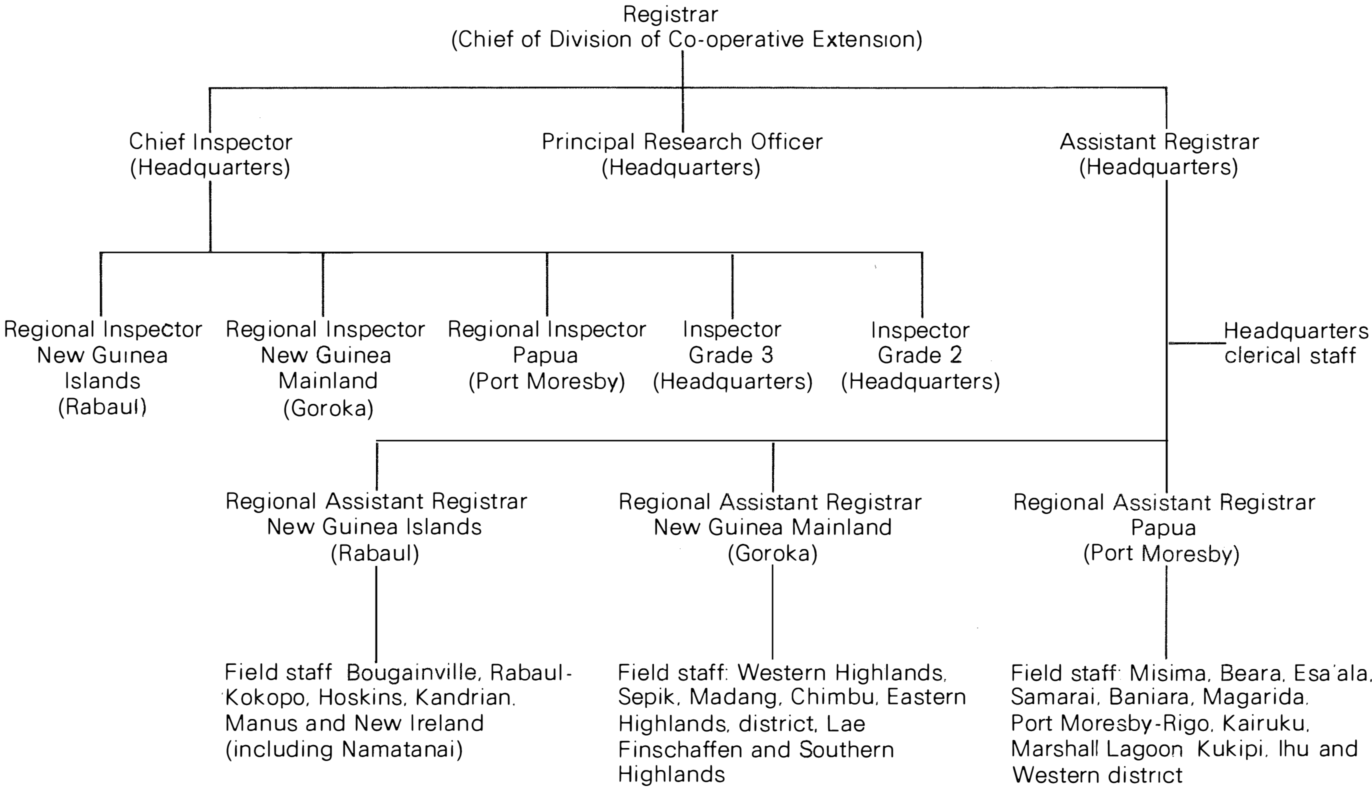

Fig. 9. Functional chart: Registry of Co-operative Societies, as at 31 March 1969.

Because of lack of accounting and business knowledge, and skills among employees and directors of co-operatives, there was ample justification for the direct involvement of Registry staff in both management and policy decisions of individual co-operatives. But the question remains as to whether this practice has inhibited maximum indigenous participation in management and decision-making processes. There is little doubt that largely because of the direct official involvement in these processes, co-operatives have, by and large, come to be regarded as Administration projects. Most of them still rely very heavily on Registry officers for policy initiatives and supervision.

Co-operative education

In the early years all responsibility for co-operative education was with the Registry of Co-operative Societies. Apart from formal instruction in business principles, bookkeeping and co-operative techniques, the educational programme was also conducted informally by Registry officers whenever they visited co-operatives in their respective areas. Until 1953 formal instruction was given through small co-operative schools organised in each district under the supervision of a co-operatives officer. Later these schools were abandoned as the co-operatives officer was required to devote most of his time to supervisory activities, and formal classes were concentrated into two regional schools, one in Port Moresby and the other in Rabaul. The regional schools were staffed by indigenous teachers under the supervision of an expatriate Registry officer with training in commercial subjects. Only two formal courses were offered, one a six weeks' course for society storemen offered at Rabaul (and occasionally at other centres as well) and the other a more advanced course in bookkeeping, business procedures and co-operative principles, available at the Port Moresby School primarily for employees of co-operative associations and junior indigenous field staff of the Registry.

The facilities provided by the Registry were limited and in 1957 the Co-operative Educational Centre was established to cater for the growing need for trained personnel within the co-operative movement. The Centre, located at Konedobu about a mile from the centre of Port Moresby, comprises two classrooms, a mess hall and kitchen, a teacher's house, two dormitory blocks each with accommodation for 20 students and a self-contained laundry, shower and toilet block. It was controlled by the Co-operative Educational Centre Trust consisting of two expatriate officers of the Registry and two indigenous representatives of the co-operative movement.

The initial capital cost of the Centre amounted to over $28,000, of which $14,000 was provided in the form of grant by the then Commonwealth Bank of Australia through its Rural Credits Development Fund and the remainder was raised through voluntary contributions from co-operatives.[1] Co-operatives also donated varying amounts annually to meet recurrent expenses other than salaries of teachers and costs of some teaching material. Their total contributions in the four years up to the end of September 1968 amounted to $18,978.[2]

The role of the Administration in the co-operative Educational Centre has been confined largely to meeting teachers' salaries and costs of some teaching material. For many years the teaching was done by the Chief Inspector of Co-operative Societies with the assistance of indigenous Registry staff in much the same way as prior to the setting up of the Centre. It was not until 1963-64 that a training section was created within the Registry and an expatriate officer appointed to take over the teaching functions (including the preparation of teaching material) on a fulltime basis. In 1965-66 the teaching responsibilities at the Centre were taken over by the newly formed Training Section within the Division of Business Training and Management, with the Principal Training Officer directly responsible to the Chief of the Division. The Training Section, with its teaching establishment of four officers, later became a separate unit in the Department of Business Development and its Principal officer became directly responsible to the Head of the Department.

Most of the students who attended the Co-operative Educational Centre were nominated either by co-operatives or by the Administration. A co-operative nominating a student was required to pay his transport costs, messing fee and provide him with pocket money, while the Administration met the expenses of its nominees. The indigenous students nominated by the Administration were usually trainees for field positions within the Registry. From time to time a small number of private students also took courses at the Centre.

The level of instruction provided in the first few years was necessarily low as the majority of the students entering the Centre had not completed more than six years of primary school education. The aim was to provide only basic training in book-

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[1] See Elijah (1961:24-25).

[2] Co-operative Educational Centre Trust, Annual Report for year ended 30th September 1968, p.1.

keeping, store and office procedures to storemen and secretaries of both primary societies and associations. Training in co-operative methods, meeting procedures and handling of cash and stock was given on an informal basis by Registry officers during their visits to co-operatives in their respective areas.

In the early 1960s the rising level of general education in Papua New Guinea made it possible and desirable to up-grade and broaden the courses being offered at the Centre. Accordingly, the new syllabi introduced during 1963 provided for four progressive courses of graded difficulty. The first in the series was an eight weeks' course for society secretaries. It provided basic training in the handling of cash, purchase of primary produce, ordering of goods, and meeting procedures. The next, the Association Storemen's Course of six weeks' duration, involved training in stock control procedures, elementary commercial arithmetic, invoicing, bills of lading, and typewriting. English expression, book-keeping to trial balance, advanced commercial arithmetic, basic office procedures, filing, and costing were taught in the Association Clerks' Course which covered a period of approximately sixteen weeks. Finally, the Association Secretaries' Course of six weeks' duration offered training in the preparation of trading and profit and loss accounts and balance sheet, taking of minutes at meetings, business correspondence, basic commercial law, and office control and management.

Prior to the introduction of a higher level course for indigenous trainee co-operatives officers in 1968,[1] the local trainees for field positions within the Registry were required to undertake all four courses mentioned above. The new course covered six months and included training in accounting, commercial English, commercial mathematics, economics, auditing, inspection techniques and administrative procedures. Most of the students accepted for this course had completed secondary school education up to Form IV. After completing the course, the trainees were required to spend eighteen months in the field gaining practical experience before taking up their positions as co-operatives officer grade 1.

From time to time the Co-operative Educational Centre offered other courses both to employees of co-operatives and Administration staff. These included an advanced refresher course of about five weeks' duration for selected indigenous Registry field staff and co-operative employees, a four to

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[1] This course was also available to indigenous trainee business advisory officers.

five weeks' course for newly recruited expatriate Registry field officers, and a course lasting two weeks for agricultural extension officers dealing with co-operatives. The course for newly appointed expatriate Registry field officers covered roughly the same subjects as the six months' course for local trainee co-operatives officers.

Results of the courses completed at the Co-operative Educational Centre since the introduction of the revised syllabi in 1963 until the end of March 1969 are given in Table 11.2.

Although the Co-operative Educational Centre played an important part in the development of co-operatives, with its limited facilities it has not been able to meet adequately the growing needs of the co-operative movement. Several years ago the Registry felt the need to broaden the scope of co-operative education, and for better trained personnel, both within the Registry and in co-operatives, in order to cope more effectively with the developments that were taking place. Proposals for the establishment of a co-operative college were put forward for consideration by the 1963 World Bank Mission on the economic development of Papua New Guinea and the Currie Commission on Higher Education. The proposal submitted to the World Bank Mission envisaged a co-operative college with facilities for 150 students, to be built at the estimated capital cost of \$400,000 and recurrent operating expenditure of \$120,000 per annum. The co-operative movement was expected to contribute 25 per cent of the annual recurrent costs, while the Administration was expected to meet the capital cost and the remainder of the annual recurrent expenses.[1]

The World Bank Mission recommended that the proposed co-operative college be developed as part of the Administrative College.[2] The latter was, at the time of the Mission's investigations, at the planning stage.[3] It recognised the need

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[1] The International Bank for Reconstruction and Development (IBRD), (1965:319-320).

[2] IBRD (1965:320).

[3] The Administrative College was founded towards the end of 1963 mainly for training indigenous public service officers, a function formerly performed by the Public Service Institute. It moved into its permanent premises at Waigani, next to the University of Papua New Guinea, in late 1966. The courses offered include public administration, law, civics, land use, court procedures, local government management and supervision, community development and welfare work as well as courses in basic subjects such as English, mathematics, history, geography, book-keeping.

Table 11.2

Results of courses completed at the Co-operative Educational Centre, year ended 31 March, 1964-69
(number of students)

	1964		1965		1966		1967		1968		1969	
	Enrolled	Passed	Enrolled	Passed	Enrolled	Passed	Enrolled	Passed	Enrolled	Passed	Enrolled	Passed
Course for:												
Society secretaries (8 weeks)*	30	19	71	47	62	52	66	57	66	59	73	60
Association storemen (6 weeks)	19	12	24	13	57	38	31	29	18	14	14	14
Association clerks (16 weeks)	19	12	23	17	21	19	31	38	18	16	14	14
Association secretaries (6 weeks)	14	6	17	8	21	19	31	25	18	14	10	10
Indigenous Registry field staff - Advanced course (4-5 weeks)**	18								13			
Indigenous Registry field staff (6 months) +									18	15	23	20
Newly recruited expatriate Registry field staff (4-5 weeks)	6	5	3	1					7	7	6	6
Agricultural extension officers dealing with co-operatives (2 weeks)	39	36	30	28					15	14	21	19

* Including results of schools held at centres away from Konedobu.

** Prior to 1967-68 this course was known as Advanced Secretaries' and Inspectors' course. There was no formal examination in this course.

\+ Prior to 1967-68 indigenous Registry field staff undertook the first four courses (for co-operative employees) mentioned in this table.

Source: RCS Annual Report 1963-64 to 1968-69.

for a training in specific skills at a co-operative college but saw advantages in shared costs for physical facilities. The Currie Commission, on the other hand, rejected the idea of setting up a co-operative college, but recommended that special arrangements be made for co-operative training to be provided at the technical colleges in collaboration with the co-operative movement.[1] By 1966, however, both the Department of Education, which controls the technical colleges, and the Administrative College had refused to participate in a co-operative training scheme.[2] The Administration had not made any funds available for the establishment of a separate co-operative college.

In 1967 a revised proposal for a co-operative college was put forward for consideration by the Administration. The new plan envisaged an estimated capital expenditure of $290,000, of which the Administration and the local co-operative movement were asked to contribute $58,000 each and the remainder was expected to be financed by overseas co-operative movements through the International Co-operative Alliance.[3] After much discussion, the Administration accepted the concept of a separate co-operative college and agreed to contribute its share of the estimated capital expenditure. Attempts to raise funds through the International Co-operative Alliance, however, were unsuccessful, and eventually in May 1969 the Administration was persuaded to meet the full capital cost of the project. In the meantime the United Nations Development Program had agreed to give substantial aid in the form of teachers, fellowships, library furniture and books, textbooks, teaching aids, transport, and others, provided the capital cost of the project was met by other organisations. The total cost of the United Nations Development Program's commitments in the project was estimated to be $560,000. This included the costs of fellowships for trainees and salaries and allowances of six teachers seconded from the International Labour Organization under the scheme for three and a half years until the middle of 1974.[4]

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[1] <u>Report of the Commission on Higher Education in Papua and New Guinea</u> (Currie Commission), 1964, p.87.

[2] File CR 16-1-1/1, f.94.

[3] The estimate of total capital expenditure was subsequently increased to $296,000 (Department of Trade and Industry, File BTM 7-6-6(4), ff.34-35).

[4] This information was provided verbally in May 1971 by the Training Section of the Department of Business Development.

The construction of the Co-operative College, planned to be completed in two stages, began during 1970 on a site about 14 miles out of Port Moresby.[1] For the first stage, comprising mainly dormitory accommodation for 52 students, kitchen and dining facilities, two classrooms, offices, three staff houses and a water supply plant, the capital cost totalled about \$128,000. These amenities were ready in May 1971 and the first group of students were expected to arrive in the following month. The second stage consisted of mainly dormitory accommodation for 78 students, three classrooms, library, three staff houses, and recreation facilities. Completion was planned for the middle of 1972 at the cost of approximately \$168,000.

Apart from meeting the capital cost of the project, the Administration was to continue to provide teaching staff (in addition to those available under the United Nations Development Program) through the Training Section of the Department of Business Development until such time as the Papua and New Guinea Co-operative Education Trust,[2] created under the Co-operative Education Trust Ordinance 1969, was able to employ all teaching staff.

The Co-operative Education Trust, which has taken over the functions of the Co-operative Educational Centre Trust, is responsible for the operation of the Co-operative College.[3] Its membership consists of a chairman appointed by the Administration; secretaries of the Federation of Co-operative Unions Limited, East Papua Co-operative Union Limited, West Papua Co-operative Union Limited, New Guinea Islands Co-operative Union Limited and the New Guinea Mainland Co-operative Union Limited; the Director of Education; the Registrar of Co-operative

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[1] The College site is near the Laloki River and is part of the 99 acres of land earlier acquired by the Co-operative Educational Centre Trust on a twenty-five year lease from the Administration for the establishment of a co-operative college and related facilities. Prior to the Administration's decision to meet the full capital cost of the College, the Co-operative Educational Centre Trust had agreed to transfer to the Administration, free of cost, sufficient area of its lease required for erecting the College. (Department of Trade and Industry, File BTM 7-6-6 (4), f.35.)

[2] Hereafter referred to as the Co-operative Education Trust.

[3] The facilities of the Co-operative Educational Centre at Konedobu were to remain in use until the second stage of the Co-operative College was completed. Thereafter they were expected to be sold, the proceeds going to the Co-operative Education Trust.

Societies; and a person not employed by the Administration appointed by the other members.[1]

Co-operatives in Papua New Guinea are expected to contribute funds to meet the operating costs of the Co-operative College. But whereas in the case of the Co-operative Educational Centre their contributions were on a voluntary basis, the Co-operative Education Trust has wide powers to levy registered co-operatives to provide it with regular income.[2] It has been officially estimated that co-operatives' contributions towards operating expenses of the College would be of the order of $22,000 per annum.[3]

The Co-operative College was to provide a wide range of courses, both formal and informal, to meet the specific educational and training needs of members and directors of co-operatives, co-operative employees, and students studying to become co-operatives officers and business advisory officers within the Department of Business Development. The course for trainee co-operatives officers and trainee business advisory officers was to be spread over two years. Students enrolling in this course were expected to have a minimum of Form IV secondary school education. Co-operative storemen's and secretaries' courses were to vary between ten and sixteen weeks. A one-year middle management level course for co-operative employees was also planned to be introduced. In addition, the College planned to conduct suitable refresher courses for both employees of co-operatives and Administration officers.

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[1] Apart from the chairman and the person appointed by the other members, each member may nominate a person to represent him at any meeting of the Co-operative Education Trust; but a person so nominated may not represent any other member at that meeting. (Co-operative Education Trust Ordinance 1969 (No. 63 of 1969), Section 7.)

[2] In accordance with the Co-operative Education Trust By-Laws 1970, (Statutory Instrument No. 6 of 1970), each registered co-operative society is subject to a minimum annual levy of $45 plus '(a) one-tenth of one per cent of the gross turnover of the Society from produce, goods and other sales; (b) one per cent of the Society's net surplus, as specified in the annual financial statement of the Society plus five cents for each member of the Society as at the end of the financial year to which the financial statement relates'. The minimum total annual levy payable by a co-operative society is $50 and the maximum $500.

[3] Department of Trade and Industry, File BTM 7-6-6(4), f.35.

Members and directors of co-operatives, however, were to be offered special courses of only one to two weeks' duration, as the bulk of their education and training was expected to be provided at district and village levels. At the College extensive use was expected to be made of seminars, practical demonstrations and modern teaching techniques, including films and slides. Most of the courses were designed to concentrate on practical skills required for efficient operation of co-operatives.

Given the Administration's policy of promoting co-operatives as a means of encouraging greater indigenous participation in business and commerce, the establishment of the Co-operative College was long overdue. The knowledge of co-operative principles and business methods is desperately lacking among the local people. Hence the role of the College in the future development and successful operation of co-operatives cannot be overemphasised. An adequate programme of co-operative education and training is a sine qua non for a sound and lasting co-operative movement.

Chapter 12

Conclusions

Despite fluctuations and even virtual collapse in some areas, the co-operative activities in Papua New Guinea as a whole have increased over the years. In the context of total economic activity, however, co-operatives are still relatively unimportant vis à vis other forms of business enterprises. For example, in 1969-70 their retail sales amounted to only $2,109,000, compared with $166,172,000 of retail sales accruing to businesses other than indigenously-owned trade stores and co-operatives.[1] Nevertheless, the co-operative movement is of considerable significance for the local people. Most of the local people live in villages, often very remote from urban centres, and co-operatives are the main avenue through which many of them are able to participate in the cash economy of their country. Apart from being a major channel for supplying villagers with consumer goods, co-operatives handle about 53 per cent of the coffee and 25 per cent of the copra produced by the indigenous people. In the prevailing village environment characterised by an extremely low level of education, almost complete lack of training and experience in business methods and organisation, inadequate finance and poor transport facilities, most villagers find it difficult to engage in business either individually or through nonco-operative forms of enterprises. Joint stock organisations presuppose a certain amount of business experience and are thus not particularly appropriate in the villages. Co-operatives, on the other hand, provide a means through which villagers are able to overcome collectively some of the above disabilities and engage in business activities.

Although many co-operatives have failed or have had only limited success in terms of profitability, in many areas they have been largely responsible for increases in production for the market by providing services which previously were either not available or were unsatisfactory. In addition, co-operatives have been of some educational value. They have given the local

[1] Papua New Guinea Bureau of Statistics, Summary of Statistics 1970-71, Port Moresby, p.59.

people an introduction to business principles and practices, to some extent promoted the development of social attitudes conducive to greater material welfare, and provided some training in democratic procedures through voting powers of members based on the principle of 'one man one vote' rather than in accordance with their respective share capital contributions.

Thus, in principle, the co-operative form of organisation is well suited for the prevailing village conditions, at least during an intermediate period until the villagers have acquired some business knowledge and experience, accumulated sufficient funds and developed suitable attitudes to engage successfully in business either individually or through nonco-operative enterprises. However, most of the village people will continue to live in rural areas and it is unlikely that more than only a small number will become successful entrepreneurs in a foreseeable future. The process of transformation from mainly subsistence production to the cash economy as well as development of entrepreneurship among the village people would be facilitated by the co-operative form of organisation, which emphasises not only the immediate economic objectives such as the provision of consumer services and produce marketing facilities but also promotes training in business principles and practices and changes in existing attitudes inimical to greater material welfare. This, of course, does not imply that co-operatives are the only means through which the economic welfare of the villagers could be improved. Indeed, wherever appropriate, other forms of business enterprises, such as partnerships, joint ventures and even limited liability companies, should be encouraged.

Several factors contributed to the limited success of many co-operatives in achieving their economic objectives. The low level of general education and lack of proper appreciation of co-operative principles and practices by the villagers were relevant. Poor management, inadequate supervision by the Registry of Co-operative Societies due to staff shortages, and active competition from Chinese and European businessmen were particularly important. Losses through credit sales and thefts by co-operative employees were high. Although in many cases village and clan ties were important in promoting collective activity through co-operatives, local custom often demanded that co-operatives should assist the needy members by extending credit. Storemen found it difficult to resist such pressure which frequently arose from lack of proper understanding of the objectives of the co-operatives and principles and methods employed to achieve them. Owing to relatively low rates of profit and even losses in some years many co-operatives were unable to distribute cash rebates at regular intervals. This was a major cause of disillusionment and decline in member loyalty in many areas. Also, in some cases Registry officers in the early stages of the movement over-emphasised distribution of cash rebates in an attempt to attract members. Members' expectations were thus allowed to rise too high and when their co-operatives failed to make regular cash distributions their interest in the organisation declined rapidly.

However, the Papua New Guinea Administration has recognised the suitability of the co-operative form of organisation among the villagers and has clearly adopted the policy of further developing and strengthening the co-operative movement. The following points are therefore relevant for future policy considerations:

Store trading. This continues to be one of the main activities of co-operatives in Papua New Guinea, although the results in many cases have been far from satisfactory. One of the main reasons for poor store trading results in some areas (like Rabaul-Kokopo and New Ireland) has been strong competition from Chinese and European entrepreneurs. Largely because of mismanagement and inadequate finance, co-operatives have not been able to meet this competition successfully. In contrast, the Chinese and European enterprises were usually much better managed and had greater access to funds. By and large, co-operative stores have been relatively more successful in areas, like Kukipi, where there has been little or no competition from non-indigenous businesses. It is clear that if co-operative stores which are affected by non-indigenous competition are to operate more effectively, some restrictions on this competition would be necessary. The controls which may be considered appropriate include limiting the number of trade store licences for non-indigenes and restrictions on unfair practices such as temporary price-cutting, giving of gifts of tobacco, cigarettes, and so on, and excessive credit sales, designed to attract customers away from co-operatives. Restrictions on Chinese and European businesses, however, may result in some reduction in the extent and quality of retail services available in the villages concerned, at least in the immediate future. But successful operation of co-operatives has long term implications for the welfare of the villagers through training in business principles and practices, development of self confidence and participation in the decision-making processes.

Another factor which has had an adverse effect on co-operative store trading in some areas has been the emergence of small trade stores owned and operated by indigenes. But these stores also usually suffer from inefficient management and inadequate finance. There is a growing tendency among the local people to own private stores, partly for economic reasons and partly for prestige. Instead of discouraging such entrepreneurship, these traders should be encouraged to organise themselves into co-operatives for the purpose of pooling their financial resources and taking advantage of bulk buying. A number of such co-operatives have already been formed in the Rabaraba area. However, an attempt should be made to avoid competition between this type of organisation and ordinary co-operative trade stores. Formation of co-operatives by indigenous traders should be encouraged only in areas where ordinary co-operative trade stores are either defunct or performing so poorly that their survival is extremely doubtful.

Copra marketing. As with store trading, copra marketing by co-operatives has also been subject to a considerable amount of competition from Chinese and European traders in some areas, notably in Rabaul-Kokopo and along the east coast road on New Ireland. With inadequate financial resources and poor management it is doubtful whether co-operatives will be able to counteract this competition successfully without some form of protection.

In recent years the copra trade of many co-operatives has also been greatly affected by a marked increase in direct sales by members to the Copra Marketing Board. This has been particularly noticeable in the Rabaul-Kokopo area and along the east coast road on New Ireland where Copra Marketing Board depots are readily accessible to villagers. This method of marketing enables producers to take full advantage of periodic price adjustments by the Copra Marketing Board. For sales through co-operatives, on the other hand, the receipts of copra price adjustments were usually absorbed by the co-operatives in meeting their overhead expenses and making up the losses on store trading, and little, if any, were passed on to the producers. This was a cause of much discontent and consequent decline in member loyalty. The Copra Marketing Board, however, is a statutory institution and one of its aims is to enable the producer to receive the best possible return for his output. Hence there is little justification for discouraging direct sales to the Board. Indeed, where the Board's depots are readily accessible, consideration should be given to discontinuing copra marketing by co-operatives. But there are still many areas where individual producers do not have an easy access to the Board's depots. In these areas co-operatives will, for some years at least, continue to be the main channel for copra marketing for a large number of villagers. It is therefore important that the services (including transport, central drying and storage facilities) provided by these co-operatives are improved and that their business is not adversely affected by non-indigenous private competition.

<u>Coffee marketing</u>. This activity has assumed a great deal of importance in the co-operative movement in recent years. But, as mentioned in Chapter 8, the largest coffee marketing co-operative - the Chimbu Coffee Co-operative Limited - has been seriously affected by competition from expatriate private coffee buyers. This enterprise has been a source of much pride and prestige among the Chimbu people and its continued lack of success may not only be detrimental to Chimbu economic development, it may also have unfavourable political repercussions. It is unlikely that its performance would improve significantly unless steps are taken to limit the activities of expatriate private coffee buyers in the area, at least until the Co-operative is able to compete more effectively. The Coffee Marketing Board has recently recognised the need for such protection and is now limiting private competition by statutory means. But insulating the Co-operative from private competition by itself will not guarantee its success. Indeed, care should be taken to ensure that an inefficient organisation is not protected perpetually and efforts are made to improve the operational efficiency and profitability of the Co-operative through better management and greater supervision at all levels.

<u>Shipping</u>. Although co-operative shipping has served a useful purpose in providing services which were previously unsatisfactorily available to many co-operatives, the vessels were usually uneconomical. Apart from managerial inefficiencies, the vessels were often unsuitable for the needs in particular areas, with the larger crafts being unable to berth at smaller ports. Partly due to this and partly to an unforeseen multiplication of non-co-operatively owned vessels in recent years without any significant increase in the volumes of cargo available, a number of co-operative vessels have been operating well below capacity and are consequently redundant. Consideration should therefore be given to selling all the vessels which are inefficient and no longer meet the needs of the co-operatives. The provision of shipping services to co-operatives, however, should not be left entirely to private enterprises. This may result in inadequate services being available to many co-operatives, causing them much inconvenience and losses. Hence, if necessary, the proceeds from the sale of the inefficient and redundant vessels should be used to acquire crafts which are more suitable. But the size of the new vessels should be based on more detailed and careful estimates of capacity requirements. Much more thought than in the past should be given to designing the crafts so that they are really suitable for the areas for which they are required.

<u>Co-operative Wholesale Society Limited</u>. The establishment of this enterprise was one of the most important events in the co-

operative movement in Papua New Guinea in the last few years. However the institution's economic performance in the first year of operation fell far short of the expectations and it was in serious financial difficulties. Mismanagement, inadequate finance and poor performance of most primary societies were the main contributing factors. The collapse of this enterprise would have had very serious consequences. Not only would the financial loss have been considerable, the confidence of the indigenous people in the co-operative form of organisation and in the Registry of Co-operative Societies would have been seriously undermined. Almost the whole of the co-operative movement is involved in the CWS and the successful operation of this enterprise is therefore of considerable significance for the future of the movement.

If the government's aim is to strengthen and expand co-operative activities among the indigenous people, it is very important that the collapse of the CWS is avoided even if this means some form of subsidisation and protection by the government for a few years, during which efforts are made by both the government and the co-operative movement as a whole, to make the organisation a viable economic enterprise capable of operating efficiently on a profitable basis. Government assistance could take the form of temporary secondment of suitable public servants to managerial positions in the CWS.

Provision of finance. One of the main bottlenecks facing many co-operatives in the past has been inadequate finance. While the amount of funds which could be raised within the co-operative movement was limited, the commercial banks were not prepared to lend to co-operatives without proper securities and the Papua and New Guinea Development Bank until very recently had not made many loans to them. The Administration itself did not make direct loans to co-operatives but in recent years has guaranteed loans from the Reserve Bank of Australia and from a commercial bank to a few selected co-operatives for specific purposes. The situation with regard to the availability of finance has now changed. The Papua and New Guinea Development Bank is currently heavily committed to financing co-operatives in general and the Co-operative Wholesale Society in particular, and the collective security provided by the newly established Papua New Guinea Co-operative Investments Limited should increase the flow of funds from commercial sources for co-operative development. However, the Co-operative Investments Limited should exercise a great deal of caution in its own lending activities. It is the guardian of a very substantial proportion of the reserves accumulated by the individual co-operatives and it is important that these reserves are not lost. The loans granted by it should be properly supervised to ensure that they are effectively used and thus avoid losses through non-repayment.

Expatriate management. Owing to lack of suitably trained and experienced local persons to manage the more complicated business operations, the management of the larger co-operative enterprises should continue to be with expatriate staff until suitable indigenous personnel become available. One of the main functions of overseas staff, however, must be to train the local staff to take over the managerial functions as soon as possible. In the past the expatriate managers have by and large concentrated their efforts on management and neglected the training aspects. The emergence of properly trained local managers is of considerable importance for the future of the co-operative movement, especially as there is growing pressure from various sources in Papua New Guinea for greater indigenous involvement in business management.

Co-operative education and training. The recently established Papua New Guinea Co-operative College should within the next few years overcome the shortage of suitably qualified indigenous staff both within the Registry of Co-operative Societies and in co-operatives. In the past the co-operative educational programme was confined almost entirely to training the personnel of the Registry and secretaries and storemen for individual co-operatives. The provision of co-operative education for directors and members of individual organisations was far from adequate. It was mostly undertaken on an informal basis by Registry officers during their visits to the villages. Owing to inadequate co-operative educational facilities, this situation was to some extent unavoidable. The result, however, has been that most directors and members have little, if any, appreciation of co-operative principles and practices. This, combined with the fact that most villagers have practically no general education, has meant that the office bearers in co-operatives have by and large been ineffectual and nearly all important policy decisions are still taken by the Registry officers.

The Registry of Co-operative Societies has always been aware of the need for better appreciation of co-operative principles and practices by ordinary members and greater member involvement in the affairs of the co-operatives. But owing to staff shortages, lack of finance and difficulties of transport it was unable to institute a large scale programme of co-operative education at the village level and thus improve member participation. The lack of proper understanding of co-operative principles and practices by the villagers has been one of the main factors responsible for the poor performance of many co-operatives. The success of the secondary and tertiary level co-operative organisations ultimately depends upon the performance of primary societies which in turn is very largely governed by the ordinary members' appreciation of the methods of co-operation and their determination to actively participate in the affairs of their co-operatives. Hence, if the co-operative movement as a whole is to prosper, it is of utmost importance that the activities of the primary societies are strengthened through an institution as soon as possible of a large scale programme of co-operative education in the villages. Such a programme should make extensive use of group discussions, visual aids such as films and slides and, where practicable, radio broadcasts and other mass media. It could be undertaken by the Co-operative College in collaboration with co-operative associations and regional unions as well as the Registry of Co-operative Societies.

Appendix A

Conversion Table

Metric	Abbreviation		English
Length	1 millimetre	(mm)	0.039 inch
	1 metre	(m)	3.280 feet 1.093 yards
	1 kilometre	(km)	0.621 mile
Area	1 hectare	(ha)	2.471 acres
	1 square kilometre	(km^2)	0.386 square mile
Temperature	1 degree Celsius	(^{o}C)	$\frac{5}{9}$ (^{o}F -32)
Weight	1 metric tonne	(t)	0.984 long ton

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Abstract

New Guinea Research Bulletin No.57, 1974

Co-operatives in Papua New Guinea

The study documents and analyses the growth of co-operatives in Papua New Guinea at the district and village level. It describes in detail the conception, growth and achievements of various co-operatives in the areas studied, namely, Kukipi, New Ireland, New Britain, Morobe, Western and the Chimbu. It examines the reasons behind the success and failure of co-operatives in these areas and presents a wealth of statistical data. The study concludes with policy recommendations on how co-operatives can be more responsive to the purposes of the Papua New Guinean people.

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