

REPORT OF THE
MAJURO ECONOMIC TASKFORCETHE PRESENT SITUATION

The corner has been turned in Majuro. The problems which have plagued the economic thrust of the project for so long have either been cured or are on the mend. Several contradictions remain, and this report contains recommendations for dealing with them, but before doing that, it is helpful to review recent happenings:

KITCO: The KITCO board has voted to continue in business, rehire Walter Blood as Controller, obtain financing assistance wherever they can get it, and take charge of the company. During this period of crisis, Fred Narruhn has emerged as an iron man for KITCO and a colleague for the ICA.

AUTHORIZATION: MNDP authorization has seen marked improvement, with the support of Oscar DeBrun, the trust of Jude Samson, and the re-engagement of Amata Kabua in the TASC effort culminating in a meeting of Peter Coleman, Oscar DeBrun and Fred Narruhn yesterday in support of KITCO.

TASC: TASC has accomplished much in recent months, including the preparation of regular financial statements, moving into wholesaling, recent on-time payment of outstanding letter of credit, settlement of the Nauru debt with a \$2,000 reduction, regular on time payments to Microl, two new trained employees in the office, separation of the small industry book-keeping into separate records for each, launched a successful Field Trip ship, established more effective inventory control procedures and moved the office into the warehouse for better supervision. Effective management since March has halted the downtrend and placed the company into a new, more stable configuration.

MIECO: MIECO has formed a management committee and used it effectively, used Ken Henry's accounting services effectively, and started to buy from TASC again.

EDGE: EDGE has continued to purchase the bulk of TASC's requirements and maintain a letter of credit pool of \$125,000.

THE REMAINING CONTRADICTIONS

Three primary contradictions need releasing so that the economic vision of the Marshallese may be fulfilled. In the arena of Financial Planning, the contradiction is projecting an image of instability by not obtaining the necessary funding for the economic. In the arena of Merchandising Policies and Procedures, the contradiction is interpreting the economic principles of low external cost and maximum local turn to mean selling at minimum prices to customers and absorbing the losses ourselves. In the arena of Small Industry, the contradiction is the propensity to do industry ourselves rather than catalyze local people to do industry.

FINANCIAL PLANNING

Contradiction: Projecting an image of instability by not obtaining the necessary funding for the economic.

Recommendations:

1. A high-level visit from the ICA is appropriate in the near future (JWM) to give further visibility to our support, encourage the Marshallese to push for government financing, and participate in the management of TASC and KITCO.
2. Phase out Guardian letters of credit financing, where it is a deterrent to larger cash gifts, but obtain the necessary short-term financing required to enable TASC to have goods to sell, and present a financial statement and credit performance that will allow TASC to be refinanced completely within 12 months.
3. Re-plan for KITCO now that it is resolved to continue and to seek outside assistance.
4. Enlist Development participation to provide short-term capital and supplier contacts in conjunction with EDGE personnel.

MERCHANDISING POLICIES AND PROCEDURES

Contradiction: Interpreting the economic principles of low external cost and maximum local turn to mean selling at minimum prices to customers and absorbing the losses ourselves.

Recommendations:

1. Establish a flexible pricing policy so that TASC can cover all its expenses and achieve a surplus.
2. Continue to expand wholesaling and look for places to vary mark-up.
3. Use true operating costs in establishing TASC's overhead, and adjust them quarterly.
4. Stock the 16 volume sellers only.
5. Liquidate slow-moving inventory regularly.
7. Devise a regular promotional plan.
8. Review old receivables and settle them at below face for cash.
9. Never offer credit on liquidation items and avoid credit on promotional items.
10. Motivate suppliers to provide goods at lower prices and give credit.

11. Continue to prepare and use cash-flows and balance sheets monthly, and add monthly statement of income and expense.

SMALL BUSINESS

Contradiction: The propensity to do industry ourselves rather than catalyze local people to do industry.

Recommendations:

1. That a Guild be formed for each existing industry.
 - a. That each Guild form and capitalize a company to own its industry, in whose profits they share.
 - b. That the company purchases the industry from TASC.
2. That a proposal for funding the sawmill be submitted to Seattle First National Bank.
3. That commercial food fishing be initiated with existing equipment.
4. That a Small Business Investment Company (SBIC) be established.

FINANCIAL PLANNING

Contradiction: Projecting an image of instability by not obtaining the necessary funding for the economic.

Recommendations:

1. Develop a new plan for KITCO.

A new plan is required at KITCO in light of the need to reinstate the long-term Bank of Hawaii loan for \$175,000 which is guaranteed by the Small Business Administration, and the need to make the annual creditor accomodation loan payment due in December. Emphasize Marshallese participation in that planning.

2. Determine the next steps to obtain the matching \$1,000,000 loan.

The KITCO board decision to continue in business and obtain financing anywhere they can has provided new local impetus to push for the \$1 million matching loan with the Micronesian Development Bank and leverage with them to provide it. We need to continue to evaluate the position of the Acting High Commissioner Peter Coleman and MDB President Knox McConnell and encourage the Boards to push for loan approval.

3. Phase out the use of ~~_____~~ Guardian letters of credit as a means of financing purchases.

The short-term financing of goods with a pool of \$5,000 to \$30,000 letters of credit is not always the best way to engage Guardians in financing. In the past, when TASC has not covered payments due, the ICA has covered them. At present, \$78,000 of ICA funds have gone into the EDGE account to prevent default. Were TASC to miss payment dates on present orders backed by Guardian letters of credit, another \$94,000 would be required in the EDGE account from the ICA. Letters of credit should be encouraged only with Guardians who lack the means or motivation to participate in more substantial ways.

4. Address the Marshallese "Financial Failure Mentality."

The Marshallese KITCO and MIECO board members have stated that they do not want to push hard for the matching \$1 million loan. We sense that it is because they do not want to risk future failure. They need to be released to see that the only way they will ever control their financial destiny is to take charge, obtain financing, budget its use and take the risk. A visit by J.W.Mathews would be a major address to this mindset, to indicate that we are willing to provide whatever assistance is necessary to enable them to succeed economically.

5. Avoid a potential \$374,000 loss.

The debt from TASC or the MHDP is:

Bank of America, Majuro L/C	\$50,000 ✓
ICA Short-Term Loans - Edge	78,000 ✓
Revolving Loan Fund (Guardians) - \$500,000	32,000
Nauru Co-signed Note 8000 ⁰⁰ for 2 mths.	64,000
Majuro House Loan (Order Trust Fund) _____	56,000 ✓
Purchases Outstanding (Guardian L/Cs)	94,000
	<u>\$374,000</u>

50
78
56
184 ORDER
-56
128

TASC losses through October (\$5,500) are increasing by \$500 to \$1,000 a month despite the fact that budgeted expenses were cut in half. This is due to sales volume insufficient to cover all expense. Low sales volume is due to insufficient purchasing power to order goods.

Potential sources of funds to pay these debts are:

Obtain a special grant	\$120,000
← Collect KITCO and MIECO receivables	← <u>119,000</u>
Collect other receivables	14,000
Sell goods and recover member assessment	31,000
Collect member stock subscription receivables	18,000
Fund industries and pay back TASC	58,000
Future profits on wholesale sales	14,000
	<u>\$374,000</u>

All of the above requires that KITCO, MIECO and TASC continue in business on a profitable basis.

6. Develop a back-up plan without the \$1 million.

Immediate financing is required for TASC to stay in business on a profitable basis and pay back its debts. It is estimated that \$250,000 of permanent financing is required, plus letter of credit financing of \$250,000. The initial financing required is a \$130,000 loan from the Revolving Loan Fund and obtaining a \$120,000 special grant. Guardian and Revolving Loan Fund letters of credit backing should be used until permanent financing can be obtained. (See below). Concurrently, merchandising policies should be implemented to reduce old inventories, increase wholesale prices selectively, use a more flexible pricing policy, use cash discounts effectively, maintain a constant product line, and push wholesale sales. (See recommendations for Merchandising Policies and Procedures).

7. TASC should be refinanced in 12 months.

The key to refinancing TASC is to get the financial statements presentation and profitability to the point where it is presentable

for obtaining long-term loans from banks, foundations, the government and other sources. This requires that particular attention be given to putting the financial statements in good order as of March 31, 1977 and September 30, 1977.

8. Increase the letter of credit backing to \$250,000.

Profitable operation in TASC volume buying requires projected purchases of \$75,000 to \$80,000 per month. In order to finance credit on these purchases for 90 days, short-term credit equal to three times monthly purchases is needed: \$250,000. These letters of credit should be obtained temporarily by using Guardians or Revolving Loan Fund collateral until more permanent capital can be obtained and/or long-term supplier credit is available.

9. Motivate suppliers to extend better credit terms.

Supplier credit terms of 90 days are required if we are to phase out of using letters of credit as a short-term credit device. In addition, we need five suppliers willing to give 50% discounts on one shipment and ten suppliers willing to sell to TASC at factory cost temporarily. The recommended means of bringing this about is through face to face contact with potential suppliers by either Development or GSD personnel.

10. Obtain ultimate Marshallese or outside financing for TASC and KITCO.

Presentable financial statements and credit performance eventually will allow TASC and EDGE to obtain collateral and other bank funds themselves. Catalyzing local Marshallese participation without giving a context based on liberalism means they should want to invest in their own companies because they see a good economic future. One way to provide an opportunity would be to create a trust for the benefit of business stockholders. This non-participatory Trust could buy a share of stock in a Marshallese business for every share purchased by the Marshallese, but would not participate in any way in the management of the business.

11. Continue emphasis on obtaining the \$1.8 million government grant.

With the lack of other local funding sources for the Marshallese, it is necessary that a continued push be aimed at obtaining the \$1.8 million from the appropriate agency to fund the MHDP. Solution of the short-term financial problems and expansion of the Small Industry Program should enhance this effort.

MERCHANDISING POLICIES AND PROCEDURES

Contradiction: Interpreting the economic principles of low external cost and maximum local turn to mean selling at minimum prices to customers and absorbing the losses ourselves.

Recommendations:

1. Work to establish a flexible pricing policy so that TASC can cover all its expenses in the short term and provide wholesaling profits.

While we need to reduce the cost of goods to the consumer, the economic principles suggest the key here is reducing the flow of cash out of the islands, and hence, quantity buying, competitive shipping costs, and minimum source costs. A higher TASC profit would release cash into the local market more rapidly provided we do not price ourselves off the market.

2. Continue to push non-member wholesale and look for places to vary mark-up.

Perhaps 7½% average markup is correct, but it would be wise to let it vary between 5% and 20%.

3. True operating costs should be modelled into the TASC basic price, and the percentage adjusted quarterly. A method for this calculation is: (Example only)

Annual Sales @ \$75,000 per month	\$900,000
Costs:	
Markdowns: \$5,000 goods/month @ 30%	18,000
Facility operations, maintenance, depreciation	6,000
Interest: 4% on \$374,000	15,000
Bad Accounts : 1/5 per year, 5 years	15,000
Other losses, 750x12	9,000
	<u>\$ 63,000</u>

or 7% of \$900,000.

In this example, the TASC operation cost should change from 4% to 7%.

4. For now, 16 products only should be stocked, and special orders should be examined for their effect on the ability to buy the 16 items in volume.

Only the top 16 sellers should be stocked, and the contribution of each evaluated and valenced. Special orders should be weighed over against their impact on collateral needed to purchase higher-profit volume items.

5. Liquidate slow-moving stock on a regular basis.

Regular liquidation is generally economical. Taking necessary markdowns frees money for other purchases. Of course, somewhere in the plan there must be enough profit to cover the losses.

6. Establish new markets, especially for the bulk goods that are not moving.

The corn starch miracle was great! Not only did it help liquidate a surplus, but is a clue to widening sales. The clue is limited testing in advance.

7. A regular promotional plan is necessary to expand business.

Promotional plans need to have the advantage of anticipation and drama, like, "the next field trip will have a special on..."

8. Old unpaid accounts can be turned into cash.

By selective review of old outstanding accounts, we may find ones we can realize cash from by offering a discount and an extended pay plan. To avoid creating an image that all debts will be discounted, a story for each one must be created. For instance, if liquidation goods were purchased at 10% off using credit, offer another 15% for cash.

9. A specific plan for settlement of old accounts must be offered to each customer.

One customer may accept a challenge to pay 5% per month on the past due while staying current on the remainder. Another may be challenged by promos or gifts for settling bad accounts. This includes KITCO and MIECO.

10. Never offer credit on liquidation items and avoid credit on promotional items.

11. Promote cash payments, but don't sacrifice customers.

Perhaps a 1-3% discount for immediate cash would be appropriate. But a good 10-30 cash policy with regular customers is better than intermittent customers paying immediate cash. The purpose of cash is to get money for more inventory. Tell them this!

12. Motivate suppliers to promote goods at cost.

Franchises and distributorships would cut out the continual reliance on the continental distributor as well as increase the market and provide job opportunities. The ICA Social Demonstration story could be used to get at-cost goods for a year for a location.

13. Weekly and monthly financial analyses are needed to make plans, just as regular monthly and sales analyses are required for ordering and distributing goods.

The information needs to go to the Nexus. Every business sets up some form of financial accountability so that those operating the business are not bogged down by finances, but are informed by the imaginal accountability as to what business trends are required.

SMALL BUSINESS

Contradiction: The propensity to do industry ourselves rather than catalyze local people to do industry.

Recommendations:

1. Guild formation.

A guild needs to be formed around each small industry. A local guild prior is needed for each guild; without an indigenous leader, nothing else can happen. The guilders then form a company composed of personal investments by the guilders which is used to capitalize the industry, or, if already capitalized by TASC, to purchase the industry from TASC on contract. The guild leader provides management skill; he is chosen for his qualifications of judgement and discipline. If he happens to lack bookkeeping skills, the Business Academy can train him quickly, since he now sees a reason to learn quickly. Maintenance and repair skills are provided by guilders chosen for their manual ability, who can be trained by the Multi-Purpose Repair Shop, and who have incentive to learn quickly, because they share with the other guilders in the industry's profits. The guild, with the assistance of an auxiliary if needed, does a market and resource analysis.

2. Fund the sawmill.

The success of the sawmill is dependent now on funds for new equipment and a stock of spare parts. Seattle First National Bank has evinced interest in lending money for this. The data for writing the loan proposal is available. The proposal needs to be written at once and submitted to SFNB. It needs to be allocated in such a way that the loan can be retired, yet TASC can benefit. A Guardian expert needs to go to Majuro to assist them. A guildler needs to be trained in saw maintenance, and a sharpening jig procured. A local company needs to be formed to receive loans and to purchase the sawmill from TASC.

3. Initiate commercial fishing using existing equipment.

We need to form a Fishing Guild and do a market analysis relative

to fresh, frozen and canned fish. Then we need to allow the guild to experiment, using available local equipment, until they discover the best ways of catching fish in volume. Dr. Buck's report will be useful in this effort. The move from simply catching fish and selling them fresh to intensive sea harvesting with a modern cannery can be funded locally if it is done in stages and with patience. As profitable fishing is demonstrated at each level of technology, the guilders and other local people or institutions will themselves fund the next level. Dr. Buck has said that he will return to Majuro to assist in the intensification of mariculture once success has been demonstrated at the low technological level his report recommended.

4. Establish a Small Business Investment Company.

An SBIC needs to be established on Majuro to attract local savings for loans when necessary to supplement guilders investments in small industry. The Small Business Administration needs to be involved, since they assist in SBIC set-up and guarantee its loans. The SBIC also would offer the Bank of America incentive to broaden its services to the Marshallese.