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UNITED STATES GOVERNMENT

Memorandum

TO : MO/PAV, Room B-930, N.S.

DATE: 3/27/80

FROM : USAID/Port-au-Prince, Haiti

SUBJECT: PES #521-79-9, Small Farmer Improvement (Coffee Production) (073) and PES #521-79-8, Small Farmer Marketing (Coffee Marketing) (083)

The following documents:

(pp-32) (1) PES #521-79-8 and 521-79-9
(NOTE: These related projects are reviewed in a single document to facilitate the development of a Mission strategy concerning future involvement in the coffee sector and assistance to the small farmer.)

(pp-97) (2) Attachment #1, Report to the Management of the Bureau de Crédit Agricole on Institutional Performance, CUNA, April, 1979.

(pp-180) (3) Attachment #2, Evaluation of Haiti Coffee Roads Project (073) and Implications for Other Labor-Intensive Rural Works, Group Seven Assoc., Inc., November, 1979.

(pp-58) (4) Attachment #3, Evaluation of the Small Farmer Development Project Haiti, MASI, November 23, 1979.

(pp-57) (5) Attachment #4, Analyse du Projet, Projet de Commercialisation Caféière, Jimenez, January, 1979.

Total 6 pp (424) are submitted for reproduction and distribution.

N.B. Please notify Bernice Goldstein, LAC/DP/PPE upon receipt.

CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) - PART I

Project Title	2. Project Number	3. Mission
Small Farmer Improvement (Coffee Production)	521-0073	Haiti
	4. PES No. 521-79-9	
Key Project Implementation Dates	6. Project Funding	7. Period Covered
a. Pro Ag. : FY 74 b. PACD : FY 81	$7,905,000	6/7 - 11/79

Project Title	2. Project Number	3. Mission
Small Farmer Marketing (Coffee Marketing)	521-0083	Haiti
	4. PES No. 521-79-8	
Key Project Implementation Dates	6. Project Funding	7. Period Covered
a. Pro Ag. : FY 77 b. PACD : FY 82	$2,200,000	8/77 - 12/79

This PES summarizes and consolidates the findings of a number of evaluations and studies of the Small Farmer Improvement (073) and Small Farmer Marketing (083) projects. Both projects were designed to increase small farmer income via improvements in the quantity and quality of coffee production. These projects are reviewed together to facilitate the development of a Mission strategy concerning future involvement in the coffee sector and assistance to the small farmer.

Project Officer

G. Neptune, ADO

L. Morales, ADO

Mission Director Approval

William G. Rhoads, Acting Director

Date

I. Introduction

Small Farmer Improvement (Coffee Production). The Small Farmer Improvement project (073) started in June 1974. The grant element ($1,505,000) is scheduled to terminate June 24, 1980. The loan component ($6,000,000) has a present TDD of May 1, 1981.

The project was designed to increase the productivity and income of small coffee farmers. In order to accomplish this objective the project, as originally designed, provided for several categories of inputs:

- Commodities (primarily fertilizer);
- Technical Assistance;
- Training, extension and research;
- Credit; and
- Infrastructure development (rural roads and coffee centers).

The design also called for a delivery system to provide these inputs in a timely and efficient manner. Two Haitian organizations and two donor organizations have been involved in managing the project delivery system. From the Haitian side, the Institute Haitien de Promotion du Café et des Denrées d'Exportation (IHPCADE) was given the responsibility for the development and extension of an appropriate coffee farming technology, for the procurement of commodities, and for infrastructure development; and the Bureau de Crédit Agricole (BCA) was given the responsibility for the provision of credit. Both these organizations are semi-autonomous, operating out of the Department of Agriculture (DARNDR). From the donor side, FAO was to provide technical assistance to IHPCADE on such matters as coffee farming technology, fertilizer formulae and extension; the USAID provided technical assistance in credit operations to BCA through a contractual arrangement with the Credit Union National Association (CUNA) and in infrastructure development to IHPCADE through the services of a contract engineer.

The project design anticipated the staged occurence of a number of other activities which were designed to facilitate the delivery of the technology/ credit/ fertilizer package. Coffee centers were to be built and equipped, and about 100 miles of rural roads were to be constructed and improved. Farmers, extension agents and other key project personnel were to be trained in coffee technology, in cooperative formation and in management. In addition, the possibility of establishing a stabilization fund to protect coffee prices against severe seasonal and [illegible]al fluctuations was to receive thorough study in the first year of the project. The project was in its third year of operation when the Small Farmer Marketing project was developed.

<u>Small Farmer Marketing (Coffee Marketing)</u>. The Small Farmer Marketing project (083) started August 29, 1977. The PACD for the $2,200,000 grant is August 30, 1982. The project was designed to establish a marketing network composed of local cooperatives and a national coffee processing center to export washed coffee under a Haitian specialty brand. The grant was supposed to finance technical assistance and training to strengthen the institutional capabilities of IHPCADE and the Agriculture Cooperative Service (ACS) in order to provide coffee marketing services to the small farmer. It was also to be used to finance construction and equipment for three small coffee processing plants for the new cooperatives with technical assistance and training for participating farmers in processing washed coffee and managing a cooperative. A major objective of the grant was to disseminate washed coffee technology for the purpose of up grading the quality of Haitian coffee, thereby increasing farm gate prices and rural incomes.

<u>Past Evaluations</u>. There have been a number of evaluations and special studies of the coffee production and marketing projects. The first full evaluation of (073) was done by Development Associates, Inc. (DAI) in May/June, 1977. Special studies of the BCA Credit component were completed by CUNA in November, 1976 and in April, 1979 (Attachment #1). A socio-economic impact study was undertaken by PCI in January, 1979 (transmitted to AID/W via TOAID A-7, dated 3/6/79), an evaluation of coffee road construction was done by Group Seven Associates in October, 1979 (Attachement #2), and an evaluation of the extension, research and training components was completed by MASI in November, 1979 (Attachment #3). The only external evaluation of the marketing project (083) was a special study of the Haitian marketing system entitled, "Analyse du Projet de Commercialisation Caféière", by Alvaro Jimenez Castro

in January 1979 (Attachment #4). The major findings and recommendations of the above evaluations are cited in Part III of this PES. A summary of conclusions and program implications drawn from these evaluations follows.

Annex A contains a summary of USAID decisions regarding changes in the design and implementation of the two coffee projects resulting from a review of evaluation findings held on March 4, 1980.

II. Conclusions and Program Implications

Most of the macro-economic and technical arguments for the development of coffee in Haiti which provided the initial justification for the coffee production project remain valid.

The usual economic arguments are that coffee is a major earner of foreign exchange, a significant contributor to tax revenues and is widely produced by small farmers. The major technical arguments are that coffee is a labor-intensive crop, that marginal improvements in cultural practices will reap significant increases in production, that it is a hillside crop where most of the small farmer target population lives, and that coffee plantations help to stabilize soil and prevent erosion. These are imposing arguments which would be difficult to counter if the issue were the selection of a single commodity as a focus for assistance. But that is not the issue. The issue is rather, how do we assist the small farmer, who is the main producer (harvester) of coffee in Haiti, to improve his economic well-being, and also increase the production and quality of coffee as a contributing factor.

Since the beginning of the Small Farmer Improvement project, a considerable body of information has been developed about the Haitian peasant farmer and about structural and policy constraints affecting coffee production. This information supports a broader approach to the problem of increasing small farmer income, and with respect to coffee it clearly dictates the need to confront the issues of price policy and marketing inefficiency.

The findings of the evaluations cited in the Introduction are detailed in the next section of this PES. The salient information contained in these findings has been summarized below to facilitate decisions concerning program modifications and project design.

1- Coffee production in Haiti has remained stagnant in the face of an upward trend in world market prices. This situation is primarily due to the following factors:

(a) excessively high taxes on coffee exports.

(b) inefficiencies in the marketing process resulting in high costs.

(c) absence of credit supported by sound technical assistance to the farmer.

2- The majority of the small farmers in Haiti are not coffee "producers". They are subsistence farmers who, in addition to food crops which they raise primarily for consumption, have some coffee bushes which grow in a semi-wild state which they harvest to provide a cash supplement for their basic needs.

3- The small farmer is an economic man who makes decisions which advance his self interest. He knows, for example, that fertilizer can increase his production and he uses it on those crops from which he anticipates the best return.

4- The Loan Agreement for the Small Farmer Improvement project states that, "the fertilizer will be used exclusively for coffee production...". In view of the size of the plots of land involved, the practice of inter cropping, the absence of a tested technical package for coffee, and the relative price advantage of other crops, this requirement is impractical and unenforceable. This problem was pointed out relatively early in the project. The DAI evaluation report (June 1977) expressed this view ".... the complementarities between technological change and socio-economic factors affecting the farmers total farming system have not been fully appreciated or integrated into the planning and implementation of the project." (p. 13)

5- Fertilizer is not being used exclusively for coffee. There is some evidence from recent BCA surveys that fertilizer is being used primarily, if not exclusively, for food crops.

6- Credit Societies (SACs) organized for receipt of loans under the coffee project have an attrition rate of 80%, while small farmer groups organized to receive traditional (non-coffee project) loans have an attrition rate of only 9%.

7- The loan recuperation rate for traditional, crop-production loans is 92%, while the recuperation rate for coffee loans is only 57%.

8- Technical assistance to the small farmer is weak and unsupported by basic applied coffee research. No research in coffee is currently being conducted.

9- The coffee marketing system consists of local speculators who buy coffee from the small farmer and provide him with informal credit sometimes in advance of harvest. There are a number of export agents who buy from the speculator and a small number of exporters who process and export coffee. About 92% of the Haitian coffee exported is dry processed.

10- Wet processing produces the highest quality coffee. Only 8% of the coffee in Haiti is wet processed. Most processing facilities in Haiti, operated by the exporter, are antiquated and inefficient. Little is being done to modernize processing plants because of the large capital investment required and the absence of the necessary price incentive.

11- Wet processing starts with the ripe cherry which must be transported to the processing center within 24 hours or the bean is spoiled. Roads from the farm to the processing center must be in a condition to permit quick transport. Where distances are great, vehicular access is essential.

12- The small farmer is not organized and has no control over the price he receives for his coffee.

A major constraint to increasing coffee production is clearly the low price received by the producer. The main factors contributing to the low price are the high export tax and the high cost of marketing. Thus the first and most obvious policy action would seem to be a lowering of the taxes on coffee exports. One of the Covenants of the Small Farmer Improvement loan called for the GOH to carry out a study of the impact of coffee tax rates and world market prices on producer prices and the need for the establishment of a coffee price stabilization mechanism, including possible means of financing the capitalization of a coffee price stabilization fund.

In April 1976, JWK Intl. undertook a coffee policy study which indicated that, whereas lowering the export tax on coffee is a desireable long-term goal, an immediate tax reduction would be ineffective because of the extremely low price elasticity of supply in Haiti, implying that in the short run production would not increase significantly in response to a tax reduction, and government revenues would fall significantly.

The study proposed that instead of reducing taxes the GOH should use the revenue to improve coffee productivity and transport, and identify alternative sources of revenue so that it might eventually reduce coffee taxes. One use for coffee revenues suggested by the study was the establishment of a price stabilization program. There is little evidence that the GOH has responded or intends to respond to any of these suggestions to improve returns to the producer.

The Small Farmer Marketing project was designed to address marketing inefficiencies. It ignores the tax question except for the following statement in the social analysis.

"The Haitian coffee export tax is currently the highest in the world and must be considered a disincentive to the farmer to increase production. If, however, the total value of exports of Haitian coffee can be increased as projected, it will be possible to maintain or increase the present revenues even with a recommended reduction in the ad valorum tax."

Thus the designers of the marketing project apparently chose not to confront the tax question directly, but rather to focus on improving the quality, and thus the value of coffee, by modernizing coffee processing, and assuring better returns to the small farmer through the development of producer coops.

On the production side the major failings were due to the absence of applied coffee research and extension of a cultural package which included fertilizer application recommendations based upon regionalized, applied research findings. Production increases did occur, but the farmer learned that returns on his investment were greater with crops other than coffee for the reasons already discussed. The Daine s study measured an inevitable physical result, namely that fertilizer and some simple cultural practices such as pruning and adjusting shade will increase production of coffee. But when this finding is combined with other information such as low coffee loan recuperation, SAC attrition, and stagnation, if not reduction, of national coffee production, a completely different picture emerges. The project helped teach participating farmers about fertilizer but did nothing to break the major constraints to increased coffee production. GOH fiscal policy remains inimical to the goal of the Small Farmer Improvement and Marketing projects, VIZ., to increase coffee production, improve the balance of payments through increased exports of coffee, and increase revenues from coffee. Nevertheless, the goal of increasing small farmer income is probably achievable, if not constrained by the single commodity focus of the coffee projects.

The program implications which logically follow from these findings that USAID/Haiti should not invest further in attempting to achieve coffee "production" goals unless and until the GOH provides tangible evidence that it intends to improve the policy climate for that commodity.

Assistance to the samll farmer should be provided within the context of institutional development of public and private organizations (coops) whose mandate or past performance demonstrate a concern for that target group.

Major investments already made in infrastructure (roads and centers) should of course be protected. This would involve assuring that there is a continuing institutional responsibility for maintenance, integration and expanded utilization of these vestigial assets.

The penetration road construction component of project 073 might be integrated into TPTC if only to improve the prospect of maintenance of the roads. Since the road construction component is financed from Title I, the completion and expansion of that system, providing farm-to-market access irrespective of commodity, is a natural candidate for labor-intensive brigades being developed under the agricultural feeder roads project.

The so called "coffee" centers might be developed further as multi-purpose, farmer service centers, for dissemination of technical information, credit and other production inputs, for collection, processing, storage and shipping points, as headquarters for cooperatives, etc. Institutional responsibility for utilization and maintenance should probably rest within DARNDR.

In spite of the policy constraints to coffee production, a present focus on coffee processing and the development of cooperatives holds some promise of contributing toward the goal of increasing small farmer income. There is no overriding reason at this time to interrupt the process of coop organization. As a matter of fact the marketing project design does anticipate that, whereas the original impetus for organization was coffee, the coops will probably expand their role as they gain managerial and financial strength and will begin providing production and marketing services for other crops as well. This process should be encouraged. Some redesign and redirection of the marketing project might be called for if the intent of the Mission is to deemphasize coffee and bring the small farmer income objective into clearer focus.

III. Evaluation Findings and Recommendations

Evaluation of 072 by DAI. The DAI evaluation report indicated that the project as originally designed and implemented, would not achieve its objectives. It recommended a revision of the PROP, extending the life of the project to the end of FY80, and the provision of technical assistance in the areas of management, extension and research. The PROP revision was approved one year later in August, 1978. Although the August 1978 project agreement revision was designed to meet most of the evaluation recommendations, the only actions taken subsequently were the transfer of coffee production from IPICADE to DARNDR, thus strengthening project management on the Haitian side, and the stepped up use of the Fond-des-Negres center as the principal training site. The important element of technical assistance advisers for research, extension, and management, however, was not acted upon.

Evaluation of BCA. The Credit Union National Association (CUNA) report of April 1979 pointed out that the Bureau de Crédit Agricole (BCA) deficit grew as lending activities increased, and that there was no predictable break-even point as long as the loan recuperation trends continued to be adverse. Borrower drop-out rates from year to year also were discouraging. The weakness of BCA's capital structure was another obstacle to sound lending activities. Reliable research results and effective extension services were pre-requisites of any credit program, but these were nonexistent or inadequate. The CUNA report warned, "There should be a serious concern about the use of the BCA to deliver credit for production programs that are not based on field tested technologies and reliable cost/return analysis. Such BCA participation places the institution in the position of risking its credibility with clients and suffering reduced revenues through delinquency and reduced loan demand."

The CUNA report indicated that in contrast to pay back rates of only 57% with the coffee project, recuperation of traditional, food production loans was as high as 90% and demand for traditional loans was strong and increasing. This information corroborates the finding of the

PCI Impact Study (discussed below) that a significant percentage of the production increases achieved by small farmers utilizing credit supplied by the coffee production project, was due to increases in the production of non-coffee crops.

A number of recommendations were made in the areas of loan portfolio management, Agriculture Credit Society (SAC) development, financial management, coordination of agricultural support services, BCA organization and management and alternative credit delivery systems. These recommendations are:

1. The BCA should implement a redesign process which will, by December 31, 1979, result in a reduction by at least 50% in the documentation currently required to process a society loan.

2. The BCA should immediately implement Article 33.2 of the Revised BCA Manual, or a revised version of this Article, which would allow Regional Directors to approve annual lines of credit for established clients consistent with adequate system of control and essential information requirements.

3. The BCA should receive technical and resource assistance that will enable them to establish radio communication with its field operations by December 1979.

4. The BCA should integrate the improved loan portfolio management procedures adopted in 1977 into the revised "Operational Manual" and prepare a plan of action to assure strict compliance by all field staff.

5. The BCA should temporarily reduce the rate of formation of new Societies and focus more immediate attention on the institutional strengthening of their existing network of Societies. However, it is recommended that the development of such a BCA Society strengthening program be based on a sound understanding of the causes behind the current high rate of Society attrition and poor lending performance. This might best be done through the excecution of a short, but thorough sample survey of a limited number of BCA Societies along the lines of the draft study model presented to both AID/H and the BCA by CUNA in May of this year.

6. The BCA should prepare a realistic long-term capitalization strategy which incorporates mobilization of a suitable mix of grant funding, equity capital, concessional and hard loans, and substantially-expanded levels of client savings such that (a) the net rate of return on said savings is increased; (b) the BCA specifies how the serious projected post-project cash flow problem is to be resolved, including implications for continued fertilizer purchases and necessary adjustments in the fertilizer subsidy levels;and (c) a seasonal,interregional funds transfer program for short-term lending to clients is adopted to decrease levels of idle funds, also increasing the BCA's overall gross rate of return on invested capital. The strategy should, furthermore, be consistent with the stabilization of BCA's operating deficits.

7. The BCA's financial reporting system should be improved so that (a) revenues and expenses of all bureaus can be controlled on a timely basis; (b) detailed income and expense statements for each bureau are generated monthly;and (c) bureau directors can be held accountable for compliance with budgeted figures (those within their discretion), prompt disciplinary action taken when necessary, and bureau directors compensated according to results attained. Initially, this would entail generation at headquarters of monthly income and Expense Statements for each bureau and would require some modification of existing central bureau accounting procedures, in turn implying the need for technical assistance in this area.

8. The BCA should develop a revenue strategy, perhaps requiring increases in its charges to Societies, such that projected GOH subsidy requirements do not exceed a level the GOH is willing to commit itself to over the long-term.

9. A change in the conditions that regulate disbursement of the $5 million PPC fertilizer loan should be negotiated to : a) permit current and pipeline stocks of fertilizer to be used for food production and storage; b) permit a portion of remaining loan funds to be issued in cash.

10. Collaborating organizations should alter their strategy in regard to the BCA, focussing attention on: a) maintaining and expanding the traditional loan program; b) undertaking a systematic program of BCA institutional development; c) suspending production technology-oriented credit programs until

such time as concurrent efforts to strengthen research, extension, input-supply and marketing support services have proved successful.

11. Technical assistance should be provided to enable the BCA to complete a function/task analysis of the organization with the purpose of 1) reducing work duplication, and 2) designing a management system which delegates greater responsibility and authority to selected BCA staff.

12. Technical assistance be provided to the BCA to develop an effective personnel system that will, among other things, a) attract and retain competent staff, particularly in the area of financial management, b) identify and develop training programs that address deficiencies in staff skills and attitudes, and c) result in an employee performance appraisal that encourages accountability and superior performance.

13. Technical assistance should be provided to the BCA to develop organizational planning capabilities that will result in a) an institutional development plan, b) annual operating plans, and c) regional and sectional action plans.

14. Technical assistance should be provided to the BCA to design an experimental field project to test the feasibility of one or more alternative credit delivery systems. The design would identify a) the models to be tested, b) the criteria for evaluation, c) potential project areas, d) the methodology of implementation, e) required changes in the BCA system, and f) financial and technical resources required.

Impact Evaluation. The study undertaken by Practical Concepts, Inc. (PCI) attempted to measure the impact of the project on small farmer income and productivity. The study was also intended to establish a baseline for goal level indicators and methodology for future replication. The major findings of the study were:

1. That about 70% of the farmers participating in the project achieved substantial increases (21 - 37%) in income. About half of the increase was in the form of increased profits and half in the form of increased employment opportunity for absorbing under-utilized family labor.

2. That project participation had a fundamental impact on increasing the productivity of land on participant farms and also increased the productivity of smaller farms in comparison to larger ones. Estimated production increases were as high as 80% on farms of three hectares or less. Two thirds of the production impact was attributable to increases in coffee.

3. That coffee production increased by approximately 40% on participant farms as a result of the project. Fertilizer use increased dramatically, but other technical inputs such as introduction of new coffee varieties were found to be insignificant. Technical assistance from extension agents reached 99% of the participants and 86% felt that the service had increased their coffee income. Farmers indicated that additional fertilizer is the most important way to increase coffee income, followed by pruning coffee bushes and reducing shade. Improved varieties, cooperative marketing and increased plantings to reduce the age of the stand were all seen by farmers as of lesser importance.

4. That 91% of the participants indicated a need for additional funds in the coming agricultural year. It is significant to note, however, that when asked what use would be made of the loan, the three most important were non-coffee uses.

5. That non-coffee lending has had no income impact and only very slight production impacts. Note: This finding is qualified by subsequent analyses undertaken by BCA which suggest that farmers have used the in-kind credit (fertilizer) provided through the project for food crops rather than coffee to a much greater extent than previously thought.

Evaluation of the Coffee Road component. The evaluation of the penetration road component of project 072 by Group Seven (10/79) was a review of construction methods and practices and a discussion of implications for other rural works projects in Haiti. Group Seven also undertook a small survey (50 villagers in Fond Jean Noel) as a preliminary step in the development of indicators for measuring the socio-economic impact of the coffee roads on local communities, and developed a tentative methodology for a full baseline study to be undertaken in FY 80.

The major findings of the coffee road evaluation are:

1. The roads are 43% completed [1] at a cost of $455,090 which is 76% of the funds originally budgetted ($675,000). The ultimate cost will exceed the original budget by 64% ($675,000 to $1,110,000).

2. GOH did not make the roads element of the coffee production project one of its rural development priorities. Counterpart engineers were not made available for a year and a half. When they were (July 1979), the U.S. paid for them.

The U.S. consulting engineer left in June 1979. Thus, AID consulting services will not be available to help in setting up a community-based system of road maintenance, as called for in the design.

3. Although various committees have been set up to provide "coordination" of DARNDR, IDECADE, BCA and AID with regard to coffee roads, none were effective.

4. Location of the roads is in basic conformity with the purpose of the project and the requirement to maximize use of labor-intensive methods was met. Communities supplied labor but not as a voluntary contribution to the project.

5. Language in the CAP notwithstanding, IDECADE did not and does not presently have the capability to administer the coffee production project.

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1 Method of computation of "percentage completion" is found on p.28 of the Group Seven report (Attachment #2)

The law creating IPHCADE in 1968 gave that organization a role in coffee production and authorized it to construct or finance the construction of "penetration routes" to centers of production of coffee and other export commodities. In spite of this legislation IPHCADE's primary role, as its name implies, has been promotion and marketing. There has been no subsequent revision of the responsibilities and modes of operation of IPHCADE to enable it to handle the radical changes in volume and character of work load imposed by the coffee production project. The project added unprecedented activity in coffee production, as opposed to "promotion" and "commercialisation", road construction, and massive and unfamiliar programs in credit and fertilizer, which called for close coordination with the BCA.

In late 1978 the project was transferred from IPHCADE to a unit in the Department of Agriculture. [1] Group Seven was unable to identify any clear consensus as to why the move was made at that time. Road construction management, never was an integral part of IPHCADE and is not now an integral part of the coffee project.

6. Completion of work presently planned will require that attention be given to the following matters:

a) GOH budget commitments to the project's roads elements should be clarified. Some $200,000 of the GOH's roads commitment for the five years now ended remains unspent. The GOH has transferred or withdrawn some of its local currency project support. This matter, which involves inter-governmental agreement, affects not only the roads, by the success of other project elements to the extent that they depend on roads.

b) Reliable arrangement should be developed for paying labor on time.

c) Provision should be made for local community involvement in road maintenance.

Group Seven evaluation recommendations are:

1. That laborers be supplied with adequate <u>hand tools</u> at the earliest practical date and that provisions be made for stocking and issuing replacements as required. Once properly supplied, additional distribution could be

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1 At the time of this writing another reorganization is underway to return the project to IPHCADE.

on a replacement basis with broken tools or handles repaired by a local craftsman.

2. That USAID exert maximum pressure to meet coffee road payroll obligations within a reasonable time following the obligation.

3. That a policy be adopted and implemented which recognizes varying subgrade conditions and adjusts pavement thicknesses or corrects subgrade to insure uniform pavement support.

4. That greater emphasis be placed in providing drainage, both longitudinal and transverse, at the early stages of construction. (Suggested: At least rough longitudinal ditching where indicated at the 3-meter phase, essentially complete -- though not paved -- ditching at the 5-meter stage, prior to paving.

5. That consideration be given alternate paving materials for the roadway where such materials exist, are more easily obtained, or can be more economically placed, than the existing standard. This would necessitate alternate standard pavement designs to reflect the use of other materials.

6. That the present intent to coat all macadam surfaces with a mixture of lime, bagasse and soil be re-examined to determine if it offers any significant advantage over selected soils alone.

7. That road maintenance be recognized as a need immediately upon completion of any segment of road (1 Km) and that it be formally assigned. Whether maintained directly by SEPRRN or through community action, we suggest serious consideration of the system whereby one or two individuals, preferably ones previously involved in the road construction, be provided with hand tools and assigned responsibility for routine maintenance for a specific short section of road (1 - 3 Kms). Unusual maintenance conditions would require appropriate additional support from SEPRRN.

8. That an analysis be undertaken to determine the various elements of construction to permit rational consideration of alternative materials or alternate methods.

9. That USAID focus promptly on what its position would be if the GOH favored a continuation of the Coffee Roads Program, both for completion of present plans for 105 Kms approximately (together with maintenance arrangements) and for additional sections totalling a possible 155 Kms. Arguing <u>for</u> it, among other things, is the value it may have in further development of the labor-intensive method.)

10. That if the present 105 Km project is to be the beginning of a larger, programmatic effort, responsibility for roads be shifted to TPTC.

Concerning the application of labor-intensive approaches in other Haitian rural works, the following recommendations are made:

11. Consider how to structure a possible coffee road extension program in order to maximize its value in refinement of labor-intensive methods (e.g., a pilot test of payment per unit of road achieved rather than per day).

12. Contrary to the coffee road experience, labor-intensive activities should be provided high quality, well designed hand tools which will not only permit getting the job done faster and better, but perhaps more importantly, may correct somewhat the deficit in prestige and status vis-à-vis equipment based approaches.

13. Carry out a literature search on labor-intensive work here in Haiti, with supplement from Washington sources. AID experience with labor-intensive work is greater than the present personnel of the Mission may realize. The various cases should be looked at for possible lesson value and for "literature" they may have produced (project reports, end-of-tour reports, etc.).

14. AID, with GOH cognizance, should begin to "codify" its ideas as to a strategy of the labor-intensive method, covering such things as: the optimum role of Government and of technical assistance; standards in various design matters; cost guidelines; position in regard to scheduling of given projects, and, phasing of sector programs, and so forth. This could serve important archival, as well as future project design, functions. Conscious and systematic communication on the topic should be maintained between the USAID and the GOH (at present, the Plan Department, plus selected other

services mainly in TPTC and Agriculture). USAID might also initiate contacts on the subject with other international agencies. Within the Mission, a single person should not be given the labor-intensive assignment (except perhaps as an information resource depository) since it may touch on everyone's work. Rather, everyone should be invited to consider the topic in their analytic and planning approach to any potential project.

15. The labor-based method should be counted as an element of both national and rural sector goal strategy in all future high-level policy deliberations.

Evaluation of Research, Extension and Training. Multinational Agribusiness Systems, Inc. undertook an evaluation of the research, extension and training components of the coffee production project

The major findings of this evaluation were:

1. Delays in beginning adoptive research in coffee have jeopardized the long-term success of the coffee production effort.

2. Extension work in the coffee sector can never be fully effective until adequate research has been performed and translated into useable practices for the farmer. Nevertheless, extension activities under the project appear to have picked up momentum during the past year after assignment of an energetic Extension Director.

3. There has been far less formal training for PPC leaders and agronomists than was planned under the project and there has been more training of extension agents and farmers than previously reported.

4. PPC project management in general has improved considerably over the past year since the transfer of the coffee production functions from IPHCADE to DARNDR. Top managers appear to be competent and knowledgeable.

5. A very real constraint to the success of the coffee production effort is the motivation of project personnel. Posts are isolated; pay is low; there are few amenities for families.

6. The Coffee Operations Centers are being used increasingly -- but they have not reached their full potential use, especially since the research function has not yet been developed.

7. Most of the Coffee Centers appear to have been over-designed in terms of the buildings. Low budgets have affected their proper functioning. They could serve a broader function if they were to be used as full farm service centers.

8. The sheer number of small holdings of uncertain land tenure (minifundia), and the number of small farmers is a severe constraint to project implementation. This compounds the extension problem.

9. Marketing, storage, and transportation problems still are substantial constraints from the small farmer's viewpoint. Stronger co-operatives are probably the only reasonable course open to this group if they are to be expected to produce more, and reap benefits from increased production.

These and other findings of the evaluation led the evaluator to conclude:

> "We doubt that a pure "coffee" project can be successful in the immediate future because of the engrained food-first attitude at the small farmer level -- he is basically a <u>subsistence</u> farmer; he is not a <u>coffee</u> farmer."

Recommendations of the MASI report are:

1. Before the U.S. gets into further long-term, expensive projects, the question of whether coffee really is an area for comparative economic advantage for Haiti should be examined from the macro-level of world markets, coffee quotas, etc., and from the micro-level of how responsive the Haitian small farmer is likely to be to further assistance, especially in light of his options of producing other crops.

If a hard look at the coffee sector indicates a positive picture, then

AID must get down to the bedrock decision as to what it can do to assist Haiti.

2. USAID should not do piecemeal project evaluations; projects should be treated as units of management, or be disaggregated, and reviewed accordingly.

3. The fertilizer subsidy to the farmer should be discontinued. Fertilizer could be provided without charge, however, for the Coffee Center activities and for adaptive trials purposes on cooperating farmers' plots.

4. Deobligate the unused balance of the loan when the current PCD expires; this large balance increasingly will become a target for the oversight agencies.

5. A Coffee Research Adviser should be brought on board soonest to help get the laboratory at Damien set up and operating properly.

6. A Coffee Production and Extension Horticulturalist should be recruited to help PPC rationalize extension education and methodology.

7. The Extension Specialist should help design visual aids equipment and materials such as flip charts, flip books, etc., so that these may be provided to the Centers and through them to the farmers.

8. A preventive maintenance program snould be set up at each Coffee Center. Otherwise all of these new buildings and appurtenances will become eyesores. Wall cracks, improperly installed equipment, etc., need attention. All equipment, such as generators, should be kept in operable condition.

9. USAID should make a special effort to persuade PPC to attack the weed problem at the Coffee Centers. Not only do these plants give the stations an untidy appearance around the buildings and in and among the plots, they draw soil moisture and nutrients unnecessarily.

10. A survey by PPC and USAID should be made at the Centers to determine what relatively simple tools and labor savings devices would improve operations. For example, grass whips make a good tool for controlling weeds and may be a more efficient alternative to the machete.

11. USAID should order a supply of <u>Handbook of Tropical and Sub-</u>

Tropical Horticulture, 1968,. E. Mortensen and E.T. Bullard. This is an AID publication, with English and French editions. Although the last printing was 1968, the information on coffee culture still obtains.

Evaluation of the Small Farmer Marketing Project, (083). A special study of project 083 was undertaken by Alvaro Jimenez Castro in January, 1979.

Major findings were:

1. In recent years coffee production in Haiti has decreased.

2. The reduction is due to low profits obtained by the small farmer who produces the coffee, high taxes on the exportation of coffee (19% ad-valorem for washed coffee and 24% for dry processed coffee), equally high costs and excessive profits to middlemen in the marketing process, and the lack of technical assistance and credit for the producer.

3. Only about 8% of Haitian coffee is processed by the wet method, which produces a superior quality and demands a higher price, while 92% is processed by the dry method. This is due to the lack of wet processing facilities and inadequate roads to permit quick transport of the coffee "cherries" to those facilities, which must occur within a 24 hour period from harvest.

4. All the efforts of the GOH, USAID and other international organizations to increase the income of the small coffee farmer by means of improving production practices or methods of processing, will be of no avail if the present system of marketing coffee, involving the speculator, exporter agent and exporter, is not addressed.

5. A new marketing system involving producer cooperatives, and processing centers for producing washed coffee should be developed.

The Jimenez report makes a number of recommendations on marketing relationships and operations which assume that the marketing project will be implemented essentially as designed. These recommendations follow.

Recommendations:

A. Market Information

The Small Farmer Marketing Project (SFMP) will need to improve information on the world coffee market.

1. The farmer does not need information about the world coffee market. Information that he receives from the private sector, cooperatives and IPHCADE are enough.

2. Cooperatives should have better data on the world coffee market provided by the CNCC and IPHCADE. The data must be simple but enough to allow them to decide, together with IPHCADE and CNCC, about:

a) the price to pay to farmers (reviewed periodically)
b) selling opportunities
c) coffee selling price.

3. The CNCC should have day-to-day data on the coffee market so they can make marketing decisions. (The Jimenez Report lists a number of sources, pp.28,29.)

B. Marketing Relationships and Operations

1. Farmer - Cooperative Relations

a) Purchase period. The cooperative must be able to buy coffee at the best time for the farmer. For "café cerise" the purchase period lasts about 7 months, from August to March. The opening date must be notified in advance. The purchase period must not last longer than necessary in order to cut down operating cost.

b) Purchase price. The cooperative should establish the purchase price for "café cerise, café coque and café naturel" during the purchasing period. These prices are subject to change depending of the world market. Price variations should be avoided as much as possible because it is disconcerting to the farmer. Some price modifications on the world market can be absorbed by CNCC. In any case the purchasing price established by cooperatives should not be less than that set by the private sector. The farmer (member of a cooperative) must be aware of the "surplus" he will receive when cooperatives share the refund (ristourne). It is understood that one part of the "surplus" will increase the capital of the coop and the other will be distributed proportionately to all members.

The purchase price to the farmer set by cooperatives will be in accordance with prices agreed to by CNCC. If higher prices are paid by the private sector the CNCC should be immediately notified so steps can be taken (if require by market conditions). If studies indicates that oligopsonistic conditions exist, remedial steps should be suggested to GOH.

c) Coffee quality at buying time. In determining purchasing price to the farmer it is necessary to give incentive for the best prepared coffee. Inferior coffee and coffee which has a higher percentage of humidity than ordinary coffee should be paid less, but not below prices paid by the private sector.

d) Difference in price. The GOH should compensate cooperatives for extre costs in promoting these policies. The GOH may take steps to stimulate coffee farmers by paying a superior price in the following cases:

- In pilot areas where new varieties and practices are being introduced.
- In "rezoned" areas.
- In areas where it is desireable to accelerate rural development projects such as "Ilots de Développement d'Haiti."

e) Funding. The farmer is trapped by the speculator long before the harvest time because the speculator advances funds for the crop. A fund should be set up to institutionalize this credit function. Cooperatives might received advances from CNCC or loans from BCA for this purpose.

2. Cooperative - CNCC Relations

a) Purchase period. CNCC should keep its purchasing posts open all year long, except if farmers or cooperatives don't have any more coffee.

b) Purchase price. CNCC should establish purchasing prices for café coque, café naturel pilé, café lavé en parche and lave décortiqué all year long. They might review the price periodically according to the world market.

c) Coffee quality. Incentives must be given to the best washed coffee or coffee that is processed best. Prices should be reduce for inferior coffee or coffee with more humidity than is reasonably acceptable.

d) Protection against price variation. Protection against price variation is one of the most important services the project can provide to the small farmer. Although farmers are used to keeping their "café coque, or café naturel pilé" in stock until the price rises, Cooperatives and CNCC should never try to speculate in this way. Two systems can be used by cooperatives and the CNCC to protect themselves against price variation: (1) selling for future deliveries, and (2) hedging.

(1) Coffee selling for future deliveries. At the same time cooperatives purchase coffee they should sell it for future deliveries, so the purchasing and selling prices will be correlated. Cooperatives should sell their coffee to the CNCC within a two week period and at the same time indicate the date for future delivery. On the basis of coffee purchases for future delivery by cooperatives, the CNCC should be protected from a possible fall in prices by selling a certain quantity of coffee, close to the quantity it purchases, for the earliest shipment.

(2) Hedging against N.Y. Coffee and Sugar Stock Exchange Contract. The CNCC must export large quantities of "standardized" coffee to obtain the best prices and protect itself against loss by a hedging operation. It is recommended to work against a contract of the N.Y. Coffee and Sugar Stock Exchange. The New York firm which is the agent of coffee purchaser from the CNCC would cover these transactions.

During the period between purchasing of coffee by the CNCC selling by contract and export, the price might go up or down.

If the price goes up between the time the CNCC has bought and sold the coffee, the CNCC would make a profit. But in the case of the contract sold by the CNCC to the stock market the CNCC will loose, because the price at delivery was higher than the price at contract time. Under these circumstances the profit on the transaction between the coop and the CNCC will compensate the loss on the contract.

If the price goes down between the time the CNCC has bought and sold the coffee, the CNCC would take a loss. But in the case of the contract sold by the CNCC to the New York Stock Exchange, the CNCC will make a profit, since the prices at delivery were lower than the price at contract time. Therefore the loss on the domestic transaction will be offset by profits obtained on contracts sold to the Stock Exchange.

Purchasing or selling operations may be settled without receipt or delivery of coffee by using a clearing-house. The hedging operation is complex and should only be started when trained personnel are available. Fire insurance should also be purchased by the CNCC to cover coffee storage in cooperatives or in CNCC's Warehouse.

3. CNCC - Importer Relations

The CNCC will play the role of coffee exporter and will establish business relationships with importers. In some case it may sell its coffee to Haitian exporters. At first the CNCC, will deal with Haitian coffee importers and later reach other markets to improve prices.

With regard to the CNCC - Importer relationship the following factors should be considered:

- Large quantities of standardized coffee should be available for export.
- Packing should be improved (clean bags, machine stitched, etc.)
- Establishment of "import marks" for special coffee and for some markets (especially European markets).

- Export of coffee on consignment should be forbidden.

C. Quotas by the International Coffee Board (OIC)

The SFMP was initiated on the assumption that the Republic of Haiti would not have coffee export limitations imposed by OIC. With the Agreement of 1976 it is possible that in one year or two a quota for export will be established. In that case Haiti will have to keep its coffee from one year to another and regulate its exportation every three months. By Article 31 of the Agreement of 1976, Haiti's export contract was 380,000 bags for 1976/77 and 399,000 for 1977/78. For 1978/79 they will give a basic quota different from the export quota. The annual export quota will represent a percentage of the basic quota which is still not set. When the information is available, adjustments will be made in the SFMP, based on the experience of other countries in the quota administration area.

D. Permanent Analysis of the Local Market

The SFMP should adopt the practice of permanent analysis of the private sector. A system of periodic tabulation of prices paid by the private sector to small farmers for café cerise, café coque and café pilé in different areas should be established. These studies will be the basis for reviewing policies of the CNCC, SFMP evaluations and to detect commercially unfair practices.

E. Marketing of "Café Naturel"

1. Only farmers within easy reach of the mill (usine) can deliver "café cerise" because processing of "café lavé" must begin 24 hour after gathering.

2. Policies of increasing the percentage of "café lave" to be exported (now 8%) must continue as a medium and long-term measure.

3. The quality of "café naturel" should also be improved by introducing mechanical depulpers.

4. Marketing of washed and natural coffee will allow increases in marketing and quickly reach the "point d'équilibre".

5. Marketing of "café coque" among farmers-cooperatives - CNCC should be sponsored so that "café pilé à la main" (90%) is increased and machine hulled coffee increased "cafe naturel" quality.

F. Administrative Aspects of the CNCC

1. The SFMP is not precise enough on the administrative statutes of the CNCC, nor does it take into consideration its dependency on IPHCADE. The CNCC must be coordinated with other governmental agencies which are in contact with coffee farmers and cooperatives. The CNCC must be connected with IPHCADE but with sufficient authority to make decision in Coffee Marketing.

2. Generally the offer for purchase and the sale of coffee should be concluded within 24 hours.

3. CNCC policies for the medium and long-term may be set by the Minister of DARNDR and by the Conseil Consultatif de l'IPHCADE. Policies for short-term marketing must be established by a committee composed of the General Director of IPHCADE, the head of the CNCC and the Director of the SFMP.

For practical reasons IPHCADE is the only organization authorized to conduct commercial transactions with coffee importers. The CNCC is administratively a part of IPHCADE, is not.

G. Personnel Training and Technical Assistance

Through the CNCC, IPHCADE will assume new functions in the area of exporting (purchase, coffee processing, quality control, selling, hedging, shipment and collecting money). Its personnel must be ready to undertake these new functions. The CNCC should receive technical assistance to prepare for the assumption of these activities. Personnel should be assigned to specific tasks concerning export and should be able to make themselves understood in English.

Training suggested:

1. Knowledge of documents concerning market information.

2. Training in the Stock Exchange area: one week training in New York

Coffee and Sugar Stock Exchange (special interest on Contract C); another week in Basic Products Stock Exchange in Chicago (Merill, Lynch, Pierce, Ferner, and Smith, Inc. suggested) p.47.

3. Two weeks training on all aspects of export, in a coffee export firm (Fédération de Coopératives de Caféculteurs de Costa Rica). During the same period training should be provided in quality control (tasting).

4. When export is initiated IPHCADE should promote visits by coffee importers to Haiti for discussions with people in charge of coffee export activities.

5. Visits to agents and buyers of haitian coffee should be encouraged.

6. Personnel should be trained in the field with the help of an Haitian with knowledge in coffee export. M. Condé is the expert chosen by IPHCADE.

7. It does not seem necessary to hire a specialist in Coffee Marketing for a period of 36 months, because the project needs more than one specialist It would be better to hire several technicians for short periods that are able to cover different aspects of the export area.

Technical assistance should include:

a) a technician specialist in coffee export.

b) a technician in coffee processing for export including classification, typification and standization (2 months).

c) a technician in management including external funding or future exports (2 months).

d) a technician in coffee marketing. (3 months distributed over the life of the project.)

ANNEX A

Redesign and Implementation Decisions Resulting from Review of Evaluation Findings, (3/4/80)

I Small Farmer Improvement (073)

A. Grant

1. No extension of project beyond June 1981 PACD.

2. Balance of effort will focus on the research component of the project.

   a) Recruit a short-term Research Specialist immediately.

   b) Purchase materials and equipment identified by the Research Specialist for carrying out the Coffee Research Program.

   c) Train agronomes already working in the project in research techniques.

3. USAID Director and ADO will present views to Minister of Agriculture and obtain a commitment from him to continue to provide resources for coffee research after termination of assistance.

4. When commitment is obtained a revised Financial Plan will be prepared and the uncommitted balance of funds will be deobligated

B. Loan

1. No extension is contemplated beyond the TCD (Nov 1, 80) or TDD (May 1, 81).

2. Fertilizer

   a) Procure an additional 2200 tons of fertilizer to cover needs of all Coffee Centers for next growing season. Order now to avoid increased cost.

   b) Only fertilizer suitable for coffee will be ordered (No Ammonium Sulphate).

c) The Minister of Agriculture will be advised of AID's position and, once there is agreement, a revised Financial Plan will be prepared and the uncommitted loan balance de-obligated.

3. Coffee Centers

a) Completion of construction at Thiotte and Dondon and repairs to Fond des Nègres will be financed from PL 480 Title I resources.

b) The Beaumont Center will be financed from loan funds and will be a more modest facility than the centers already built.

c) Changieux will be completed from loan funds already committed for that purpose.

d) The Ministry of Agriculture will be asked to present a plan to USAID for the utilization of the Centers. The idea of expanding their use to become Farm Service Centers rather than simply coffee centers should be explored.

4. Coffee Roads

Coffee penetration roads will be transferred to the Ministry of Public Works (TPTC). Funds will also be transferred together with tools once both the Minister of Agriculture and the Minister of Public Works have reached agreement.

II Small Farmer Marketing (023)

1. Go forward with the project as now being implemented focussing on cooperative development and improved coffee processing. Retain the project within DARNDR and gradually integrate with the coffee production over the next year.

2. A revised project description and financial plan will be prepared.