A.I.D. EVALUATION SUMMARY - PART I

PD-AAX-322

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:
Mission or AID/W Office RDO/C
(ES# 538-88-07)

B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan?
Yes ☐ Slipped ☒ Ad Hoc ☐
Evaluation Plan Submission Date: FY 87 Q 1st

C. Evaluation Timing
Interim ☒ Final ☐ Ex Post ☐ Other ☐

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
538-0080	Caribbean Agriculture Trading Co.	82	9/88	445	445
538-T-0021	Caribbean Agriculture Trading Co.	82	9/87	1,250	1,250

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
1. CATCO should join with the present active traders in the area, becoming their outlet in the U.K. and on mainland Europe.	Brian Spink CATCO	12/86 (Completed)
2. CATCO should join with its new equity trading partners to increase its sales of high value, graded produce to the growing supermarket and speciality market trade in Trinidad and Barbados.	Brian Spink CATCO	03/87 (Completed)
3. USAID should amend the terms of CATCO's loan to eliminate the escalation in interest rate beginning in the fifth year.	Don Harrington RDO/C	08/86
4. USAID should continue to use its good offices to help CATCO and CFC link up more effectively with farmers and farm groups engaged in diversification under other development projects.	William Baucom RDO/C	Continuing

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) 12 (Day) (Year) 86

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Don Harrington	CATCO	Darwin Clarke	James S. Holtaway
Signature	[signature]	Cleared in Draft	[signature]	[signature]
Date			2/17/88	2/18/88

Jonathan Sleeper D/ARDO

David Mutchler C/PRM

Alfred Bisset D/DIR

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The Caribbean Agricultural Trading Company Project (No. 538-0080) was authorized on July 28, 1982 for $4,225,000, of which $4,000,000 was to be in loan funds and $225,000 in grant funds. The purpose of the Project was to establish a commercially viable agricultural trading company which will open new market channels and promote the production and consumption of regionally produced agricultural commodities. The loan was to be used for working capital to buy produce from farmers and pack and ship it to external markets. The grant was to provide for periodic evaluations of CATCO's trading operations.

The purpose of the evaluation was to review CATCO's performance, analyze implementation problems and recommend actions to be taken so that RDO/C can effectively assist CATCO in achieving its objectives. The methodology used to evaluate the project was to review CATCO trading records, discuss project status with RDO/C staff, and interview producers, traders, Government officials and others interested in CATCO and its program.

The major findings and conclusions are as follows: CATCO has been successful in developing a reputation in the U.K. and Holland markets for high quality West Indian ethnic foods at competitive prices. It has had more limited success competing with the Mediterranian and other countries supplying more traditional winter vegetables or semi-tropical and tropical fruits.

Net losses declined after the new FINTRAC management team took over but a 14 to 29 fold increase in trade is still required to cover all costs including debt service, operations, management, and technical assistance.

According to the Evaluation Report, the following three lessons can be learned from the project. First, a project with a commercial thrust such as this one should take into account the potential resistance from established market entities.

Second, the process and cost of insuring adequate supplies of high quality produce should not be underestimated.

Third, CATCO's present and future financial viability as a trading company must be analyzed separately from its role as a developmental entity working with farmers and farm groups.

The principal recommendations are:

(1) USAID continue to support CATCO's diversification, developmental and export oriented activities through the Caribbean Food Corporation to the fullest extent possible.

(2) USAID amend the terms of CATCO's Loan to eliminate the escalation in interest rate beginning in the fifth year.

COSTS

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Howard Steele		15	5,000	PD&S

2. Mission/Office Professional Staff Person-Days (Estimate) 5

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 7

1/

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
RDO/C	02/04/88	April 1,'88. Evaluation of the Caribbean Agricultural Trading Company (CATCO) Project #538-0080

On July 28, 1982 the United States Agency for International Development RDO/C Director approved Project No. 538-0080, entitled Caribbean Agricultural Trading Company, for a total financial commitment of $4,225,000, of which $4,000,000 was to be in Loan funds and $255,000 in Grant funds. It was anticipated that the Inter-American Development Bank would grant $434,000 and that CATCO shareholders would contribute $2,031,000 in equity capital over the life of the Project, scheduled to run through September 1987.

The purpose of the Project was: "To establish a commercially viable agricultural trading company which will open new market channels and promote the production and consumption of regionally produced agricultural commodities."

The conditions precedent were met, after some delay, in May 1984; USAID Loan and Grant funds were disbursed for the first time in August, 1984. Further, Grant funds were obtained from EEC in July 1985, through its EDF, to fund a new CATCO management team (either the 3rd or 4th, depending on how you count arrivals and departures of individual General Managers), FINTRAC Consulting, Ltd. from the U.K. Subsequently, USAID deobligated $2,750,000 of the original $4,000,000, leaving $1,250,000 available.

The purpose of the evaluation was to review CATCO's performance, analyze implementation problems and recommend actions to be taken so that RDO/C can effectively assist CATCO in achieving its objectives. The methodology used to evaluate the project was to review CATCO trading records, discuss project status with RDO/C staff, and interview producers, traders, Government officials and others interested in CATCO and its program.

FINDINGS

What CATCO has been successful in doing with its present management structure is develop a reputation in the U.K. and Holland for high quality West Indian ethnic foods at competitive prices. It has had more limited success competing with the Mediterranean and other countries supplying more traditional winter vegetables or semi-tropical and tropical fruits. There can be no doubt that some important future profit generating opportunities exist in these activities, if farmer productivity can be raised and costs of production reduced.

It does not seem logical to assume that CATCO, as a developmental entity as well as a trading company with more than a simple profit-making motive, should be expected to work with farmers and farmer groups solely with resources generated from trading revenues. Obviously its costs would rise much above those of simple "for profit only" traders and hucksters, and force its prices - especially in extra-regional markets - above those dictated by normal supply and demand conditions. For this reason the European Development Fund of the EEC has provided Grant funds to contract expert management consultants who can work with all kinds of farm groups to encourage expanded, improved production and linkages with new market outlets.

CONCLUSIONS

(1) CATCO's present financial situation is serious because of several unfortunate circumstances not envisioned at the start of the Project:

(a) Inexperienced management and frequent management turnover;

(b) The inability to trade in agricultural inputs or to compete successfully in intra-regional market sales as proposed; and

(c) The very complex and costly efforts required to cultivate extra-regional export markets and link them successfully to sustainable sources of local produce supply.

(3) The new management at CATCO has successfully "turned the financial corner" by generating positive gross margins on export sales and developing a growing export market in the U.K. and Holland for locally produced, high quality fruits and vegetables. At present margins and average prices, however, CATCO must expand exports from the present level of 318 short tons per year to a minimum of 5,600 tons per year if it is to become financially viable, covering all its costs.

(4) The present management of CATCO, FINTRAC Consulting, Ltd., has only been in charge of operations since July 1985, has done an outstanding job in turning operations around, and should be given opportunity and enough additional time to expand on its excellent start.

(5) If the developmental management cost of CATCO can continue to receive Grant funding from the EDF of EEC for an additional three years, and if CATCO can eliminate the commercial bank overdraft and associated interest cost and start-up depreciation costs inherited from previous management, cash flow needs will be reduced by nearly US$120,000 per year. This level allows for expanding purchases and sales of produce to 1,000 short tons per year and the additional working capital needed to purchase expanded supplies.

(6) CATCO must utilize the remaining USAID Loan funds for joint marketing ventures with other traders or farm groups and activities such as assembling, grading, packing, storing and transporting produce.

(7) CATCO should join forces with whatever trading partners or producer groups in the region whose mutuality of interest can be beneficial to both entities. The objective is to expand internal and external market sales and link-up those sales to expanding farm output.

RECOMMENDATIONS

(1) USAID continue to support CATCO's diversification, developmental and export oriented activities through the Caribbean Food Corporation to the fullest extent possible.

(2) USAID strongly encourage the European Development Fund of the EEC to Grant fund CATCO's management technical assistance team for a minimum of three more years.

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(3) USAID encourage active traders, like the Eastern Caribbean Agencies, to take an equity position in CATCO and to work cooperatively in cultivating expanded sales outlets and improved sources of regionally produced vegetable and fruit supplies.

(4) USAID amend the terms of CATCO's Loan to eliminate the escalation in interest rate beginning in the fifth year.

(5) USAID continue to use its good offices to help CATCO and CFC link up more effectively with farmers and farm groups engaged in diversification under other developmental projects and entities such as CARDI, IFAD, RONCO, ORD and the various island Marketing Boards and programs.

LESSONS LEARNED

(1) A project with a commercial thrust such as this one should take into account the potential resistance from established market entities.

(2) The process and cost of insuring adequate supplies of high quality produce should not be underestimated.

(3) CATCO's present and future financial viability as a trading company must be analyzed separately from its role as a developmental entity working with farmers and farm groups.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Evaluation Report

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The Mission considers the Evaluation Report to be concise, informative and responsive to the Scope of Work. It was completed in a timely manner when the Mission needed an outside opinion on the accomplishments of the project and the merits of new directions being proposed. The report has been useful to CATCO and other donors, such as the European Development Fund as well as USAID.

The findings and lessons learned cited in the report generally concur with the conclusions reached by AID staff and well informed host country officals.

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XD-AAX-322-A

EVALUATION OF THE CARIBBEAN AGRICULTURAL TRADING COMPANY (CATCO) PROJECT NO. 538-0080

by

Howard L. Steele, Ph.D.
Office of International Cooperation and Development
United States Department of Agriculture

INTRODUCTION

The author was asked by USAID's Regional Development Office/Caribbean (RDO/C) to join Drs. Anthony Gonzales and Ansgar Eussner, both representing the European Development Fund (EDF) of the European Economic Community (EEC), to travel together and interface with producers, traders, Government Officials and others interested in CATCO and its program. It was felt that it would be cost effective, and probably better received, if the interviewees were only visited by one group, were only asked to furnish data and information one time, etc. This even though the EDF representatives and the author are submitting completely independent reports to their sponsoring agencies.

It soon became evident during the week[1] of traveling together in Barbados, St. Lucia, St. Vincent and Trinidad, however, that the three evaluators independently discerned certain common problems, concerns and possible alternative courses of action. However, some areas of disagreement exist between the individuals. Therefore the conclusions drawn and courses of action suggested later in this report are solely those of the author which have neither been reviewed by nor agreed to by the EDF representatives.

THE PROBLEM

On July 28, 1982 the United States Agency for International Development RDO/C Director approved Project No. 538-0080, entitled Caribbean Agricultural Trading Company, for a total financial commitment of $4,225,000, of which $4,000,000 was to be in Loan funds and $255,000 in Grant funds. It was anticipated that the Inter-American Development Bank would grant $434,000 and that CATCO shareholders would contribute $2,031,000 in equity capital over the life of the Project, scheduled to run through August 1987.

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[1] April 3 thru 9, 1986

The purpose of the Project was: "To establish a commercially viable agricultural trading company which will open new market channels and promote the production and consumption of regionally produced agricultural commodities". Three conditions precedent to initial disbursement of USAID funds were specified in the Project Paper: "... the borrower shall ... furnish ... to USAID:

(1) a business plan which will describe in detail the program of activities which the Borrower will undertake with Project financing, and include appropriate financial projections for CATCO, a description of its operational and management structure and investment strategy, assessment of regional markets and transport modes.

(2) Evidence that the Caribbean Food Corporation (CFC) has reserved the equivalent of Four Million United States Dollars ($4,000,000) in callable shares such that these shares can be called solely for the purpose of guaranteeing the Loan repayment.

(3) Evidence that the Borrower has received paid in capital equal to no less than Seven Hundred Fifty Thousand United States Dollars ($750,000)."

The conditions precedent were met, after some delay, in May 1984; USAID Loan and Grant funds were disbursed for the first time in August, 1984. Further, Grant funds were obtained from EEC in July 1985, through its EDF, to fund a new CATCO management team (either the 3rd or 4th, depending on how you count arrivals and departures of individual General Managers), FINTRAC Consulting, Ltd. from the U.K. Subsequently, USAID deobligated $2,750,000 of the original $4,000,000, leaving $1,250,000 available. CATCO has only drawn down $525,000 of this amount leaving Loan funds of $725,000 available. The $255,000 of Grant funds have been initially used for evaluation activities.

The Project will be evaluated by first analyzing its two major sub-components, then attempting to synthesize viable solutions to the problems of each, thus contributing to the overall satisfaction of Project objectives and goals. The two components are:

(1) The present and future financial viability of CATCO as a trading company, and;

(2) The development of improved agricultural productivity by the region's farmers in supplying non-traditional commodities for either the intra-regional or extra-regional markets, improving farmers' incomes and enhancing competitiveness of their outputs.

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CATCO's Financial Viability

The present balance sheet of CATCO (as of November 30, 1985) shows an accumulated deficit of BDS$2,747,014[2]. This is the equivalent of US$1,408,726 at the present exchange rate of BDS$1.95 = US$1.00. CATCO is bankrupt; the only things keeping it afloat are the soft loans and grant funds provided by USAID and EDF.

The Consultants looked for an explanation as to how CATCO could get in such a dire financial situation in only a few years. The answers are readily available.

(1) In the original design of the Project, CATCO was to generate, by year 6 of its existence, the following revenues:

(a) Intra-regional sales of non-traditional foodstuffs — 21,273 short tons

(b) Extra-regional sales of non-traditional high quality produce — 2,100 short tons

(c) Sales of inputs to farmers on 8 of the island states needed to produce the outputs envisioned in (a) and (b) above — US$1,406,000

It is necessary to follow the logic of the firm's financial situation with these data.

(a) If one assumes that CATCO could have generated positive gross margins on its CIF sales of 10%, and assuming an average value of produce traded intra-regionally of US$.10 per pound [1], CATCO's gross margin on intra-regional sales in year 6 would have been: US$ 425,460

(b) If one assumes that CATCO could have generated positive gross margins on its CIF sales extra-regionally of 10%, and an assumed average value of US$.25 per pound[1], gross margin in year 6 would have been: US$ 105,000

2/ See annex VII, Sheet 6 of "Caribbean Agricultural Trading Company Limited, CFC/EDF Technical Assistance to CATCO, Interim Report - July 1 to December 16, 1985" by FINTRAC Consulting Ltd.

1/ The CIF values are much smaller than those used by either SYSTEMS or FINTRAC Consulting, Ltd. for the intra-regional and U.K. markets. They are based on the author's knowledge of prices for Central American produce sold on the eastern seaboard of the U.S., and the volatility of those prices.

(c) Again assuming a 10% margin on US$1,406,000 of agricultural inputs traded beginning in year 3, CATCO's gross margin should by year 6 have been: US$ 104,600

Total annual gross margin by Year 6 US$ 671,060

BDS$1,308,567

Annex VII, Sheet 1, of the FINTRAC Consulting, Ltd. report shows that for the 5 months since FINTRAC took over management, gross revenues on trading have increased from BDS$153,634 (US$78,787) to BDS$194,501 (US$99,744). Net losses for CATCO declined from BDS$307,471 (US$157,677) to BDS$179,403 (US$92,002). Despite the excellent job that FINTRAC's present management is doing in trying to turn CATCO's financial picture around, it will still lose from operations this fiscal year (July 1, 1985 through June 30, 1986) at its present rate - approximately US$220,804. This is much better than the financial situation before FINTRAC took over management, when CATCO was losing at the rate of US$378,426 per year. Its accumulated deficit as of February 1986 stands at US$1,439,714. This situation, however, is intolerable.

(1) What caused CATCO's financial demise? The answer is relatively simple:

(a) the regional private sector traders were not about to let a new parastatal entity take their agricultural input trading business away with soft loan money;

(b) CATCO could not compete with the huckster traders sufficiently to sell agricultural commodities intra-regionally at a profit; and

(c) developing sufficient quantities of high quality produce to trade on the extra-regional markets of Europe and North America at a profit requires extremely costly developmental work.

What CATCO has been successful in doing with its present management structure is develop a reputation in the U.K. and Holland for high quality West Indian ethnic foods at competitive prices. It has had more limited success competing with the Mediterranean and other countries supplying more traditional winter vegetables or semi-tropical and tropical fruits. There can be no doubt that some important future profit generating opportunities exist in these activities, if farmer productivity can be raised and costs of production reduced. We will address these developmental issues in a later section of the evaluation report.

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Make no mistake about it; engaging in the marketing of highly perishable fruits and vegetables on distant markets is an extremely complicated and risky business. Developing reliable sources of high quality product, produced and harvested, packed and protected properly, then transported in a timely manner to the distant market, is indeed development work, requiring the most imaginative management skills available. It is entrepreneurial work; it requires proselytizing, training, financing, risk calculating, contract negotiating, tight financial controls and cost accounting, patience, and a host of other managerial and personal skills. Above all else, it takes time. Teaching the technical skills required, providing the packages of cultural practices and inputs, and the other development activities required to convert tree crop farmers or sugar cane growers to perishable fruit and vegetable growers for distant export markets may require a planning horizon of at least five years[4/]. Remember that this is only one-half of the required entrepreneurial talents required, i.e., developing an assured, high quality supply of produce.

The major task facing the entrepreneur is to cultivate an assured market on distant shores for perishable fresh fruits and vegetables. Everything flows from this necessary condition. Without it, all productive activity at the farm level could end up only a wasted effort and loss of scarce resources.

CATCO Revenue Required to Break-Even

Given CATCO's present organization and managerial structure, if the firm is to break-even through its trading activities in extra-regional markets (i.e. its present emphasis and mode of operation), it will require gross margins of approximately BDS$74,652 per month, BDS$895,830[5/] per year, equivalent to US$459,400. At a 10% average margin CIF port of import, and assuming an average value of US$.25 per pound of product delivered, CATCO must trade successfully no less than 766 short tons per month (9,188 short tons per year).

4/ Based on the author's experience with similar projects in Guatemala, Bolivia and Honduras.

5/ This includes Costs of Sales (BDS$473,007), Selling, General and Administrative Expenses (BDS$341,097) and Interest Expense (BDS$81,726). Based on CATCO's "Income and Expenditure Account for the period ended February 28, 1986" provided the author on April 6, 1986.

Note that CATCO's present sales are at the rate of 318 short tons per year. What will be required to break-even, covering all costs including present debt service, operational costs, managerial costs and technical assistance costs, is a 29 fold increase; this may seem an impossible task under present conditions. It should be noted, however, that in most discussions of CATCO's calculations an average value of BDS$.80/pound CIF is used on which its 10% gross margins are calculated. Although the author considers this average price fairly optimistic, what volume of trade will be required to break-even if this average price is achieved? At BDS$.80/pound (US$.41/pound), and 10% gross margin, CATCO must successfully trade 5,602 short tons of produce per year. This is equivalent to 100 tons per week, or about 4 1/2 trailer loads on the average.

One can also suggest that it might be possible to raise CATCO's gross margin on trading, once a firm reputation for high quality, produce deliveries is developed on the U.K. and Europe markets. If the margin can be increased to 15% on the CIF value, then the volumes required to break-even, at two assumed average price levels would be as follows:

(1) At an average price of US$.25/lb. = 6,125 tons.
(2) At an average price of US$.41/lb. = 3,735 tons.

Other combinations can be used. However, all suggest exceptionally large increases in quantities traded are required in order to break-even.

Alternative Marketing Strategies for CATCO

A 14 to 29 fold increase in trade by CATCO to the U.K. and other outlets in Europe at the present rate of market development does not seem plausible in a short time-frame of two to three years. That is to say, it does not seem feasible using the present market strategy. In effect, CATCO management is going "head to head" with all other traders in the region for market penetration, principally in the U.K. and Holland, as well as "head to head" with all traders and marketers from Spain, Portugal, Morocco, Italy and every other Mediterranean and African country producting similar fresh fruits and vegetables.

Two new marketing strategies are suggested which may result in profitable operations for CATCO in the near-term, say in three to five years. Each should be carefully evaluated by USAID and CATCO management, as well as by the CFC, as to their potential viability.

(1) CATCO should join with the present active traders in the area, becoming their outlet in the U.K. and on mainland Europe. Let the active traders take an equity position in CATCO, replacing some present neutral owners who are not interested in exporting fresh produce to the U.K., Europe, Canada or the U.S. CATCO will also be able to participate in trader's presence in Canada and the U.S. markets.

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Advantages for CATCO:

(a) This will open up additional selling opportunities for selected produce items which CATCO and regional growers cannot now market easily, but for which CATCO is trying to develop producer interest.

(b) CATCO, or their equity trading partners, can take the best price market for Caribbean produce. For example, if the price for sweet bell peppers is best in Toronto this winter season (transportation cost and other terms of sale differences considered) ship through Eastern Caribbean Agencies (ECA) to that market, using one of ECA's brand labels. If Holland is the second best market for the late season contract to ship a specific quantity there using a CATCO label. If Baltimore is best, work out a contract with Battaglio Produce Co. through RONCO on St. Vincent, P. Tavilla Associates, 6-L's, Dave Warren or others. In short, analyze the alternative markets carefully together, work out the best case scenario cooperatively, negotiate collectively, cooperate in processing, grading, packing and transporting, then share the margins and profits gained.

(2) CATCO should join with its new equity trading partners to increase its sales of high value, graded produce to the growing supermarket and specialty market trade in Trinidad and Barbados.

(a) Trinidad imports approximately US$10 million of fresh produce from Caricom countries per year, and another US$5.5 million of fresh produce per year from outside the region. While the Barbados imports are less, they still represent a multi-million dollar business annually.

(b) The implication is not to replace or directly compete with what is called "the huckster trade", but rather to cultivate growing sales opportunities with the medium to higher income consumer clientele on Trinidad and Barbados who seek high quality, well graded and packaged produce at fair prices.

(c) If collectively, for example, CATCO and their equity trading partners were able to achieve new sales of 39 tons of produce to these markets per week (this is slightly less than 2 trailer loads per week), at an average CIF price of US$.25/pound and a gross margin of 10%, CATCO could generate US$101,000 of new gross revenue per year. This would be enough gross revenue to off-set current management technical assistance total cost.

CATCO's Cash Flow Needs

Currently CATCO's Cost of Sales account is approximately US$242,568 per year. Admittedly this is high, at about US$.38 per pound of produce sold, and reflects the very heavy effort CATCO management is investing in development work to organize and procure high quality, reliable supplies of fresh produce. Obviously both successes and failures are factored into the total cost at this point in CATCO's development.

Selling, general and administrative expenses are presently costing US$174,922 per year, while interest cost is approximately US$42,308 per year. Thus, the total operational cost for the firm under the accrual accounting method used is US$459,300.

Three significant items can be deducted from these figures in the near-term which will reduce cash flow needs during CATCO's continuing developmental phase, say in the next three years.

(1) Present management is "depreciating" certain start-up or "sunken costs" inherited from previous management of approximately US$7,815 per year.

(2) CATCO is budgeting the technical assistance management cost which, in fact, is being Grant funded currently by the EDF of the EEC. Hopefully this cost will be Grant funded for at least another three years. This cost is currently at US$98,953 per year.

(3) Bank interest currently being paid on a large overdraft inherited from previous managers uses another US$40,000 per year. Hopefully CATCO will be able to eliminate this bank debt and interest from revenues being generated in the near future.

The three items described above amount to a total of US$146,768. By removing them from the accrual accounting system, annual cash flow needs are reduced to the equivalent of US$312,632. Should CATCO be successful in tripling sales in the next year to 1,000 tons annually, more working capital will be needed to procure product from farmers. If we assume that revenues can be received and the working capital fund "rolled over" every 30 days on average, and that financing efficiencies reduce costs of goods sold to US$.25/pound, another US$28,417 of working capital will be needed.

In summary, total cash flow needs for CATCO in the next year will approximate US$342,000. Not at all unreasonable when weighed against the development benefits being generated by CATCO across the islands.

CATCO and Its Development Role

It is most difficult from a functional point of view to separate or differentiate between CATCO's role as a developmental entity and that as a marketing cum trading one. From a funding or financial point of view, given the various interest groups assisting its program, it is necessary.

In fact one can take the position that everything CATCO was designed to do - from its goals, to its objectives, to its activities - is indeed developmental. Its trading and marketing activities being only one aspect, albeit a very necessary one in the absence of other institutional arrangements to perform those functions, in the total developmental process.

Returning to the original design of the project, the major project goal stipulated in the Project Paper Logical Framework is stated as follows[6/]:

> "Increase regional food self-sufficiency/expand volume of output and consumption of crops grown by small farmers in regional LDC's."

The same document identifies the objectively verifiable indicators as[7/]:

> "1. Increased intra-regional food trade.
> 2. Increased land use for crops.
> 3. Increased farmer income."

Let us be more specific. The basic thrust of the project is the developmental one of helping small farmers move away from monoculture agricultural crops such as sugar cane and bananas to higher value ones, to become more efficient and productive, and to earn higher levels of income for the possibility of enjoying higher levels of living. Implicit, also, is the concept that through this developmental thrust the newly independent island nations will become more self-sufficient in the production and use of their own food products. In other words, that the agricultural diversification effort will have additional pay-offs in food supply independence.

6/ See Annex B, Exhibit 1 of Caribbean Regional Project Paper "Caribbean Agricultural Trading Company - CATCO", Project No. 538-0080, Loan No. 538-T-021

7/ IBID

Another benefit of equal importance would be that both intra-regional and extra-regional trading resulting from these diversification development efforts will lead to either saving scarce foreign exchange or earning it. In the case of producing and consuming more locally produced food products, import substitution saves scarce foreign exchange. Specialization of agricultural production and intra-regional trade also conserves foreign exchange, should lead to comparative advantage benefits/economic efficiencies and increases earnings as well as savings. Obviously extra-regional trade leads to foreign exchange earnings. Finally, such development efforts as described above lead to employment generation.

But how is it proposed that CATCO become "developmental"? What is its developmental role in the region? How will CATCO's developmental role be financed? It is easy to fall into the dilemna of arguing in a circle in these contexts if one is not careful. That is, which comes first: the development of diversified agricultural production with which to market and trade, or the identification of market opportunities toward which new or expanded agricultural production is directed? In reality it is not an "either/or" situation, but rather one where both production and market expansion are interdependent and must move together.

Thus CATCO's developmental role is a very complex one. It must:

(1) seek new or expanded market outlets for high value fruits and vegetables at prices that yield fair returns to farmers for their productive efforts and return a margin sufficient, on the average, to cover CATCO's costs, including a reasonable profit; and

(2) locate and work with farmers, or groups of farmers, to help them efficiently produce a sufficient quantity and quality of these fruits and vegetables, in a timely way, so that CATCO can satisfy its buyer clients on a regular, sustaining basis. This, indeed, is a difficult task, requiring large developmental inputs of technical assistance over an extended time period. It is laborious, slow and full of reversals and problems; it is also very costly.

It is also important to recognize that CATCO has been conceived and supported by leaders of the region's island nations and developmental institutions in response to a strongly felt need. That is to say, it was perceived that the developmental goals and objectives outlined above respond to needs in the region that indigenous institutions of all kinds were not coming forth to satisfy. Thus it was believed that a regionally oriented entity such as CATCO might serve as a catalyst to bring about the changes needed in the near-term.

It does not seem logical to assume that CATCO, as a developmental entity as well as a trading company with more than a simple profit-making motive, should be expected to work with farmers and farmer groups solely with resources generated from trading revenues. Obviously its costs would rise much above those of simple "for profit only" traders and hucksters, and force its prices - especially in extra-regional markets - above those dictated by normal supply and demand conditions. For this reason the European Development Fund of the EEC has provided Grant funds to contract expert management consultants who can work with all kinds of farm groups to encourage expanded, improved production and linkages with new market outlets.

While the EDF has supplied this Grant funding for small farmer developmental purposes for a limited time subject to progress evaluation, it is hoped that the progress made by CATCO in these efforts in the past six months will allow EDF to extend funding for another three years. This is the minimum period required to bring about the significant supply changes needed to sustain a growing CATCO export marketing program, in my opinion. Unfortunately, USAID has no additional Grant funds available to assist important components of the development function.

CATCO can, however, still drawdown from the US$725,000 in unused AID Loan funds to complement the farm supply developmental activities. For example, two traders on St. Lucia desire to contract with CATCO to help market, extra-regionally, high quality mangoes which their farmers can harvest if prices are right. But, the traders lack the modern packing and grading facility, market contacts in the U.K., Europe or Canada, and the transportation linkages needed for sustained marketing and sales that CATCO has. CATCO can help the farmers improve their mango growing and harvesting methods and can open a small grading, packing and storage facility. AID loan funds can be used to finance the latter; EDF Grant funds to finance the former.

Another example is that of a larger trader in the region, Eastern Caribbean Agencies (ECA), which assembles produce for both intra-regional and extra-regional trade. It has market contacts in Canada, and is about to develop others in New York City. It desires to cooperate with CATCO in developing larger sources of produce supply, and the possibility of trading with CATCO in the U.K. and Holland. CATCO can use ECA's contacts for marketing produce intra-regionally that might not be traded in Europe, Canada or the U.S. because of temporary market or price conditions. Or, if marketing terms are more favorable, to trade through ECA to the U.S. or Canadian outlets ECA has cultivated.

Other examples include working with the Organization for Rural Development (ORD) on St. Vincent, and with its other recently affiliated producer groups, all seeking to increase agricultural production and productivity, all needing expanded market outlets and marketing technical assistance. A final example is the integrated fruit and vegetable development program on St. Vincent utilizing technical assistance from the RONCO group. Here again, there is a mutuality of interest which suggests that closer cooperation among CATCO, the Caribbean Food Corporation and RONCO can help all to be more successful, and hopefully more profitable.

CONCLUSION

(1) CATCO's present and future financial viability as a trading company must be analyzed separately from its role as a developmental entity working with farmers and farm groups.

(2) CATCO's present financial situation is serious because of several unfortunate circumstances not envisioned at the start of the Project:

(a) Inexperienced management and frequent management turnover;

(b) The inability to trade in agricultural inputs or to compete successfully in intra-regional market sales as proposed; and

(c) The very complex and costly efforts required to cultivate extra-regional export markets and link them successfully to sustainable sources of local produce supply.

(3) The new management at CATCO has successfully "turned the financial corner" by generating positive gross margins on export sales and developing a growing export market in the U.K. and Holland for locally produced, high quality fruits and vegetables. At present margins and average prices, however, CATCO must expand exports from the present level of 318 short tons per year to a minimum of 5,600 tons per year if it is to become financially viable, covering all its costs.

(4) The present management of CATCO, FINTRAC Consulting, Ltd., has only been in charge of operations since July 1985, has done an outstanding job in turning operations around, and should be given opportunity and enough additional time to expand on its excellent start.

(5) If the developmental management cost of CATCO can continue to receive Grant funding from the EDF of EEC for an additional three years, and if CATCO can eliminate the commercial bank overdraft and associated interest cost and start-up

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depreciation costs inherited from previous management, cash flow needs will be reduced by nearly US$120,000 per year. This level allows for expanding purchases and sales of produce to 1,000 short tons per year and the additional working capital needed to purchase expanded supplies.

(6) CATCO must utilize the remaining USAID Loan funds in joint marketing ventures with other traders, or cooperation with farm groups, inactivities such as assembling, grading, packing, storing and transporting produce.

(7) CATCO should join forces with whatever trading partners or producer groups in the region whose mutuality of interest can be beneficial to both entities. The objective is to expand internal and external market sales and link-up those sales to expanding farm output. Competition must be discerned as being with other regions such as Brazil, Central America and the Mediterranean countries, and not with each other.

RECOMMENDATIONS

(1) USAID continue to support CATCO's diversification, developmental and export oriented activities through the Caribbean Food Corporation to the fullest extent possible.

(2) USAID strongly encourage the European Development Fund of the EEC to Grant fund CATCO's management technical assistance team for a minimum of three more years.

(3) USAID encourage active traders, like the Eastern Caribbean Agencies, to take an equity position in CATCO and to work cooperatively in cultivating expanded sales outlets and improved sources or regionally produced vegetable and fruit supplies.

(4) USAID amend the terms of CATCO's Loan to eliminate the escalation in interest rate beginning in the fifth year.

(5) USAID continue to use its good offices to help CATCO and CFC link up more effectively with farmers and farm groups engaged in diversification under other developmental projects and entities such as CARDI, IFAD, RONCO, ORD and the various island Marketing Boards and programs.

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Appendix 1

CATCO EVALUATION STUDY

By Howard L. Steele: Travel and Interviews in Barbados, St. Lucia, St. Vincent & Trinidad
April 3 - 17, 1986

List of Contacts Made

A. Barbados:

1. USAID - Mr. William Baucom, Agr. & Rural Development Officer; Mr. Steve Szadek, Deputy Agr. and Rural Development Officer; Mr. Robert Clark, Deputy Director.

2. Caribbean Development Bank - Dr. J. Bernard Yankey, Director Projects Department.

3. CARDI/Barbados Marketing Board - Mrs. Francis Chandler.

4. European Development Fund, EEC - Dr. Ansgar Eussner; Dr. Anthony Gonzales.

B. St. Lucia:

1. Ministry of Agriculture - Mr. Andrew D. Satney, Marketing Specialist.

2. GEEST Trading Co. - Mr. Francis Leonce, Technical Director.

3. IFAP/St. Lucia Small Farmers Agricultural Development Project - Mr. Michael Griffin, Leader.

4. CARDI - Mr. Calixte George, Small Farmer Project Manager.

5. Traders - Mr. J. Baptiste and Mr. T. Ambrose.

C. St. Vincent:

1. RONCO - Dr. Leon Hesser.

2. Minister for Trade, Industry & Agriculture - Mr. Marcus D. Defreitas.

3. Organization for Rural Development - Mr. Jethro Greene, Chief Coordinator; Mr. Samuel Scott, Marketing; Mr. Norville Abraham, Deputy Coordinator.

D. Trinidad:

1. Caribbean Food Corporation - Dr. H.A.D. Chesney, Managing Director; Mr. Joseph A. Pires, Board Member.

2. FINTRAC Consulting, Ltd. - Mr. Stephen W. New, Post Harvest Technologist.

3. Ministry of Agriculture - Two Marketing Extensionists.

4. CATCO - Agronomist/Post Harvest Specialist, Mr. V. Stewart.

5. Trinidad Food Corporation - Packing Plant Supervisor.

6. Two vegetable farmers.

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