PD-AAZ-302

Project Assistance Completion Report

Project Title: Caribbean Agricultural Trading Company
Project Number: 538-0080
Loan Number: 538-T-0021
Funding Period: 7/28/82 to 9/30/88
LOP Funding: $445,000 grant; $1,032,857 loan
Implementing Agency: Caribbean Agricultural Trading Company (CATCO)
PACD: 9/30/88

I. Background and Purpose

The purpose of the project was to establish a commercially viable agricultural trading company which would 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 to pack and ship it to external markets.

The project was essentially designed as an effort to promote agricultural diversification in the OECS states, i.e., encourage export of fresh produce to extra-regional markets to complement foreign exchange earnings from bananas; and to support inter-regional trade between the OECS, Trinidad and Barbados.

CATCO was incorporated in Barbados in 1981. Its majority shareholder (fifty-one per cent) is the Caribbean Food Corporation (CFC), which is wholly owned by the Caribbean Community (CARICOM) governments. The remaining forty-nine per cent is owned by eight private sector companies. By its charter, the company has both developmental and profit-making goals, i.e., its primary focus is to conduct inter-regional and extra-regional trade. However, its clients are producer associations comprised of small farmers, to whom CATCO provides training and technical assistance in production, post-harvest processing and marketing. This latter aspect of the company's charter was initiated by leaders of the island nations and development institutions in response to the strongly felt need for improvement in these areas. Unanticipated start-up problems were experienced but now CATCO is the region's leading institution for non-traditional agricultural exports and has an extremely rapid rate of sales growth.

II. Description of Project Inputs

A. Loan

The original obligated amount of the loan was $4,000,000, which was to be used for working capital (82%), investment capital for facilities (13%) and technical assistance (5%). However, because of initial management problems, slowness of loan expenditures and the institution's initially slow growth rate, CATCO recognized that the full amount would not be utilized by the original PACD (9/30/87) and requested that the loan be reduced to $1,250,000. A further $217,143 was deobligated after expiration of the terminal disbursement date (6/88). The current amount of the loan is 1,032,857. Terms are somewhere between "soft" and commercial, i.e. fifteen years repayment with: four per cent per annum and grace on principal repayment for the first five years following first date of disbursement (which occurred in 8/84); seven per cent per annum for the second five years; and eleven per cent per annum for the remaining five years on outstanding balance of principal and any due and unpaid interest. The first installment payment was made 5/14/85. Annual payments of principal and interest over the second five year period (1990-94) will be about $140,000. As of this date, CATCO's payments are current.

B. Grant

The original obligated amount of the grant was $224,000 to perform "frequent and intensive evaluation" of CATCO activities over the life of the project. However, since there was little activity to evaluate in the early years of the project, these monies were used partly for financial audits, an important transportation study and assistance with the development of a business plan. The remainder of monies were re-programmed through a grant amendment in 1/86 for essentially developmental activities (i.e., extension work: field management and training of growers, technical assistance). An additional 220,000 was added to the grant on 9/87 for the same purpose, and to serve as "bridge" funding in anticipation of a grant from the European Development Fund (EDF) which eventually materialized. An evaluation was conducted in late 1986 (results summarized in V, below).

III. Project Accomplishments

The analysis in the project paper--upon which the loan terms are based-- was overly optimistic and did not anticipate the considerable developmental costs required to improve the intermittent supply and poor quality of produce in the region. The project paper financial analysis predicted CATCO's gross income from sales of fresh produce to be US$ 31.5 million by 1987. In actuality, this figure was about $443,000 for that year (see Table 2).

At the same time, CATCO spent considerable sums on the completely unanticipated costs of eliciting a tradeable volume and quality of produce from the region, including extension work with small farmers who produce the majority of products carried by the company. The logframe assumption that existing extension and research services (and donor-funded projects) would provide improved technology and information did not hold true, primarily because these services cannot respond rapidly enough to market signals and traders' needs. In other words, a consistent supply of quality produce was initially not there.

Table 1

Summarization of Initial Failures and Remedial Actions Taken

Why CATCO initially failed	Remedial Actions Taken (Current Status)
1. Designers mistakenly assumed spot purchases of readily abundant agricultural produce, which did not materialize in volumes needed.	1. CATCO recognizes it must seek out and stimulate agricultural local production, not rely on spot purchases. CATCO provides assistance on farming technologies and post-harvest handling procedures.
2. Project designers assumed there was money to be made trading agricultural inputs, by now such trade was projected to have been $1.5 million.	2. Company recognizes it will not make worthwhile profit providing some farm inputs, though now trades irrigation equipment profitably.
3. During first 3 years of project, qualified managers were not recruited in the Eastern Caribbean.	3. In 1985 CATCO Board accepted EEC offer to provide expatriate management, which remains mobilized and competent.
4. CATCO Board initially was reluctant to apply normal commercial standards to local management companies approved by USAID	4. Commercial standards now used.
5. Projections assumed Trinidad and Tobago markets would be open, they are closed to many commodities.	5. CATCO now seeks extra-regional markets, in Europe and N. America. Currently 88% of their sales are to extra-regional markets.
6. Project anticipated bananas would be 20% of volume and would equal 4,000 boxes/week now. The demand for bananas is already being met.	6. Company learned it must seek niche markets, and move quickly to fill them. CATCO is no longer bound by inflexible "commodity lists," and in fact exports more than thirty different commodities.
7. Staff was to have numbered 12, increasing to 22 in 1986-87. This never materialized.	7. A small, effective, grant-supported 4-8 person staff is adequate for most trading initiatives, providing it is a well-trained unit. It currently is that.

Furthermore, CATCO was unable to profitably market inputs as originally planned in the project paper, because of existing agency arrangements (franchises) held by other trading companies. Generating enough trade to cover both operating and developmental costs was difficult, and penetration into markets was slow.

The company was also plagued with management problems, and by 1985 had accumulated a net liability of about $500,000. At that time, CATCO had already experimented with several management arrangements, and in 1985 signed on FINTRAC Consultants, whose contract to manage the company was funded with a grant from the EDF.

Things then began to improve substantially. CATCO's compound annual rate of sales growth for fiscal years 1987, 1988 and 1989 is about 60 per cent. The reasons why CATCO failed to meet the projected trading volume in the initial years, and what remedial actions were taken to correct these deficiencies, are summarized in Table 1 above. The new management was able to stem increasing losses, and was successful in developing CATCO's reputation in the European market for high quality West Indian ethnic foods at competitive prices. Growth in volumes traded was the following:

Table 2

Tons Traded, Gross Income and Net Deficit

Fiscal Years*

	1984	1985	1986	1987	1988	1989*
tons traded	175	500	372	548	1,006	1,572
gross income ($000)	$142	593	$372	$443	$ 953	$1,500
net deficit ($000)	$407	482	$160	$179	$ 67	$ 250
member states supplying produce	2	2	2	8	9	10

* projected. The CATCO fiscal year is July 1st to June 30th.
Source: CATCO financial records.

CATCO thus increased its volume of produce traded and export earnings by more than eight times since 1984, and improved its financial performance to the point where the operation could in fact become profitable. The deficit in 1989 (above) increased for two reasons: cessation of donor-funded grant projects that covered most of staff (primarily developmental) costs, and improvements in accounting procedures that involved writing off bad debts and increasing depreciation charges.

Because of the level of developmental activity still required to elicit larger volumes of produce, the company continues to have difficulty in meeting the burden of the USAID loan in the sense that meeting it requires CATCO to borrow at commercial rates to pay it off.

IV. Project Impact

In the OECS region, meeting the requirements for high-quality and consistent supplies of fresh produce is not just a task of research and extension agencies, for it requires close collaboration with exporters. Technical assistance given on production and quality is most effective when the exporter takes the lead, identifies the products that can be marketed, and is prepared to purchase them. Above all, it is successful when the exporter knows the farming techniques that will yield the best product, for then he can judge the financial feasiblity for the farmer of adopting the new techniques.

In other words, successful export of agricultural produce from the OECS region requires some form of vertical integration, where the trader is involved with application of recommended production packages, as well as harvest, packing and shipment. CATCO has shown that this system works well, and the company has had an important demonstration effect in the region during a time when governments have been seized with the necessity of agricultural diversification away from bananas. The company has become the only truly regional agricultural trading company in the Eastern Caribbean.

V. Continued AID Monitoring Requirements

The 1986 evaluation recommended that AID continue to support CATCO because it was a major leader for agricultural diversification in the region. More important, the evaluation differentiated between CATCO's purely trading activities, and CATCO's developmental role of working with small farmers and farmer groups to insure adequate supplies of high quality produce. The cost of this latter activity is very high, cannot be met with trading revenues and is appropriate for support by the public sector much like government extension services. CATCO provides market-oriented extension services which are more effective for non-traditional exports than governmental extension services. RDO/C should therefore continue to monitor CATCO's work, and seek to include this important organization in its current portfolio of project activities wherever feasible. In particular, RDO/C should be sensitive to opportunities to privatize the company through divestiture of shares held by CFC.

The evaluation also proposed that the terms of the loan be softened. No matter how justified this proposal may be, Section 620(r) of the FAA of 1961, as amended, prohibits the forgiveness or compromise of the payment of any contracted interest and principal, and permits only the re-scheduling of payments with the capitalization of owed amounts. Any longer-term compromise of owed amounts or reduction of contracted interest rates would require some legislated relaxation of the 620(r) prohibition. At the request of CATCO in March of 1989, the USAID Mission asked AID/W to approve an amendment to the terms and conditions of the loan, which if approved, will improve CATCO's medium term cash-flow position and permit trading of larger volumes.

VII. Lessons Learned

The most important lesson learned from this project is that good technical design, namely financial projections based on assumed availability of a tradeable volume of agricultural produce, is extremely important for any project of this type, especially where the program involves an AID loan, and particularly where the loan is based on semi-commercial terms.

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