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FIRST INTRA-ANNUAL ASSESSMENT OF PRAMS I
YEAR 3 (1992-93)

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EXECUTIVE SUMMARY

Assessment

An intra-annual review of PRAMS I reform and restructuring activities in the North West Province was conducted on 27-28 May 1993 in Bamenda. The review included all project activities occurring since the last intra-annual review of 28-29 May 1992. This assessment focuses on progress made under the current Program Implementation Agreement (PIA) and on the next steps required to fulfill the PIA and continue moving down the path of reform.

Project assistance to the North West Cooperative Association (NWCA) occurs in the context of policy reform activity being carried out at a national level. This activity has most recently focused on the unfulfilled conditions precedent to the third and forth dollar disbursements required by the program Grant Agreement. Progress is being made on the transfer of equipment required for the third disbursement. The price liberalization required for the fourth disbursement has not fully been met and is awaiting the establishment of an Arabica Market Information System (AMIS), now being developed.

NWCA ended the 1991-92 season having sold 4,356.9 tons of arabica coffee for an average price of FCFA 272/kg. Producers were paid FCFA 250/kg. The cooperative structure operated at a loss, which was estimated at FCFA 175/kg. At this point in the 1992-93 season, coffee purchases have totaled only 2,022 tons, but sales thus far have fetched an average price of FCFA 378/kg. With the producer price reduced to FCFA 200/kg and with cost reductions at all levels of the cooperative structure, the structure may be able to approach the break-even point this season.

Recent restructuring and strengthening activities have included significant reductions in force and the introduction of simplified accounting systems at the union and society levels.

The current PIA, signed in February 1993 and terminating on 31 October, calls for a series of action plans related to preparations for the 1993-94 season. Only one of these plans has been completed -- establishing an upgraded marketing department at NWCA. One is close to completion -- planning a dissemination campaign for the new cooperative law and decree to occur in August and September. Another is now slated for completion no later than 16 June -- planning an education program to enable societies to determine producer prices in the 1993-94 season. This step is extremely important to the progress of the reform program. NWCA also has made considerable progress toward the application of cost recovery principles in its operations. No further progress has been made on commercialization of the Crop Finance Revolving Fund (CFRF). USAID is now awaiting a joint technical memorandum from NWCA and the technical assistance team laying out commercialization options. The external audit report, although complete, has not been formally presented to NWCA. This step must occur in order to undertake PIA activities that relate to carrying out the recommendations of the external auditors and bringing all accounts into a current condition. Finally, a series of technical feasibility studies are in various stages of completion, but should be ready before the upcoming marketing campaign.

Most of the deadlines in the PIA have not been met. The final deadline for completion and adoption of all action plans now past due should be 16 June.

In addition to completing the PIA's action plans, NWCA and the technical assistance team need to focus on the development and negotiation of the New Internal Marketing Arrangements (NIMAs) for the upcoming 1993-94 campaign. The NIMAs are essential to provide a contractual relationship between the cooperative organizations that operate at different levels of the structure. The contractual terms and conditions depend on the preparation of an internal cost schedule subject to negotiation and agreement within the cooperative structure. These preparations need to be well in hand prior to the annual review and the signing of a new PIA by NWCA and USAID in early November.

NWCA and the technical assistance team also should work to regain a focus on coffee quality, stressed in the design of the program, by giving renewed attention to parchment acceptance procedures, which should be included in the NIMAs. At the same time, further investment in improving the 12 coffee mills operated by the 11 cooperative unions should be deferred, given existing excess capacity, until the unions are able to consider the restructuring of production at this level.

Although NWCA has made less progress in reform and restructuring than in various technical improvements and capacity building, the cooperative structure remains on the path of reform under the terms of the current PIA. It is imperative that the necessary next steps be taken now, however, if NWCA is to be in a position to conduct the next campaign (the final campaign of PRAMS I) with key reforms in place. This will be NWCA's last opportunity to test its capacity to conduct a well-coordinated campaign under reform conditions before the end of the program.

Another intra-annual review should be scheduled for on or about 1 September to assess continued progress under the current PIA in preparation for the upcoming campaign and the annual review in early November.

Action Steps, Activities, and Timetable

* Steps to be taken by NWCA-ISTI prior to 16 June:

  (1) Complete and adopt an action plan with timetable for education program to enable societies to set producer prices;

  (2) Complete and send to USAID a joint memorandum on commercialization of the CFRF;

  (3) Complete an action plan with tentative timetable for program of dissemination and education in relation to the new cooperative law and decree;

* Activities of 16 June - early August:

  (1) General Manager and two members of the senior staff are in the United States for training;

  (2) Preparation for carrying out the action plans adopted above continue in the cooperative structure.

* August - September Activities:

  (1) NWCA, ISTI, and Peace Corps conduct education program at all levels of the cooperative structure aimed at enabling societies to set producer prices;

  (2) NWCA, ISTI, and Peace Corps conduct a dissemination and education program in relation to the new cooperative law and decree;

  (3) USAID, the Arabica Policy Coordinating Committee (APCC), ISTI, and NWCA organize and make operational the commercialized CFRF;

  (4) NWCA board of directors hears audit presentation and accepts the audit report. Any cooperatives found to be in a condition of technical bankruptcy prepare and adopt plans for meeting their financial obligations [original deadline of 1 August extendedto 1 September];

  (5) NWCA in consultation with the cooperative structure and with ISTI assistance develops proposed NIMAs for the upcoming arabica campaign.

  (6) An intra-annual review "in brief" is held on or about 1 September.

* October Activities:

  (1) Negotiations are opened within the cooperative structure to determine the exact terms and conditions of NIMAs for the upcoming campaign;

  (2) Societies, Unions, and the NWCA with ISTI assistance consider further cost reduction measures and possibilities for restructuring union-mill production;

  (3) Full NIMAs as negotiated are prepared for consideration, possible revision, and adoption at the Annual Review;

  (4) Draft PIA for year four is prepared jointly by NWCA and ISTI for discussion at the Annual Review;

(5) All cooperative organizations in the structure bring their financial accounts into a current condition, write off uncollectible debts, and develop plans for addressing the recommendations of NWCA's external auditors [deadline 31 October].

* November Activities:

(1) Annual Review and Assessment conducted as early as possible;

(2) NIMAs are signed by societies, unions, and the NWCA;

(3) PIA for year four signed by NWCA and USAID;

(4) NIMAs are implemented and the arabica campaign gets underway.

INTRODUCTION

The Program of Reform in the Agricultural Marketing Sector, Phase I (PRAMS I) has two main components: (1) a policy reform component that is national in scope and (2) a cooperative reform and restructuring component aimed mainly at the North West Province and the cooperative structure affiliated with the North West Cooperative Association (NWCA). Phase I is focused exclusively on the arabica coffee subsector. The policy reform component is intended to liberalize and privatize both the internal and external marketing of arabica coffee. The cooperative ***reform*** and ***restructuring*** component is intended to create institutional arrangements within the cooperative structure designed to enhance its accountability and responsiveness to farmers. In general, ***reform*** is directed to changes in the governance of the cooperative structure while ***restructuring*** is concerned with changes in management and production. This same component also provides technical assistance to NWCA and its affiliated cooperative unions and societies intended to strengthen their capacity to compete in a liberalized market environment and seeks to reduce the social costs of transition to market-based arrangements. In addition, PRAMS I includes a research component intended to monitor and study the processes of policy and cooperative reform for the purpose of learning better how to plan, organize, and conduct these activities. The research component has only recently commenced fieldwork in Cameroon.

This assessment has been prepared following an Intra-Annual Review of NWCA reform and restructuring activities conducted mainly on 27 May 1993 and concluding the morning of 28 May in Bamenda. Participants in the review included the NWCA and union presidents, the General Manager and his senior staff, union managers, the technical assistance team supplied by the International Science and Technology Institute (ISTI), Peace Corps volunteers posted in the North West as cooperative technical advisors (CTAs), and representing USAID, the PRAMS I project officer and the program coordinator. The Intra-Annual Review and Assessment were conducted by an Assessment Leader supplied by Associates in Rural Development (ARD) through the Decentralization: Finance and Management (DFM) project, AID/Washington. The full proceedings of the Intra-Annual Review have been recorded by the ISTI technical assistance team and will be made available concurrently with this assessment report.

The process of periodic review and assessment was built into the design of PRAMS I in order to provide a regular forum in which all parties involved in the reform and restructuring effort could take stock of their progress, identify problems, make needed adjustments in the program as it unfolded, and, more generally, be accountable to one another. The plan called for an annual review and two intra-annual reviews during the 4 years of the program. Each annual review, to be attended by representatives of the entire cooperative structure, was to be scheduled for early November in order to coincide with the preparation of marketing arrangements for the upcoming coffee season together with an annual Program Implementation Agreement (PIA), signed between USAID and NWCA and its affiliated cooperative unions. Intra-annual reviews were to be held in April, after the campaign had largely been completed, and again in September. Both annual and intra-annual assessments were to be prepared in conjunction with each review by an independent assessment team headed by an institutional analyst and composed of persons not directly involved in project implementation. The annual assessment was to focus on performance under the PIA just being concluded and

help to lay the groundwork for the next project year, including the upcoming campaign. Intra-annual assessments were to focus on implementation activities and problems encountered within the scope of an existing PIA.

The first intra-annual review was conducted on 28-29 April 1992 and an assessment report submitted on 8 May 1992, following upon an annual review in December 1991. The present intra-annual review and assessment are the first review and assessment to be conducted since just over one year ago. The intra-annual review anticipated for September 1992 was not held, nor was the annual review expected in November 1992 ever scheduled, mainly because of political disturbances in Cameroon and, in particular, the declaration of a state of emergency in the North West Province.

Because of the time that has passed since a review of any sort, this intra-annual review has a somewhat broader scope than normal. Even so, the central focus of an intra-annual assessment is on the progress being made toward the fulfillment of terms and conditions specified in the annual Program Implementation Agreement (PIA). Hence, the current PIA, signed by USAID and NWCA on 19 February and terminating on 31 October 1993, is the primary concern of this assessment, leading up to an annual review and the preparation of a new PIA expected no later than early November this year.

The assessment report begins by reviewing recent policy reform activities, followed by NWCA marketing and restructuring activities. The current PIA is then reviewed, followed by an assessment of implementation problems. The report concludes with an overview of progress and the actions that remain to be taken. Throughout the discussion, the assessment is directed toward defining the ***next steps needed*** in order to fulfill the current PIA and move forward with cooperative reform, restructuring, and strengthening. The recommended steps are set forth and highlighted in the main body of the report and included in a timetable located in executive summary.

POLICY REFORM ACTIVITIES AND PROBLEMS

U.S. dollar disbursements to support PRAMS I are tied to GRC satisfaction of conditions precedent as specified in the Grant Agreement. Two of the four planned disbursements have been made. Neither the third or fourth disbursements have occurred despite the fact that both are overdue. Several extensions have been granted, and further extensions now depend on clarifications and decisions from AID/Washington.

The outstanding conditions precedent to be met prior to the third disbursement consist of the transfer of assets from the former marketing board to NWCA and the introduction of a graduated tax structure for arabica exports. The graduated tax structure is currently under review by both USAID and the GRC and may lead to an amendment of the grant agreement on this point. The transfer of assets has been held up by litigation. During the intra-annual review, NWCA urged USAID to be flexible regarding the requirement of the transfer of assets as a condition precedent.

It would be unfortunate if the stalled transfer of assets were to prevent both the third and fourth disbursements from occurring. NWCA would lose twice

in this scenario--first by not receiving the assets to which they are entitled and secondly by not benefiting from the local currency generated from the last two disbursements of dollars.

* **USAID should continue in a proactive, problem-solving mode in working with the GRC on the transfer of assets. These efforts are underway at this writing and there is hope that the problem may be resolved shortly.**

The fourth disbursement is contingent on the adoption of a new cooperative law and on full market and price liberalization of arabica coffee. A new cooperative law has been enacted, the implementing decree has been issued, and dissemination efforts are currently being mounted. This condition precedent appears fully satisfied. Full market and price liberalization, however, are another matter. Satisfaction of these conditions precedent has been subject to much greater ambiguity. The government must take two essential steps: one is to allow full competition among arabica coffee traders without monopoly privileges and the second is to refrain from any government participation in producer price determination, allowing private decisions and market forces alone to determine prices. The opening of the arabica subsector to full competition has been achieved, but not full price liberalization.

An ambiguous and confused situation was created during the 1992-93 campaign when the government issued two contradictory press communiques, one in February and another in April. The February 26 press communique was signed by the Minister of Commerce and Industry (MINDIC) and appeared substantially to liberalize producer prices for the 1992-93 campaign, but requiring that each buyer announce a fixed price for the entire campaign. Subsequently, problems seem to have developed between MINDIC and the Ministry of Agriculture (MINAGRI), which has responsibility for government policy related to agricultural cooperatives. By March 5, MINDIC was trying to arrange a coordinating meeting among MINAGRI, the Union Centrale des Cooperatives Agricoles de l'Ouest (UCCAO), NWCA, and USAID. On 20 April, a meeting was held that was attended by representatives of both ministries, as well as UCCAO, NWCA, and the Interprofessional Council on Coffee and Cocoa (CICC) representing all other buyers. USAID did not attend. The result of the meeting was a new press communique declaring a minimum producer price of FCFA 200/kg for the 1992-93 campaign, agreed to by all parties represented, including NWCA.

Among the considerations cited in the communique as relevant to this action is the obligation of cooperative members to sell coffee to their cooperative. Therefore, only farmers who are not cooperative members are, strictly speaking, free to sell to the buyers of their choice during any given campaign, although farmers are free under the new cooperative law to resign their membership in any cooperative. The communique of 20 April also indicated that future price liberalization is dependent on the development and evaluation of a market information system (MIS). PRAMS I is currently supporting a consultant study for the purpose of organizing an Arabica Market Information System (AMIS) in Cameroon.

Based on a reading of draft consultant reports and conversations with USAID, the current focus of AMIS is on the supply of up-to-date market information with FOB Douala prices and New York "C" contracts as the principal

indicators. This type of information is necessary and useful, but more is needed in the context of a cooperative structure. The point made by the press communique of 20 April should be heeded and taken into account in the design of AMIS. Competition among cooperatives within a cooperative structure is not quite the same as market competition among traders. In the newly liberalized environment created by the new cooperative law, cooperatives are free to compete with one another for members, while in the newly liberalized marketplace, buyers (including cooperatives) compete for coffee. This principle remains, even if the enforcement of member obligations is problematic, in the sense that cooperatives can compete to earn and keep the loyalty of members. In this context, cooperative members need information that enables them to assess the performance of their cooperative. The information required goes beyond the marketplace information (such as FOB Douala) that allows producers to judge price offers on a current basis.

* **USAID should consider broadening AMIS at some point in the future to include the annual preparation and dissemination of an end-of-campaign report designed to present arabica farmers with comparative information on the performance of arabica marketing cooperatives.**

In the case of the North West cooperative structure, the information presented should include society-by-society price ranges and averages for the season, together with NWCA sales data, plus any bonuses paid to farmers by society, union, or NWCA. As a performance indicator, AMIS could compute each society's average producer price plus bonus paid as a percentage of the average FOB Douala price obtained by NWCA. Similar information and indicators could be presented for the cooperatives now affiliated with UCCAO. It should be noted that the annual review of NWCA was envisioned in part to play such an information role during the life of PRAMS I. Because liberalization has not yet come to pass, the annual review has not served this purpose. Nevertheless, it is still important to consider how this function can be performed in the future.

NWCA MARKETING AND RESTRUCTURING ACTIVITIES

The 1991-92 season saw NWCA processing and marketing a bumper crop of arabica coffee, selling some 4,356.9 tons for an average price of FCFA 272/kg. Paying a government-sanctioned producer price of FCFA 250/kg, the cooperative structure reported a loss of FCFA 175/kg, based on internal costs of FCFA 197/kg. It should be noted, however, that this internal cost figure represents only a rough estimate made prior to the campaign and is not an accounting figure based on actual expenditures and obligations. Thus far, in 1992-93, societies are reported to have purchased only 2,022 tons of good beans--a very small crop. NWCA has sold 1,650 tons for an average price of FCFA 378/kg. The expected total internal cost for 1992-93 based on budgets adopted at all levels is FCFA 150/kg (calculated on a base of 3,000 tons). Paying a uniform producer price of FCFA 200/kg, there is some possibility that the cooperative structure as a whole may be able, roughly speaking, to break even, even though at least some unions and societies are almost certain to end the season in a deficit condition based on existing budgets.

* **NWCA should recalculate 1992-93 internal costs based on a revised tonnage estimate in order to provide a clearer picture of the financial situation likely to result from the campaign.**

The most important restructuring activity undertaken during year 3 of the project has been the adoption of reductions in force by all unions and a number of societies. Summarizing, the 11 unions decided to lay off 87 out of 166 staff members, of which 73 employees have been laid off to date. This is a planned reduction in force averaged across the unions of 52.4 percent (and a reduction carried out to date of 44.0 percent). Among the participating societies, decisions were made to lay off 24 out of 45 employees, of which 17 have been laid off to date. For those societies participating, the planned reduction in force averaged 53.3 percent (and the reduction carried out to date, 37.8 percent). PRAMS I supported this activity through local currency used for severance payments, with FCFA 101.5 million paid out to date.

Within the NWCA apex organization, layoffs of 21 employees completed by 31 July 1992 left 33 permanent staff members. This level of staffing continues to exceed the level of 20-25 employees recommended by management consultants and accepted as feasible by ISTI technical assistance. Presently, the apex organization is engaged in a functional reorganization activity that involves the elaboration of job descriptions.

Also related to restructuring, an activity has been completed that has simplified and systematized accounting procedures and forms in unions and societies. The activity was carried out under the direction of the NWCA internal audit service, assisted by the ISTI team. Peace Corps volunteers participated extensively in the field. This activity was a necessary step toward full implementation of New Internal Marketing Arrangements (NIMAs) by the cooperative structure.

CURRENT PROGRAM IMPLEMENTATION AGREEMENT (YEAR 3): IMPLEMENTATION TO DATE

The Program Implementation Agreement (PIA) for year 3, covering the 1992-93 campaign, was signed on 19 February 1993. The signing was late. To be an effective instrument for organizing activity during the coffee buying season, the PIA should have been signed no later than November 1992. The 2-3 month delay occurred because of differences over the appropriate pace of reform and the next steps to take. These differences were exacerbated by the ambiguity of the situation concerning price liberalization, as discussed above. When finally signed, the PIA omitted any reference to NIMAs. The NIMAs provide a contractual framework for organizing and then conducting the business relationship between the tiers of the cooperative structure. Taken together, these factors--the delay in signing the PIA, government ambiguity about price decontrol, and the absence of NIMAs--all contributed to uncertainty and confusion within the cooperative structure, which disrupted the purchase of coffee.

The result is that, despite all the progress made in technical and managerial terms to improve the capacity of NWCA and its affiliates, the cooperative structure has not been able, to date, to conduct a buying and marketing campaign without serious disruption, delay, or confusion. This is a

disappointing outcome. The cooperative structure exists to buy, process, and sell coffee--this is the whole point of management, accounting, engineering, and so on. The operational test of capacity improvements in the cooperative structure is the coordinated conduct of an arabica campaign--from the prefinancing of coffee purchases to export and shipment. The conclusion is not that NWCA has failed the test--it is rather that a good test has not yet been conducted. This year, problems and disagreements within the project precluded effective planning and preparation for the campaign. Therefore, we cannot know at this point to what extent the cooperative structure has the capacity to conduct a well-coordinated campaign because that capacity has not been tested.

Only one more coffee campaign--1993-94--remains before the end of PRAMS I in September 1994. This will be the last opportunity within the scope of the program to test the capacity of the cooperative structure as a coordinated operation, observe strengths and weaknesses, and suggest modifications and corrections. Every possible effort must be made to ensure that this final campaign to be assisted by PRAMS I provides a good test of the capacity-building, restructuring, and reform measures introduced.

This imperative assigns great importance to the current PIA, which terminates on 31 October. The issues that precluded effective planning for the 1992-93 campaign were not resolved by the PIA signed in February. Instead, the PIA stipulates that a series of joint action plans be developed by NWCA and ISTI to resolve these issues prior to the 1993-94 campaign. Therefore, the central focus of this intra-annual assessment is on (1) the extent of progress made toward developing and implementing each of these action plans and (2) a consideration of the next steps needed to move forward. Any significant delay at this point will imperil the 1993-94 campaign and perhaps threaten continued project support. Below, each commitment made in the PIA is reviewed, progress is assessed, and immediate next steps are suggested.

Cooperative Law Reform Dissemination and Implementation

The PIA provides that NWCA shall develop, in collaboration with the Technical Assistance team, a detailed action plan for dissemination of the new national cooperative law and implementing decree. This activity is necessary in order for all cooperative organizations within the structure to revise their Articles of Association in conformity with the new law and decree and to re-register within nine months. The PIA stipulated a deadline for completion of the action plan of 31 March. The deadline passed without completion of the action plan; it has not been completed to date. However, NWCA reports substantial progress, working with the technical assistance team, in developing a plan that can be implemented beginning in August. At the same time, a national effort to disseminate the new law and decree is being mounted by the Cameroonian government with the support of USAID and other donors. On 28 May, NWCA and ISTI representatives met in Bamenda with representatives of MINAGRI to discuss coordination. Documents were shared that will provide a basis for ensuring that the NWCA activity is consistent with the national effort now being planned and soon to be underway. Further coordination will be forthcoming as plans proceed on both sides. This meeting should enable NWCA to complete the action plan required by the PIA at an early date. There is also a consensus that Peace Corps volunteers will be included in the action plan being developed.

Improving the NWCA Marketing Department

The PIA stipulates that an action plan will be developed by NWCA and ISTI technical assistance containing the necessary steps and a timetable for NWCA Marketing Department to "reach acceptable standards." Although the action plan was developed by the deadline of 31 March, the action plan was not adopted by NWCA until just prior to the intra-annual review. The reorganized Marketing Department is presently selling and shipping coffee. This aspect of NWCA organization should be ready for the 1993-94 season. A critique of the action plan is reserved for the discussion of implementation problems below.

An Education Program Enabling CPMSs to Set Producer Prices

The PIA provides that an action plan will be developed by NWCA and ISTI technical assistance to conduct a detailed education program designed to provide CPMSs with the skills and knowledge to set producer prices for themselves in the 1993-94 season, together with a detailed timeframe with milestones to judge progress. The PIA further established a deadline of 15 April. The deadline passed without the adoption of the required action plan.

It was apparent at the intra-annual review that all parties are agreed that such an education program is extremely important and that it must be conducted with great care and preparation. This means that it is imperative that the action plan be developed and adopted without any further delay. Jeopardizing this activity threatens the entire project. Because all parties agree on the next step to take, they should take it without hesitation or reservation, leaving future steps to be considered in the future. All parties are also agreed that Peace Corps volunteers should participate extensively in the education program.

* **Relatively little progress has been made toward adoption of this action plan, which is more than one month overdue. Discussions are continuing between NWCA staff and the ISTI team, and a draft action plan is expected for consideration by the General Manager and ISTI technical assistance shortly. In order for the activity to proceed as expected, an action plan must be adopted prior to the departure of the General Manager and other senior staff for training in the United States on 16 June.**

The Use of Cost Recovery Principles in the Cooperative Structure

The concept of cost recovery has been an explicit part of the reform and restructuring program at NWCA since the adoption of the New Internal Marketing Arrangements (NIMAs) in year 1. The current PIA reiterated this principle, the parties agreeing that NWCA departments and the cooperative structure will reorganize on a cost recovery basis with clearly defined sources of revenues. No deadlines were given. NWCA has advanced a long way in developing a comprehensive cost-recovery system, as evidenced in the intra-annual review by the excellent presentation on this subject given by the deputy general manager. Cost recovery principles need to be applied flexibly in a cooperative structure, depending on the nature of the activity being financed. Flexibility is also

required by the need for mutually agreeable arrangements between the tiers of the cooperative structure. Present efforts in this direction, if continued, will help to lay a firm foundation for the 1993-94 marketing season.

The Financial Condition of the NWCA and its Affiliates

The PIA requires that every cooperative in the structure bring their financial accounts into a current condition and write off uncollectible debts by 31 October. They are also to develop plans for addressing the recommendations of NWCA's external audit by the same date. Although the external audit of NWCA has been complete for some time, the NWCA board of directors has not yet accepted the audit report. This requires a direct presentation to the board and general assembly by the auditors. Once the audit report has been received, the accounting activities agreed to in the PIA can begin. In order to avoid missing the deadline, NWCA should arrange as soon as possible for the audit presentation. It can be noted, however, that many of the external audit recommendations are already being addressed with the adoption of revised financial accounting procedures throughout the structure, discussed above. One of the purposes of these procedures is to reduce the cost and increase the quality of future audits.

The Crop Finance Revolving Fund

The PIA states that the Crop Finance Revolving Fund (CFRF), which was created by PRAMS I to assist with the prefinancing of coffee purchases as a transition to commercial credit financing, will be commercialized for the 1992-93 marketing season. Although a plan for commercialization of the fund was submitted by ISTI technical assistance, and exploratory talks were held with a potential fiduciary bank and possible participating commercial banks, the commercialization has not yet taken place. NWCA reconstituted the fund in February, making it available, pending commercialization, to support coffee purchases for the remainder of the season. However, in December 1992, NWCA received a commitment of FCFA 500 million from the European Development Fund for the purpose of prefinancing the purchase of the 1992-93 crop. This infusion of new money made the commercialization of the CFRF of FCFA 750 million a less urgent priority during the present campaign.

From the beginning of the CFRF, the intent of PRAMS I has been to effect NWCA's transition to commercial credit sources as early as possible. Commercialization of the CFRF is consistent with this original objective. Nevertheless, commercialization was opposed by NWCA because of the need to pay commercial rates of interest. USAID is presently awaiting a joint statement of options from NWCA and ISTI technical assistance before proceeding further with commercialization. If NWCA expects to use this resource for coffee purchases in the 1993-94 season, it is imperative that the joint statement be submitted so that the necessary arrangements can be fully in place prior to the start of the campaign.

USAID intends to convert the revolving fund to a guarantee fund held by a fiduciary bank. Credit would be available through commercial banks at rates of interest acceptable to them subject to central bank policy. The existence of the guarantee fund reduces risk and should make possible the negotiation of more favorable rates. Moreover, if coffee is processed and sold quickly, the period

of the loan can be minimal--perhaps as short as 3 months in part. Making credit available at a zero interest rate tends to distort decision-making by discounting time. It is an old saying that time is money. Commercialization of the fund recognizes this reality and prepares NWCA for full financial independence.

* **NWCA and ISTI technical assistance have agreed to prepare a document exploring the range of technical possibilities for commercializing the CFRF for presentation to the APCC. This activity should be completed prior to 16 June. The process of actually setting up the guarantee fund and making credit available through commercial banks may require a period of adjustment before the arrangements become fully operational. Because such a process takes time, it is important to get underway now. Priority should be given to assuring that the fund is operational by the start of the 1993-94 campaign, even if this means accepting a simpler system than now envisioned. USAID can draw on strong experience from previous policy reform activities in this process.**

Feasibility Studies

The PIA also jointly commits USAID and NWCA to conduct a series of feasibility studies related to various technical and financial improvements suggested in the Memorandum of Understanding. Specifically, studies are to be conducted regarding the feasibility of washing stations; a spare-parts revolving fund; and hand-pulper revolving fund; mill improvements and investments; disposal of excess equipment; a communications network linking NWCA with unions and societies; and legal documentation of property titles.

Presently, the feasibility studies are in various stages of preparation or completion:

- On the ***communications network***, a short-term consultant study supplied through ISTI technical assistance has been completed and stands ready to be implemented.

- The NWCA Engineering Department together with technical assistance has completed a review of the ***coffee mills*** and compiled a list of recommended improvements and the parts and equipment that would be required. The cost of improvement is estimated at FCFA 47.2 million. However, the study does not take into account the excess production capacity that exists among the 12 mills and the clear potential for restructuring production to take advantage of economies of scale.

- Some progress is also reported in studying the problems of the disposal of ***excess equipment*** and legal documentation of ***property titles***; these activities are continuing.

- The feasibility of introducing ***washing stations*** in some areas of the province will be studied jointly by the Engineering Department and ISTI technical assistance without need for a short-term consultant.

- The feasibility of the ***revolving funds*** suggested for ***spare parts*** and ***hand-pulpers*** has not yet been examined. NWCA and ISTI estimate the cost of the

initial purchase of spare parts at FCFA 21.3 million. It would be useful if these studies would examine not only how such funds might be set up, but also the alternative ways in which the objectives of providing spare parts (mainly to union mills) and hand-pulpers (to farmers) might be pursued. The conclusion reached by these studies can then be based on a comparative assessment of alternatives for reaching the desired objectives.

IMPLEMENTATION PROBLEMS AND NEEDED ADJUSTMENTS

Missed Deadlines

With a single exception, every deadline in the current PIA that has passed is also a deadline that was missed. No new deadlines have been established.

* **When deadlines are missed, USAID and NWCA should immediately confer, examine the time schedule, and establish new deadlines in consultation with ISTI. The implications of missing particular deadlines should be clearly discussed between USAID and NWCA. Given the scheduled departure of the General Manager and senior management staff for training in the United States on 16 June, this date should be commonly understood as a final deadline for the completion of all action plans now past due.**

The fact that deadlines have been missed should not obscure recognition of the effective working relationship that has begun to emerge between the ISTI technical assistance team and NWCA senior staff. The strength of these working relationships was obvious during the intra-annual review. Much of the credit must go, not only to the goodwill of the people involved, but also to a PIA that requires the development of joint workplans.

Shortcomings of the Current PIA and Marketing Arrangements

This assessment must be concerned not only with the implementation of agreements contained within the current PIA, but also must assess the content of the PIA itself. This was an agreement that was unable to resolve most of the issues relevant to the 1992-93 campaign and thus was wholly inadequate as a document for organizing the 1992-93 campaign. First, it was too late to be effective; second, it omitted, contrary to the Memorandum of Understanding, the New Internal Marketing Arrangements (NIMAs) adopted by NWCA in year 1 of this project. Omission of the NIMAs meant, in effect, that the PIA would fail to influence the 1992-93 campaign and would instead focus almost exclusively on preparation for the following campaign. However, the PIA also fails to mention the preparation of NIMAs for the 1993-94 campaign explicitly. The logic of the NIMAs is nonetheless implied in the PIA's preparations for CPMS producer pricing and the use of cost recovery principles throughout the cooperative structure. In any event, the Memorandum of Understanding mandates preparation of NIMAs for 1993-94, and this activity must occur during the period of the current PIA. NWCA and ISTI technical assistance should begin at once to address the format and content of NIMAs for the upcoming season.

The format of the NIMAs will be a necessary part of the education program to be conducted with respect to CPMS setting of producer prices. Central to the NIMAs is the elaboration of an internal cost schedule that enables a CPMS to establish producer prices in view of its unique costs, equal to its own internal costs plus the internal costs of its Union and the NWCA Apex. The NIMAs also provide a contractual basis for the distribution of coffee receipts.

For the 1992-93 season, NWCA developed its own approach to the calculation of internal costs for the purpose of distributing receipts, although NIMAs were never signed. Instead of relying on average costs for each of the tiers, as in the past, NWCA used a statistical cluster analysis to arrive at a cost figure around which most unions (and most societies) tended to fall. Unions and societies will be reimbursed according to these "modal" figures. Unions and societies that are more efficient than that indicated by the cluster will receive funds that can be passed on to farmers as bonuses. Those that are less efficient will find themselves in a deficit condition unless they are able further to reduce costs, being required by GRC decision, with the agreement of NWCA, to pay producers a minimum price of FCFA 200/kg. How unions and societies that find themselves in a deficit condition will handle this situation is left unspecified.

At best, this approach can be viewed as a very partial step toward a full cost recovery system. Given a uniform price, there is no perfectly equitable way of distributing sales receipts. NWCA's arrangement does have the limited virtue of rewarding the most efficient and penalizing the least efficient cooperative organizations. What it does not do is to put strong pressure on the great majority of unions and societies that fall near the modal figure to perform more efficiently. Moreover, it puts little pressure on the NWCA Apex itself. Inability to pay bonuses is simply not as strong an incentive as the inability to pay a competitive price upfront. The most inefficient cooperative organizations within the structure are not the only ones that need strong economic incentives to become efficient. The entire cooperative structure should be subject to the same economic pressure, driven by the desire of farmers for higher producer prices.

The strongest economic incentive to efficient performance is created by enabling CPMSs to determine producer prices based on their unique cost structures. When this happens, farmers will feel the effect of their society's and union's relative inefficiencies at the point of sale. The most efficient organization will set the standard, not the modal organization. Over time, this is a standard that can lead, not only to sustained efficient operations, but also to the restructuring of production (discussed below).

Previous PIAs and NIMAs were prepared as joint documents and signed by both NWCA and USAID. Prior to the negotiation of the current PIA, ISTI technical assistance presented NWCA with a draft PIA and NIMAs. NWCA responded with detailed comments in January. Negotiations between NWCA and USAID followed in February, without preparation of another draft in response to NWCA's comments. NIMAs were excluded during negotiations mainly because there were too many details left to be discussed and too many differences to be resolved to be able to bridge the gap.

* **For the 1993-94 season, year 4 of the project, the PIA and NIMAs should be separated and adopted in sequence, not simultaneously. There is no need for USAID to sign NIMAS, which are intended to establish contractual relationships among the cooperatives affiliated with NWCA, not between NWCA and USAID. Only the PIA is establishes a relationship between NWCA and USAID. NIMAs should be adopted, however, prior to the negotiation of the PIA, and the PIA should stipulate the action steps required to implement the NIMAs and to prepare NIMAs for the following season. NIMAs should conform to the general guidelines outlined in the Memorandum of Understanding.**

Reintroducing NIMAs

The New Internal Marketing Arrangements (NIMAs) have several dimensions. First, the NIMAs are contractual arrangements that tie the cooperative structure together for a given marketing season. The contractual nature of these arrangements is necessary both to secure commercial financing of the crop and to designate NWCA as the principal seller in the world market. Societies agree to market a given amount of coffee through a particular Union, and Unions agree to market a given amount of coffee through the NWCA. These agreements are subject to certain terms and conditions. Societies agree to certain acceptance procedures, unions to certain receiving and processing procedures, and the NWCA to certain export marketing procedures. The cooperative structure also agrees to an internal cost schedule expressed on a per-kg basis that, first, allows societies to set producer prices and, second, serves as a basis for the distribution of sales receipts in accordance with an agreed-upon formula. Accurate crop estimates are needed to generate the internal cost schedule. Within this general framework, the specific format of NIMAs can be varied to suit the convenience of the cooperative structure. The specific content of NIMAs emerges from a process of consultation and negotiation between societies, unions, and NWCA.

The internal cost schedule must at minimum contain unique costs for each cooperative organization at each tier. The NIMAS also require a method for the calculation of producer prices and a formula for the distribution of sales receipts. The preparation of these protocols requires, first, a technical proposal, which should be elaborated jointly between NWCA staff and ISTI technical assistance, followed by negotiation and mutual agreement between societies and their union and between unions and the NWCA.

The internal cost schedule specified in the NIMAs is based on costs per kg of coffee. The cost recovery plan being developed by NWCA with the assistance of ISTI recognizes possible bases for the allocation of costs other than a per kg basis. This is entirely appropriate. However, the use of cost bases other than production affects the allocation of costs across tiers in the per-kg based internal cost schedule. For example, if the NWCA Apex produces transportation for unions and charges in part on a unit-of-distance basis, then transportation should be treated in the internal cost schedule as a union-level responsibility and included as part of union-level cost. Only those NWCA Apex services that are charged on a per-kg basis can be included in the cost schedule as part of NWCA's costs. The same holds for the relationship between unions and societies. In the latter case, one issue almost sure to arise is the allocation of transportation

costs between society and union. Unions frequently produce this service for societies, but this does not imply that unions are necessarily the responsible unit in the internal cost schedule. If unions bill societies on a basis that varies directly with distance or time in travel, then societies are the responsible units in the internal cost schedule. But if societies are billed strictly on a per-kg basis, unions become the responsible unit, and transportation cost should be included in the internal cost of unions. These allocation decisions--what method of cost recovery is appropriate and which unit should include the cost in its internal cost calculation--should be based on negotiated agreements between societies and their union and between unions and the NWCA.

Having determined the internal cost schedule, it is necessary to stipulate a method for calculating producer prices. This requires initially a forecast of world market price, which should be the responsibility of the NWCA marketing department, from which each society must subtract the internal cost of NWCA, the internal cost of its union, and its own society-level cost. If a society should wish to be conservative in its price, it can elect to pay a percentage of this computed amount. Creditors may wish to impose constraints on the maximum producer price they are willing finance, given the internal cost schedule. Procedures also need to be worked out for periodically updating the NWCA estimate of world market price and communicating the change to societies, so that societies can adjust the price offered to farmers on the basis of changing market conditions. This too should be a responsibility of the NWCA marketing department. In the absence of a uniform minimum price, each society and union should consider itself fully responsible for covering its own costs.

Finally, the NIMAs must stipulate an agreed-upon arrangement and procedure for distributing coffee sales receipts. This should be based on the internal cost schedule and subject to mutual agreement between societies and their union and between unions and the NWCA Apex. The internal cost schedule adopted at the beginning of the season can be considered a schedule of estimated costs per kg, based on crop estimates. The internal cost schedule would then be adjusted at the end of the season and based on actual tonnages. Such adjustments require clear distinctions between fixed and variable costs. The most straightforward way to distribute receipts is in direct proportion to the end-of-season internal cost schedule, including producer price as a society-level cost. Receipts are unlikely to match exactly the total internal cost of the structure plus producer prices. There will either be a surplus or a deficit, depending on a number of factors. If receipts are distributed in direct proportion to the cost schedule, then all levels of the cooperative structure share in either a surplus or deficit, roughly in proportion to the value-added at each level.

* **It is imperative that NWCA and ISTI begin now to work together to prepare 1993-94 NIMAs for consideration and adoption by the cooperative structure. The NIMAs proposed for 1993-94 should reflect the joint effort of NWCA staff and ISTI technical assistance working together. This work should be completed well in advance of the Annual Review anticipated in early November. NIMAs should be adopted by the cooperative structure prior to the signing of a PIA for year 4.**

Marketing Department Action Plan

The action plan adopted for improving the marketing department does not mention the preparation of NIMAs and the various roles of the marketing department in the implementation of NIMAs each year. An organizational unit within the NWCA apex must be given technical responsibility for preparing NIMAs for negotiation each year. The marketing department is a logical choice to coordinate this activity, although the finance and accounting department would have to be responsible for portions of the work, including the compilation of the internal cost schedule. No specific mention is made in the action plan of the need for the marketing department to develop a forecast of world market price at the beginning of the marketing season, although this responsibility is dealt with more generally in terms of the collection and dissemination of market information. Moreover, a monthly newsletter containing a report of world market prices, as contained in the action plan, will need to be augmented by much more timely information needed to enable societies to adjust producer prices during the season. Presumably, the communications network now being planned will provide a capability to disseminate information as soon as it becomes available.

* **The action plan for the marketing department should be amended to include the annual preparation of NIMAs as an internal marketing activity.**

Regaining a Focus on Quality

All PRAMS I program documents, including the PAAD and the Memorandum of Understanding, have stressed two objectives for NWCA: (1) cost control and (2) quality control. The NIMAs for year 1 of the project included a revised and more rigorous arabica acceptance procedure that entailed the classification of coffee into three classes depending on parchment quality. The introduction of the acceptance procedure for year one was a mixed success, as discussed in the first Intra-Annual Assessment. Nevertheless, in some unions (e.g., Kom), the union manager took it upon himself to disseminate and explain the new acceptance procedure in meetings with farmers at the section level. In these unions, the acceptance procedure was reported to be successful in the sense that it was by and large followed and the quality of parchment accepted was greatly improved. Based on these results, the first annual review reiterated the importance of acceptance standards as a vehicle for improving overall quality.

With the advent of price liberalization, the classification system was intended to serve as the basis for a quality-based producer price differential, eventually phasing out acceptance of class 3 parchment (the lowest quality class). Liberalization is now at hand, but in year 3 the project has appeared to de-emphasize the importance of the acceptance procedure as a means of quality control and improvement. The absence of NIMAs for the current season may explain part of this apparent de-emphasis, for the acceptance procedure is one of the documents included in the NIMAs. In addition, the original NIMAs presumed that coffee could be processed and marketed, as well as accepted, by class. Subsequently, ISTI concluded that in many or most cases, marketing by class would be infeasible. ISTI also conducted a study of marketing procedures (Rassas) suggesting that acceptance procedures be viewed as a source of transaction costs that in effect subtract from producer price. A strategy of minimizing transaction costs would imply a less rigorous acceptance procedure.

The conclusion reached by ISTI technical assistance was that NWCA should aim at producing fair-average quality (FAQ) coffee. However, it will not be possible to reach this goal without a system for recognizing and rewarding quality parchment. Even if the parchment classification system is not to be used for a marketing purpose, it should be reexamined for its utility (when combined with a price differential) in improving harvesting and farm-level parchment preparation. Whether or not the classification system is retained in one or another form, the project should refocus attention on the acceptance procedure and its importance in controlling quality.

Moreover, immediate market reward should not be made the sole test of an acceptance procedure. Rather, the acceptance procedure should be looked upon as a long-term investment in the future marketability of North West arabica. Acceptance and parchment quality control and improvement should be considered the prime functions of societies in the cooperative structure. It is only at the point of acceptance that quality control over farm-level practices can be established. Of course, quality improvement also requires farmer education. However, societies are not entirely without resources to engage in at least a limited outreach effort, as evidenced in the first year of experience with the new acceptance procedure. Peace Corps volunteers should also become involved in this activity.

* NWCA and ISTI should regain the focus on parchment quality inherent in the project design. The preparation of NIMAs for the upcoming season should include discussion (and revision as necessary) of the parchment acceptance procedure, as well as the possibility of a small price differential based on parchment classification in order to reward farmers who deliver better quality parchment. The amount of the price differential can be based on an estimate of the decrease in processing costs for coffee well picked on the farm.

Anticipating Future Restructuring of Production

This season, union mills have operated at well below their total capacity. In fact, total capacity probably exceeds any foreseeable quantity of coffee that might be produced in the North West Province. Excess capacity is uneconomical to maintain and, quite simply, robs farmers of income. Capital investment decisions, in particular, must begin to take cognizance of the considerable overinvestment in mill capacity that now exists. This point relates directly to the current PIA item calling for a study of mill improvements and investments. A better use of funds would be to assist unions in learning how to draw on one another's existing capacities, while downsizing production capacity overall.

Restructuring production at the union level implies closing or suspending operations at some number of mills. Consistent with the liberalization represented by the new cooperative law, however, these decisions will be made by each union, depending on its individual circumstances, not by the NWCA, the technical assistance team, or donors. A union decision to close its mill does not imply that the union must dissolve or amalgamate with another union. The basic purpose of a union is to arrange for the processing of the coffee supplied by its member societies. Its responsibility is not necessarily to process coffee in its own mill, but to locate the most economical means of processing its

societies' coffee. Such a union may decide to enter into a contract with another union to process its coffee. Contracting of this sort has occurred to some extent in the past. If a union continues to exist as a representative of its societies' interests, it can continue to search for the best processing contract it can negotiate each year.

The institutional reform represented by the NIMAs is consistent with a wide range of production parameters. The cooperative structure is fundamentally an organizational arrangement for representing the collective interests of farmers by marketing their coffee. Cooperatives need not process a single bag of coffee in their own mills to serve this basic purpose. USAID support for cooperative reform does not hinge on the efficiency of cooperatives operating 11 mills, or 3 mills, or 1 mill, or zero mills in the North West. The institutional reform of the cooperative structure is intended to create incentives to seek out the most efficient means available of processing and marketing coffee, in the interests of North West farmers. No one has a crystal ball with which to read the future of coffee production in Cameroon. But it can be said with near certainty that the search for more efficient operations will lead to a restructuring of production that substantially reduces total on-line production capacity. The basic reason that such restructuring has not yet begun in a major way is that the necessary reform of the cooperative structure--the full implementation of NIMAs including producer price variation within the structure--has fallen behind schedule.

* **The project should defer further mill improvements until unions are able to consider the restructuring of production. Funds available to support investment in processing should be considered for reprogramming to support farmer education in parchment quality to be carried out at the society level.**

SCHEDULING OF THE NEXT INTRA-ANNUAL AND ANNUAL REVIEWS

The next intra-annual review is suggested for on or about 1 September 1993, as action plans now being adopted are being implemented. This review and assessment can be conducted in an "in brief" format, designed only to review current implementation activities underway and address any problems that may have arisen.

The Annual Review, in which societies as well as unions and the NWCA participate, will provide an occasion to review progress made under the current PIA and to discuss the next PIA and NIMAs in preparation for the 1993-94 campaign. The Restructuring Technical Committee is charged by the Memorandum of Understanding with scheduling an Annual Review. The Annual Review should be scheduled to coincide as closely as possible with the termination of the current PIA on 31 October, and no later than early November.

CONCLUSION

PRAMS I activities in the North West Province are geared primarily to (1) the institutional reform of the three-tier cooperative structure in the province and (2) the economic restructuring of production performed by the cooperatives at all levels. ***Reform*** is aimed at fundamentally reorienting the accountability

and responsiveness of the cooperative structure to serve the economic interests of arabica farmers. ***Restructuring*** is aimed at increasing and maximizing the long-term efficiency of the production structure for collecting, processing, and exporting the arabica coffee grown in the province. In PRAMS I, reform is seen as providing the institutional foundation for economic restructuring that serves the long-term interests of farmers. Because it reorients decision-making to take into account farmer interests, reform necessarily precedes restructuring, as well as sustaining it over the long term. The delivery of technical assistance and other project support to NWCA and the cooperative structure through PRAMS I is intended to support both the processes of reform and restructuring. Continued technical assistance and project support is contingent on satisfactory progress toward these end-of-project objectives.

Considerably less progress has been made in reform and long-term restructuring than in immediate technical improvements and short-term cost reductions. What is at stake right now in this program is the sustainability of the improvements and cost reductions already achieved and the ability to continue cutting costs. NWCA and its affiliated cooperatives have not yet become viable, competitive economic enterprises. The continuation and sustainability of cost reductions, as well as the necessary long-term restructuring of production, depend on the introduction of strong economic incentives for cooperative officials to perform as efficiently as possible at all levels. Unless institutional reforms are implemented that create and sustain these incentives, the other beneficial outcomes of PRAMS I are likely to be temporary, and the cooperative structure in the North West will eventually fall to outside economic pressures unleashed by the liberalization of coffee marketing.

NWCA and the cooperative structure can survive in a competitive environment, but only by changing and changing now. This means (1) creating within the cooperative structure the appropriate economic incentives and (2) adapting to these incentives over time. Decentralized producer pricing at the CPMS level will create the correct economic incentives within the cooperative structure. If cooperative officials respond to these incentives, unions will begin to restructure production, and the NWCA Apex will continue to cut costs. Continued donor support, while the only alternative to reform and restructuring, cannot be justified in the absence of reform and restructuring. For NWCA, there is no feasible, long-term alternative to reform, given changes in the policy environment consistent with liberalization.

Acting within the scope of the current PIA, NWCA has stayed on the path of reform. What is necessary is to keep moving, taking the appropriate next steps, as outlined above. Working relationships between NWCA and ISTI technical assistance have developed sufficiently to permit the achievement of the current PIA objectives. The reorganization and continuing improvement of the NWCA Marketing Department is especially encouraging in this regard. Continued progress on these action steps will be reviewed at an intra-annual review on or about 1 September. By the time of the annual review, NWCA can and should be poised to conduct the 1993-94 campaign with PRAMS I institutional reforms fully in place.