

Business Plan on the Establishment of a Credit Union Bank in Tonga

June 2008

Project Team:

Peter Pamment

Team Leader
Credit Union Foundation Australia

Greg Fisher

Technical Advisor
Credit Union Foundation Australia

Khurshed Hiranek

Technical Advisor
Credit Union Foundation Australia

Michael Mezzino

Technical Advisor
Credit Union Foundation Australia

Julius Kaberere

Advisor
Commonwealth Service Abroad Programme
Governance & Institutional Development Division

Support and Logistics:

George Sioasi

Department of Credit Unions and Co-operatives; MLCI, Tonga

TABLE OF CONTENTS

Acronyms	4
List of Tables and Figures	5
1.0 Executive Summary	6
2.0 Environmental Analysis	8
SWOT Analysis	8
3.0 Strategies	9
Proposed Model and Principles.....	9
Mission Statement	9
Business Profile.....	9
Capital Plan	9
Industry and Competitive Analysis	10
Marketing & Communications Strategy	10
Corporate Social Responsibility.....	13
Stakeholders of CUB	13
4.0 Business Plan	15
4.1 Phase 1 – Capital Phase	15
Governance	15
Marketing and Communications	15
Infrastructure & Systems	16
Personnel and Training	16
Risk / Issues	17
4.2 Phase 2 – Implementation Phase	18
Governance	18
Marketing and Communications	20
Infrastructure & Systems	20
Personnel and Training	20
Security.....	22
Risk / Issues	22
4.3 Phase 3 – Trading Phase	23
Governance	23
Marketing and Communications	24
Products and Services.....	24
Distribution & Access.....	26
Infrastructure & Systems	27
Personnel and Training	27
Security.....	27
Risk / Issues	28

5.0 Implementation, Operational Budget and Financial Position.....	29
Table 1.0 – Initial Set Up Costs for Phase One and Two	30
Table 2.0 – Annual Operational Expenses	31
Table 2.1 – Annual Operational Expenses (continued)	32
Table 2.2 – Annual Operational Expenses (continued)	33
Table 3.0 – Summary Annual Operational Expenses.....	34
Table 4.0 – Annual Operational Budget	35
Table 5.0 – Annual Financial Position	36
Table 6.0 – Asset and Depreciation Schedules.....	37
6.0 Timeline	38
7.0 Appendices	39
Appendix A Proposed Model (section from feasibility study).....	39
Appendix B Terms of Reference.....	44
Appendix C Stakeholder Workshop Notes.....	45
Appendix D NRBT Application for Banking Licence Checklist.....	55

Acronyms

CUB	Credit Union Bank
CUFA	Credit Union Foundation Australia
CUSCAL	Credit Union Services Corporation (Australia) Limited
CGAP	Consultant Group to Assist the Poorest
CSAP	Commonwealth Service Abroad Program
EU	European Union
GIDD	Governance and Institutional Development Division
KPI	Key Performance Indicator
LFI	Licensed Financial Institution
MCLI	Ministry of Labour, Commerce and Industries
MIS	Management Information System
MOP	Mass Ownership Plan
NGO	Non Government Organisation
NRBT	National Reserve Bank of Tonga
OXFAM	OXFAM International
ROI	Return on Investment
SMFA	Senior Micro-finance Adviser
SDP8	Tonga Strategic Development Plan 8
TA	Technical Assistance
TCF	Tonga Cooperative Federation
WOCCU	World Council of Credit Unions

List of Tables and Figures

Table 1.0	Initial Set Up Costs for Phase One and Two
Table 2.0	Annual Operational Expenses
Table 3.0	Summary Annual Operational Expenses
Table 4.0	Annual Budget
Table 5.0	Annual Financial Position
Table 6.0	Asset and Depreciation Schedules
Figure 1.0	Proposed CUB Model

List of Appendices

Appendix A	Proposed Model (section from Feasibility Study)
Appendix B	Terms of Reference
Appendix C	Stakeholders Workshop Notes
Appendix D	NRBT Application for Banking Licence Checklist

1.0 Executive Summary.

Introduction

The Ministry of Commerce, Labour and Industries in the Kingdom of Tonga requested the Commonwealth Secretariat's technical support, in undertaking a study to determine the feasibility and viability of a credit union bank. The study was conducted in December 2007 by a team of experts from the Credit Union Foundation Australia (CUFA). The study found it viable to establish a Credit Union Bank in Tonga with support of key stakeholders in the country to cater for the financial needs of the low income groups, thus encouraging savings and investments and contributing to poverty alleviation in the country. The team recommended development of a subsequent phase of this project resulting into the development of this business plan for the proposed CUB in Tonga. A team of CUFA experts supported by the Commonwealth Secretariat's Commonwealth Service Abroad Programme (CSAP) has developed the plan.

The Proposed Credit Union Bank will be headquartered at Nuku'alofa, Tonga and will serve the whole country via outreach agencies in the other regions. The focus of the CUB will be to develop tailored financial products with emphasis on supporting and assisting credit unions, consumer co-operatives, village groups and small micro enterprises to become sustainable.

The key drivers for the CUB will be:

1. Sustainability.
2. Harnessing current activities of the credit unions, consumer cooperatives and village groups.
3. Developing a model that allows the grassroots people of Tonga to gain access to appropriate savings and loan products.

From financial analysis, The CUB project will require \$2,200,000 as seed funds to be raised from donors or the Tongan Government for the development of a CUB as a fully licensed financial Institution in Tonga. This Business Plan articulates the business development model for the CUB, in addition provides a draft operational plan, an indicative operational budget and development costs for the CUB.

The project has been developed in three phases, Capital Phase, Implementation Phase and Trading Phase.

1. The Capital Phase requires an Interim Committee and a TA funded officer for up to 18 months to seek seed funding and develop the full implementation plan, this is expected to take 12-18 months.
2. The Implementation Phase will incorporate a company, appoint a full board, apply for a banking licence and set up the CUB operations, this is expected to take 12 months.
3. The Trading Phase covers the first 3 years of the CUB operations.

Industry and Competitive Analysis

The CUB will be seen as a potential community and economic development driver within the country, having the ability to reach the wider community through its outreach via the credit unions and consumer cooperatives.

The CUB will be developed and operated to assist the grassroots groups, credit unions, savings and loan groups and consumer co-operatives to become stronger and more sustainable, and will not be driven by the need to compete with other established players in the market.

Marketing

(i) Target Market

- Any person living in the Kingdom of Tonga or any person of Tongan nationality living overseas.

(ii) Strategy

Products and Services

- Term deposits,
- Group passbook accounts,
- Microfinance loans (micro enterprise, vehicle) all 100% secured by deposit funds.
- Remittances,
- Financial literacy,
- Training saving & loans groups and micro enterprise development,
- Ensure friendly, informative and well trained staff,
- Continually review marketing strategies and evaluation of outcomes

Distribution Strategies

- Offer continual financial intermediation at head office,
- Offer continual financial intermediation at regional areas via consumer co-operative and credit union agencies,
- Distribute up-to-date information of services and products throughout the region,
- Provide the human resources that will reach countrywide,

Pricing Methodology

- To at least match the commercial banks in interest rates and have lower fees and charges and value add via capacity building and grassroots financial literacy. The costly small day to day saving transactions will be handled by the volunteer savings groups or credit unions with the CUB concentrating on treasury and grouped deposits and loans.

Promotion and Communication

- Promote CUB benefits to the country
- Actively source promotional opportunities for the CUB and groups with micro-enterprises
- Develop and maintain database of clients
- Maintain regular communication with clients through multiple low cost communication channels

Business Planning

The business plan timeline outlines the requirement of each phase and the activities to be completed. Major milestones for each phase are:

Phase One: Capital Phase (12-18 months)

- Form interim implementation committee from current stakeholders
- Seek TA funding for placement of Microfinance expert
- Seek donor seed funding of \$2.2m

Phase Two: Implementation Phase (12 months)

- Form Interim Board of Directors
- Incorporate a Company (register name and logo)
- Appoint CEO
- Develop Mass Ownership Plan
- Develop Board and Operational Policies
- Apply for a banking licence from the NRBT
- Develop the Nuku'alofa head office branch
- Appoint staff and staff training
- Develop products and services and marketing plans

Phase Three: Trading Phase (Year 1 to year 3 of operations)

- Develop agency, credit union partnerships
- Deliver products and services
- Ongoing products, systems and staff development
- Continue to raise capital via ownership plan

Implementation & Operational Budget

The business plan includes an indicative operational budget that shows that the CUB can be implemented and can operate successfully for the first three years with a small profit in the second and following years.

Summary

Following on from the feasibility study, the business plan outlines the steps that the Tongan stakeholders can follow to implement and achieve the outcomes of providing financial intermediation and financial literacy and sustainability to the grassroots people of Tonga.

2.0 Environmental Analysis

The Feasibility Study on the Establishment of a Credit Union Bank in Tonga (December 2007) reviewed the current situation of the current credit unions, consumer cooperatives, informal sector and the commercial banking industry in Tonga. The study also developed a proposed model and outlined core strategies to be followed (see Appendix A)

The Stakeholders Workshop (see Appendix C) involved a SWOT analysis that highlight the important issues in the development of any proposed CUB.

SWOT Analysis

Strengths	Weaknesses
Government of Tonga support Commonwealth and CUFA support Co-operation Churches Regular meetings Community Unite Willingness to contribute Family Overseas Training and skills of members Started at grassroots level Welcoming People Volunteers	Dishonesty Not following policy Limited financial and technical resources Conflict of interest Skills Capital not raised Family obligations Remoteness Lack of communications Bad debts
Opportunities	Threats
Join CUSCAL Financial Literacy / savings Volunteers Work Hard Better quality of life Sharing wealth / ideas More children complete education Ownership Micro-finance Overseas Families can buy shares Innovation products – e.g. remittances	Capital not raised Dishonesty Capital not raised Lack of adequate support from government People not interested Commercial banks and business people Poor publicity Bad management / Board / Staff No seed capital Low savings culture

3.0 Strategies

Proposed Model and Principles

The CUB feasibility study conducted in December 2007 outlined the proposed model and some core business strategies that would need to be incorporated within the CUB in order for it to be successfully implemented and be sustainable.

Appendix A outlines the proposed model and the business strategies that need to be adopted for this successful outcome. The strategies cover ownership, profitability, outreach, staffing, systems and a conservative savings first approach framed together in a set of best practice principles for the CUB to operate within.

Mission Statement

The mission of the Bank is to help the poor & grassroots people of Tonga to achieve economic prosperity.

Business Profile

The CUB will be situated at Nuku'alofa, Tonga and will serve the whole country via outreach agencies in the other regions. The focus of the CUB will be to develop tailored financial products with emphasis on supporting and assisting credit unions, consumer cooperatives, village groups and small micro enterprises to become sustainable.

The key drivers for the CUB will be:

1. Sustainability.
2. Harnessing current activities of the credit unions, consumer cooperatives and village groups.
3. Developing a model that allows the grassroots people of Tonga to gain access to savings and loan products.

Capital Plan

The CUB project is dependant and conditional upon the CUB being allocated \$2,200,000 funding from donors or the Tongan Government for the development of a CUB licensed as a Financial Institution in Tonga. The Technical Advisor will prepare submissions to raise this seed capital from various sources including but not limited to;

- King of Tonga
- Contributions from Tonga Co-operation Federation
- Tongan Credit Union League
- Tongan Government
- Co-operative Federation Sponsorship (in kind support) assumption
- Fundraising in villages
- WOCCU / CUFA
- EU Funding
- Commonwealth Fund for Technical Co-operation (CFTC)
- OXFAM

There can be no encumbrances on this funding as it is a requirement of the National Reserve Bank of Tonga that at least \$2m in capital be maintained to hold a Banking License.

On the incorporation of the CUB and raising of the seed capital submissions of interest will be obtained from credit unions, consumer co-operatives, village groups, businesses, small micro enterprises and individuals to purchase shares in the CUB as part of the MOP.

The shareholding structure will be detailed in the Constitution and should contain the following limitations;

- the shares are non-redeemable except in the event of the winding up of the CUB
- shareholders must be Tongan nationals or Tongan registered organisations
- no individual shareholder will hold no more than 5% of the total shareholding
- regardless of the level of shareholding each shareholder has one vote (mutuality principle)
- there will be a facility to transfer shares (buy / sell) between shareholders

The shares will be \$10.00 each and for administration purposes will be sold in \$200.00 parcels.

A commission will be paid at the rate of 5 cents per share to credit unions and consumer co-operative agencies who sell shares on behalf of the CUB.

It is envisaged that capital to the value of \$1,000,000 will be raised within three years of the opening of the CUB.

Industry and Competitive Analysis

The CUB will be seen as a potential community and economic development driver within the country, having the ability to reach the wider community through its outreach via the credit unions and consumer cooperatives.

The CUB will not be established as a competitive agency. Rather, it will be developed and operated to assist the grassroots groups, credit unions, savings and loan groups and consumer cooperative become stronger and more sustainable.

Marketing & Communications Strategy

The overall objective of the marketing & communication plan is to:

- establish the CUB's brand,
- create awareness by ensuring the CUB's key messages continually reach the majority of Tongans;
- generate a level of excitement and anticipation; and
- build trust and confidence in the CUB such that it will mobilise people into action.

There will be specific stories to be told during each phase of the CUB's evolution each being important in their own right. Many will be based on the achievement of milestone events. These are detailed later in the paper.

It will be important that all the main islands, not just Tongatapu, are in some way exposed to the CUB's marketing messages. Furthermore, there are many Tongans living overseas that are potential customers who should also hear about the CUB.

Field of Membership

Any person living in the Kingdom of Tonga or and person of Tongan nationality living overseas.

The CUB's Value Proposition

Arguably the most critical message to deliver to the Tongans is the CUB's value proposition in other words, to answer the question: "what's in it for me"? The purpose of this exercise is to convey the CUB's reason for being, what it stands for and its points of difference.

The corporate communication plan will need to begin once Phase One commences, be ongoing throughout the ensuing phases and be ingrained in the annual marketing plans. The intention of selling its value proposition is to help overcome the level of scepticism built up by Tongans about the banking services available to them and that all banks are the same.

Every aspect of the CUB will need to represent the value proposition - its name, the products it offers, the type of service it provides and the language it users. The key messages should include that the CUB:

- is a real alternative for Tongans;
- is regulated by the Reserve Bank and therefore, that people's money will be as safe and secure as it is with the big, established banks;
- is for *all* Tongans and in particular, for those typically considered under-banked or unbankable;
- has customer understanding and engagement at its core;
- is locally based and operated;
- will provide products & services specifically designed for all Tongans, these will include micro finance lending and financial literacy programs;
- will be steered by a Board that all its customers will elect and have the ability to change;
- is "not for profit" - profits are given back to its customers in order to contribute to the economic prosperity of Tongans and their communities;
- will be owned by all its customers.

Communication Channels

The CUB will face the challenge that any new start up venture faces - to create and build awareness from a zero base, to as many Tongans as possible using a limited budget.

The channels available to "tell & sell" the CUB's story will be both traditional and those unique to the Tongan way of life. In combination, they will allow the CUB to deliver its marketing & communication plan effectively and efficiently.

Listed below are the various channels that the CUB can use during each phase either in isolation or in combination.

Mass Media

- Local TV
- AM & FM Radio
- Newspaper

The preferred channel to use is newspaper and radio as it reaches most Tongans especially those on the outer islands. And because of the low incidence of TV ownership and it being a high cost channel, TV should be avoided until such time the CUB is profitable.

Networking/ Word of Mouth/ Field Visits - the "Coconut Wireless"

As Tongans have a very strong sense of community, the use of networking is likely to be the most successful approach to use to spread the word of the CUB to the masses, especially the outer islands. Furthermore, it will be virtually cost free.

A systematic approach should be adopted to take the message to the people. The first step will be to identify and then speak with persons of influence to explain what the CUB is trying to achieve and then ask them to organise a time whereby a CUB representative can convey the necessary message it wants at that time to groups of people.

An important consideration is that a CUB employee or an adequately trained representative of the CUB must deliver the message. It will be necessary for scripts to be developed for people to use.

There are many informal and formal groups that gather on a regular basis which typically represent the CUB's target market. The existing Credit Unions and Co-ops should be the first group targeted as they already have relationship with many Tongans and will be an efficient source for spreading the messages of the CUB.

Kava groups meet weekly which amongst their objectives is for individuals to aggregate their savings in order to contribute to an end of year fund. Similarly, Church groups, typically with a congregation of 500 people, meet to pool their funds for the betterment of their congregation. These are just two examples of how the people can learn about the CUB. Others examples include NGOs, selected employers, women's groups and via village gatherings.

In summary, presentations to groups of people with a common interest should be at the core of the CUB's marketing and communication plan.

Branded Merchandise Giveaways

It goes without saying that the Tongans enjoy something for free, irrespective of its value and so the use of this tactic should be used. For example, pens could be given away for free and higher valued items such as T-Shirts can be given to someone joining, taking a product or to provide incentive for someone to provide seed capital. This will therefore double as a sales promotion and marketing tool.

Promotional Materials and Outdoor Advertising

Many opportunities exist for the placement of printed material in public settings that will build the brand and reputation of the CUB. Billboards signs and especially brochures posters should be used. Placing these in the Credit Unions and Co-Ops as well as in the locations where groups of people meet will be worthwhile.

Public Relations

From speaking with the mass media outlets, there is likely to be many opportunities for the CUB to conduct a public relations campaign, at no cost. The TV, radio & newspaper media have indicated a strong interest in picking up the story of the CUB and to follow its progress. Another tactic might be to use the radio as a talkback forum in which people can ring in and have their questions answered. TV, radio & newspaper should therefore be engaged at the beginning of phase 1, being the time in which the CUB's future will be decided, but also throughout the other phases.

There will also be other PR opportunities to raise profile of the CUB such as the participation in and sponsorship of community events and activities. For example, providing shelter of the Saturday markets on Vuna Road in Nuku'alofa will provide exposure for the CUB and at the same time, demonstrate its philosophy of giving back to the Tongan communities.

Another PR tactic is to engage a respected person/s who is an ongoing 'champion/s' of the CUB. They would endorse the CUB and, because of their status and influence, be more likely to inspire the people, add credibility to the message and importantly, energise them to act.

Distribution Channels

The CUB's branch and other distribution outlets will be a 'living advertisement' of the CUB and therefore, should be presented in such a way that it symbolises what the CUB stands for and that doesn't damage the CUB's brand.

It goes without saying that all distribution outlets must contain point of sale material but it is imperative that stock levels are always maintained, they are displayed professionally and the content within it kept up to date.

Tongan Ex-Pats

There are many Tongans living overseas who are likely to be working and therefore, be in a better financial position than their families back in Tonga. It is critical that these people learn about the CUB as they will be a major source for raising the seed capital, becoming shareholders and depositing funds once the CUB is operating. A channel to do this is the internet, see below.

Website

The CUB investing in having a website presence will be important especially during Phase 1. It needs initially to only be a site that provides all the information about the CUB and the opportunity for visitors to have their questions answered via an email address.

Other Tactics

Other ways of promoting the CUB include:

- setting up a dedicated phone number for people to ring in and have their questions answered, and
- creating “foundation customers” and foundation shareholders” who would be recognised in some way for their early support of the CUB.

Channels Summary

All of the communication channels mentioned above can be used at some point either in isolation but if possible, in combination. It is recommended that the no or low cost channels be used initially and predominantly. To this, networking, field visits and presentations to both informal and more so, formal group gatherings should be the primary channel used along with printed posters, brochures and signs. Those that will incur a cost will need a cost/benefit analysis conducted before that channel is used.

Corporate Social Responsibility

The CUB will be a responsible service provider both to its shareholders and clients. As part of its corporate social responsibility obligation the CUB will support activities within the community with a proportion of its budget (profits) devoted to CSR activities. Initially, the main activities will be devoted to activities that contribute to the CUB’s mission, also helping to enhance the banks image as “the people’s bank”.

The selected activities will mainly be those being implemented by the clientele, such as credit unions, women groups, youth groups, village groups etc. Other activities might also include an award for the most improved groups and credit unions based on strict criteria developed by the banks board and management.

Financial literacy programmes will also form part of the Corporate Social Responsibility strategy for the CUB, supporting these types of programmes through the credit unions, co-operatives, village groups, women’s, and youth groups.

In time, the CUB may also develop a scholarship scheme to outstanding students studying courses on banking and micro financing, who may in future join the bank as staff and potential clients.

Stakeholders of CUB

The key stakeholder groups of the CUB are:

- Credit Unions,
- Savings and loan groups
- Co-operatives (all types),

- NGO's/Civil society groups;
- Women groups,
- Youth groups,
- Farmers groups,
- Church groups,
- Kava groups,
- Other organised groups
- Micro credit operators,
- Individuals, who maybe interested in joining the bank, either as clients or as shareholders through the mass ownership plan. CUB will develop products and services targeting these groups.
- Government through the MLCI
- Staff

The Government's MLCI will also be interested in the banks success as both as a promoter and possible shareholder.

The National Reserve Bank of Tonga will play a supervisory role as the CUB will operate as a licensed financial institution (LFI).

Other banks: - CUB will have strategic relationships with some of the existing bank particularly through market driven relationships.

Summary Table

Stakeholder	Relationships
Government MLI	- Promoter - Shareholder - Regulator -
Credit Unions	- Shareholders - Customers/Clients -
Individuals	- Shareholders - Customers/Clients
Other Groups (Church groups, women's groups village groups, youth groups, etc)	- Shareholders - Customers/Clients
National Reserve Bank	- Regulator
Other banks	- Competition - Treasury services
Interim board/Board	- Promoters - Governance
Staff	- Personnel

4.0 Business Plan

This Business Plan articulates the business development model for the CUB, in addition provides a draft operational plan, an indicative operational budget and development costs for the CUB.

The project is developed in three phases, Capital Phase, Implementation Phase and Trading Phase.

1. The Capital Phase requires an interim committee and a TA funded officer for up to 18 months to seek seed funding and develop the full implementation plan, this is expected to take 12-18 months.
2. The Implementation Phase will incorporate a company, appoint a full board, apply for a banking licence and set up the CUB operations, this is expected to take 12 months.
3. The Trading Phase covers the first 3 years of the CUB operations.

4.1 Phase 1 – Capital Phase

Governance

Implementation Committee

Initially the Credit Union League, Tongan Co-operative Federation, Department of Commerce and other stakeholders will form an Implementation Committee to commence implementing the CUB Business Plan.

The Implementation Committee will lead in fundraising efforts for supporting Technical Assistance from suitable sources who will manage the first two phases.

Technical Assistance

The role of the Technical Assistant initially will be to support fundraising efforts for the \$2.2 million TOP required to obtain a Banking License and to cover the set up and initial operating costs of the CUB.

Marketing and Communications

Phase 1 will be the most important for the CUB as it will be the period in which its foundations are laid, funding proposals to raise the seed capital submitted, the trust of the CUB established and ultimately, its future determined. Using a combination of the marketing & communication channels described in section #, there will be several messages to be told. The key will be to keep these messages consistent and frequent and will include, but are not limited to:

- conveying the CUB's value proposition;
- explaining the Governance structure in detail;
- convincing (groups of) Tongans to forego their own personal gains by contributing to the seed capital required with the view that this will in time, benefit the grassroots people of Tonga and their communities;
- explaining the requirement to raise further capital through a shareholder scheme should the business plan progress to phase 2;
- that the CUB will not be in competition with the main stream commercial CUBs already operating in Tonga;
- the CUBs can't be all things to all people from day 1, it will take time;
- it will take time for all the necessary tasks to be completed;
- providing an understanding of the steps to be undertaken in Phase 1 and relevant timings;
- being clear that there are no guarantees that the CUB will actual commence operations; and
- what the next steps are and likely timings in the subsequent phases.

During Phase 1, there will be several milestones achieved which should also be communicated where appropriate being:

- the business plan being given the green light to commence;
- an interim committee and Technical Adviser appointed;
- the progressive dollar amount of seed capital raised;
- to publicly recognise the individuals or groups that contribute to raising the seed capital, irrespective of the amount;
- the total amount (\$2.2m) of seed capital required being raised;
- the Banking licence approved; and
- other noteworthy operational achievements

It is important here to reiterate again that during this and subsequent phases, the messages delivered must be done so by a CUB employee or an appointed representative using scripts. Every endeavour will need to be taken to also provide the leaders and spokespersons of the various groups in Tonga with scripts as well. These measures will help avoid any messages being incorrectly given.

Infrastructure & Systems

The CUB board will need to develop system policies and procedures to cover all products and services offered by the CUB. In addition system policies to cover data access, data integrity and backup and a Business Continuity Plan will need to be developed by the CUB Board to insure confidence in the CUB by customers and clients.

The required infrastructure for phase one will be for office space for the TA employed to implement Phase 1. It is proposed that the TA funding include a laptop computer and that the Department of Cooperatives and Credit Unions within the Tongan Ministry of Labour, Commerce & Industries host the TA for office space and offer support services such as stationery, photocopying and printing etc.

Personnel and Training

Implementation Committee

The Implementation Committee should consist of diverse members of the Tongan Community who have the necessary project planning, management and financial skills required to oversee the implementation of the CUB. They should have commitment to the success of the project and the ability to work as a team. Ideally the Committee would be of a size and makeup that would be able to make effective and considered decisions and enthusiasm to drive the project to completion.

Technical Assistant

The Technical Assistant should have a wide range of skills and experience to manage the diverse range of tasks required of the project. Whilst Financial Services experience would be an advantage the emphasis on skills and experience should be in fundraising proposals submission preparation, knowledge of sources of project funding and project management skills. A knowledge of microfinance application and implementation would also be a distinct advantage.

Risk / Issues

Risk / Issue	Detail	Potential Mitigants
CUB Business Plan development	Failure to secure TA funding for a phase 2 – full operational plan and capitalisation plan	-MLCI support -CU League support -Grassroots CU and Coop support -GIDD/CSAP support -CUFA support
TA Staffing	Failure to attract expert staff and /or local staff with required skills to develop CUB	-Business Plan -Localisation and wanting to be part of "our bank" branding -Adopt global strategy #5

4.2 Phase 2 – Implementation Phase

Governance

Company Registration

In order to apply for a banking licence, the CUB will need to be incorporated as a company.

The CUB Implementation Committee will have to engage a company formation agent or legal practitioner to support the company formation stage. An appropriate name of the CUB will have to be registered with the registrar of companies.

Constitution

The Implementation Committee will establish a Constitution for the proposed Bank.
(Note: draft template constitutions, policies and committee charters are available from CUFA)

The Constitution will detail the high level governance controls of the organization and should include but not be limited to the following items

- Objects & Limit On Powers Shareholders
- Termination Of Shareholders
- Issue Of Shares
- Calls, Forfeiture And Liens
- Dividends
- Share Certificates
- Transfer Of Shares
- Transmission Of Shares
- Holding Shareholders' Meetings
- Voting at Shareholders Meetings
- Directors — Appointment & Vacation Of Office
- Directors' Powers
- Directors' Meetings
- Conflicts Of Interest
- Remuneration, Indemnity And Insurance

The Constitution will be reviewed by a legal practitioner and signed off by them.

Board of Directors

An Interim Board of Directors will be appointed by the Implementation Committee after the formation of the company to meet as required to oversee the preparation of the requirements of the Banking License application.

The Board of Directors should represent a cross section of the Tongan Community. There will be no conflicts of interest and no overrepresentation by one particular section of the community. Directors should be appointed for three years and retire in rotation, with the 1/3 retiring directors in year one and two being selected by a straw pole.

The Directors will comply with the requirements of the Constitution including a Fit and Proper test and the expertise and experience required to competently oversee the business of the bank.

On the granting of the license the Interim Board of Directors will become the new Board of Directors to serve for the first year of operations.

The Board of Directors will meet to oversee the preparation phase for the Bank to open. This will involve making decisions on major issues and setting the strategic plan for the Bank. A Strategic Plan will be set by the board to guide the Bank to operational stage (phase 3) A detailed project plan will also be established and progress against the Strategic and Project Plans will be closely monitored.

Board Charter

The Board Charter outlines the responsibilities and limitations of the Directors. It details duties required by Directors including Development activity, appointment of a Chairperson, committees and voting procedures etc.

Audit and Risk Committee

The Board of Directors will establish an Audit and Risk Committee consisting of Directors who have the financial acumen to examine in detail the financial and risk position of the Bank on a regular basis.

The Audit and Risk committee will establish an Audit and Risk Charter.

Audit and Risk Committee Charter

An Audit and Risk Charter will be developed outlining the responsibilities and limitations of the Audit and Risk Committee. This will include but not be limited to responsibilities and limitations of the Committee Directors, responsibilities to the Board of Directors, requirement to be independent etc.

Board and Audit Reporting System

A reporting system will be established by Management to provide the Board of Directors and Audit and Risk Committee with comprehensive and accurate reports that effectively provides the Directors with the information required to make decisions on the financial position and progress of the Bank.

Policy and Procedures

A comprehensive Policy and Procedures manual will be developed to cover all operations and activity of the Bank. The initial Policy and Procedures will be submitted to the Board for review and adoption. Subsequent changes to Policy are to be submitted to the Board for review and approval.

External reporting to NRBT

The CUB will adhere to the prudential guidelines issued by the Tonga Reserve Bank. The guidelines require submission of quarterly and annual reports to the bank. These include Monthly and quarterly operational performance reports and annual audited accounts.

The quarterly performance report should include;

- facilities and operations,
- financial performance,
- liquidity,
- capital,
- Asset quality
- Credit facilities including loans and advances, leases and all other on balance sheet credit exposures to customer's acceptances and bills of exchange, and off balance sheet commitments, contingencies and other transactions which have the potential to expose the institution to a loss if the counterparty fails.
- Details on fees and charges as published by CUB bank. These should be for both local and international transactions.

Marketing and Communications

Having raised the required capital and the banking licence approved, the marketing & communication plan will need to be fully developed and costed. Like phase 1, there will be both corporate and operational milestone messages to tell. They include:

- continuing to build the CUB's brand;
- restating the CUB's Value Proposition;
- outlining the products & services and distribution channels to be offered day 1;
- building future product sales momentum;
- to somewhat quell the excitement by explaining the necessary steps required and timings before the CUB can open its doors;
- explaining the shareholder governance structure for the CUB and calling for shareholders to raise the required capital.

The most significant message will be to tell all of Tonga, should it be achieved, that the bank will open for business.

Infrastructure & Systems

The CUB board will need to develop system policies and procedures to cover all products and services offered by the CUB. In addition system policies to cover data access, data integrity and backup and a Business Continuity Plan will need to be developed by the CUB Board to insure confidence in the CUB by customers and clients.

It is proposed that the CUB will be initially based at one location in Nuku'alofa in a shared office location within the TCF head office building. All outreach services will be preformed by the credit unions and consumer co-operatives on a commission basis.

The CUB will require at least space for 6 personnel with a preference for 2 small offices and one large area with public access to a counter desk for service to customers.

It is proposed that the CUB initially purchase the Fern Software M2 system, which can be upgraded to the professional Abacus OneWorld system over time. Fern Software have a number of credit union's in Fiji using the M2 product and have a presence and training personnel based in Fiji.

When negotiating the initial software licence and costs consideration should be given for a bulk licence agreement through the Credit Union League so that the larger Tongan credit unions could also access this software package and training.

Personnel and Training

Human Resources & Training Policy

As part of the Implementation Manager's preparations a Human Resources and Training Policy will be prepared.

This policy will be reviewed and adopted by the Board of Directors.

This policy will outline the job descriptions, working conditions and responsibilities of all employees of the CUB. It should also detail the minimum educational and experience required for persons in positions of responsibility.

The policy will detail holiday arrangements, sick leave, bonus schemes and other conditions of employment.

It will also outline the fit and proper requirements required for those people in positions of management.

This policy will also outline the ongoing training and development strategies required to constantly improve the abilities of CUB management and staff.

A performance assessment process will be included in the policy to ensure that ongoing development of the CEO and staff are being addressed and also to determine pay rises and bonus schemes if appropriate.

Chief Executive Officer (CEO)

The CEO position will be sourced by the Board of Directors within Tonga or internationally if necessary to acquire a candidate with the necessary financial and managerial skills to successfully manage the day to day operations of the CUB.

It is expected that the CEO position would be filled by a local Tongan in the long term. But as this is a key role and one where the confidence of the NRBT regulators in the management team is required it may be necessary to seek further TA funds to provide an interim expatriate CEO, who will after two years mentor a national staff for 12 to 18 months to fully develop the financial management skills required.

The successful candidate must pass criteria and fit and proper standards as set out in the Human Resources policy set by the Board.

The appointed CEO must be sensitive to the culture of Tonga and be able to publicise and represent the CUB in the public arena.

The appointed CEO must report to the Board of Directors on the financial and operational position of the CUB on a regular basis.

The salary for this position must be set at competitive rates to attract a suitable candidate for the position.

Micro Finance Advisor

In this phase there will be the need for a micro finance advisor or expert that can assist the CUB to develop suitable products. Initially these will be suitable savings products that will meet the needs of the credit unions, co-operatives and village groups. In the longer term micro credit initiatives could be supported to provide appropriate loans to develop and assist micro-enterprises at the grassroots level. Initially these micro-credit loans will be secured by group savings, however it is envisaged that once profitability is attained by the CUB there will be scope for some unsecured micro finance activity as part of core business. A micro finance advisor may again be required to develop these micro credit products.

Support Staff

The CEO and Board will assemble a team of support staff to perform the day to day operations of the CUB. These could be a combination of full time and part time employees as required.

The remuneration for these positions must be competitive to hire and keep the best and most highly skilled employees. Wherever possible support staff should be sourced from the Tongan community to strengthen the Tongan sense of ownership of the CUB.

Training

The CEO and support staff will be trained in the areas of systems, operations and procedures prior to the CUB's opening with ongoing development as outlined in the Human Resources and Training Policy.

Training will be sourced from external training companies, system suppliers and in-house.

Security

Cash at Branch

A safe will be purchased for the CUB branch to house treasury, preferably this will have a time delay and be difficult to remove from the premises. From treasury cash will be moved as required to the tellers drawer which should hold minimum funds at all times. The branch will be insured to a level of cash holding which will be the maximum held at any time.

Staff will be trained on what action to take in the event of a hold-up and also be insured for a possible event.

A closed circuit television system will be installed in the branch foyer and other strategic positions to monitor staff and customer activity and this should record for at least one week.

Signs will be placed advising customers that minimum cash is held and that a time delay safe is used to discourage holdups. It may also be possible to install a monitor displaying the public area of the branch so that the public is aware they are being monitored.

Risk / Issues

Risk / Issue	Detail	Potential Mitigants
Capitalisation Plan	Failure to secure seed funding and / or failure to attract local Togan shareholding	-MLCI support -CU League support -Grassroots CU and Coop support -GIDD/CSAP support -CUFA support
Implementation Staffing	Failure to attract expert staff and/or local staff with required skills under TA support	-Business Plan -Localisation and wanting to be part of "our bank" branding -Adopt global strategy #5

4.3 Phase 3 – Trading Phase

Governance

Board of Directors

At the first AGM of the operating CUB the Board of Directors will then be elected by Shareholders according to the Constitution.

Post the commencement of operations of the Bank the Board of Directors will meet regularly with Management to oversee the day to day operations of the Bank according to the Board Charter.

Audit and Risk Committee

The Audit and Risk Committee will meet and receive reports from the Internal Auditor and ensure that recommendations and issues raised are dealt with.

They will engage an External Auditor and receive independent audit reports at least annually.

They will also oversee a Comprehensive Risk Management System covering at least areas of operational risk, liquidity risk, market risk however all areas of risk need to be identified and mitigated as much as possible.

Board and Audit Reporting System

These reports will be independently audited by both the Internal and External Auditors on a regular basis for accuracy.

Policy and Procedures

These Policy and Procedures are to be reviewed by Management at least annually. Internal and External Auditors will test compliance with these Policies and Procedures and report areas of non compliance to the Audit and Risk Committee.

External Reporting to NRBT

The CUB will adhere to the prudential guidelines issued by the National Reserve Bank of Tonga. These guidelines require submission of quarterly and annual reports to the bank.

The quarterly reports will include;

- Facilities and operations,
- Financial performance,
- Liquidity,
- Capital,
- Asset quality
- Credit facilities including loans and advances, leases and all other on balance sheet credit exposures and bills of exchange
- off balance sheet commitments, contingencies and other transactions which have the potential to expose the institution to a loss if the counterparty fails.

The reports will also provide details on fees and charges as published by CUB bank. These will be for both local and international transactions.

Audit Plan

The Internal Audit and the External Auditor will each develop an Audit Plan covering all areas of operations of the Bank together with a timeline of their activities. These plans will be submitted annually to the Audit and Risk Committee for approval. Progress against these plans will be regularly reported to the Audit and Risk Committee.

Internal Audit Function

An Internal Auditor will be appointed to test the Banks compliance with policy and procedure together with the accuracy of reporting and the detection of fraudulent activity. The Internal Auditor will act independently of Management and report directly to the Audit and Risk Committee. The powers and limitation of the Internal Audit will be outlined in the Audit Charter.

External Audit Function

An External Auditor will be appointed by the Audit and Risk Committee to regularly (at least annually) conduct an independent audit of the operations of the Bank and report any anomalies to the Audit and Risk Committee.

Board and Management Development Plan

A Board and Management Development Plan will be established by the Board to detail the training and development activities required to constantly develop the expertise and knowledge of the Board of Directors and Management.

Annual General Meeting

An Annual General Meeting will be held according to the Constitution to inform Shareholders of the financial performance and position of the Bank. The AGM must be held within 4 months of the close of the financial year and the financial accounts must be submitted to the NRBT before the AGM.

This is an opportunity for Shareholders to ask questions of the Directors and Management.

Election of Directors on a rotational basis is also conducted at the AGM.

Marketing and Communications

This phase will primarily involve day to day operational marketing activities and communications to drive sales but also continuing to deliver the corporate messages as in phases one and two. Announcements & milestones during this phase will include:

- progress towards the doors opening;
- explaining the products and services in detail;
- the branch opening and trading beginning;
- first customer joining;
- stepped levels of number of members joining and value of deposits taken'
- community support initiatives

Products and Services

As explained throughout this document, the CUB is for “grassroots” Tongans. The products have been developed by identifying the characteristics, needs, desires, preferences, values and priorities of these people. However, the CUB can not be all things to all people, at least in its initial years of operation, and so consideration was given to:

- creating a point of difference;
- avoiding high cost transactions;
- keeping product & service delivery costs down;
- product innovativeness; and
- speed to market.

The overall philosophy of the CUB will be to at least match, but more so, have products with better features than those offered by the commercial banks operating in Tonga. Specifically, the interest rates offered on loans will be lower and for deposits, higher. The gap need only be 0.5% or similar.

Savings & Investments - At Launch

Term Deposits

- both individual and 'aggregated' fixed term deposits having product parameters suited to the target market ie low minimum amounts
- the terms will be from 6 months
- redemption of the deposit will be via a bank cheque cashed at a commercial Bank or via cash withdrawn from the branch if sufficient notice is provided and maximums not exceeded

Passbook Account

This is not intended to be day-to-day transaction account but used for group savings accounts and for the purpose of saving for a specific item. Features include:

- a passbook to record transactions will be given
- bonus interest will be paid for non-withdrawal
- no minimum balance is required to be maintained
- redemption will be via a bank cheque cashed at a commercial Bank or via cash withdrawn from the branch if sufficient notice is provided and maximums not exceeded

Note 1: people will be able to deposit their small, day-to-day deposits amounts via the Co-ops and Credit Unions and then in turn, aggregate these monies for depositing at the Bank.

Note 2: all deposits should require at least three signatories to sign to withdraw funds in order to protect the monies and give confidence to individuals who have contributed to the deposit

Lending - At Launch

A lack of access to credit is the biggest constraint to the economic development and long term prosperity of Tongans. Most can not borrow from the commercial banks due to a lack of assets, no security or savings and no credit history. Similarly, the banks find it too risky and expensive to administer the small loans sought by grassroots people. This is where the CUB's greatest point of difference will be created - by providing micro enterprise credit.

However, a holistic approach to providing credit will need to be taken such that it ensures long term thinking and enables economic sustainability amongst individuals and consequently increases the likelihood of loans being repaid.

In any microfinance programmes, there should be an intimate link between the provision of training / information and credit. The benefits of linking these are many with the most important effect being to build capacity. While many people will want to borrow, fewer will be prepared to undergo training in order to become eligible for credit. Those who are, evidence suggests, are those more determined to run their business and to run it well. Further, most entrepreneurs are unaware of their skills deficiencies, and therefore they are unlikely to seek training voluntarily. When access to credit is conditional on undergoing training, many come to appreciate the value of training.

Credit therefore should be provided as part of an integrated package that includes training that is aligned to how the money is proposed to be used. This is especially true amongst those trying to translate a business idea into reality.

Needless to say, the CUB must have sound and prudent lending practices and policies in order for itself to be sustainable as any loan write offs will severely impact on the CUB's longevity. Therefore, the loans made available must be fully secured by a 100% term deposit, most likely being a group deposit or secured via a property mortgage. Another form of security that can be allowed is via a co-borrower where the additional borrower/s is in a position of financial strength and credit worthiness. Another type of acceptable guarantee includes a group pledging assets as collateral for a loan. In time, loans for the purchase of a vehicle may be secured by the vehicle however, the equity in the vehicle by the borrower must be substantial eg 50%.

Not all Tongans will have the ability to offer the security described above and so, to be truly a microfinance bank for grassroot Tongans, other more accessible forms of security should be considered. The most evident being security over Tapas. All Tongans have the ability to produce Tapas and are in high demand. An arrangement whereby the value of the loan is equally met by the value of Tapas will be an acceptable form of security. Ensuring the Tapas are not sold before the loan is repaid will be important and having them held by a community group in trust for the CUB should be considered.

The purpose of the loans that Tongans will seek must also be aligned to their needs and specifically, to allow them to achieve a better lifestyle and economic prosperity. An example that was repeatedly requested by Tongans when asked was to have the CUB fund the establishment of a crop eg Kava or yams. For as little as \$500, a crop could be established but the loan repayments would need to be deferred until the proceeds from the harvest can be used to repay the loan. The risk to the CUB is if the crop does not eventuate. This is where security will be required and the training programs mentioned earlier provided. Loans to pay school fees or to send a sibling overseas to study or gain employment are other examples of the types of finance that the CUB will need to offer.

Distribution & Access

When developing the ways in which Tongans would access the CUB, the key considerations were:

- that 70% of population reside on the main island Tongatapu,
- the remoteness of the outer islands, and
- keeping costs down.

On beginning operations, a full service branch will be established in Nuku'alofa along with an 'agency network'. Tongatapu will most likely require two agencies whilst it is imperative that the population on the outer islands have access to the CUB by establishing at least one agency on Ha'api and Vava'u.

The structure of the agency network will be to establish relationships with the Co-ops / Credit Unions in which they act as agent of the CUB to accept deposits. A commission will most likely need to be paid.

Enabling the electronic transfer of funds into the CUB should be allowed especially from overseas accounts. Establishing this via a partnership eg Sio & San Limited, is the best solution.

Creating an option for customer's to deposit monies into the CUB's 'clearing account' at one of the commercial banks will widen the distribution channels.

In time the agency network will need to be expanded and even a branch opened on Vava'u. Other ways to expand access channels will to introduce a mobile banking service and internet banking.

Customer Understanding

It will be important to maintain a close understanding of the needs of the people of Tonga in order to provide the products & services they need. A program will need to be established that enables feedback from customers it has as well as the market in general.

Infrastructure & Systems

Ongoing infrastructure and systems development will be required to maintain the office and IT systems on an annual basis and to insure the integrity of systems, data and operational records. The systems will need to reflect the products and services that are offered and provide management reports on a timely basis.

The Business Continuity Plan will need to be developed to reflect the infrastructure and systems used and outline the recovery processes and role of the personnel in the event of any incidents.

Personnel and Training

Support Staff

As the CUB grows and diversifies more staff will be appointed as required to maintain levels of service to clients.

Training

Ongoing training will be undertaken by the CEO and staff to constantly improve knowledge and skills in financial services.

A training register will be maintained detailing the training activities of the staff to assist in evaluating training requirements and also the relevant skills and improvements in staff in the performance assessment process.

Security

Cash at Branch

If a large withdrawal is required at least one days notice will be required and these funds will be held in treasury until the withdrawer has been identified.

Cash in Transit

Trips to obtain or deposit cash will not be scheduled and undertaken as required to avoid being staked. If possible two members of staff will transfer cash as required.

Fraud

Wherever possible duties involving financial transactions will involve a segregation of duties or an authorisation to avoid the possibility of fraud.

Regular audits of cash holdings and transaction activity will be undertaken by the internal auditor who should not have the authority to transact to ensure that fraud is not undertaken.

The CUB will be insured against fraud to the level of risk determined by the Risk Management system.

Risk / Issues

Risk / Issue	Detail	Potential Mitigants
Staffing	Failure to attract expert staff and local staff with required skills	-Business Plan -Localisation and wanting to be part of "our bank" branding -Adopt global strategy #5
Reputation Risk - Fraud	Fraud by CUB staff	-Adopt global strategy #5 -MIS -Internal Audit
Reputation Risk - Delinquency	Client loan delinquency	-Adopt global strategy #4 -Innovative loan policies -Timely delinquency management -CUB seen as "our bank"
Operational Risk – Financial Management	Failure to be profitable and have sound financial management	-Adopt global strategies #2, #5 and #6 -Appoint SMFA to assist CEO to implement business plan -Company with LFI supervised by NRBT

5.0 Implementation, Operational Budget and Financial Position

The business plan includes set up costs, an indicative operational budget that shows that the CUB can be implemented over two years and can then operate successfully for the first three years with a small profit in the second and third trading years.

The full costs and budgets assume that Phase One will be 12 months, Phase Two also 12 months, but this could be extended depending on how long it takes to appoint and train staff, develop products and implement systems. Any extension would only have a marginal effect on the final 5 year plan.

The years three to five are indicative of the first three years of real operations and show that the CUB can show a profit in the second year of operations and reduce the accumulated loss to below \$25,000 in the third year which is an insignificant amount reduced off the initial \$2.2m capital and further capital raising of a further \$1.0m in shareholding over the three years.

The financial position in Table 5 show that the initial funding of \$2.2m should cover the projected year 2 budget for the implementation phase. Any extensions to the implementation phase will need to be covered by initial capital raising through the ownership shareholding plan, so it will be important to commence this capital raising plan towards the final stages of Phase 2.

Table 1.0 – Initial Set Up Costs for Phase One and Two

Costing Credit Union Bank				
		Year 1	Year 2	Year 2
			Preliminary Expenses	Fixed Assets
Building & Premises				
Office Equipment				\$ 18,100.00
Communications Fitout				\$ 3,000.00
Electrical Fitout				\$ 3,000.00
Office Fitout				\$ 5,000.00
Office Equipment	Fax Machine			\$ 700.00
Office Equipment	Combination Photocopier/printer			\$ 1,200.00
Safe				\$ 1,000.00
Furniture & Fittings	5 X desks chairs sundries			\$ 3,000.00
Telephone System (PABX)				\$ 1,200.00
Computer Hardware				\$ 29,200.00
Computer Hardware	4 X Desktop PC's			\$ 9,200.00
Computer Hardware	1 X Laptop PC			\$ 2,500.00
Computer Software	5 X Microsoft Office			\$ 2,500.00
IT Support	MIS System			\$ 15,000.00
Sub Total		\$ -	\$ -	\$ 47,300.00
Legal and Licences				
Banking Licence		\$ -	\$ 10,000.00	\$ -
Sub Total		\$ -	\$ 10,000.00	\$ -
Motor Vehicle				
Motor Vehicle				\$ 7,000.00
Sub Total		\$ -	\$ -	\$ 7,000.00
Total Preliminary Expenses		\$ -	\$ 10,000.00	\$ 54,300.00

Table 2.0 – Annual Operational Expenses

Operating Expenses		Year 1	Year 2	Year 3	Year 4	Year 5
			Preliminary Expenses			
1. Building & Premises						
Rent	Per-annum	\$ -	\$ 11,440.00	\$ 13,000.00	\$ 14,560.00	\$ 15,600.00
Cleaning		\$ -	\$ 300.00	\$ 330.00	\$ 400.00	\$ 450.00
Maintenance		\$ -	\$ 3,250.00	\$ 3,600.00	\$ 4,100.00	\$ 4,600.00
Electricity		\$ -	\$ 980.00	\$ 1,180.00	\$ 1,480.00	\$ 1,880.00
Painting & Flooring		\$ -	\$ 300.00	\$ -	\$ -	\$ -
Sundries		\$ -	\$ 1,000.00	\$ -	\$ -	\$ -
Telephone		\$ -	\$ 1,030.00	\$ 1,130.00	\$ 1,330.00	\$ 1,630.00
Sub Total		\$ -	\$ 18,300.00	\$ 19,240.00	\$ 21,870.00	\$ 24,160.00
2. Legal and Licences						
Licences & Legals		\$ -	\$ 2,000.00	\$ 1,200.00	\$ 1,200.00	\$ 1,200.00
Audit Costs		\$ -	\$ 3,000.00	\$ 3,300.00	\$ 3,600.00	\$ 3,900.00
Sub Total		\$ -	\$ 5,000.00	\$ 4,500.00	\$ 4,800.00	\$ 5,100.00
3. Personnel						
Salaries	1 X Manager @ USD \$13.06 pd	\$ -	\$ 25,000.00	\$ 50,000.00	\$ 55,000.00	\$ 55,000.00
	1 x Microfinance Advisor	\$ -	\$ 25,000.00	\$ 27,000.00	\$ -	\$ 27,000.00
	1 X Supervisor @ USD \$8.55 pd	\$ -	\$ -	\$ 12,000.00	\$ 13,200.00	\$ 13,200.00
	3 x EFT Support Staff @ USD \$5.58 pd	\$ -	\$ 6,000.00	\$ 12,600.00	\$ 19,000.00	\$ 19,000.00
Contribution to Retirement Fund	10% of Salaries	\$ -	\$ 5,600.00	\$ 10,160.00	\$ 8,720.00	\$ 11,420.00
Staff Amenities		\$ -	\$ 300.00	\$ 300.00	\$ 534.00	\$ 534.00
Insurances		\$ -	\$ 500.00	\$ 500.00	\$ 600.00	\$ 600.00
Training		\$ -	\$ 8,200.00	\$ 10,220.00	\$ 10,800.00	\$ 10,800.00
Sub Total		\$ -	\$ 70,600.00	\$ 122,780.00	\$ 107,854.00	\$ 137,554.00
4. Administration Costs						
Stationery		\$ -	\$ 2,000.00	\$ 2,500.00	\$ 3,000.00	\$ 3,000.00
Printing		\$ -	\$ 1,000.00	\$ 1,500.00	\$ 2,000.00	\$ 2,000.00
Other Admin Costs		\$ -	\$ 2,000.00	\$ 2,000.00	\$ 2,000.00	\$ 3,000.00
Sub Total		\$ -	\$ 5,000.00	\$ 6,000.00	\$ 7,000.00	\$ 8,000.00

Table 2.1 – Annual Operational Expenses (continued)

		Year 1	Year 2	Year 3	Year 4	Year 5
5. Marketing Costs						
Marketing Costs		\$ -	\$ 12,000.00	\$ 9,000.00	\$ 9,000.00	\$ 9,000.00
6. Interim Board (Vol First year)						
Board Expenses	100 x 12	\$ -	\$ 2,400.00	\$ 4,800.00	\$ 4,800.00	\$ 4,800.00
7. IT Costs						
MIS Licence		\$ -	\$ 4,000.00	\$ 5,000.00	\$ 6,000.00	\$ 6,000.00
8. Agency Commission						
Agency Commission		\$ -	\$ -	\$ 12,000.00	\$ 24,000.00	\$ 30,000.00
9. Travel & Accomodation						
Vehicle Petrol / Maintenance		\$ -	\$ 8,000.00	\$ 9,000.00	\$ 10,000.00	\$ 11,000.00
Local Airfares		\$ -	\$ 8,000.00	\$ 9,000.00	\$ 10,000.00	\$ 11,000.00
Accomodation		\$ -	\$ 9,000.00	\$ 10,000.00	\$ 11,000.00	\$ 12,000.00
Sub Total		\$ -	\$ 25,000.00	\$ 28,000.00	\$ 31,000.00	\$ 34,000.00

Table 2.2 – Annual Operational Expenses (continued)

		Year 1	Year 2	Year 3	Year 4	Year 5
11. Miscellaneous Costs						
Other Miscellaneous Costs		\$ -	\$ 2,400.00	\$ 3,400.00	\$ 4,400.00	\$ 5,400.00
Sub Total		\$ -	\$ 2,400.00	\$ 3,400.00	\$ 4,400.00	\$ 5,400.00
Operating Expenses before Depreciation & Amortization \$ - \$ 144,700.00 \$ - \$ - \$ -						
Preliminary Expenses:						
Licence Fees			\$ 10,000.00			
Fixed Assets			\$ 54,300.00			
Operating Expenses	Year 2		\$ 144,700.00			
Total Preliminary Expenses Capitalised			\$ 209,000.00			
12. Depreciation						
Licence Fees	@25% of \$10,000	\$ -	\$ 2,500.00	\$ 2,500.00	\$ 2,500.00	\$ 1,000.00
Preliminary Expenses Yr 2	@25% of \$144,700	\$ -	\$ -	\$ -	\$ -	\$ -
Computer Hardware & Software	@50% of \$29,200	\$ -	\$ 14,600.00	\$ 14,600.00	\$ -	\$ -
Furniture & Fittings	@10% of \$18,100	\$ -	\$ 1,710.00	\$ 1,710.00	\$ 1,710.00	\$ 1,710.00
Motor Vehicle	@25% of \$7,000	\$ -	\$ 1,750.00	\$ 1,750.00	\$ 1,750.00	\$ 1,750.00
Sub Total		\$ -	\$ 20,560.00	\$ 20,560.00	\$ 5,960.00	\$ 4,460.00
Total Annual Operating Expenses Costs		\$ -	\$ 20,560.00	\$ 235,280.00	\$ 226,684.00	\$ 268,474.00

Table 3.0 – Summary Annual Operational Expenses

		Summary				
		Year 1	Year 2	Year 3	Year 4	Year 5
Building & Premises		\$ -	\$ 18,300.00	\$ 19,240.00	\$ 21,870.00	\$ 24,160.00
Legal and Licences		\$ -	\$ 5,000.00	\$ 4,500.00	\$ 4,800.00	\$ 5,100.00
Personnel		\$ -	\$ 70,600.00	\$ 122,780.00	\$ 107,854.00	\$ 137,554.00
Administration Costs		\$ -	\$ 5,000.00	\$ 6,000.00	\$ 7,000.00	\$ 8,000.00
Marketing Costs		\$ -	\$ 12,000.00	\$ 9,000.00	\$ 9,000.00	\$ 9,000.00
Interim Board (Vol First year)		\$ -	\$ 2,400.00	\$ 4,800.00	\$ 4,800.00	\$ 4,800.00
IT Costs		\$ -	\$ 4,000.00	\$ 5,000.00	\$ 6,000.00	\$ 6,000.00
Agency Commission		\$ -	\$ -	\$ 12,000.00	\$ 24,000.00	\$ 30,000.00
Travel & Accomodation		\$ -	\$ 25,000.00	\$ 28,000.00	\$ 31,000.00	\$ 34,000.00
Miscellaneous Costs		\$ -	\$ 2,400.00	\$ 3,400.00	\$ 4,400.00	\$ 5,400.00
	Year 2 total is capitalised as Preliminary Expenses	\$ -	\$ 144,700.00	\$ 214,720.00	\$ 220,724.00	\$ 264,014.00
Depreciation		\$ -	\$ 20,560.00	\$ 20,560.00	\$ 5,960.00	\$ 4,460.00
Total Annual Operating Expenses Costs		\$ -	\$ 165,260.00	\$ 235,280.00	\$ 226,684.00	\$ 268,474.00

Table 4.0 – Annual Operational Budget

PROPOSED TONGAN BANK					
FINANCIAL YEAR BUDGET					
	Annual Forecast				
	Year 1	Year 2	Year 3	Year 4	Year 5
INTEREST EARNED					
Loans to Members		0	38,400	48,000	57,600
HQLA Investments		158,880	184,000	208,000	240,000
	0	158,880	222,400	256,000	297,600
LESS INTEREST PAID					
Members Investments		0	32,000	40,000	48,000
Members Savings		0	4,000	5,000	6,000
Borrowings		0	0	0	0
	0	0	36,000	45,000	54,000
Net Surplus on Interest		158,880	186,400	211,000	243,600
Add: NON-INTEREST INCOME					
Fees and Commissions		0	15,000	25,000	35,000
NET SURPLUS BEFORE ADMIN EXPENSES	0	158,880	201,400	236,000	278,600
LESS: OPERATING EXPENSES					
Building and Premises	\$0	\$ 18,300.00	\$19,240	\$21,870	\$24,160
Licence / Legal	\$0	\$ 5,000.00	\$4,500	\$4,800	\$5,100
Personnel Costs	\$0	\$ 70,600.00	\$122,780	\$107,854	\$137,554
Admin Costs	\$0	\$ 5,000.00	\$6,000	\$7,000	\$8,000
Marketing	\$0	\$ 12,000.00	\$9,000	\$9,000	\$9,000
Interim Board (Vol First year)	\$0	\$ 2,400.00	\$4,800	\$4,800	\$4,800
IT Costs	\$0	\$ 4,000.00	\$5,000	\$6,000	\$6,000
Misc Costs	\$0	\$ -	\$3,400	\$4,400	\$5,400
Agency Commission	\$0	\$ 25,000.00	\$12,000	\$24,000	\$30,000
Travel & Accomodation	\$0	\$ 2,400.00	\$28,000	\$31,000	\$34,000
Depreciation	\$0	\$20,560	\$20,560	\$5,960	\$4,460
TOTAL OPERATING EXPENSES	0	165,260	235,280	226,684	268,474
NET SURPLUS/DEFECIT BEFORE TAX	0	-6,380	-33,880	9,316	10,126
Less: Tax at 25% of Net Profit	0	0	0	0	2,532
NET SURPLUS/(DEFICIT) AFTER TAX	0	-6,380	-33,880	9,316	7,595
	0	-6,380	-40,260	-30,944	-23,350

Table 5.0 – Annual Financial Position

PROPOSED TONGAN BANK FINANCIAL POSITION	Annual Forecast				
	Year 1	Year 2	Year 3	Year 4	Year 5
ASSETS					
Cash and Bank Balance		129,320	278,615	347,576	401,631
Loans		0	320,000	400,000	480,000
Less: Provision Doubtful Debts		0	-2,515	-1,500	-1,900
Fixed Assets		64,300	43,640	22,980	16,920
Investment HQLA Funds		2,000,000	2,300,000	2,600,000	3,000,000
TOTAL	0	2,193,620	2,939,740	3,369,056	3,896,651
LIABILITIES					
Investments			400,000	500,000	600,000
Savings			80,000	100,000	120,000
TOTAL	0	0	480,000	600,000	720,000
EQUITY					
Donor Capital	0	2,200,000	2,200,000	2,200,000	2,200,000
Share Capital	0	0	300,000	600,000	1,000,000
Retained net surplus/(deficit) prior years	0	0	-6,380	-40,260	-30,944
Retained net surplus/(deficit) current year	0	-6,380	-33,880	9,316	7,595
TOTAL	0	2,193,620	2,459,740	2,769,056	3,176,651
Total Liability plus Equity	0	2,193,620	2,939,740	3,369,056	3,896,651

Table 6.0 – Asset and Depreciation Schedules

PROPOSED TONGAN BANK								
ASSET SCHEDULE								
ASSETS		Purchase amount						
		Year 1	Year 2	Year 3	Year 4	Year 5		
Licence Fees		\$0	\$10,000	7,500	5,000	2,500		
Other Preliminary Expenses Yr 2		\$0	\$0	0	0	0		
Computer Hardware & Software		\$0	\$29,200	14,600	0	0		
Furniture & Fittings		\$0	\$18,100	16,290	14,480	12,670		
Motor Vehicle		\$0	\$7,000	5,250	3,500	1,750		
Total		\$0	\$64,300	\$43,640	\$22,980	\$16,920		
DEPRECIATION SCHEDULE								
ASSETS	Purchase amount	Depreciation Rate	Amount per annum Depreciation / Amortization					Notes
			Year 1	Year 2	Year 3	Year 4	Year 5	
Licence Fees	\$10,000	25.00%	\$0	\$2,500	\$2,500	\$2,500	\$1,000	25% for first 3 years and 10% Thereafter
Preliminary Expenses Yr 2	\$0	25.00%	\$0	\$0	\$0	\$0	\$0	
Computer Hardware & Software	\$29,200	50.00%	\$0	\$14,600	\$14,600	\$0	\$0	
Furniture & Fittings	\$18,100	10.00%	\$0	\$1,810	\$1,810	\$1,810	\$1,810	
Motor Vehicle	\$7,000	25.00%	\$0	\$1,750	\$1,750	\$1,750	\$1,750	
Total	\$64,300		\$0	\$20,660	\$20,660	\$6,060	\$4,560	

6.0 Timeline

Timeline Establishment of Credit Union Bank

Tasks	Year 1				Year 2				Year 3				Year 4			
	Qrt1	Qrt2	Qrt3	Qrt4	Qrt4	Qrt6	Qrt7	Qrt8	Qrt9	Qrt10	Qrt11	Qrt12	Qrt13	Qrt14	Qrt15	Qrt16
1 Feasibility study	█															
2 Business plan phase	█															
3 Capital & Licence Preparation phase																
Formation of Implementation Committee/Interim Board	█	█														
Recruitment of Implementation Manger (TA)	█	█														
Capital mobilisation/Fundraising	█	█	█													
Incorporation of the company		█	█													
Shareholder recruitment		█	█	█	█											
Licence application				█	█											
Development of policies and procedures				█	█											
Development of a marketing plan				█	█											
4 Implementation phase																
Board formation and development				█	█											
Recruitment of key staff				█	█											
1 Manager				█	█											
1 MFI Advisor				█	█											
1 Supervisor				█	█											
3 EFT staff				█	█											
Staff Training				█	█	█	█	█	█	█	█	█	█	█	█	█
Development of policies and procedures				█	█											
Development of the MIS system				█	█											
Risk and compliance				█	█											
CSR				█	█											
Development of marketing plan				█	█											
Product development				█	█	█	█									
Products and Services				█	█	█	█									
Office and infrastructure				█	█	█	█									
Setting up the distribution system				█	█	█	█									
5 Trading phase																
Governance								█	█	█	█	█	█	█	█	█
Marketing								█	█	█	█	█	█	█	█	█
Personnel and Training								█	█	█	█	█	█	█	█	█
Infrastructure								█	█	█	█	█	█	█	█	█
Systems								█	█	█	█	█	█	█	█	█
Access Distribution								█	█	█	█	█	█	█	█	█
Financials								█	█	█	█	█	█	█	█	█
CSR								█	█	█	█	█	█	█	█	█
Security								█	█	█	█	█	█	█	█	█
Risk and Compliance Strategies								█	█	█	█	█	█	█	█	█
Reporting								█	█	█	█	█	█	█	█	█
NRBT								█	█	█	█	█	█	█	█	█
AGM								█	█	█	█	█	█	█	█	█

7.0 Appendices

Appendix A Proposed Model (section from feasibility study).

Analysis of the current credit unions and cooperatives that exist within Tonga is that whilst they are “far reaching” they are financially vulnerable due to asset size, liquidity, level of reserves and ability to aggregate banking services to acquire the necessary scale to gain a better ROI. Capital injection into the current model would be difficult to obtain by way of “donor seed capital” and therefore the growth of the current credit unions and cooperatives if they were part of the same model would occur organically and therefore growth would be extremely slow and not benefit the wider community. The time frame to grow the current model organically would require at least 10-15 years and this slow growth would inhibit support from the community.

In order for the Tongan community to witness change in a reasonable timeframe and see immediate benefits relating to goals within the SDP8. The model proposed is to create a CUB as a company with a LFI capitalised by donor seed capital. The initial amount sought would be over T\$2m (US\$1.1m), which would be required to gain a banking licence. As the initial capital will be used to gain a banking license, at least an additional T\$1m capital will be required to be raised to maintain the minimum capital whilst the CUB reaches financial sustainability (the entity would have to raise shares to cover initial operating losses).

Once the new model is operative the credit unions and cooperatives in the Tongan community would then gain the benefits of treasury, cost reduction, better tailored banking products and a micro-finance arm of its business to benefit local individuals and groups within the community. The CUB would also build its own savings and lending policies and procedures to enhance its own local micro-finance banking model and tailor it to the local Tongan community. This will be its point of difference when competing against the likes of Westpac and ANZ banks as they have mainly “generic” models which do not allow local Tongans to access many of their products and services. The policies proposed to issue lending via micro-finance will be required to be innovative and flexible to allow access to the local community whilst taking on a risk profile that will not damage the brand of the CUB.

After analysing the specific conditions (opportunities, strengths, weaknesses, risks, threats), we have identified 8 major issues relating to grassroots banking in Tonga and recommended a set of 8 main business strategies, which are briefly described below in order to form the Credit Union Bank. For the purpose of this paper:

Strategy #1: Financial Intermediation for Grassroots People – Create a new financial institution owned by Tongans.

It is proposed that the CUB will be a company with a LFI that will be owned, managed and run by the Tongan community. To ensure wide ownership of the CUB, its shares will be sold to the Tongan public, following an appropriately designed “Mass Ownership Plan” (MOP). The shares shall be sold to as many Tongans as possible, aiming to have a minimum of 5,000 listed Tongan shareholders in 5 years’ time. The selling of the shares of stocks of the CUB shall be focused on the credit unions, consumer coops, village and women’s committees and grassroots people in general, (meaning all low-income and poor people) across the whole of Tonga. The shares shall be packaged in small lots so poor people or groups can buy them. Larger commercial entities, if any, will have shareholding of the CUB limited through shareholding ceilings, with a maximum percentage shareholding to be determined by the business planning process.

The MOP could be facilitated by getting the credit unions and coops to sell shares on a commission basis to rapidly recapitalise the CUB to replace the initial start up capital and operating expenses.

The board of the CUB shall be determined by the democratic voting of the listed shareholders, following a systematic, transparent and well-defined voting process, again to be determined by the business planning process. One voting model is for the CUB to have mutuality principles embedded into its constitution in a similar way to the Australian credit unions.

As the CUB will have wide support and the term “credit union” is poorly understood, a name for the bank that better represents the ownership and the function could be used. One suggestion is that the bank could be named “Tonga Peoples Bank”.

Strategy #2: Financial Sustainability – Gear the Bank to operate profitably adopting prudent business practices.

The CUB board shall develop a new and clearly defined development philosophy that includes sound business principles, attaining long-term financial sustainability, covering full costs, attaining financial growth, increasing client outreach and be completely free from donor dependence.

The new board needs to have clear and strong ownership and mandate over the Bank. The new board of directors of the CUB should be elected from the wide range of shareholders and should represent their local community interests.

Appropriate training shall be provided to board members and senior managers on good governance practices and on the development and management of KPI's to ensure sustainable profitability for the organisation. In order to achieve this outcome, Senior Managers will be required to be employed with or trained to ensure they have the necessary technical skills. The board shall guide the Bank to operate profitably, aiming to distribute profits or dividends to registered (paid up) shareholders after the 2nd year of operations.

Strategy # 3: Wide Outreach – The Bank shall serve a wide range of client groups, by offering market sensitive financial products.

The CUB shall support the economic development of the whole of Tonga by providing essential financial services to its people. The Bank shall aim to get the largest market share in terms of client numbers and financial resources. The CUB will aim to serve both the local and rural communities of Tonga by utilising the existing infrastructure provided by Credit Unions and Cooperatives as well as its own central branch.

The CUB shall serve credit unions, savings groups, farmers, women's committees, village committees, youth groups, business people, squash exporters and individuals. The Bank shall secure a license from the NRBT to operate as a LFI within Tonga.

The Bank shall initially operate one branch located at Nuku'alofa. It shall offer a mix of savings and loan products that meet the needs of various client groups. The Bank shall project a strong image of stability and trustworthiness, with the objective that Tongans have ownership of the bank and see it as “our bank”.

Working closely with the Coop Registry, secondary and primary co-ops and the established credit unions, the CUB shall conduct aggressive signup campaigns across the whole country, to increase participation of poor and low income people, and to attain a large or substantial savings portfolio, in the shortest possible timeframe. The Bank shall establish rapport and good working relationships with Nobles, local politicians, District Officers, Police, church leaders, lay pastors, village chiefs, Town Officers, local women's groups, NGOs, squash exporters, and other development project owners. This strategy is important for the CUB to promote the products and services of the bank, identify good potential clients, resolve conflicts and enforce collection.

The CUB shall develop and implement a “village banking” approach, which includes a “mobile banking” scheme, where Field Officers visit the credit unions, cooperatives and self help groups in the villages (including remote isolated island villages) regularly to collect savings, extend loans, collect payments and deliver short awareness and training courses. It will be essential for the CUB to be able to attract and facilitate international remittances in the form of an innovative flexible product.

Strategy # 4: Savings first – Given the prevailing poor credit culture, adopt a conservative approach to lending.

The objective of the CUB is to adopt a “savings-first” approach, facilitating over time a change of culture from the current consumption based approach. The CUB will develop an innovative package of lending products which will challenge “traditional” lending boundaries, possibly utilising locally produced goods as security for loans. The CUB will manage loan delinquency through a range of prudent practices, controls

and processes. In order to ensure the CUB retains credibility and is seen by the Tongan community as a secure investment house, it is proposed that a zero tolerance policy on corruption, fraud and delinquency is adopted. This will be achieved by thorough governance, auditory practices, policies and procedures. It is proposed that the CUB adopt a strict policy that the large majority of loans are to be secured through a range of security, such as “blocked savings”, group guarantees, co-signers, lease-purchase agreements, pledges (holding physical assets), and mortgages.

Strategy # 5: Develop Skilled Staff – Hire, develop and retain high quality staff

The CUB will be required to develop competitive remuneration packages to hire and keep the best and most highly skilled employees. One of the goals of the CUB will be to develop staff competence to ensure a thorough understanding of basic microfinance and banking concepts and Key Performance Indicators. In order to attract new and retain existing staff the CUB will need to ensure:

- It has clearly defined policies and procedures for hiring new and replacing existing staff
- It has an efficient method of replacing existing staff
- It has the staff learning and development training programs in place to further develop staff
- It has a Performance Management System (PMS) in place to performance manage and reward staff, and attract / retain highly qualified staff.
- It has the necessary management business practices in place that make the CUB a good place to work at.

The CUB board and senior management shall define the key values of the organization that emphasizes integrity, dedication, professionalism and hard work. The board and senior management will develop a PMS that rewards staff for achieving above the required (satisfactory) performance level. The PMS will also have the ability to manage poor performers.

When the CUB has the appropriate profitability and reserves to do so it is proposed that staff rewards are granted by shares in the company.

Strategy # 6: Systems – Install reliable systems related to accounting, MIS, power, communication and security; secure adequate expert technical support.

It is proposed that the CUB will install a high quality and fault tolerant computerized accounting and MIS system. It will be required that adequate power supply will be available to adequately run computers and that there is creation of backup procedures to protect integrity of data. In order to protect the brand and staff of the CUB it is proposed that adequate security systems and procedures and policies are adopted to minimize the risk of theft and robbery.

Setting up of the CUB will require a high degree of technical expertise. To ensure proper guidance and facilitate the implementation of the bank, it is recommended that a SMFA is appointed for a period of not less than 2 years. The role of the SMFA will be to initially manage the operations of the entity whilst training and developing a deputy (Tongan) during the first 2 years, and then turning over full operational responsibility after that training and development period.

The SMFA shall transfer knowledge to staff, and provide the necessary technical and managerial expertise to help establish the microfinance bank. An MIS specialist will be needed for a few initial months to install a computerised accounting and MIS System.

Strategy # 7: Sustainability – Develop key strategic indicators to ensure the long term sustainability of the CUB.

This process will involve the board, with possibly the aid of an external strategic planning facilitator to develop key indicators which the CUB will use to measure its performance, and ensure sustainability.

It is proposed that these key indicators revolve around areas such as:

1. Member Understanding

Ensure that the CUB understands the needs of the Tongan community when taking into consideration the development and delivery of products and services.

2. Financial Growth

Ensure the CUB develops appropriate growth targets and implements the necessary financial indicators to allow regular analysis of performance whilst meeting regulatory requirements.

3. Organisational Development

Ensure the CUB continues to develop its staff by ways of training, mentoring and external courses. It is also proposed that the CUB liaise with CUFA to promote possible exchange programs or the secondment of Australian credit union staff to aid in the development of the CUB.

4. Member Value

Ensure that the CUB provides products and services that are customised to local community needs and are seen to add value to individuals and local villages.

Strategy # 8: Credit Unions – work with current credit unions and the League to build business management awareness.

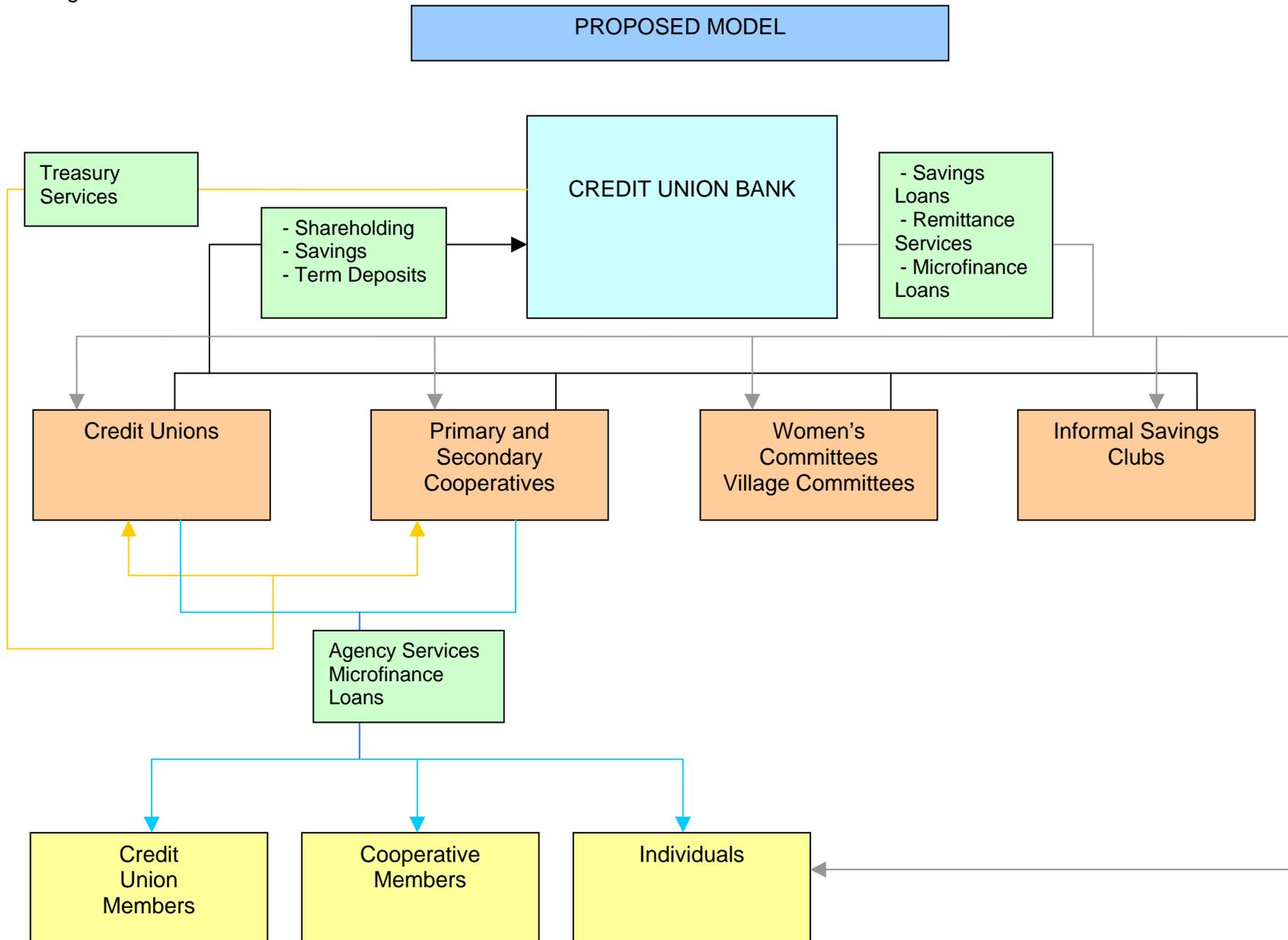
It is proposed that the CUB will work with large local credit unions to further develop their banking expertise in the areas of credit control, book-keeping, risk analysis of lending and marketing to gain new individuals and groups and general operational policy development.

The work involved to aid larger credit unions could include MIS systems and credit union monitoring frameworks such as the WOCCU PEARLS evaluation or CGAP frameworks.

It is also proposed that manual general ledger and account input be “computerised” to give the larger credit union greater capacity to expand whilst requiring a lesser reliance on additional resource and therefore cost incurred from those additional resources. The computerised system would also enable existing resources to perform tasks which would be considered to add greater value by their members rather than manual processing.

The formulation of the CUB will allow savings groups to bank direct with them rather than form a credit union to perform this task. An expanding credit union network will require greater resource capacity provided by the MLCI to conduct monthly audits. Restricting the number of “small” newly created credit unions allows the MLCI to continue to audit under its current arrangement with the possibility of realigning current resources to provide more “value added” services to the credit unions.

Figure 1.0



Appendix B Terms of Reference

Terms of Reference (TOR) for the Technical Advisors, Feasibility Study on the Establishment of a Credit Union Bank in Tonga (PH-II) – GTON 01V

1. Background

The Ministry of Commerce, Labour and Industries in the Kingdom of Tonga requested the Commonwealth Secretariat's technical support, in undertaking a study to determine the feasibility and viability of a credit union bank. The study was conducted in December 2007 and found it viable, to establish a Credit Union Bank in the country with support of key stakeholders in the country to cater for the financial needs of the low income groups, thus encouraging savings and investments and contributing to poverty alleviation in the country. The team recommended development of a subsequent phase of this project resulting into the development of a concrete business plan for the proposed CUB in Tonga.

The project is being supported through the Commonwealth Service Abroad Programme (CSAP), under the Governance and Institutional Development Division (GIDD) within the Secretariat. GIDD/CSAP therefore seeks an appropriately qualified volunteer expert who will lead in the implementation of this project. The study is expected to take a maximum of three months in two possible phases.

2. Tasks to be performed by the recruited CSAP volunteer expert:-

The following are the main tasks to be performed by the CSAP volunteer experts during the second phase;

1. Liaising with MCLI staff, present the report to the relevant authorities and GIDD/CSAP.
2. Facilitate in designing an appropriate model for a credit union bank, while recommending an appropriate funding and shareholding requirements of the proposed Credit Union Bank, in line with legal and policy framework in the country;
3. Recommending an appropriate legal and management structure of the proposed CU bank.
4. Advise on the necessary capital and staffing requirements of the proposed credit union bank.
5. Advise on the initial strategy of rolling out the Credit Union Bank

The expert (s) will be expected to develop a plan of action to be agreed with the Secretary in the Ministry of Commerce, Labour and Industries and submit it to GIDD/CSAP two weeks after being in post.

3. Duration:-

This is a one year project and the expert's time for business plan development will be expected to have been completed within six weeks.

4. Reporting:-

The CFTC Expert will send a **mission report and the business plan** to the Secretary in the Ministry of Commerce, Labour and Industries in Tonga and the Commonwealth Service Abroad Programme (CSAP), with a final report submitted two weeks after the end of the project.

Credit Union and Co-operative Bank Stakeholder Workshop

Monday 26th and Tuesday 27th May 2008

Division of Credit Union and Co-operatives Training Room
Ministry of Labour, Commerce & Industries, Tonga

Facilitators:

Peter Pamment (CUFA)

Greg Fisher (CUFA)

Khurshed Hiranmanek (CUFA)

Michael Mezzino (CUFA)

Julius Kaberere (CSAP)

Table of Contents

CU and Co-op Participant List	2
Day 1	3
Opening Programme	3
Session 1 - Visions / Targets / Outcomes / Mission	3
Overall Mission Statement	4
Session 2 - SWOT	5
Session 3 - Ownership	6
Day 2	7
Check in from Day 1	7
Session 4 - Products & Services	7
Session 5 - Business Plan Overview	8
Session 6 - What's next?	10

CU and Co-op Participant List

#	Participant	Co-operative / Credit Union
1	Papiloa Bloomfield Foliaki	Tonga Credit Union League
2	Malia Ma'asi	Co-operative Staff
3	Malesela Mafua	Liberty Credit Union
4	Sione Manumanu	Vili'agna Okooko Co-operative
5	Tovi	Kumikumi Hufanga Credit Union
6	'Ofa Pongi	Maka ko Liuakifanga Co-operative
7	Tonga Uasike	Toahola Co-operative
8	Vokona Vea	Fakaakeake Co-operative
9	Sepa Tangimana	Fu'u Fa ko Hala ki Langi Co-op
10	Timote Kaufusi	" " "
11	Lopiseni Mohetau	Halatala Fale
12	'Etuini Wolfgramm	'Alo 'I Talau Credit Union
13	Afu Ha'alaufuli	Fugna Pousini Co-operative
14	Losili Talia'uli	Petani Credit union
15	Fualupe Paongo	Co-operative Staff Credit Union
16	Fatai Hakavalu	Ha'asini/Hamula Co-operative
17	Loisi Nasilai	'Ahiohio Co-operative
18	Sioape Tu'iono	Folaha Co-operative
19	Peni Tualau	Halafuoleva Credit Union
20	Sulia Veikoso	Haitelenisia Credit Union
21	Mele Lola Vakalahi	Fetokoni'aki 'o 'Ahononou Credit Union
22	Moteiva Lasukiau	Liberty Credit Union
23	Mikaele Mafi	Kalapu Kolopeaua
24	Faiva Tu'umoto'oa	Mapu 'a Vaea Co-operative
25	Tu'ivakano Fisi	" "
26	Tomasi Po'uhila	Fetu'u'aho Co-operative
27	Samiuela Latu	Faletu'uloto Co-operative
28	Silia 'Ulinoa	'Ahononou Credit Union
29	Moala Siale	" " "
30	'Amanaki Tu'itupou	Co-operative Staff

Day 1

Opening Programme

Opening Prayer	Moteiva Lasukau
Remarks from CUFA	Peter Pamment
Remarks from CSAP	Julius Kaperere
Keynote Speech	Papiloa Foliaki (President Tonga Credit Union League)
Word of Thanks	Manu Longi (Registrar of CU and Co-operatives)
Closing Prayer	Moteiva Lasukau

Session 1 - Visions / Targets / Outcomes / Mission

What is your expectation?

Group 1

Expectations

- Help the poor people
- Need money
- Make savings in our Bank
- Make loans - free for the farmers, women's groups to help with handicrafts & fisherman
- Life insurance – firstly deposit for own life
- Training – how to use money wisely, targeted at community level, train children to think of the future
- Make Term Deposits
- Ask people to invest money in the Bank
- Target for savings is \$2m
- Loans – all loans in first year under \$5,000

Outcomes

- Shareholders dividends %? – shareholders to decide what the dividend will be
-

Group 2

- our dreams will come true
- this Bank will operate for a long time, for ever
- assist the poor people
- encourage the poor people to assist themselves
- bank is for the people & controlled by them

Group 3

Expectations

- higher interest rates for TDs for deposits and lower rates for loans than Banks
- avoid fees as much as possible for basic transactions
- agricultural loans - with seasonal repayments ie when crop is harvested
- life insurance as security for the loan
- loan committees in the villages then applied with the Bank

Group 4

Expectations

- need it established as soon as possible
- Commonwealth secretariat & CUFA , thru the Gov't Division, to help us write a project proposal to get grants for the seed capital ie how to ask for it?
- Request from commonwealth secretariat & CUFA that we will need technical help to set up the Bank & work with us until we are self sufficient to run it – 5 years posting
- Vision - to help the poorest of the poor & eliminate poverty from our shores
- Training must be given to the poor & disadvantaged to learn how to create income with what they have already
- Teach the people the value & power of savings
- Time is money – laziness is the obstacle to improve our lives
- Gov't of Tonga must provide the CUB with a piece of land and the building of the branch
- Credit Cards & ATM machines
- Loan repayment insurance
- Bring the same people in providing technical assistance – consistency of people

Visions

- CUB must provide high interest rate & low deposit amounts to earn interest
- Comfortable repayment schedule for loans to help the poor – ie low interest rates as well
- No service fees to apply
- Must pay good dividends when profit increases
- Must have student loans for families – need to educate our kids
- Loans for families that are jobless & landless
- CUB to in time to become a member of CUSCAL & to form a CUSCAL type org in Tonga in time
-

Overall Mission Statement

The mission of the Bank is to help the poor & grassroots people of Tonga to achieve economic prosperity.

Question – do we include the word 'poor' in the Mission Statement?

Answer: Yes

Session 2 - SWOT

Group 1

Strength

Commonwealth and CUFA support
Co-operation
Churches
Regular meetings
Community Unite
Willingness to contribute
Family Overseas
Training and skills of members
Started at grassroots level
Welcoming People
Volunteers

Opportunities

Join Cuscal
Financial Literacy / savings
Volunteers
Work Hard
Better quality of life
Sharing wealth / ideas
More children complete education
Ownership
Micro-finance
Overseas Families can buy shares
Innovation products – e.g. remittances

Weaknesses

Dishonest
Not following policy
Limited financial and technical resources
Conflict of interest
Skills
Capital not raise
Family obligations
Remoteness
Lack of communications
Bad debts

Threats

Capital not raised
Dishonesty
Capital not raised
Lack of adequate support from government
People not interested
Commercial banks and business people
Poor publicity
Bad management / Board / Staff
No seed capital
Low savings culture

Session 3 - Ownership

Who should be shareholders?

Registered groups – CU/Co-op/Groups
Registered groups and new Credit union and co-operatives – CU/Co-op/Groups
Anyone

Who should not be shareholders?

Individuals
Individuals
Investors
Government
Banks

What limits?

\$10 per share not more than 100 Shares
1 vote per 1000 shares
\$100 limit 1 share only

How do we elect a board?

Annual General Meeting from Shareholders
Election every three years
Group nominates delegate and then stands for election
Group nominates delegate and then stands for election
Fit and Proper

What Name?

Co-operative and Credit Union Bank
Tongans Community Bank

How much could we raise from the community?

\$1,000,000
Unlimited
\$2,000,000

Day 2

Check in from Day 1

\$2m seed funding credit unions & co-op
\$1m open to shareholders

2/3 Shares for credit unions & co-op
1/3 Open for general sales

Peoples Bank of Tonga - PBT

Session 4 - Products & Services

Deposits

What they want – same or better? Little bit more – higher than banks

Term Deposits

Minimum Amount - \$100 or \$200

Tiered rates to encourage

Higher rate for longer terms

2 to sign for group accounts – usually the President & Treasurer of organizations or group

Group Passbook Accounts

No fixed account - At Call

2 to sign for group accounts – usually the President & Treasurer of organizations or group
Loans

Day 1 - Loans fully secured by deposits
Group has term deposits \$1000 could an individual get a loan – yes
Group decides who gets loans

Agricultural Loans

Seasonal Loans to group members only – must be secured by savings
Training and Support to enable sustainability will be provided by the Bank
Minimum \$500.00 Maximum dependant on security

Student and Family Loans

Students Loans to group members only – must be secured by savings
Funeral – Weddings etc
No Minimum

Car Loans

Bill of sale over vehicle by group

Security Types

Co-sponsor
Tapa – held by group

Interest Rate and Fees

Interest rates lower than commercial banks
Application fee should be low
Application fee may be a % of the amount borrowed

Access

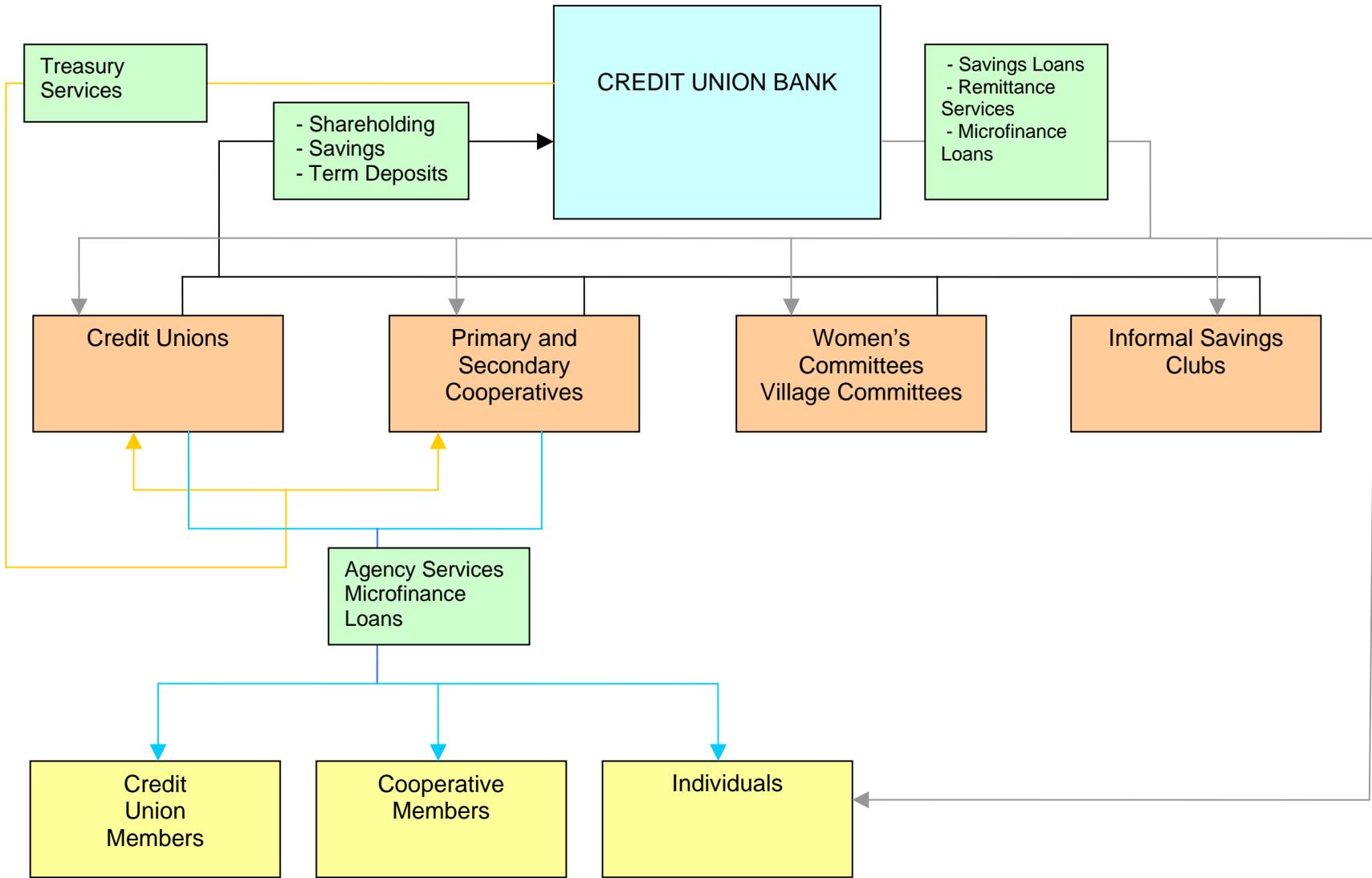
Start with one branch on the main island.

Services

Life Insurance
Shopping Discount Cards – negotiations
Term Accounts

Session 5 - Business Plan Overview

PROPOSED MODEL



Savings Accounts

Messages and Marketing.

Not in competition with the Banks

Not a certainty at this stage - "Work In Progress" conditions

Explain what it stands for-

It is your Bank – Not Ours (CUFA)

You must deliver the right message at the right time.

You know what we do.

No marketing until further notice.

Translate summary.

Session 6 - What's next?

Implementation Committee

Represent ALL Stakeholders

Source TA

Work with the TA 1.5 phase

Drive the Project

The Implementation Committee should be:

Impartial.

No conflicts

Represent all

Skills required to manage the project.

Meet regularly

Report back the progress

What size of Committee.

Once PBT is incorporated, the implementation committee will assume the role of the Interim Board for the period of 12 Months.

After 12 months there will be AGM the shareholders will elect the Board of Directors for the new Bank.

**CHECKLIST FOR REQUIREMENTS FOR APPLICATION FOR A
LICENCE TO COMMENCE BANKING BUSINESS IN TONGA**

No person may carry on banking business in Tonga without being in possession of a current valid banking licence issued under section 8(2) of the *Financial Institutions Act 2004*.

"Banking business" is defined in the *National Reserve Bank of Tonga Act 1988* as

- (i) *the business of receiving funds through the acceptance of deposits of money payable upon demand or after a fixed period or after notice, or any operation through the frequent sale or placement of bonds, certificates, notes or other securities, and the use of such funds either in whole or in part for loans or investments for the account and at the risk of the person doing such business; and*
- (ii) *any other activity recognized by the Reserve Bank as customary banking practice which a financial institution engaging in the activities described in (i) may additionally be authorized to do by the Reserve Bank.*

"Financial institution" is defined in the same Act as an institution doing banking business.

Because of the special nature of banking business and the high degree of trust and confidence implicit in the relationships that arise in this field, an exceptionally high standard of care is required both by financial institutions themselves, and by the regulatory and supervisory authorities, to protect the public against the risk of doing business with structurally unsound or imprudently conducted institutions. These standards apply to the identity of major shareholders and directors and management personnel and to their professional record, business and other connections, as well as to the financial structure, supportive capability and proven competence of the institutions concerned.

Applications for licences to carry on banking business are therefore subjected to most thorough scrutiny, and the subsequent performance of licensed institutions is closely supervised.

Applicants may appoint an established firm of public accountants or legal practice familiar with Tonga law and institutions to represent them in the formal matters required for consideration of the application.

The following are minimum requirements that applicants must submit to the NRBT as part of their proposal to set up a bank or a credit institution in Tonga.

The minimum requirements have been divided into two categories, firstly, requirements under the *Financial Institutions Act 2004* and secondly, requirements specified by the Reserve Bank.

I. Primary requirements detailed in the *Financial Institutions Act 2004*

1. Application letter – Letter of Intent. It must be signed by the authorised representative of the applicant, and evidence of his/her authority is to be provided. It is to be accompanied by two certified copies of all necessary supporting documents and addressed to:
 - The Governor
 - National Reserve Bank of Tonga
 - Private Mail Bag No. 25
 - Nuku'alofa
2. Application fees

a. Banks	:	TOP10,000
b. Credit Institutions	:	TOP10,000

This is to be paid by bank cheque. Personal cheques will not be accepted.
3. Name of proposed financial institution – section 4 of the *Financial Institutions Act 2004* requires the inclusion of the word “bank” in the title of the financial institution. Also, it requires the name to not closely resemble the name of an existing bank and is likely, in the Reserve Bank’s opinion, to mislead the public. In addition, section 58 of the *National Reserve Bank of Tonga Act 1988* requires the written consent of His Majesty in Council for a financial institution conducting banking business in the Kingdom by a name which includes any of the words “Central”, “Kingdom”, “National”, “Reserve”, “Royal”, “State”, “Tonga”, or their equivalent in any other language.
4. Evidence that the applicant is a company, which may be locally incorporated or an overseas company – certificate of incorporation
5. Where the applicant is a financial institution and an overseas company, evidence of:
 - a. incorporation in home country
 - b. current financial institution licence in home country
 - c. relevant law and regulatory requirements relating to licensing and supervision of financial institution in home country
 - d. being subject to comprehensive supervision and regulation on a consolidated basis by the appropriate authorities in home country and such authorities have no objection to the applicant carrying on banking business in Tonga
6. Minimum capital of no less than TOP2 million (after establishment expenses) in the following structure:
 - a. if incorporated in Tonga, paid up capital
 - b. if incorporated abroad, assigned capital in Tonga

II. Other Primary licencing requirements specified by the Reserve Bank

1. Ownership Structure
 - a. brief history of the applicant and related entities
 - b. initial level and structure of capital and commitment to observe minimum capital requirements of the Reserve Bank or advised individually to the financial institution. Where applicant is an overseas company, evidence of ability to maintain a minimum unencumbered capital for the applicant’s business in Tonga should a licence be granted.
 - c. list of shareholders showing whether they are foreign or local, number and percentage of voting shares in proposed financial institution, names of other shareholders within second degree of consanguinity or affinity
 - d. a commitment from shareholders holding more than 10% of voting shares that they will provide additional capital as necessary and that the shareholding represents a long term commitment

- e. bio-data sheets for individuals holding more than 10% of the voting shares together with an audited statement or for corporate shareholders audited annual accounts for the last three years
2. Board and Management
 - a. list of directors
 - b. an organisational chart showing the names and positions of senior officers and offshore reporting lines where appropriate
 - c. bio-data sheets for directors and senior management¹ together with a declaration by the authorized representative that the proposed directors and senior management are not disbarred in terms of Section 26 of the *Financial Institutions Act 2004*
 3. Business of the applicant – the applicant’s business must be “banking business” as per the *National Reserve Bank of Tonga Act 1988*. It must at no time involve any activities other than those permitted activities stated in Section 27 of the *Financial Institutions Act 2004*, or other activities as the Reserve Bank may specify
 - a. outline of proposed activities and scale of operations including details of any specialized services proposed and of any relevant expertise
 - b. detailed projections of profit and loss statements, balance sheets, and cash flow statements for each of the first three years of operation. The basis on which these assumptions are made must be included.
 - c. location of head office and outline of branch network envisaged and the time frame over the network will be established
 - d. proposed date for commencement of operations
 4. Prudential Management
 - a. a Board resolution or written undertaking (if foreign incorporated) stating that if granted a licence, depositors and creditors of the Tongan operation shall have priority with respect to the assets of the licenced financial institution in the case of bankruptcy or dissolution of the parent company of head office [refer Section 35(1) of the *Financial Institutions Act 2004*]
 - b. a Board resolution or written undertaking (if foreign incorporated) stating that if granted a licence, the applicant will comply with all rules, regulations, laws and prudential requirements from the commencement of the operations
 - c. in the case of an applicant who is foreign incorporated, a written undertaking to keep the Reserve Bank informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to the Reserve Bank copies of its published financial accounts and any significant media releases
 - d. detailed policies and procedures for measuring, monitoring and controlling credit, interest rate, foreign exchange, liquidity, money laundering/financing of terrorism, and operational risks including a copy of the Business Continuity/Disaster Recovery Plan
 - e. intentions for internal and external audit of the Tongan operations.
 - f. an outline of accounting and information controls designed to ensure the integrity and security of data so that managers are continuously and accurately informed of the condition of the financial institution and that information is provided to the Reserve Bank in a timely and accurate manner [refer to Sections 16 & 17 of the *Financial Institutions Act 2004*]

¹ Senior management is defined as the chief executive, the country head of a foreign incorporated licenced financial institution, the senior officer outside Tonga with responsibility for overseeing the Tongan operations of a foreign incorporated licenced financial institution, managers reporting directly to the chief executive or country head, managers with direct or matrix reporting responsibilities offshore

- g. an outline of information and accounting systems and “back-up” facilities
5. Other
- a. Agreement to organize a financial institution
 - b. Signed and notarized constitution or memorandum and articles of association
 - c. Economic justification: the business case for establishing a financial institution in Tonga. Particular emphasis should be placed on impacts on the financial system, its components and the economy. Feasibility studies conducted should be attached.
 - d. external auditor’s certificates verifying the level of capital of the applicant
 - e. an outline of detailed operational expenses expected to be incurred, and projected establishment costs. These require confirmation by an external auditor.
 - f. a Board resolution or written undertaking (if foreign incorporated) appointing authorized representative for the purposes of the application
 - g. signed declaration from the authorized representative of the applicant that all enclosures and attached documents are true and correct, and that the Reserve Bank may revoke the licence if it is granted on the basis of information that was false or misleading in any material particular