PN-ABS-709

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AN INSTITUTIONAL ANALYSIS OF THE PRODUCTION, PROCESSING, AND MARKETING OF ARABICA COFFEE IN THE WEST AND NORTH WEST PROVINCES OF CAMEROON

by

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November 1990

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ACRONYMS AND ABBREVIATIONS

ACU	Area Cooperative Union (NWCA)
ARD	Associates in Rural Development, Inc.
BBA	Block Buying Allowance
BEAC	Banc des Etats d'Afrique Centrale
CAPLABAM	Cooperative Agricole des Planteurs de Bamboutos
CAPLAHN	Cooperative Agricole des Planteurs du Haut-Nkam
CAPLAME	Cooperative Agricole des Planteurs de la Menoua
CAPLAMI	Cooperative Agricole des Planteurs de la Mifi
CAPLANDE	Cooperative Agricole des Planteurs du Nde
CAPLANOUN	Cooperative Agricole des Planteurs du Noun
CAPP	Cameroon Agriculture Policy and Planning Project
CCCE	Caisse Centrale de Cooperation Economique
CDC	Commonwealth Development Corporation
CENADEC	Centre National de Developpement des Entreprises Cooperatifs
COOPAGRO	Cooperative Agricole de l'Ouest
Coop/Mut	Direction de la Cooperation et de la Mutualite
CPDM	Cameroon Peoples' Democratic Movement
DFM	Decentralization: Finance and Management Project
FCFA	Franc de la Communaute Financiere Africaine
FF	Franc Francaise
FIDA	Fond International pour le Developpement Agricole
FSSRP	Fertilizer Sub-Sector Reform Program
GDP	Gross Domestic Product
GRC	Government of the Republic of Cameroon
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
ICA	International Coffee Agreement
ICO	International Coffee Organization
ILO	International Labor Organization
IMF	International Monetary Fund
LBA	licensed buying agents
MIDENO	Mission de Developpement de la Province du Nord-Ouest (North West Development Authority)
MINAGRI	Ministere de l'Agriculture
MINDIC	Ministere du Developpement Industriel et de la Commerce
NPMB	National Produce Marketing Board
NWCA	North West Cooperative Association
ONCPB	Office National de Commercialisation des Produits Base
PRAMS	Program for the Reform of the Agricultural Marketing Sector
PDRPO	Projet du Developpement Rural de la Province de l'Ouest
PMO	Produce Marketing Organization
SAP	Structural Adjustment Program

SEDES	Societe d'Etudes pour le Developpement Economique et Social
SODECOTON	Societe de Developpement du Coton
SODERIM	Societe de Developpement de la Riziculture dans la Plaine de Mbo
S&T/RD	Bureau for Science and Technology/Office of Rural and Institutional Development
UCCAO	Union Centrale des Cooperatives Agricoles de l'Ouest
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WCMB	West Cameroon Marketing Board

ACKNOWLEDGEMENTS

We would like to acknowledge the strong support of the Mission of the U.S. Agency for International Development (USAID) in Cameroon in the organization of the fieldwork in the West and North West Provinces on which this report is based and in the preparation of the report. We are particularly grateful to Robert Shoemaker, Tham Truong, and S. Tjip Walker for their large investments of time and enthusiasm in our work. For much of the understanding of the problems of Cameroon's arabica coffee sector that we were able to achieve in the course of limited fieldwork, we owe a great debt to the many officers and members of the *Union Centrale des Cooperatives Agricoles de l'Ouest* and the North West Cooperative Association who we interviewed. Hartmut Hofmeister of the North West Development Association also contributed a great deal to our understanding of cooperative organization and coffee growing in the North West.

We would also like to express our gratitude to the following people for their assistance in the production of the final report: Gayle Higgins, of the Workshop in Political Theory and Policy Analysis, Indiana University; and Project Manager, Louis Siegel, his assistant, Barbara Schegerin, and production staff member, Star Albright, all of Associates in Rural Development, Inc.

This report is a product of the Decentralization: Finance and Management (DFM) Project that is sponsored by the Office of Rural and Institutional Development of the Bureau for Science and Technology (S&T/RD) of the U.S. Agency for International Development. Associates in Rural Development, Inc. (ARD) is the prime contractor for the DFM project under USAID contract number DHR-5446-Z-00-7033-00 with subcontracts to the Metropolitan Studies Program of the Maxwell School of Citizenship and Public Affairs at Syracuse University and the Workshop in Political Theory and Policy Analysis at Indiana University. The positions expressed are those of the authors and do not represent the official views of the sponsoring agency.

I. EXECUTIVE SUMMARY

A. Introduction

In this report, a multilevel institutional analysis is applied to two related problems: diagnosing the causes of the current difficulties faced by the producers and marketers of arabica coffee in the North West and West Provinces of Cameroon, and designing improved alternative institutions that will reduce these problems. The analysis is organized into four parts:

- Section III describes the framework for analysis used in both the diagnostic and the design analyses;
- Sections IV and V contain a diagnostic analysis that traces the current difficulties in the production and marketing of arabica to constraints and opportunities provided by existing institutional arrangements as they operate within the physical and financial environment of Cameroon and the international coffee market;
- Section VI provides an institutional analysis of alternative liberalization regimes and the likely outcomes; and
- Section VII contains a critical assessment of USAID/Cameroon's design for the first phase of its Program for the Reform of the Agricultural Marketing Sector (PRAMS) and the recommendations of related studies commissioned by the Mission regarding the institutional changes needed to achieve the Mission's goal of liberalizing the arabica marketing regime.

B. Methodology

The approach to policy analysis used in this report is rooted in a tradition developed at Indiana University's Workshop in Political Theory and Policy Analysis. The particular framework for institutional analysis used identifies the following four sets of attributes that characterize any institutionally structured situation and posits causal relationships among them (see Oakerson 1986; Oakerson, et. al. 1990):

- *The physical world*--aspects of the world that affect outcomes both independently and jointly with institutional arrangements. Highly valued mild arabica coffee requires certain growing conditions as well as certain cultivation and washing techniques. Farmers cannot grow arabica where temperatures rise above 86 degrees Fahrenheit (30 degrees Centigrade) regardless of what institutional arrangements are in place. However, in order to produce high-quality coffee, institutions must be designed to generate incentives for farmers to undertake the cultivation and washing techniques required for producing high-quality coffee.

- *Institutional arrangements*--the sets of rules that specify who may do what in relation to whom. Together, the physical world and institutional arrangements present actors with an array of alternative choices and associated payoffs. In this way, institutions encourage some actions and discourage others. For example, the Cooperative Law, with its decrees of application and the set of rules that specify the authority of the marketing board in Cameroon, constitute institutional arrangements that currently have a strong impact on the marketing of arabica coffee.

- *Patterns of interaction*--the strategic behavior of relevant actors adopted in light of the opportunities and constraints generated by the attributes of the physical world and the relevant sets of institutional arrangements.

- *Welfare outcomes*--the effects on people that follow from their interaction. These include the income level of farmers, which depends on the efficiency of the marketing system and the quantity and quality of arabica coffee produced.

The multilevel analysis used here makes explicit the way in which some institutional arrangements establish limits within which other institutional arrangements are constituted. Marketing outcomes, such as the income of farmers, are generated in the context of the structures of specific cooperatives and the working agreements between them and the Ministry of Agriculture (MINAGRI) and the National Produce Marketing Board (ONCPB/NPMB). However, the creation of cooperative structures and their working arrangements with bureaucratic organizations have been constrained by provisions in the Cooperative Law and decrees of application. Provisions in these laws, in turn, were shaped by the constraints imposed by Cameroon's national constitution.

C. The Argument

1. Inappropriate institutional arrangements in general have made it difficult for Cameroon to adjust to changes in the international economic environment. Declining world market prices for its major exports--petroleum, coffee, and cocoa --have touched off a major economic and financial crisis that has forced the Government of the Republic of Cameroon (GRC) to consider institutional changes that would decrease the role of government in the economy.

2. Major outcomes of the current institutional arrangements for producing and marketing coffee include: a marketing board that is unable to pay farmers for their crops;

declining arabica production; arabica coffee beans that are low in quality due to poor processing procedures; an inefficient marketing system; and cooperatives that are required to respond to administrative fiat rather than to market forces and member needs.

3. The monopoly of political authority assigned to the GRC has engendered a *bureaucratic coffee marketing regime* that: provides for the broad tutelary intervention of the Ministry of Agriculture in the affairs of cooperatives; assigns price-setting and near-monopoly authority to market cocoa and coffee to a national marketing board (ONCPB/NPMB), and, by means of a rigid Labor Code, severely limits the control cooperatives exercise over their labor costs. The presumption that the jurisdiction of cooperatives must coincide with administrative boundaries has also adversely affected the organization of cooperatives.

4. In order to improve coffee production and marketing and liberalize the economy, major rule changes must be made. Changes in the Cooperative Law, the decrees and regulations that authorize the *Office National de Commercialisation des Produits Base* (ONCPB)/National Produce Marketing Board (NPMB), and the Labor Code, which are now being discussed as part of a Structural Adjustment Program (SAP), should substantially reduce or eliminate the government's monopolistic powers over coffee marketing and its tutelary role in cooperative affairs. These changes would provide cooperatives with greater freedom to make their own rules and respond more directly to market forces and member needs.

5. Liberalizing the coffee marketing regime would also open up opportunities for private, for-profit firms to engage in marketing and exporting arabica coffee. However, cooperative organizations that are responsive to their membership are more likely than private traders to be interested in developing the arabica sector by improving the quality of the coffee. Efficient and responsive cooperatives are likely to gain the allegiance of most of the arabica coffee growers in the North West and West Provinces, even in a fully liberalized marketing system.

6. Changing the Cooperative Law, the Labor Code, and removing the ONCPB/NPMB's marketing authority will not, however, automatically transform cooperatives into more effective and efficient marketing organizations. To get responsive coffee-producer cooperatives that reward growers for improvements in quality, it is also necessary to change internal cooperative rules to alter the relationships between the primary societies and the union and apex organizations. Rule changes are needed that assign to primary societies: rights to the residual income from the sale of arabica coffee and the right to exit from cooperative unions and/or the apex organization. Investing primary societies rather than the apex organization with rights in the residual income from the sale of coffee would mean that growers would secure more of the rewards for investments in improved quality and would increase their investment in improving their coffee (assuming that the world market price exceeds growers' production and

marketing costs). Investing primary societies with the right of exit from a union or an apex organization would permit societies, having given sufficient notice, to dissolve their association with cooperative structures, if they become inefficient, and to associate themselves with private hullers, buyers, exporters, or other cooperative organizations. Assigning the rights to residual income and the right of exit to primary societies would also enhance the incentives of the union and apex cooperative organization to increase their efficiency and become more responsive to member needs. Rules governing the formation and recombination of primary societies must also be carefully considered.

7. In light of current international market conditions, raising the incomes of farmers growing arabica coffee requires raising the quality of the coffee marketed abroad, which may require a substantial technical improvement in the way washed arabica coffee is processed. One way to improve the quality of washing would be to shift responsibility for washing coffee from the growers to cooperative societies. Washing stations would have to be located carefully because coffee cherries should be pulped not more than 24 hours after they have been harvested.

8. To conclude, one can transform the institutional arrangements and policy environment now constraining the more efficient production and marketing of arabica coffee in Cameroon by changing the rules affecting interactions within the cooperative structure and between the cooperative and government ministries. The result will be less government intervention in the economy, a more efficient marketing regime more sensitive to world market signals, a viable cooperative structure, the production of higher-quality arabica coffee, and improved incomes for coffee growers.

D. Analysis of and Recommendations for PRAMS I

1. The current USAID/Cameroon PRAMS I negotiating strategy is fundamentally sound. USAID/Cameroon should continue to press the GRC to accept the conditions listed in the PRAMS I negotiation document, which require the following: pay the North West Cooperative Association's (NWCA) arrears in full; permit NWCA to export 100 percent of its arabica coffee by 1990/1991; postpone the full liberalization of marketing in the North West until 1992/1993; eliminate ONCPB/NPMB's stabilization fund and the *prelevement* ONCPB--the export tax on arabica coffee, and abolish government-set producer prices.

2. However, Point 4 of the existing PRAMS I negotiation document gives insufficient attention to the distribution of property rights among the constituent cooperative units of NWCA. As it is now worded, this point would require that ownership of the five hulling lines and conditioning plant currently held by ONCPB/NPMB be transferred to the apex organization of NWCA by December 1990. As is reflected in the recommendation below, careful attention must be given to the distribution of property

rights in machinery among the constituent primary societies and unions as well as the apex organization if the NWCA *as a federated cooperative organization* is to become more efficient and responsive. The question of what is the appropriate distribution of property rights in equipment is part of the larger question of what internal reorganization is required to make NWCA a more efficient organization. Generating answers to this larger question is one of the purposes of this consultancy.

3. USAID/Cameroon should also be aware that Point 7 of the negotiation document exposes the NWCA to potential hazards. This point stipulates that the GRC will continue to set a minimum producer price for arabica coffee until December 1993 at the latest. If the GRC were to set the price above the international market price prior to 1993, the NWCA could not cover its obligations to farmers out of the proceeds of its sales abroad.

4. USAID/Cameroon, in conjunction with other donors, should press the GRC to make the following revisions in the Cooperative Law: explicitly authorize farmers and cooperative units to sell coffee outside the administrative jurisdictions in which they reside; explicitly authorize farmers and cooperatives to join cooperative societies and unions outside the administrative jurisdictions in which they reside; require that the constitutions of coops clarify the property rights of apex and member cooperative organizations; provide for the right of primary societies to sever their relationship with an apex organization subject to conditions set down in their organic agreement; provide for recourse to courts or other third-party mechanisms for the resolution of any disputes that arise between cooperatives and government; and reduce the role of the Ministry of Agriculture's Department of Cooperation and Mutuality (Coop/Mut) to registering cooperatives, offering educational services to cooperatives, and ensuring that cooperatives are audited each year, but not necessarily by Coop/Mut itself.

5. USAID/Cameroon should also press for changes in the Labor Code to make it less rigid and more responsive to changing market conditions and, in the interim, obtain a temporary exemption for the NWCA.

6. USAID/Cameroon should press GRC to provide clear title to the appropriate constituent units of NWCA to land, buildings, equipment, and machinery as a condition for the release of PRAMS I funds.

7. USAID/Cameroon should press NWCA to do the following: clarify property rights over hulling lines; assign rights to the residual income from the sale of coffee to primary societies; explore the feasibility of setting up washing stations under the ownership of primary societies; define conditions of exit for unions and societies; formulate sanctions for the violation of contractual obligations and mechanisms to enforce them; and provide for greater access to and discussion of cooperative financial records and performance.

8. USAID/Cameroon should continue to explore the possibility of collaborating with the Commonwealth Development Corporation (CDC) in the following areas: providing technical assistance in developing expertise in export marketing and in improving coffee quality; investigating the feasibility of building primary society washing stations; providing soft loans to NWCA for purchasing the conditioning plant, if it appears this machinery would be of use to NWCA; providing credit for prefinancing the coming coffee marketing campaign; and/or assisting NWCA in establishing its own stabilization fund.

9. USAID/Cameroon should seriously consider supporting *Union Central des Cooperatives Agricoles de L'Ouest*'s (UCCAO) plans to build and evaluate the operation of a few experimental washing stations. The results of this experiment would assist USAID/Cameroon, UCCAO, and NWCA in evaluating the feasibility of the washing station strategy to improve the quality of arabica coffee and in determining the willingness of growers to sell fresh cherry.

II. INTRODUCTION

A. Background

Like a number of other African countries, Cameroon is currently experiencing a major economic and financial crisis. Steep declines beginning in 1985 in the world market prices for its three principal exports (cocoa, coffee, and petroleum) added to the effects of an overvalued currency have seriously weakened Cameroon's economy. Institutional weaknesses deriving, in part, from extensive and inappropriate government involvement in the economy have contributed to the development of the crisis and hindered efforts by the public and private sectors to cope with it.

Under the pressure of the economic crisis, the Government of the Republic of Cameroon (GRC) has adopted a Structural Adjustment Program (SAP), negotiated with the International Monetary Fund (IMF), the World Bank, the African Development Bank, and important bilateral donors. The SAP is expected to assist Cameroon in extricating its economy from the crisis and addressing some of the institutional design problems underlying Cameroon's poor economic performance. A key component of the SAP is the liberalization and privatization of agricultural marketing.

USAID/Cameroon strongly supports the SAP and has made reform of the agricultural marketing sector a major program priority. The Mission is currently designing PRAMS I, its first initiative in a three-part Program of Reform in the Agricultural Marketing Sector.[1] This initiative is intended to accomplish the full liberalization of the arabica coffee subsector. These changes will directly affect only the two parts of Cameroon where arabica coffee is grown: the North West and the West Provinces.

B. Program for the Reform of the Agricultural Marketing Sector (PRAMS I)

The ultimate goal of PRAMS I is to promote the effective operation of market forces at all levels of the processing and marketing channels for the benefit of economic agents operating within the arabica coffee subsector while minimizing the social costs related to the adjustment to a more liberal and competitive market economy. The Mission assumes that the proper mix of institutional arrangements will substantially increase the percentage of the world market prices for arabica coffee received by smallhold producers and thereby improve incentives to increase the quantity and improve the quality of the coffee they grow.

[1] The second and third initiatives under PRAMS will be the liberalization of the marketing of robusta coffee and cocoa.

PRAMS I seeks to achieve its goal by focusing on the following three key objectives (USAID/Cameroon 1990b):

- remove marketing impediments and pricing constraints in the entire subsector;

- minimize the social cost of adjustment by avoiding, in the short-run, bankrupting the North West Cooperative Association (NWCA) in the North West Province; and

- strengthen NWCA to, in the long-run, enable that entity to compete with the *Union Centrale des Cooperatives Agricoles de l'Ouest,* West Province (UCCAO), *Cooperative Agricole de l'Ouest* (COOPAGRO), and any other potential private traders/processors.

C. Scope of Work

The team, composed of three institutional analysts, was asked to do the following:

- describe and assess the institutional environment within which arabica coffee is marketed in the North West and West Provinces;

- identify constraints imposed by that environment on the efficiency of the marketing systems and the performance of the NWCA, UCCAO, and COOPAGRO;

- propose specific measures for alleviating the constraints identified; and

- critically assess USAID/Cameroon's PRAMS I strategy and provide the guidelines and recommendations required to strengthen the design, implementation, and evaluation stages of PRAMS I.

D. Approach

The approach to analysis used in this study is part of the tradition of work in institutional analysis developed in Indiana University's Workshop in Political Theory and Policy Analysis that has provided and important part of the foundations for DFM research (see Kiser and Ostrom 1982; E. Ostrom 1986; V. Ostrom 1989). The team met at the Workshop in early May 1990 to plan the institutional analysis to be done in Cameroon and to prepare a preliminary outline of this report.

Upon arriving in Cameroon, the team examined a wide range of documents and studies related to the physical world of arabica coffee production and marketing in Cameroon; the current economic crisis and the SAP; the institutional arrangements associated with all levels of the arabica coffee production and marketing chain including the Labor Code and the Cooperative Law, decrees of application, and current proposals for Labor Code and Cooperative Law reform; studies of coffee production and marketing in the North West and West Provinces; and documents describing the institutional structure and past operational performance of the NWCA, UCCAO, and COOPAGRO. The team met with members of a Commonwealth Development Corporation (CDC) mission and other consultants who had been working on the problems of arabica coffee production and marketing as well as with other donors involved in cooperative reform and other dimensions of the SAP.

Fieldwork was essential to understanding the operational aspects of the current arabica coffee production and marketing system (see Appendix 1 for persons interviewed). Two team members spent 11 and 13 days in the field in the North West and West Provinces respectively. One team member focused on the Anglophone North West Province and the way in which arabica coffee has been marketed in the past in this province. Interviews were conducted with the staff and members of the board of directors at all three levels of the cooperative structure-- NWCA, cooperative unions, and primary societies. In addition to the apex organization located in Bamenda, five primary societies and five unions were visited, and the consultant spoke with farmers concerning coffee production and the operation of the cooperative. The branch chief of the National Produce Marketing Board and the Mezam Division Chief of the *Direction de la Cooperation et de la Mutualite* (Coop/Mut) were also interviewed. The other team member did fieldwork in the Francophone West Province where interviews were conducted with staff members of UCCAO, the staff of two of the four main primary coffee cooperatives, and the presidents of UCCAO and *Cooperative Agricole des Planteurs de la Menoua* (CAPLAME). Much of the fieldwork was concentrated in Menoua Department where CAPLAME, the largest and most efficient cooperative in the West, operates. In addition to CAPLAME staff, officials, and members, the consultant also spoke with researchers from the Agricultural University of Tschang and visited Santcheu, an important robusta-growing area where Greek trading firms compete with CAPLAME in marketing robusta coffee.

Back in Yaounde, the entire team worked to: integrate information derived from interviews in the field into a written report; develop a profile of the ownership, commodity, and financial flows of the coffee production and marketing chain from producer to international buyer; identify some of the key changes in institutional arrangements in NWCA that would be required in order to achieve PRAMS I objectives; and present a critical analysis of the current PRAMS I strategy to the Mission.

III. THE FRAMEWORK FOR INSTITUTIONAL ANALYSIS

A. The Basic Framework

The basic framework guiding the analysis contained in this report consists of four sets of attributes that characterize any institutionally structured situation: the physical world, institutional arrangements, patterns of interaction, and outcomes (see Oakerson 1986; Oakerson, et. al. 1990; V. Ostrom 1989: 48-49).

The production and marketing of arabica coffee

- occurs in the context of a particular *physical world* that includes a given natural environment, the biology of arabica coffee cultivation, and the technology of processing and marketing this type of coffee, which establish constraints and opportunities for individuals;

- has reference to some *structure of rules* that specify who decides what in relation to whom;

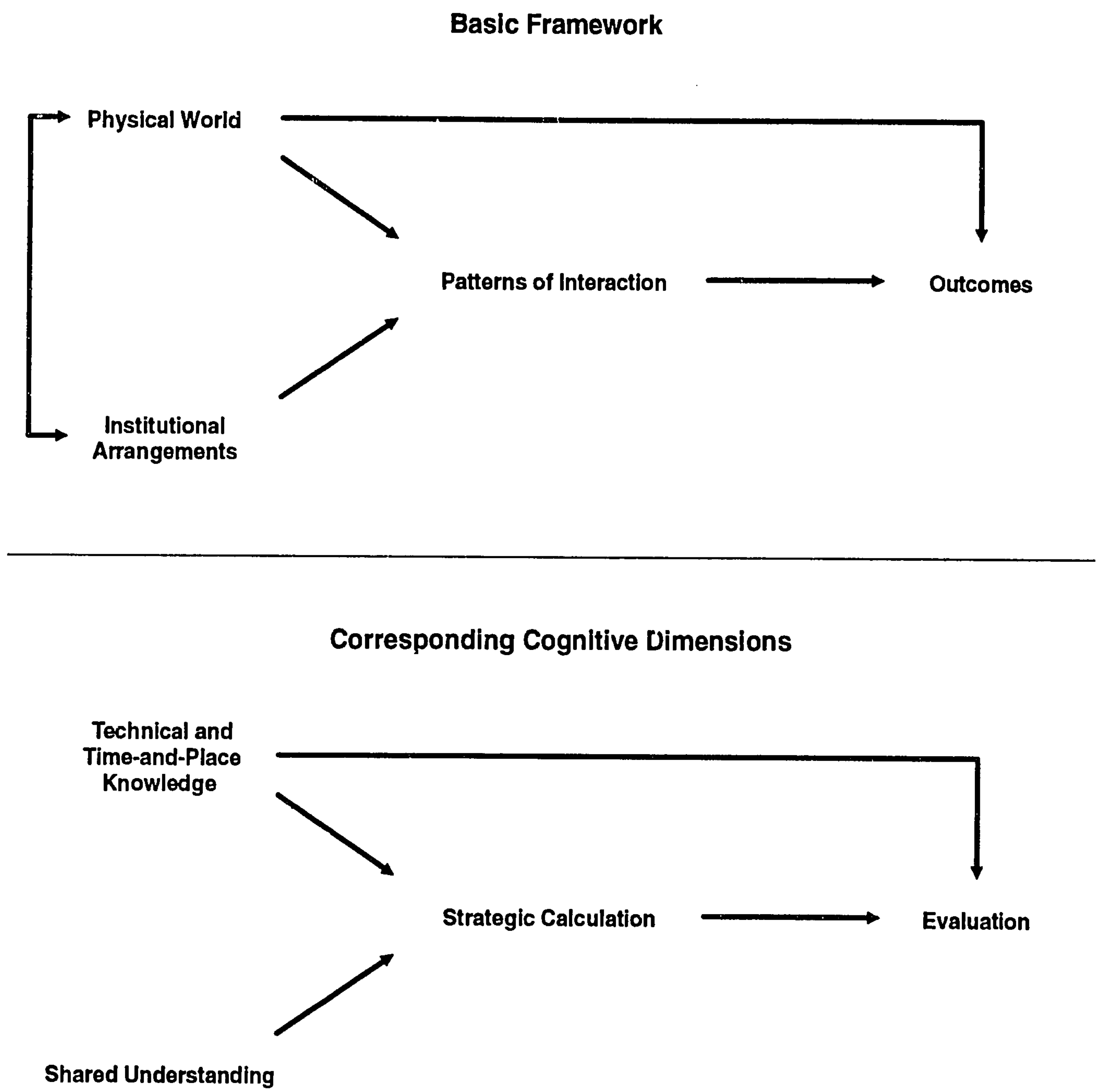
- involves *patterns of interaction* among farmers, cooperative managers and staff, marketing board staff, and foreign buyers who have discretion; and

- generates *outcomes* for various communities of interest, such as a specific quantity and quality of arabica coffee, a price for producers, and wages for cooperative and marketing board staff members.

These four sets of attributes are related as shown in Figure III.1. Aspects of the physical world and institutional arrangements both independently and jointly affect patterns of interaction, which in turn generate outcomes that occur in the physical world. The physical world directly affects outcomes, but institutional arrangements affect outcomes only through patterns of human interaction. Attributes rooted in the physical world generate hard constraints that human beings ignore only at their peril, while institutional attributes generate soft constraints that depend entirely on human cognition and discretion. Together, the physical world and institutional arrangements provide a structure of alternatives and associated payoffs. This structure shapes the use of individual discretion by creating some possibilities and foreclosing others, and by conditioning the choices individuals make by offering incentives to act or not act subject to various contingencies.

Figure III.1

Institutional Analysis



Each element in the basic framework has both an objective side (e.g., physical properties, rules, observed interactions, and outcomes) and a subjective side or cognitive dimension that occurs in peoples' minds. Associated with the physical world is technical knowledge, including both scientific generalization and time-and-place information. Underlying institutional arrangements are shared social conceptions that shape the way in which institutional alternatives, and their implications, are arrayed and understood by members of a community. Patterns of interaction derive from the strategic calculations of individuals; unlike basic social conceptions that are widely shared and deeply held, strategic calculations are personal, contingent, and relatively open to change. Outcomes, in subjective terms, are consequences that matter to someone. The cognitive aspect of outcomes consists of evaluation, entailing the choice of valuative criteria, without which consequences cannot be perceived, let alone appraised.

Each element will be used in the framework as a conceptual container in which to sort data. Utilizing the framework as a sorting device helps to clarify the many problems that surround the production, processing, and marketing of arabica coffee. A diagnostic assessment of what is problematic in the current situation is arrived at by working backward (from the right to the left in Figure III.1) through the relationships in the framework. Although the proximate generator of undesirable outcomes is found in perverse patterns of interaction, the framework points to the probability of a serious mismatch between key characteristics of the physical world and the structure of institutional arrangements as the primary source of difficulty. In light of Cameroon's history of cooperative organization, existing institutional arrangements are in some degree adapted to the present physical world; however, given a physical world that is changing and the human penchant for designing institutions that ignore the constraints imposed by aspects of this world, it is not surprising that the current adaptation is imperfect. Sections IV and V contain a reconstruction of the causal logic producing the outcomes (working from left to right in Figure III.1) based on this diagnostic assessment.

The structure of alternatives and associated payoffs that shapes the patterns of interactions depends on how institutional arrangements combine with characteristics of the physical world. The way decision-making capabilities and limitations are distributed relative to the way the physical world lays out is the key relationship in institutional design. In game-theory parlance, the play of the game depends on the rules of the game, given physical constraints and opportunities. To alter the play of the game, assuming that players have found their preferred strategies, one must alter the contingent structure of alternatives and payoffs that establish the context of choice. Accepting the physical world as exogenous, institutional change becomes the only source of leverage available to modify patterns of interaction and, thus, outcomes.

Institutional design (addressed in Section VI), requires that the analyst work prospectively forward through the relationships in the framework, anticipating strategic calculations and resultant patterns of interaction, and forecasting outcomes. Assuming that patterns of interaction cannot be determined, and only imperfectly anticipated, successive institutional modifications will likely be needed to adjust for unintended consequences.

B. Multilevel Analysis of the Production and Marketing of Arabica Coffee

Even a casual observation of social behavior suggests that some interaction patterns are nested within other interaction patterns. Coffee production by farmers is strongly influenced by the activities of those who organize the cooperatives and other institutions within which coffee will be processed and marketed. In turn, the organization of markets and cooperatives is influenced by the actions of politicians who decide what role the public and private sectors will be authorized to play in processing and marketing coffee. Therefore, institutional analysis must be applied in an iterative fashion if the analyst is to identify and assess the key sets of institutions that generate the incentives affecting those directly involved in the production, processing, and marketing of coffee. Ultimately, one is interested in interactions that produce welfare outcomes--consequences for people--but basic and intermediate patterns of interactions produce broad policy regimes that generate the more specific cooperative and market structures that set the stage for the interactions directly producing the outcomes. The distinction among levels is analytic; the same people can be involved at each level, and actions at each level can occur simultaneously. In principle, there is no limit to the number of levels of analysis that might be relevant to a particular problem.

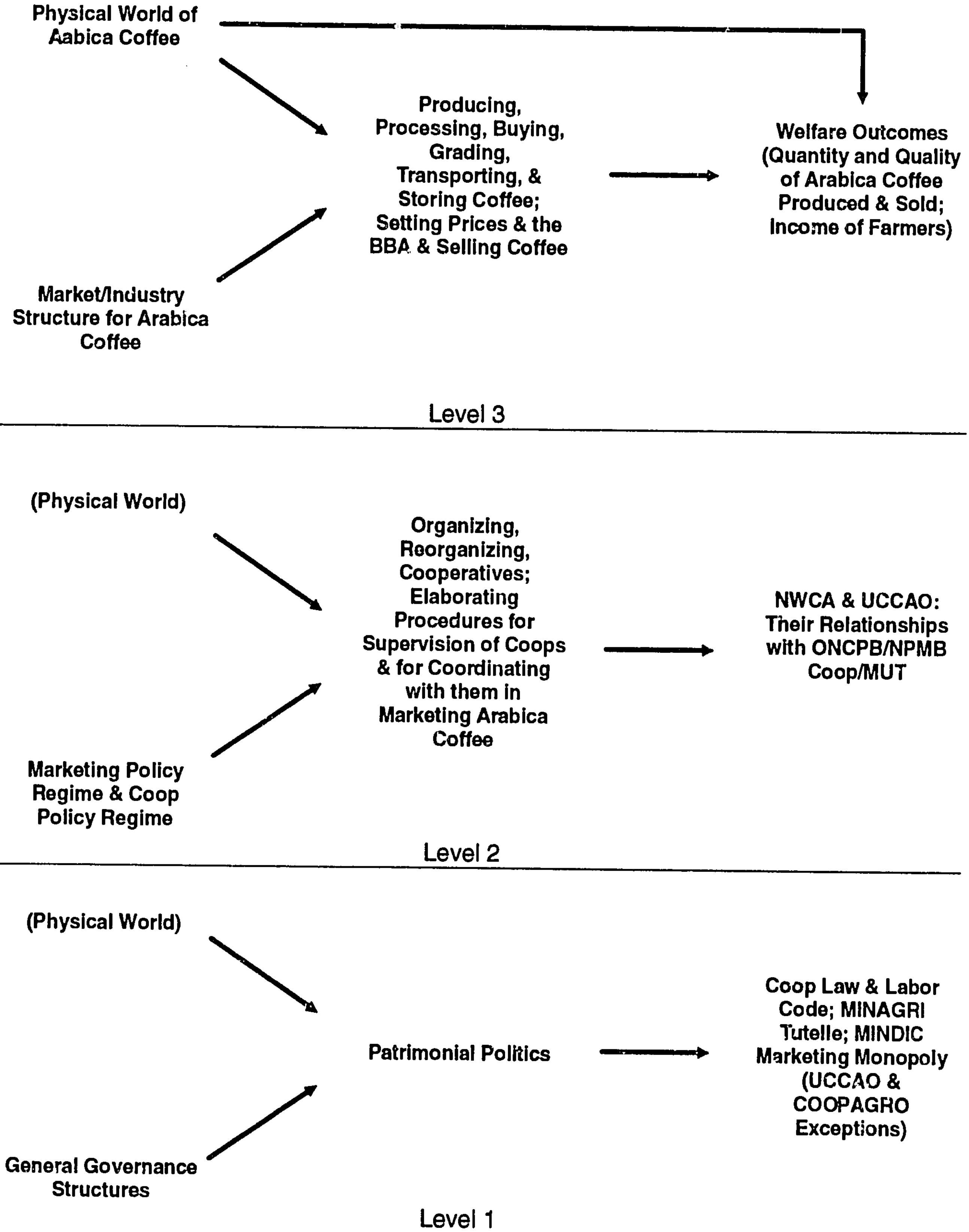
The institutional arrangements within which the production, processing, and marketing of arabica coffee took place up until the 1989/1990 coffee marketing season can be understood in terms of three levels of analysis (see Figure III.2 at the end of this section). Working backward from the operational level:

Level 3 — At the operational level, patterns of interaction (which include producing, processing, weighing, buying, grading, transporting, and storing arabica coffee beans as well as setting producer prices and the amount of the block buying allowance [BBA] paid to licensed buying agents, and selling coffee to foreign buyers) produce outcomes that have welfare implications for the various communities of interest involved in coffee production and marketing. The structure of alternatives and payoffs available derives directly from a market/industry structure for arabica coffee--a configuration of three cooperative structures (NWCA, UCCAO, COOPAGRO) and their relationships with the Ministry of Commercial and Industrial Development (MINDIC) operating through the ONCPB/NPMB and the Ministry of Agriculture (MINAGRI) acting through Coop/Mut--together with the hard constraints of the physical world of growing, processing, and marketing arabica coffee.

Level 2 — This particular market/industry structure, in turn, emerges from patterns of interaction associated with entrepreneurship in both the public and private sectors. This involves the formation and elaboration of the cooperative structures, the organization of the arabica coffee marketing activities of ONCPB/NPMB, and the organization of the department inside MINAGRI responsible for ministry tutelage of cooperatives (Coop/Mut) and the coordination activities that establish the working relationships among the cooperatives, ONCPB/NPMB, and Coop/Mut. All this activity is shaped by two related institutional arrangements: a cooperative policy regime and an arabica coffee marketing regime. The cooperative policy regime consists of the rules, such as those contained in the Cooperative Law and the Labor Code, that constrain choice in the organization of cooperatives in Cameroon. The arabica marketing regime consists of the statutes and decrees that authorize the GRC and MINDIC to set producer prices and the BBA, and that have created the ONCPB/NPMB's monopoly on the marketing of arabica modified to authorize UCCAO and COOPAGRO to market arabica coffee from West Province. At this level, too, the hard constraints of coffee production, processing, and marketing influence the particular strategies that relevant actors adopt.

Level 1 The highly bureaucratic cooperative and arabica marketing regimes emerge, in turn, from patterns of political interaction that take place in the context of the highly centralized general governance structure of Cameroon. Most of the rules that make up this structure are found in the country's Constitution, which concentrates political decision-making authority in a single Presidency. Undergirding this formal written document are widely held conceptions that are derived most directly from the philosophy of European colonial authorities and modern theories of political organization that assign public institutions principal responsibility for and control over economic development. The structure of authority dictated by these conceptions is consistent with patrimonial political conceptions that underlie the hierarchical "traditional" African political systems of some of the social groups found in Cameroon.

Figure III.2
Institutions Involved in Marketing Arabica Coffee



IV. THE PHYSICAL WORLD

Two categories of circumstances have acted as hard constraints on the operations of Cameroon's coffee industry in this past year: national and international macroeconomic phenomena, and the special requirements of growing, processing, and marketing arabica coffee beans that command premium prices on the international market. In this past year, operation of the existing institutional arrangements in Cameroon's coffee subsector in the context of these circumstances has generated a decline in production levels of washed arabica coffee beans that remain low in quality as well as increased demoralization among arabica coffee growers. Institutional arrangements within which these outcomes were generated can and should be changed, but, regardless of what institutional changes are made, the income of Cameroon's coffee growers will continue to be affected by the character of the wider national economy, price trends in the international market, and the growing and processing requirements of premium mild arabica coffee. Therefore, these constraints must be kept in mind when designing new institutional arrangements intended to increase the efficiency of the arabica coffee industry in Cameroon.

A. Macroeconomic Factors Affecting the Arabica Coffee Subsector

Two trends in the macroeconomic environment have had a major impact on coffee production and marketing in Cameroon: the internal economic crisis that has engulfed Cameroon since 1985, and changes in the international coffee market.

1. The Economic Crisis

Prior to 1977, coffee and cocoa exports were the main engine of growth for the Cameroonian economy. From 1977 to 1985, Cameroon experienced rapid economic growth spurred by oil production. The boom ended in 1985/1986 when oil prices declined sharply. This was followed by a steep decline in world market cocoa and coffee prices which began to fall in 1985/1986 and 1986/1987 respectively. The collapse of the International Coffee Agreement in July 1989 led to the exportation of large reserve stocks of coffee that further reduced world coffee prices.

Declining commodity prices were able to precipitate an economic crisis in Cameroon because preexisting levels of government spending were already outstripping revenues from an economy in which low productivity could be traced, at least in part, to the extensive regulative role government played in the economy. Facilitated by this underlying weakness, the precipitous decline in revenue from Cameroon's main exports triggered a chain of events with repercussions throughout the economy. The drop in export income led to a drop in government revenues which, in turn, led to a massive increase in government deficits. Total government revenues declined from *Franc de la Communaute Financiere Africaine* (FCFA) 911.4 billion to FCFA 625.5 billion between 1985/1986 and 1987/1988, while government deficits increased sharply due to continued high expenditures. The deficit reached its peak in

1986/1987 at FCFA 1,228.8 billion, which represented 11.8 percent of the Gross Domestic Product (GDP).

GRC responded to the rising deficit by freezing new public investments and halting payments to local suppliers and marketing agents. This, in turn, caused local firms doing business with the government to default on loans owed to domestic banks. At the same time, the GRC was unable to pay subsidies to parastatals which, in turn, led to a decline in their deposits in local banks. The commercial banking system no longer had assets with which to finance new economic activities. Rising arrears owed to ordinary businessmen and farmers have meant they can neither pay the school and health facility user fees that help support important public services, nor buy goods and services produced in the private sector.

The fall of commodity prices on the international market and the economic and financial crises it precipitated have affected domestic coffee production and marketing in several ways:

- in order to more accurately reflect current international market prices, the GRC drastically reduced official producer prices for washed arabica coffee from FCFA 475/kg to FCFA 25O/kg and for robusta, from FCFA 44O/kg to FCFA 175/kg for the 1989/199O marketing season;

- ONCPB was unable to provide sufficient funding to prefinance the 1988/1989 and 1989/1990 coffee-marketing seasons, nor to pay its arrears to private and cooperative coffee licensed buying agents, which, in turn, made it impossible for NWCA to pay producers for their crops and for UCCAO to finance the marketing of the robusta coffee grown in West Province; and

- ONCPB reduced the BBA due to NWCA as its licensed buying agent, which, in turn, forced NWCA to use reserve funds and capital development funds in order to continue its coffee collection and processing services. Consequently, the crisis gripping the central government has generated a major financial crisis for NWCA, producing serious financial difficulties for UCCAO's robusta operations and reducing the incentives for arabica coffee producers in the West Province, where producers have received lower prices for their coffee this year, and in the North West Province, where producers are also getting less for their coffee this year but, in addition, have not been paid in full for their coffee for as many as five years.

To resolve the crisis and restore sound public finances, the GRC and the World Bank agreed in June 1988 to a SAP aimed at reducing domestic expenditures and liberalizing the economy. This has involved freezing civil servants' wages, halving cost-of-living subsidies, reducing by over 60 percent the transfers and subsidies to public enterprises that have been restructured and/or eliminated, phasing out or eliminating government subsidies for agricultural inputs, and setting producer prices to better reflect world market prices. The

World Bank, the IMF, the European Development Fund, and leading bilateral donors have made a major effort to support the SAP reforms by helping to refinance GRC debts, providing funding that will reduce the social costs of reduced public sector employment levels, and financing the payment of government arrears to reestablish liquidity.

Perhaps the most important macroeconomic factor affecting Cameroon's competitive position in the world coffee market is an overvalued currency that is aligned with the French franc. A major devaluation of the FCFA by France of 5O percent or more would do far more to promote the competitiveness of Cameroon's coffee exports than any other measure that might be taken.

2. The World Market for Arabica Coffee

Domestic demand for coffee in Cameroon is low and growing very slowly. Therefore, regardless of the health of the national economy and the structure of the domestic coffee industry, Cameroon's farmers have been and will remain strongly affected by changes in the international coffee market. Several externally generated factors affect the price arabica growers in Cameroon can earn in any given year for their coffee crop:

- the supply of arabica coffees on the market, as determined largely by weather conditions in producing countries and the effectiveness of institutions such as the International Coffee Organization (ICO) that attempt to stabilize coffee prices; and

- the nature of demand for arabica, as determined by the tastes of coffee consumers.

Supply

Historically, coffee prices have suffered as a result of long periods of oversupply followed by brief periods of short supply due to such factors as frost or severe drought in major producing countries. Since its establishment in 1962, the International Coffee Organization (ICO) has had an important impact on the stability of world coffee prices. Under the terms of each international coffee agreement (ICA), major coffee exporting and importing countries agreed to implement export quotas in order to support an agreed-upon market price. During the 198Os, Cameroon's annual allotted quota has varied, but, in general, it has declined from a high of 96,120 tons in 1980/1981 to about 70,000 tons in 1988/1989 (Economist Intelligence Unit 1987: 35; World Bank 1989: 28). It exported all of its higher-priced arabica under this quota. A small amount of robusta above the quota (less than 10 percent of total coffee exports) was sold to nonmember countries at heavily discounted prices (Kristjanson, et. al. 1990: 1). Cameroon currently produces only about 2.4 percent of the total world coffee production. In 1989, Cameroon exported approximately 120,OOO tons of robusta and 15,OOO tons of arabica.

The issue of quota distribution plagued the ICO throughout the 1980s and resulted in the development of a dual market for member and nonmember countries. During the 198Os, the export quota system was quite successful in maintaining fairly stable world market coffee prices from October 1980 to February 1986, when the system was suspended due to a sharp increase in prices caused by a reduction in Brazilian production. The system was reinstated in October 1987, but member countries failed to agree on terms for renewal of the agreement leading to a second suspension of quotas in July 1989. International coffee prices have fallen since 1986/1987.

Since July 1989, ICO member countries have been free to export as much coffee as they wished. As a result of increased levels of exports, prices for mild arabicas fell over 50 percent from US$1.45/lb (FCFA 893/kg) in April 1989 to US$0.68/lb (FCFA 419/kg) in October (Akiyama and Varangis, 1989: 3). In view of the continued controversy over quota allocations involving Brazil, a major producer, it is difficult to predict whether a new agreement restoring quotas can be reached. In the longer-term, world market prices are expected to rise in the late 1990s regardless of whether the quotas are reestablished due to declines in production resulting from low prices in the early 1990s (Akiyama and Varangis 1989: 52).

Demand

In recent years, consumers in major coffee markets have begun to substitute caffeinated soft drinks for coffee. Coffee consumers increasingly prefer the flavor of the mild arabicas over stronger-tasting arabicas and robustas. If world demand for high-quality arabica continues to increase (while demand for robustas declines) in the coming years, this will provide a stronger market for mild arabica exports. Gourmet coffee buyers, who often purchase whole coffee beans, are also sensitive to the size and appearance of the beans. Therefore, premium coffee prices go to mild arabicas that have been carefully sorted and are free from signs of damage by processing machinery and insects.

World market arabica prices have generally exceeded those of robusta. On average, from 1975/1976 to 1985/1986, the ICO indicator price for "other milds" (washed arabicas other than those grown in Colombia) was 12 percent above the indicator price for robustas (The Economist Intelligence Unit 1987: 52). However, since 1971, arabica coffee production in Cameroon has declined at an annual rate of 2.6 percent while robusta coffee production has grown at an annual rate of 4.5 percent due to government pricing policies favoring the production of robusta. The price differential, which was 110/kg in favor of arabica in 1976, declined steadily, then remained at just FCFA 35/kg from 1984 through 1989. FCFA 35 represented 7 percent of the value of a kilogram of washed arabica selling for FCFA 475 during this period. As a result, more robusta coffee has been planted in Cameroon, and its share of total coffee output has increased.

As Cameroon arabica is often not washed properly, it currently sells at a discount of about US$0.05/lb (FCFA 31/kg) compared to "other milds" largely grown in Central America (see Appendix 2). Improvements in the quality of Cameroon arabica would make it more competitive and fetch higher prices. In 1988, Cameroon arabica sold for FCFA 920/kg in France, while Kenyan arabica coffee earned FCFA 1380/kg (World Bank 1989: 29).

In Cameroon, as in other producing countries, the significant decline in international market prices for arabica coffee increases the probability that coffee growing will not continue to be a profitable activity. A preliminary study by an agricultural economist of arabica production in Cameroon indicates that, at the current official price of FCFA 25O/kg, arabica is not profitable when recommended inputs are used and labor has an opportunity cost equivalent to the official current wage rate (see Wyeth 1990b). The analyst estimates that the break-even point for the farmer is a producer price of FCFA 293/kg, excluding the costs of establishing the coffee trees, and a price of FCFA 326/kg, including establishment costs. Thus, at least a 17.2 percent rise in producer prices would be needed to make arabica production profitable. Effort expended in harvesting and processing arabica this year makes sense if the opportunity cost for labor is half the going wage rate of FCFA 800 per day. In this case, the farmer's break-even point is FCFA 210, without establishment costs, and FCFA 194, including establishment costs. Interviews confirm the fact that farmers in the West and North West Provinces have depended to a much greater extent on low-cost family labor to cultivate and process arabica coffee this past year.

B. The Nature of the Tasks of Producing and Marketing Arabica Coffee

Current trends in consumer tastes that favor mild arabicas over robustas suggest, and economic analyses (Kristjanson, et. al. 1990) predict, that growing arabica coffee can be a profitable activity for Cameroon farmers if current levels of productivity are improved. However, growing and processing coffee cherries to yield coffee beans that can be sold as premium mild arabica is considerably more difficult and time-consuming than processing coffee that is sold as unwashed arabica or robusta coffee. The care with which arabica beans are grown and processed significantly affects the quality (and the price) of the coffee beans that reach the market. For this reason, particular attention must be given to the nature of the problems involved in growing, processing, and marketing arabica coffee. Institutional arrangements must be crafted to generate strong incentives for carefully undertaking these activities if the arabica industry is to be economically viable.

1. Growing Arabica Coffee

Much of the quality of arabica coffee beans is determined prior to harvest by such factors as the climate and soil in which they are grown. The Java and Jamaica varieties of arabica coffee grown in Cameroon flourish within the range of temperatures and the rainfall levels found in the highland areas of both the North West and West Provinces. The mineral content of the soil in which they grow also affects the taste of the beans. While the brown soils of volcanic origins found in Cameroon's West Province are the best for both robusta and arabica coffee, soils in other parts of the highland areas of both provinces, though less fertile, are still suitable for coffee. Robusta grows well in the warmer, lower-lying areas in these provinces.

Because it is an evergreen, a coffee tree requires subsoil water year-round, except for one short, drier period at the beginning of the growing season that slows up growth, ripens the wood, and initiates flower buds. Unlike robusta, arabica trees perform best if the area surrounding them is kept well weeded and well mulched, especially in years of low rainfall. Weeding and cultivation of other crops near the trees has to be undertaken carefully until the trees are about five or six years old. After this time, the central roots have grown deeply into the ground and hoeing that severs surface roots no longer poses a serious threat to the trees.

Coffee trees easily produce shoots from pruned branches and even from trunk stumps. Branches must be pruned at the end of the harvest each year to promote the primary growth on which the blossoms and coffee cherries will develop in the next season. Informants confirmed the cyclic character of bearing whereby coffee trees tend to produce a large crop followed by a few years of much smaller crops. The care with which pruning is carried out over the years as well as the frequency and care with which spraying and fertilizing is done affects the variation in yields and determines how frequently old coffee trees must be completely uprooted and replaced with young seedlings. Farmers interviewed reported that under common cultivation practices, arabica trees bear the highest quality and largest number of beans from about the seventh to the tenth year after planting.

Replanting, spraying, and fertilizing require production inputs in addition to labor. Farmers are encouraged to spray several times each season in order to control pests (*antestia*) and a particularly troublesome fungus (*Collecotrichum coffeanum*) that causes the brown sunken spots on the berries known as coffee berry disease (*anthracnose*). Climatic conditions in a given year may require more or less frequent applications. Fungus infestations mean that beans either do not develop at all or develop into what are classified as "bad beans" (i.e., purchased at a significant discount). Serious attack by insects may also mean a bean will be later classified as "bad", while less serious insect damage may simply represent a "defect" that reduces the quality classification of an otherwise "good" bean. The application of fertilizers containing nitrogen, potassium, and phosphorous is widely recognized as very beneficial to coffee trees. Two annual applications are recommended: the first, in March/April after the rains begin but before the trees flower to support the general growth of the tree; the second, in September/October after the heavy rains have ended and during the maturation of the cherries. Current extension advice is that the first fertilizer application should provide lots of nitrogen (urea or 20-10-10 N-P-K fertilizers recommended), while the second application should provide lots of potassium (12-6-20 recommended).

The cherries ripen over a period of one or two months and, thus, require selective hand picking. Harvesters must take care to remove only those coffee cherries that are perfectly ripe. Harvesting cherries that are underripe or overripe adversely affects the taste of the beans when they are roasted and ground and can result in beans that are considered "bad" beans.

2. Processing Arabica

The manner in which coffee cherries are processed after harvesting contributes as much to the quality of coffee beans as does the manner in which they are grown. Improper processing affects the taste of the roasted beans--something that is not entirely detectable by looking at the beans--as well as the appearance of the beans that can be detected once the parchment is removed. The processing of arabica cherries should be initiated as soon as possible after they are harvested and certainly within 24 hours. Processing procedures are designed to control the timing and duration of fermentation and, thereby, to preserve the mild arabica flavor. "Washing" the cherries involves several stages. The cherries are first partially crushed in a pulper to loosen and remove the fleshy material surrounding the beans. The beans are then fermented by soaking them in clear water for two to four days. During this period, the sticky mucilage clinging to the beans is broken down by naturally occurring microorganisms and enzymes. The beans are then carefully washed to remove all residual mucilage from the thin yellow parchment skin that encloses each bean and laid out in the sun to dry. Beans that have been badly broken in the pulper or beans that have rotted as a result of inadequate washing, over-fermenting, or insufficient drying are accepted only as "bad" beans for which a very low price is normally offered. Currently, Cameroon farmers process all washed arabica to the parchment stage on the farm.

Hulling is the next processing stage, which can proceed as soon as the moisture content of the parchment-covered beans has been reduced to 12 percent. Hulling requires fairly sophisticated machinery that sorts out the stones and other refuse from parchment coffee, removes the parchment covering, and polishes the beans to remove the close-fitting membranous covering of the beans called the silverskin.

Hulled coffee beans must then be sorted by sizes that correspond to the standard coffee grades, A through F. This grade, in addition to a quality designation based on the appearance of the beans, will determine their international market value. Liquoring tests can be used to determine quality by taste, but these are not used in Cameroon. The most sophisticated machinery (currently used in Cameroon only by UCCAO) is able to both sort beans by size, in order to determine the grade of the beans, and by color, in order to separate the "bad" beans, or beans that are immature or rotten, from good ones. Simpler sorting machines are able to sort beans only according to size. These machines generate bags of beans that contain both good and bad beans of a uniform size. Laborers must then be employed to pick out the bad beans by hand. Hand picking, assisted by the superior accuracy of the human eye, is a critical requirement even for bags of beans that have undergone mechanical color sorting. Special care to remove bad beans is necessary because a few rotten "stinkers" can spoil a whole bag of beans in a relatively short period of time. Bad beans of all sizes are bagged and sold on the international market as triage. A small portion of these beans are included in many lower-quality blended coffees.

Arabica cherries that have been allowed to dry on the tree are marketed as stronger-tasting, lower-value "unwashed" arabica. Hulling removes the dried pulp as well as the parchment and the silverskin. Some hulling machines can be adjusted to hull either washed or unwashed arabica, while others can only be used for either washed or unwashed coffee.

Processing washed arabica is a seasonal activity that begins as early as October in some of the lower-lying areas where the coffee matures first. In the case of the washing activities, speed is a crucial factor. Hulling can be undertaken at greater leisure as parchment coffee stores well in a relatively dry environment. Fortunately, Cameroon's dry season coincides with the processing period. The onset of the rains in March makes it more difficult to keep the moisture content of the beans sufficiently low to permit the successful hulling, storage, and transportation of coffee beans. Similar to the processes of pulping, fermenting, and drying, the processes of hulling, sorting, and picking are currently done in close physical proximity to each other. The importance of speed in washing is such that it is more critical for harvesting, pulping, fermenting, and drying to be undertaken in close proximity to each other than it is for hulling, sorting, and picking.

3. Marketing Arabica--The Physical Process

The marketing process for arabica begins when a farmer first presents his coffee for sale. Funds are needed to purchase coffee prior to the actual transfer of the coffee to an international buyer. In some cases, prefinancing is made available by a domestic marketing board, an exporter, or an international buyer who advances a specified proportion of the expected sale price of the coffee to a domestic buyer. In other cases, funds must be secured on credit from commercial banks. Collateral, which might be the coffee crop itself, is required in either case. Due to dramatic fluctuations in the coffee market, funds in advance of sale are also required to finance the storage of stockpiles of coffee maintained to permit the marketer to take advantage of unexpected rises in demand or declines in supply on the international market.

The buyer who deals directly with the farmer may be unable to accurately determine in advance the exact value the coffee will bring on the international market. An estimate must then be made on the basis of current market prices as to what is the likely price to be realized in the future international sale. When the buyer is a for-profit firm, whatever profit is realized in future sales is the property of the entrepreneur. In those cases in which the buyer is a nonprofit firm, such as a cooperative, whatever residual income is realized is common property. Rules determine the proportion of the residual to be reinvested in the joint effort and the amount to be distributed to members. Uncertainty about the actual value of a commodity in the course of a given marketing season (or about the true extent of marketing costs), requires that producers be paid in two installments--an initial purchase price and a bonus that reflects exact market demand.

The transactions during which a farmer's coffee is weighed and evaluated determine the value he/she will realize from his/her planting, cultivation, and washing efforts. In those contexts in which buyers and sellers are relatively free to respond to one another, buyers can expect close scrutiny as well as pressure to make as generous an estimate of the quantity and quality of the coffee as possible. However, the buyer must beware of compensating farmers at a rate that exceeds the market value of the coffee. The establishment of a common agreement on the accuracy of measuring devices, such as the weighing scales and the criteria to be used to assess quality, are important in reducing the transaction costs of buying and selling coffee.

A hand huller is an important device that permits the evaluation of coffee that is presented by the farmer for sale with either the parchment layer or dried cherry hull intact. A sample of the beans must be hulled and the chaff winnowed in order to reveal the color and size of the beans. Simple machines that test the moisture content of the beans are also important as a means of reducing the difficulty the buyer and seller may experience in reaching an agreement regarding whether or not beans being sold are sufficiently dry. A high moisture content increases the difficulty with which beans can be processed successfully through the hulling machine as well as the likelihood that the beans will rot before they reach their overseas destination.

The jute bags in which the farmers' coffee is transported through the off-farm processing and marketing stages contribute to the marketing costs of coffee. However, they also offer the only means a particular group of producers has of identifying their own product. Beans cannot be marked, but bags can be stenciled to identify the group of smallholders who produced the coffee. Standardized bag weights also facilitate the transactions between domestic sellers and international buyers.

Another major component of marketing costs, particularly in developing countries, is overland transportation. Poorly developed transportation networks can substantially reduce the market value to the farmer of coffee grown in remote areas. Roads in arabica growing areas are likely to be especially difficult to negotiate because it is the steep highland areas with high rainfall that are most favorable for arabica production.

Dry storage for coffee must be arranged at each point in the processing and marketing process, as protection from moisture is important to preserve the coffee from deterioration. Both transport and storage problems are reduced if it is possible to market coffee during the dry season. Because labor costs for loading and unloading bags of coffee can be significant, efforts to reduce the number of different times the bags must be moved on and off transport vehicles increases the proportion of the market price that can potentially be returned to the producer.

Selling to overseas buyers requires a familiarity with the European, North American, and Japanese brokers who sell to individual arabica coffee roasters as well as an understanding of how to evaluate a price offer from a broker. Over time, established relationships between brokers and sellers can reduce the transaction costs involved in selling. Prior to the establishment of such relationships, attention must be given to establishing the credit worthiness of the buyer and making arrangements between banks for the transfer of funds. Once relationships have been established with brokers, notifying brokers of the availability of coffee stocks for sale as well as receiving price offers requires access only to a facsimile machine connected to reliable international telephone lines or easy access to a telex machine or cable facilities. Initial sales agreements are negotiated through one of these means. Shipping, of course, must be closely coordinated with the terms of completed sales agreements.

Assessing price offers requires access to the Reuters news service that reports the daily ICO indicator prices for standard groups of coffees--unwashed arabicas, Colombian milds, other milds, and robustas. Indicator prices are determined from quotations on the London terminal market and the futures markets in New York, Le Havre, and Bremen. If high-quality storage is available to the seller, unsold stocks of coffee can be maintained in order to take advantage of longer-term fluctuations in the market. Access to specialized trade journals produced by market analysts is helpful in determining longer-term price trends.

Developing a long-term relationship with coffee brokers requires that the seller establish and maintain a reputation for supplying a product of consistent quality. For sellers who aspire to earn premium prices for their coffee, control over the quality and the uniformity of the coffee they export is critically important. Final checks on the contents of export shipments just prior to shipment should be the last in a series of sorting efforts to consistently produce a product that reflects its quality designation.

Organizing the temporary storage of coffee at a port, contracting for the services of a shipping company, processing the documents necessary to permit the export of a shipment of coffee, and organizing the loading of coffee onto ships in conformity with purchase orders is another specialized set of marketing activities. Storage and stevedore services may be available as part of the port facility itself, or they may be provided by private firms operating warehouses at the port. Either the domestic seller or the international buyer must maintain a representative at the port to process export permits and negotiate with shipping companies.

V. THE EXISTING INSTITUTIONAL ARRANGEMENTS FOR ARABICA COFFEE MARKETING

A. Cameroon's Cooperative and Marketing Regimes

The activities involved in producing, processing, and marketing coffee in Cameroon take place within an agricultural industry structure consisting of coffee buyers and sellers. That industry structure is itself a product of the organizational activity in the public and private sectors that is constrained by sets of rules that constitute the cooperative and the marketing policy regimes (see Figure III.2). These regimes are highly bureaucratic in character, and, in Cameroon as in many other African countries, they are integrally related to a basic governance system that concentrates political decision making in a single national-level executive position. Discussion of the current operations of the NWCA and the UCCAO must begin with a brief consideration of the development and the nature of these bureaucratic regimes.

1. The Basic Governance System of Cameroon

Last-minute efforts by European colonial powers to entrench political competition and federalism in the political life of newly independent Cameroon were not successful. Competitive party politics survived only a few years beyond 1961 when residents of the British trust territory of West Cameroon opted to join already independent East Cameroon within the framework of a federal republic. The federal arrangement lasted only until 1972 when the results of a plebiscite authorized the creation of a unified government. Cameroon's current President also serves as the leader of the only legally sanctioned party, the Cameroon Peoples' Democratic Movement (CPDM). The constitution of the republic provides for a high degree of centralization that requires that all important ministerial decisions and national legislation must be approved by the Presidency before they become legally binding.

Cameroon's unitary government resembles those found throughout most of Francophone Africa. The main social conceptions underlying this structure are the principle of hierarchy in which orders are transmitted from the top to the bottom of a single chain of command and the notion of *tutelle,* or guardianship. As the guardian of the nation, the state is responsible for the welfare of the people. The notion of *tutelle* assumes that the people have to be constantly supervised and guided for their own good. This idea is reflected in the commitment to extensive regulation and "supervision" of cooperatives.

Until recently, Cameroon had enjoyed remarkable political stability and continuity of national political leadership. This stability is now in danger of being undermined by several years of economic crisis that have lowered the living standards of most Cameroonians and raised dissatisfaction with the current government.

Political pressures have been mounting to alter Cameroon's one-party system and create a more competitive and democratic multiparty system. Two new political parties have recently been formed despite the government's refusal to recognize them. The establishment of a competitive multiparty electoral system would threaten the position of the current President and his political allies. Hence, it is being resisted by a large segment of the national elite.

Economic pressures are also undermining the President's position. The SAP and the movement towards liberalization and privatization have required reductions in staff or the closure of entire government bureaus and parastatal organizations. The shrinking number of public sector job opportunities and declining government revenues have reduced the resources available to the President to redistribute as rents to political allies.

2. Patrimonial Politics

Politics in Cameroon resembles politics in patrimonial political systems headed by a presidential monarch who, if he is to retain his position, must put together a coalition of political allies by the judicious distribution of rents. In most cases, the ruler does not distribute rents directly but rather distributes positions of authority that permit the extraction of rents. Both Ahidjo (1960-1982) and Biya (1982-) built regional and ethnic support through the distribution of ministerial and other public sector posts (Ngayap 1983).

One of the peculiarities of Cameroonian patronage politics is the presence of different institutions and political traditions in the Anglophone and Francophone regions of the country. These differences were initially accommodated to some extent within the framework of a federal system (1961 to 1972) which established separate governments for the two linguistic areas. The establishment of a unitary government in 1972 placed Anglophone Cameroon, comprising 21 percent of the total population and encompassing the North West and South West Provinces, directly under the authority of a central government dominated by the Francophone regions. After 1972, the central government sought to standardize administrative practices derived from the French tradition throughout the country and establish uniform codes and regulations consistent with the conception of a unitary government. Although local political leaders from the Anglophone areas have been thoroughly integrated into the CPDM, tensions deriving from differences in the French and British colonial governance traditions continue to affect the attitudes of residents toward the current government.

3. Monopolistic Marketing and Tutelary Authority Structures

As is the case in most African one-party states, the ruler of Cameroon governs largely through an extensive bureaucracy. The bureaucracy is useful to the ruler, both as an instrument of social control and as a mechanism for distributing access to rents to political allies. Social control is exercised through a highly centralized, hierarchically ordered territorial administrative system headed by governors (provinces), *prefets* (*departments*) and *sub-prefets* (*arrondissements*) and a wide array of security services (army, gendarmerie, police). The capacity of the regime to extract rents resides in the bureaucracy's tight regulation or direct control of economic activity.

One important result of patrimonial-style politics in Cameroon is a public sector that maintains tight control over the marketing of agricultural exports including arabica coffee. The exercise of administrative authority severely limits the autonomy of economic institutions and actors in the private sector. The public sector's sweeping authority is exercised principally through the following institutions:

- the Presidency and MINDIC, which set producer prices, open and close the agricultural marketing seasons, set the conditions of sale of export produce, and determine which private companies can become involved in export marketing;

- the ONCPB, which has exercised a monopoly over most of the marketing of the country's cocoa, coffee, and cotton;

- the Cooperative Law and decrees of application, which give extensive supervisory powers over the cooperative movement to the Minister of Agriculture through Coop/Mut; and

- a Labor Code that sets rigid salary scales and procedures for hiring and firing employees and a wide range of obligatory fringe benefits for all public and private sector employees.

<u>The Monopolistic Marketing Regime</u>

The Presidency and MINDIC

Critical parameters within which coffee production and marketing takes place in Cameroon are set at the very highest government levels. Producer prices for cocoa and coffee are set annually by a presidential decree based on recommendations by the ONCPB. Presidential decrees are also used to name the firms that are authorized exporters of robusta coffee, to appoint the members of the Board of Directors of the ONCPB, and to set the level of the *prelevement ONCPB*, an export tax on arabica coffee (see Presidential Decree No. 63-DF-45 of 20 February 1963).

As supervisory authority for ONCPB/NPMB, MINDIC is charged with enforcing decrees on behalf of the Presidency. The Ministry itself also issues *arretes* or general orders influencing the marketing regime. MINDIC apportions export quotas among the exporters of robusta coffee identified in presidential decrees, sets the beginning and ending dates for the marketing campaigns for coffee and cocoa, and specifies the general conditions under which licensed buying agents purchase coffee and cocoa on behalf of the ONCPB.[2]

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[2] The very different marketing, price stabilization, and input subsidy arrangements for cotton is carried out by a parastatal, the Society for the Development of Cotton (SODECOTON), that has highly integrated operations. SODECOTON is responsible for support services, input delivery, crop collection, oil seed processing, and export sales. ONCPB does not publish a price schedule for cotton because SODECOTON has an export monopoly. When SOCECOTON runs a surplus, 60 percent accrues to the ONCPB, 10 percent to the Northern Province Cooperatives Savings and Development Movement, and 30 percent to itself for investments. Some portion may be given to farmers in the form of a bonus. In cases of deficit, ONCPB is supposed to cover the entire loss.

ONCPB

Until 1990, the ONCPB exercised a monopoly over the marketing of cocoa, coffee, and cotton (palm kernel and peanut exports are now insignificant). The only exception to this rule was in the case of arabica coffee produced in the West Province. This monopoly enabled the ONCPB to extract huge surpluses during Cameroon's economic boom years, much of which was transferred to the public treasury and used for developing other sectors of the economy. France's Caisse Central de Cooperation Economique (CCCE) has estimated that in 1987/1988, the ONCPB's stabilization fund

should have had reserves amounting to FCFA 83 billion (US$277 million; FCFA 300 = US$1). Instead, the ONCPB had accumulated huge deficits.

Until the establishment of the ONCPB, Cameroon had two different marketing regimes, one for Anglophone Cameroon whose roots were in the West Cameroon Marketing Board (WCMB) established by the British in 1954 and succeeded by the Produce Marketing Board (PMO), and one for Francophone Cameroon, which initially consisted of different *caisses de stabilisation*, or stabilization funds, for each major export product. The Anglophone marketing boards had extensive powers to set coffee, cocoa, and palm oil producer prices, buy products for export, and designate licensed buyers and suppliers. The Francophone *caisses de stabilisation* were primarily concerned with maintaining stable producer prices, improving coffee quality, and facilitating export marketing.

The law (No. 76-20 of September 9, 1976) that authorized the creation of the ONCPB centralized and combined all the functions that had been previously carried out by the PMO and the various *caisses de stabilisation* into one giant structure concerned with the export of coffee, cocoa, cotton, palm kernels, and peanuts. The decree of application (Presidential Decree No. 78-54 of February 23, 1978) required that the ONCPB: (1) regulate producer prices; (2) organize and control domestic and international marketing of export produce; (3) participate in international conferences concerned with export products; and (4) formulate and implement measures to maintain and improve the quality and quantity of commodity production. Article 23 of this same decree authorizes the Treasury to collect and centralize all the monies earned by the marketing board. Prior to the financial collapse of ONCPB, MINDIC notified the Treasury each year of the sums needed by the board for operating expenses as determined by the board of directors. These sums were then deposited in banks for the use of the ONCPB. Thus, most of the funds collected from export sales could be used by the GRC as it saw fit. Accounts containing reserve funds to be used to stabilize prices for each export product were established, but use of these funds has not been restricted to stabilizing prices.

During the boom years, pricing policies made it possible for the ONCPB to rapidly expand the size of its staff and for the GRC to transfer huge surpluses to the rest of the economy. Producers received prices that were lower than those justified by the world market, and little was invested in enhancing the productivity of the coffee or the cocoa sectors.

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The crisis within the ONCPB underscored the negative consequences of institutional arrangements that distort market signals and enable administrative authorities to extract rents that are then redistributed by administrative fiat. One positive consequence of the crisis has been the requirement, as a condition of financial assistance from the World Bank and CCCE, that the ONCPB restructure its organization and reduce its role in coffee marketing. USAID's PRAMS I will provide funds to assist private sector marketing agents to assume the functions in arabica marketing once

performed by the ONCPB and to temporarily compensate the government for revenues lost as a result of the removal of the *prelevement ONCPB.*

In an effort to reduce deficits, the GRC and the ONCPB have taken several measures since 1989 that contribute toward the liberalization of coffee marketing in Cameroon and a reduced role for the ONCPB. These include:

- suppressing all export taxes except the *prelevement ONCPB*;
- setting coffee producer prices more in line with world market prices;
- closing ONCPB quality control agencies in coffee-producing regions;

- sharply reducing the ONCPB staff from 2,800 to 1,300 persons; and

- granting export rights to the NWCA to export 2,000 tons of arabica coffee in the 1989/1990 marketing season.

A performance contract between ONCPB and the GRC signed in December 1989 committed ONCPB to slashing its budget by 50 percent, from FCFA 10 billion to FCFA 5.3 billion, and to pay its debts to exporters, banks, suppliers, and cooperatives in accordance with the plan devised by the GRC, BEAC, and CCCE. The GRC agreed, with the help of the donors, to restore ONCPB's liquidity position and assist it in reconstituting its depleted stabilization reserves.

While slashing the size of the ONCPB, the performance contract did not substantially reduce the ONCPB's responsibilities for the five-year period from 1990/1991 through 1994/1995. The contract assigned the ONCPB responsibility for:

- maintaining a fair price for coffee and cocoa producers;

- reconstituting the stabilization reserves;

- cutting marketing costs while retaining its control over the *bareme*, or block buying allowance--the margin used to compensate the board's internal marketing agents;

- encouraging domestic consumption of local products in collaboration with local industries;

- guaranteeing quality norms required by the international market; and

- promoting coffee and cocoa exports at the best world market prices.

Major donors have been prodding the GRC to further reduce the marketing board's role and accelerate the liberalization of the coffee and cocoa marketing systems. ONCPB and Ministry officials would prefer to retain as much authority as they can for as long as possible. USAID/Cameroon would like to see the public sector withdraw entirely from setting prices, maintaining stabilization funds, and marketing for agricultural exports. This would require major rule changes in the bureaucratic marketing regime. In the first stage of its efforts, the Mission plans to require under PRAMS I that ONCPB/NPMB's monopoly over arabica coffee exports in the North West Province be transferred to the NWCA by the 1990/1991 marketing season and that arabica marketing in Cameroon be fully liberalized in two to three years.

The Tutelary Cooperative Regime

Cameroon's current cooperative legislation and decrees of application originated in the early 197Os and were intended to provide uniform rules for all cooperatives following the establishment of the unitary government in 1972. The cooperative regime in Cameroon reflects the government's wish to control major economic institutions through administrative chains of command. The set of rules within which Cameroon's cooperatives must operate is strongly shaped by the Cooperative Law and the way the Ministry of Agriculture, acting through Coop/Mut, chooses to enforce it.

The Ministry of Agriculture's Tutelle

Broad tutelary authority over cooperatives authorized in the Cooperative Law is directly exercised by Coop/Mut, one of the eight departments of the MINAGRI. As specified in the 1973 Cooperative Law, Coop/Mut's functions are: (a) to promote the cooperative movement; (b) to spread cooperative principles; (c) to provide assistance in forming and managing cooperatives; (d) to elaborate standard bylaws; and (e) to supervise and control the operations of the cooperatives.

Coop/Mut's supervisory role has been its most important. Coop/Mut is authorized to intervene in nearly any cooperative activity. Cooperative societies cannot achieve legal recognition without the approval of Coop/Mut. Managerial-level appointments and dismissals all must be approved by Coop/Mut. Cooperatives cannot invest in even the most inexpensive office equipment without the approval of Coop/Mut, which must also approve of cooperative annual budgets. Coop/Mut has the authority to convene cooperative meetings, place items on the agenda without prior notice, impose the recommendations contained in its reports on individual cooperatives, inspect cooperative books, audit cooperative accounts, conduct investigations, and dissolve cooperatives and liquidate their assets.

The National Center for the Development of Cooperative Enterprises (CENADEC) was created in 1969 with funding by the United Nations Development Program (UNDP) and the International Labor Organization (ILO) to provide technical assistance and training to cooperatives and Coop/Mut. CENADEC's approach to the cooperatives has also been paternalistic. It has tended to take over the management of coops in its areas of operation and has discouraged the development of local management. Thus, despite its clearly defined educational mission, CENADEC, like Coop/Mut, has operated primarily as a supervisory agency. CENADEC, which has operated largely in the cocoa-producing areas, has not been active in the North West and West Provinces.

Despite efforts such as the creation of CENADEC to improve Coop/Mut's performance, the department has not fulfilled its mission either as an auditor or as an educational agency. A recent World Bank mission report states that there seems to be an inverse relationship between the amount of attention Coop/Mut has given cooperatives and the degree of their development (Polhmeier 1990: 6). Constrained by a cooperative regime built around the primacy of the tutelage powers of the Ministry, it is easy to understand why most marketing cooperatives in Cameroon are essentially instruments of the Ministry rather than member-owned and -managed organizations created voluntarily to address member needs. The fact that the laws and decrees governing cooperatives have not been translated into local languages has limited the understanding of cooperative members of the source and the extent of constraints on their organizations.

In conclusion, it should be noted that the paternalistic concern of the Ministry for the viability of cooperatives has not extended to all cooperatives in Cameroon. Coop/Mut and CENADEC have been principally concerned about cooperatives serving producers of cocoa and coffee, the second and third largest income-earning exports after petroleum. Women's cooperatives that serve producers of food crops are numerous but have not been subject to the oversight of the Ministry. In large part, this is because operation of these cooperatives involves considerably smaller amounts of money.

Cooperatives and Administrative Jurisdictions

One feature the cooperative regime in Cameroon shares with many other Francophone African countries is the use of administrative jurisdictions as the main unit of reference for the organization of cooperative societies. For example, the standard bylaws formulated by the Coop/Mut for cooperative societies in Francophone Cameroon define a cooperative as an organization encompassing the entire population of a department. In a similar manner, the apex cooperative institution (e.g., UCCAO) must be organized at the provincial level. In contrast, in the North West Province, division and subdivision boundaries have played a much less important role in determining the jurisdictions of cooperative unions and primary societies. However, in recent years, the MINAGRI has pressed the NWCA to reorganize their cooperative units to more closely conform to the pattern of cooperative organization in Francophone areas.

Thus, most cooperatives in Cameroon are organized within administrative rather than economic space. This facilitates the territorial administration's authority over the cooperatives, which is represented by the department's *prefet*. He or his representative attends cooperative meetings, explains and defends relevant government policies for the cooperatives or their members, maintains order, and, on occasion, intervenes to arbitrate intra-cooperative disputes. The presence of the *prefet* is another manifestation of the government's tutelary authority. The requirements that cooperative societies, unions of cooperatives, and apex organizations must be organized so that their jurisdictions correspond to administrative boundaries and that members must join cooperatives within the administrative jurisdiction in which they farm can lead to an uneconomic grouping of cooperatives and increased transaction costs. Administrative boundaries do not always encompass the appropriate economic or social space for efficient cooperative organization. A farmer can actually be penalized for "smuggling" if he is caught selling his produce one kilometer across an administrative boundary rather than to another marketing unit which might be several kilometers away but inside the same administrative jurisdiction.

The Cooperative as Multifunctional Development Institution

The standard cooperative bylaws state that cooperatives have multiple functions and goals: collecting, processing, sorting, sacking, storing, and marketing primary products; promoting savings and capital formation; supplying agricultural inputs; providing training and cultural activities; defending the interests of the membership; and improving social conditions. The conception of a cooperative implied here is that of a quasi-public developmental institution serving a particular administrative jurisdiction rather than a market-oriented voluntary organization seeking to provide specific economic services at the least possible cost. Thus, in the West Province, UCCAO has operated not only as a cooperative union but also as the province's principal development institution. In a similar manner, departmental cooperatives have often provided health and educational services and other public goods for its members.

As multifunctional development institutions, the cooperatives have often received loans and subsidies from the government for fertilizers, pesticides, and fungicides; funding for agricultural extension work, and grants of equipment, buildings, and vehicles. The result has been a confusion of marketing and development roles, the assumption of more roles by the cooperatives than can be handled effectively, a greater concentration of power in the hands of cooperative managers, an expanding cooperative bureaucracy, higher operating costs, an inefficient allocation of cooperative resources, and dependency on public sector resources.

This conception of cooperatives has meant that they are often obliged to serve their members at an economic loss. Thus, cooperative trucks will travel several kilometers at great expense to pick up a few sacks of coffee even though that transaction entails considerable losses. Cooperatives will pay the same price to all members for their produce despite significant differences in the transportation costs incurred in collecting it from different locations. These egalitarian practices, which would likely be unsustainable in a fully liberalized marketing regime, are required by the government policy of setting uniform prices for produce and agricultural inputs.

Reform of the Cooperative Regime

Since the beginning of the economic crisis, pressure has been building to reform Cameroon's cooperative regime. A national seminar on the cooperative movement in Cameroon held in July 1988 generated a series of recommendations to revise the basic law governing cooperatives. In light of these recommendations, the Presidency charged MINAGRI with the responsibility for rewriting the Cooperative Law. Coop/Mut was assigned the task of actually drafting the new statute. Despite pressure from the major donors including the World Bank, Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ), CCCE, and USAID/Cameroon, the process has moved slowly because of resistance by persons associated with Coop/Mut and the GRC who are reluctant to surrender their authority over the cooperatives.

In pressing for genuine cooperative reform, the principal foreign donors and Ministry officials have several objectives:

- to sharply reduce the tutelary authority of the Coop/Mut;

- to grant cooperatives the freedom to organize their own activities and choose their own managers and staff with no single model of organization being imposed on all cooperatives;

- to clarify the property rights of cooperative societies, cooperative unions, and apex organizations;

- to make it easier for individual members and primary societies to exit from cooperatives and cooperative unions; and

- to permit individuals and primary societies to join cooperatives and unions outside their administrative jurisdiction.

Another proposal being considered would give cooperative legal status and financial autonomy to smaller producer groups not wishing to affiliate with the cooperative movement. This would give farmers more choice and could possibly lead to the collapse of unpopular and inefficient cooperatives in certain areas.

Achieving these objectives will require extensive rule changes in the current Cooperative Law. At present, it appears unlikely that a new cooperative law will be passed before the April 1991 session of the National Assembly. However, in early July 1990, a letter of intent will be released by the MINAGRI, which details the new philosophy that will guide the Ministry in its enforcement of the current Cooperative Law until the new law comes into effect. This new philosophy supports the exercise by the cooperatives of considerably more autonomy in the direction of their affairs than they currently enjoy.

The Labor Code

In Cameroon, the levels of wages, salaries, and fringe benefits are set primarily by legislation rather than by market forces. Cameroon's Labor Code sets fixed salary scales for different categories of employees based on an individual's level of education and amount of work experience and on where in the country the employee is posted, specifies complicated procedures that must be followed when hiring and firing personnel, and delineates a wide range of social obligations employers must assume and fringe benefits that must be provided for employees. The economic crisis has emphasized the counterproductive effects of the code, which have been evident for some time. In the context of the crisis, the code has hindered both private firms and government organizations from reducing staff or lowering salaries and fringe benefits in an effort to reduce costs in response to declining revenues. As required by the SAP, the revision of the Labor Code now being undertaken is expected to provide employers with more flexibility to adapt salaries and fringe benefits to reflect market conditions and individual productivity.

In the meantime, the Ministry of Labor has adopted a policy that temporarily alters the terms of the existing legislation. In October 1989, the Minister recommended that, rather than laying off large numbers of people, government offices and private sector firms should negotiate with their employees a temporary general reduction in salary levels. He indicated that the Ministry wouid consider a 20 percent reduction an appropriate response to the economic crisis.

B. West Province

1. The Development of UCCAO

The cooperative regime and the monopoly marketing regime described earlier have affected the institutional arrangements that structure UCCAO and its affiliated cooperatives as well as the coffee marketing system in the West Province. UCCAO began its existence in 1958 as the *Union Centrale des Cooperatives de Cafe Arabica.* Its name reflected its primary role as an arabica marketing organization. In 1961, the government granted UCCAO a near monopoly over arabica marketing in the West Province and the right to export its own arabica coffee. This arrangement, which was unique in Cameroon, was largely inspired by political factors. The West Province had been the seat of an armed revolt during the late 195Os and early independence years. The granting of these special monopoly and export privileges was a means of reconciling the Bamileke with the central government leadership. Similar privileges were also granted to COOPAGRO, a cooperative formed by about 16 expatriate and Cameroonian owners of large arabica plantations in the province. COOPAGRO, whose headquarters are located in Fombot, has no affiliation with UCCAO and, unlike UCCAO, is able to keep all of its profits for its small membership. It is not obliged to put any of its resources into social services for the province.

Between 1974 and 1978, UCCAO underwent considerable changes as it adapted to the new cooperative legislation and the establishment of ONCPB. During this period, UCCAO became a multifunctional development institution and changed its name. but not its initials, to reflect its expanded role. UCCAO began to market robusta coffee in 1978 following its affiliation with two new cooperative societies, CAPLANDE (*Cooperative Agricole des Planteurs du Nde*) and CAPLAHN (*Cooperative des Planteurs du Haut-Nkam*), which were primarily robusta marketing societies. In 1978, UCCAO marketed 17,211 tons of coffee of which 12,598 tons (73 percent of the total) were arabica and 3,679 tons were robusta.

That same year, UCCAO earned a surplus of over FCFA 1.5 billion, which represented approximately 6O percent of the total surplus for all funcuioning cooperative societies in Cameroon. UCCAO's right to market arabica as well as its monopoly on arabica marketing in the province enabled the cooperative and, to some extent, the farmers rather than the government, to profit from its marketing skill. On the other hand, because the cooperative regime obliges cooperatives to market all of the produce of its members, UCCAO and its affiliates had to market robusta and cocoa even though marketing these crops often entailed considerable losses. UCCAO did not enjoy a monopoly of robusta marketing in the West Province and was obliged to market its robusta through ONCPB. This meant that UCCAO had to compete with private traders and to accept the marketing margin for robusta, the *bareme*, set by ONCPB. UCCAO could survive financially only because it had profits from arabica marketing to cover deficits resulting from robusta marketing. A World Bank report estimated that 85 percent of UCCAO's 1982 surpluses were used to cover robusta losses.

UCCAO's structure underwent a major change in 1978 when the central government assigned it broad responsibility for supporting all agricultural activities in the province. In effect, UCCAO became the equivalent of a provincial development agency that carried out major development projects sponsored by foreign donors, principally the World Bank and the International Fund for Agricultural Development (FIDA), and the GRC. As manager of the Western Province Rural Development Project (PDRPO), which got underway in 1978, UCCAO was responsible for providing rural extension services, developing swampland, managing seed farms, improving soil conservation, and developing water points among other things. PDRPO, which was renewed in 1984, is scheduled to end this year. UCCAO's assumption of the role of regional development agency led to the emergence of a new parallel staff structure within the cooperative financed by the PDRPO, whose numbers and payroll outstripped in size and importance the regular UCCAO staff concerned with more traditional cooperative functions.

Since 1978, UCCAO has maintained basically the same structures while undergoing considerable expansion. However, the decline of world market coffee prices that began in the late 1980s coupled with the current national economic crisis have significantly weakened UCCAO's financial position.

2. UCCAO Affiliates

UCCAO is an association of six multifunctional cooperative societies--one for each department in the West Province. UCCAO's structure closely resembles those of many other cooperatives throughout Francophone Cameroon. Because of their department-wide jurisdiction, UCCAO's affiliate cooperatives are much larger than their counterparts, the area cooperative unions, in the North West Province. To a large extent, the financial solvency of these cooperatives has been dependent upon the relative importance of arabica and robusta coffee production in their department, the official producer prices set by the GRC, the marketing margin set by the ONCPB for robusta coffee, the world market price for arabica coffee, and the quality of cooperative governance and management.

The biggest coffee marketer among the affiliates is CAPLAME, *Cooperative Agricole des Planteurs de la Menoua*, which was formed in 1975 with the merger of the department's two principal cooperatives. CAPLAME's origins date back to the colonial period when it was set up as an anti-colonial cooperative in competition with the cooperative sponsored by the colonial authorities. Among the UCCAO affiliates, it generates the largest surpluses and has the largest number of representatives on UCCAO's Board of Directors. It is considered the "flagship" of the UCCAO system, with approximately 24,000 members.

The other UCCAO affiliate cooperatives producing significant amounts of arabica include CAPLAMI, *Cooperative Agricole des Planteurs de la Mifi*, which has about 23,000 members and is based in Bafoussam, the seat of UCCAO; CAPLANOUN, *Cooperative Agricole des Planteurs du Noun*, which is the only non-Bamileke cooperative, covers the largest territory in the province, and has the largest membership of about 28,000; and CAPLABAM, *Cooperatives Agricole des Planteurs de Bamboutos*, which has about 13,000 members and, because it borders the North West Province, has received significant amounts of "smuggled" coffee during the 1989/1990 marketing season. The two smallest cooperatives, CAPLANDE (3,150 members) and CAPLAHN (5,000 members), operate in the robusta-producing areas. Similar to UCCAO, all the affiliate cooperatives have been affected by the financial crisis, falling world market prices, and government policies.

3. Producing Arabica Coffee in the West

The soil and highland temperatures of the West Province are particularly well-suited to arabica coffee growing. The lower-lying Mbo plain is a favorable site for cultivating robusta. However, over the years, the level of arabica production in the province has been declining due to insufficient economic incentives. It should be noted that this trend began long before the recent downturn in world coffee market prices.

With the exception of the large-scale coffee plantations operated by members of COOPAGRO, most coffee grown in the West Province is planted alongside other tree and food crops such as banana, plantain, maize, and beans. In the West Province, men have generally cultivated cash crops such as coffee and cocoa, and women have grown food crops. Since food crop prices have been relatively more attractive than coffee prices in recent years, less attention is currently being paid to caring for coffee trees. A larger proportion of the land is being given over to food crops, a practice that takes nutrients away from coffee trees and reduces the already low productivity of coffee growing of about 200 to 300 kg per hectare. This trend has been accelerated in recent years by the construction of paved roads connecting Bafoussam with Yaounde and Douala, which has drastically reduced transportation costs and made it more profitable to market food crops and vegetables in the major urban areas.

Recent studies, undertaken by researchers at the University of Tschang, showing that little is being done to replace the province's aging arabica tree population demonstrate that incentives for coffee growers have been declining for some time. One recent study has shown that the average age of arabica trees in Menoua Department, based on a sampling of 64 farms, was 24.5 years, while the youngest was already 8 years old. The PDRPO sponsored a massive arabica replanting campaign aimed at planting over 3,000 hectares of new saplings per year over a five-year period starting in 1984. The saplings were offered to farmers at FCFA 5 apiece--less than 10 percent of their real cost. For a while, farmers who agreed to uproot their old trees and plant new ones were being paid up to FCFA 80,000 per hectare as compensation for the income they would lose while waiting for the new trees to bear fruit. The project ran out of funds to pay farmers three years ago, so now the only farmers uprooting their trees are those who want to use the land for food crops. Thus, although one can see well-kept cooperative arabica nurseries throughout the province, one does not see many young arabica trees on the farms.

Another recent study being undertaken for the CCCE in Menoua Department by a Cameroonian agronomist has found that younger male farmers are abandoning arabica production for food crops, while older farmers are continuing their traditional cropping patterns. The older farmers are still cultivating and harvesting arabica coffee but are not replacing their aging trees.

Other factors affecting production decisions are the prices and the availability of the fertilizers, pesticides, and fungicides needed to improve coffee output levels. In the West, fertilizer use has decreased since 1988/1989, when UCCAO suspended rural credit for agricultural inputs. However, this year, farmers could still buy fertilizer subsidized by the government at a rate of 20 percent. Despite the lack of credit, over 13,000 tons were distributed to the cooperatives by the end of September 1989. Pesticides and fungicides are still subsidized by the government at 100 percent, but the subsidy is scheduled to be removed gradually as the government can no longer afford to finance it. Given the low producer prices for arabica coffee, producers are adopting strategies that minimize the use and, therefore, the costs of inputs for coffee production.

4. Primary Processing

Currently, all washed arabica in Cameroon is processed to the parchment stage on the farm. During the mid-1980s, there were approximately 22,500 of the hand-operated machines used to pulp fresh coffee cherry in the West Province, 15,000 of which were operational. This was about one pulper for every six to seven coffee growers. As part of PDRPO, UCCAO introduced an experimental program in which 250 communally owned pulpers, which could serve up to 40 growers, would be placed in provincial villages at water points developed by the project. Few of these communal pulpers were actually installed.

UCCAO is currently considering introducing a major change in the way washed arabica is processed. It is designing an experimental program to establish washing stations in the four largest arabica-producing departments. Arabica coffee growers in these areas would be encouraged to sell fresh cherry immediately after harvest to the cooperatives where it would be pulped and washed under carefully controlled conditions that are expected to improve the quality of the coffee.

5. Financial Transactions

Buying and Selling Coffee

Contrary to central government policy, not all coffee growers receive the official price for their produce. In some instances, a grower sells his/her coffee to a trader or a wealthier grower at a discount in order to get cash when he/she needs it. The purchaser then takes the coffee to the cooperative where it is passed off as his/her own or, in the event the purchaser is not a member of the cooperative, sold through a third person. This practice, known as *coxage*, is widespread. It is particularly attractive to coffee farmers who produce only one kind of cash crop, which must be marketed through a cooperative that frequently cannot pay farmers in full for their produce when they want to sell it. Payment delays literally lower the price farmers get for their coffee and, over the long term, serve as a negative incentive to produce more coffee.

In the West Province, farmers growing robusta have the choice of selling their coffee to the cooperative or to one of several private licensed buying agents (LBA) who work for private Greek firms. Each buying agent travels from farm to farm collecting coffee from those who wish to sell. The agent gives each farmer a receipt and a down payment for the produce he takes. The farmer must then go to the agent's hulling center where the farmer's produce is weighed and the quality ascertained and certified by a local representative of ONCPB. The agent then pays the farmer the balance owed. If the farmer is not able to make this visit to the hulling station before the marketing season ends, he/she may have difficulty collecting the rest of his/her money. CAPLAME officials attribute the rise in their robusta purchases this year to grower dissatisfaction with LBAs who closed their hulling stations last year before they had paid all their customers in full. Robusta production in the West Province can, in good years, reach as high as 3O,OOO tons. Private LBAs usually purchase about two-thirds of the crop, while the cooperatives purchase one-third.

Growers who sell arabica or robusta coffee to the cooperative must take their coffee in bags to a cooperative service center. There it is weighed, sorted, and rebagged. A cashier from the cooperative pays the grower the official price and gives him/her a receipt for the coffee. In the event that MINDIC decides to give growers affiliated with the cooperative movement a *bon de ristorne*, or bonus, they will receive the bonus later in the year. The last bonuses of FCFA 25/kg for arabica and FCFA 15/kg for robusta were paid by UCCAO in 1988/1989. Bonuses have sometimes been paid even when the cooperatives were losing money. Because nonmembers selling to the cooperative are not eligible to receive a bonus, the bonus constitutes an important incentive for growers to join the cooperative.

The income received by growers can be diminished by transaction costs imposed by cooperative employees who are in a position to extract rents from them. Rents may take different forms: payoffs to weighers to insure that produce is weighed without long delays, payoffs to quality control agents, and undervaluation of the weight and/or the quality of the coffee brought for sale. Rent extraction practices are fairly widespread, with little recourse for the average grower.

Credit Transactions

Growers may apply for two major kinds of credit through UCCAO: short-term *credits de campagne* provided as advances on the sale of their coffee crop, and medium-term loans to finance the purchase of agricultural equipment and construction materials. The former are generally interest-free and are limited to FCFA 250,000 per member. The medium-term loans are limited to FCFA 1 million per member and are interest-bearing.

A grower seeking credit submits an application at the cooperative service center level where a loan committee made of up of five elected officials examines his/her request. If the request is approved, it is then passed up through the cooperative hierarchy until it reaches the credit committee at the affiliate level where the request is finally approved or rejected by a 12-person credit committee. At the cooperative level, representatives from UCCAO and Coop/Mut also sit on the committee.

During the boom years, loan repayment rates were generally good, particularly in profit-making cooperatives like CAPLAMF, whose repayment rate was generally well over 90 percent. However, repayment rates have dropped sharply since the onset of the economic crisis. By 1988/1989, the average was down to 55 percent. Some of the cooperatives have had especially poor repayment records due to poor management practices .nd corruption. In these cooperatives, loans were often given to local notables who did not repay their loans or to government officials who should not have been eligible. CAPLANOUN, for example, has had a particularly poor credit record but has not been penalized for it. The amount of credit extended by UCCAO to its affiliates has not necessarily reflected the cooperative's repayment record.

During the life of the PDRPO, UCCAO maintained a revolving rural credit fund and extended credit to the cooperatives for the purposes of purchasing agricultural inputs at 10.5 percent interest. The cooperatives, in turn, extended credit to their members at 11.5 percent. Resources from the World Bank loan that funded PDRPO were used to establish the revolving fund. Because of the national financial crisis, UCCAO stopped extending credit for the purchase of fertilizer and other inputs in 1988/1989. However, middle-term credit continues to be extended by some cooperatives for construction projects.

Financing the Coffee Season

UCCAO uses a complex procedure to secure funds with which to finance each coffee-marketing campaign. It first prepares a dossier of its estimated credit needs that it sends to BEAC in Yaounde. The level of financing needed is determined by several factors:

- the size of UCCAO's treasury (before the crisis, UCCAO used to auto-finance 8O percent of each coffee campaign);

- estimates of the size of the coffee crops; and

- an estimate of the costs of marketing robusta and arabica.

BEAC approves the dossier and sets an interest rate. At this point, UCCAO calls a meeting of representatives of commercial banks where it is determined which banks will contribute and how much to the financing of the campaign. Last year, UCCAO relied on outside sources for 8O percent of its financing. In the past two years, UCCAO has also received advances from its overseas customers. This funding source has become increasingly important due to the liquidity crisis in Cameroon's banking system. Even with the sharp drop in producer prices this year, UCCAO has been able to auto-finance only 5O percent of their marketing activities.

UCCAO allots to each affiliate sufficient funds to cover two to three weeks of coffee purchases. The amount advanced is based on estimates of tonnage expected. When coffee equivalent in value to the last advance has been bought, more funds are transferred to the cooperatives. This process continues until the end of the season. In 1988/1989, UCCAO provided the cooperatives with financing worth over FCFA 11 billion--FCFA 6.2 billion for arabica, FCFA 4.5 billion for robusta, and FCFA 367 million for cocoa.

Affiliate Finances

In 1988/1989, UCCAO and its six affiliate cooperatives all suffered losses due largely to the sharp drop in world market coffee prices. However, several additional factors are required to explain the relative financial positions of the apex organization and each of the six cooperatives. Two of the cooperatives, CAPLANDE and CAPLAHN, have consistently lost money over the years because they market the less profitable robusta coffee. A third cooperative, CAPLANOUN, has suffered from poor management, a horrible debt repayment record, and high transportation costs. In 1988/1989, CAPLANOUN lost over FCFA 1.2 billion bringing its total debt to over FCFA 3.5 billion. However, the other three cooperatives, CAPLAME, CAPLAMI, and CAPLABAM, are, in normal years, profitable ventures. CAPLAME, in particular, has a strong record, but most of its huge surpluses generated in good years have been siphoned off to finance the deficits of the poorly performing cooperatives. CAPLAME officials are understandably not very happy about the current financial arrangements with UCCAO.

After years of profit-making, UCCAO itself is now losing money--about FCFA 11O million in 1988/1989. Three years ago, the board of directors authorized the apex organization to raise the commission it charges affiliate cooperatives for marketing arabica coffee from 2.5 to 3.5 percent. It is this larger commission, which is levied on volume and is not tied to profit or losses, that has kept the apex organization going in good or bad times.

The affiliates receive all the receipts obtained from the overseas sale of their coffee minus UCCAO's commission and charges for specific UCCAO services (e.g., sorting, transport costs undertaken by UCCAO when cooperatives are not able to use their own trucks to transport their crop to Douala). The affiliates are paid according to the weight and the quality of their coffee.

UCCAO also levies a FCFA 2/kg commission on the sale of robusta for affiliate cooperatives. However, it loses money on robusta marketing because it must accept a marketing margin set by ONCPB that does not cover its costs. UCCAO and the affiliates are now making a concerted effort to cut costs by reducing personnel and fringe benefits, rationalizing their collection and processing procedures, and removing corrupt affiliate managers.

One of the unique features of the UCCAO system is the existence of a stabilization fund built up largely from profits from its arabica marketing activities. Each affiliate has its own account within the stabilization fund. Consequently, profit-making affiliates such as CAPLAME generally have a larger account than the smaller ones. However, stabilization fund accounts belonging to all the affiliates are actually located in a single bank account controlled by UCCAO. Due to the financial crisis, the stabilization fund is being depleted by UCCAO in order to cover affiliate losses. A major point of contention between the affiliates and the apex organization is the fact that an affiliate does not have direct access to its share of the stabilization funds. An affiliate must secure UCCAO's agreement before it can draw from its own portion of the fund. It is particularly annoying for profit-making cooperatives like CAPLAME to see their earnings being diverted to cover the losses of less efficient affiliates. Each affiliate also sets aside funds in the annual budget known as *provisions* in anticipation of potential losses.

In addition to the *provisions*, the affiliates maintain a variety of other reserve funds in their accounts. The legal and education reserves are mandated by the Cooperative Law. The legal reserves can be used to cover cooperative deficits only after the cooperative has exhausted all other reserves and only with the approval of MINAGRI. However, there are also special reserves and funds that are used to finance cooperative investments in vehicles, buildings, and equipment, and a *caisse de prevoyance* containing funds set aside for use as an emergency, last-resort fund. Other funds may be set aside to finance part of next year's marketing season in the event that sufficient prefinancing is not forthcoming from the apex organization. These reserve funds have been insufficient, however, to cover the losses experienced by the more poorly managed affiliates.

The budgets of each affiliate must be approved by its board of directors and by Coop/Mut. UCCAO provides the affiliates some technical assistance in budget preparation. UCCAO and the provincial Coop/Mut officers collaborate in verifying the annual accounts of all the affiliates. UCCAO and Coop/Mut are also authorized to intervene to reorganize and improve bookkeeping procedures in poorly run affiliates.

6. Commodity and Ownership Flows

UCCAO's monopoly over arabica marketing in the West Province gives it effective control over most of the province's arabica coffee crop because the affiliates must sell their arabica coffee through UCCAO. After the growers have pulped, washed, and dried their arabica coffee, they take it to the nearest cooperative service center where it is weighed, sorted, and resacked. Until last year, an agent from ONCPB was there to verify the quality and weight, but, with the closing of ONCPB field offices, this precontrol function is now performed by a cooperative affiliate staff member. Once the grower is paid, the coffee belongs to the affiliate.

At this stage in the commodity flow, the grower's produce has probably been undervalued. Guidelines set down by ONCPB require that 20 percent of the weight of arabica coffee beans sold in parchment be attributed to the parchment. However, a study done in the mid-198Os traced the flow of arabica coffee from collection points in the West Province to Douala and found an 8 percent discrepancy in tonnage (see SEDES 1982). This meant that arabica coffee growers, in effect, only received 92 percent of the price they should have received.

In the second step of arabica coffee marketing, the coffee, still in its parchment covering, is transported from cooperative service centers to the affiliate cooperative's hulling station, which is generally located at the affiliate's headquarters. Most of the arabica sold by UCCAO is hulled, sorted, picked, and sacked for export at affiliate hulling stations. If an affiliate does not have sufficient labor or time to sort and pick by hand all the arabica coffee that it has hulled, it can send part of it on to UCCAO's ultra-modern electronic sorting facility located in Bafoussam. Nearly all the robusta coffee bought by the cooperatives is sent to this factory for sorting.

Contractually, the affiliates are obliged to sell their coffee through UCCAO. Each affiliate stores the arabica coffee it has finished processing until it receives an order from UCCAO to deliver it to Douala in the third stage of the commodity flow. UCCAO arranges transportation to Douala for

export for the arabica coffee it has sorted for affiliates. UCCAO's office in Douala makes arrangements with private transitors to receive and store UCCAO's coffee prior to shipment overseas.

UCCAO stores processed robusta coffee until it receives an order from ONCPB to deliver it to Douala. In Douala, ONCPB assumes responsibility for short-term storage at the port and for shipping.

7. Cooperative Governance and Conflict Resolution Mechanisms

The governance structures of the UCCAO system are hierarchical with most decision-making authority concentrated at the highest echelon. Members of the affiliated cooperatives are represented at three organizational levels. The first level is the cooperative service center, where the collection and weighing of coffee takes place. The members of each center elect a committee of five members that includes the president, a secretary, and three other members. This committee discusses local issues and credit applications. Five or six service centers constitute a section, which is the second organizational level in the system. Each center sends its president and other delegates to represent it in elections at the section. Representatives to the section choose a president and delegates to represent the section in the general assembly of each affiliate cooperative, which is the third and most important organizational level. Members of this general assembly elect a president and members of the board of directors who are responsible for overseeing the operation of the affiliate.

The cooperative service centers and the sections associated with each of the affiliates have no financial autonomy. They are simply administrative subunits of the department-based affiliates. The smallest operational units in the UCCAO system, the service centers, correspond roughly to the primary societies in the NWCA system.

The rules of governance within the UCCAO system resemble those of democratic centralism. Representation goes up from the base of the organization, but decisions come down from the top. Local notables and politicians tend to dominate the boards of directors of the affiliate cooperatives. Since the affiliates function at the departmental level, there is little face-to-face accountability of cooperative officials to ordinary members. Opportunities for ordinary members to participate in cooperative governance are also reduced by the large size of the cooperatives whose memberships range from 3,OOO to 28,OOO persons.

Although each affiliate's board of directors chooses a manager, their choice must be approved by Coop/Mut. Many affiliate managers are Coop/Mut personnel seconded to the cooperative from the MINAGRI. The manager runs the day-to-day affairs of the affiliate. The president is the most important elected official and serves as the membership's watchdog over management. Although not salaried, the president enjoys a sitting allowance and may be given a car and driver for his use as an extra benefit. One major study of the cooperative movement in Cameroon notes that managers and board members tend to look out for their own interests rather than those of the wider membership. Debate in meetings is also constrained by the presence of the *prefet* or his representative.

The six affiliates in the West Province send a total of 6O delegates to UCCAO's General Assembly, which selects the members of the Board of Directors. Representation for each cooperative is determined by membership size and tonnage marketed. CAPLAME has 18 representatives in the General Assembly. The current President of UCCAO comes from Menoua Department, currently the leading producer of arabica in the province. The board chooses the manager who administers the day-to-day affairs of the organization. UCCAO is a much more formal and bureaucratic organization than is the NWCA--in part, because of its larger size and the additional roles it has assumed as exporter and regional development agency.

How to address problems of mismanagement and corruption by appointed cooperative managers and staff, on the one hand, and elected presidents and other cooperative officials on the other, has been a persistently troubling problem for UCCAO. Coop/Mut officials are often reluctant to act against corrupt managers, especially when they come from the ranks of Coop/Mut. For example, UCCAO recently tried to fire the manager of CAPLABAM, but Coop/Mut refused to accept this decision and sent a report to the MINAGRI exonerating the accused manager. UCCAO then made a direct appeal to the Minister who finally ruled in UCCAO's favor. The manager was ousted, and an UCCAO official from the central office is currently serving as interim manager.

Since ordinary members have few means to check up on officials, there is much room for collusion between presidents and managers. Although Coop/Mut has broad investigatory and auditing authority, it rarely exercises it. Unethical managers, although occasionally fired, are rarely prosecuted. Instead, they are usually transferred to other posts. In general, Coop/Mut prefers to resolve conflicts through administrative arbitration rather than through the courts.

Another troubling outcome of UCCAO's governance system has been the tendency for cooperative bureaucracies to grow to the point where they absorb most of the cooperatives' resources. During UCCAO's boom years, most of the surpluses generated by arabica sales went toward expanding UCCAO's staff and its motor pool and buying expensive equipment. Moreover, several of the smaller affiliates in the province employ as many people as the larger ones despite the fact that they are marketing much less coffee. For example, CAPLABAM used to spend twice as much to market a kilogram of their coffee as the unions in the North West Province. In this case, the affiliates' monopoly status insulates them from pressures to keep their costs down.

UCCAO management has complained about the laxity of management practices at the affiliate level. They see this largely as the result of the imperfect mastery by local managers of modern management techniques, the poor understanding of presidents and cooperative officials of economic principles, and the absence of effective means of making presidents and board members accountable for poor management practices.

As quasi-public and highly politicized service organizations, UCCAO and its affiliates have, in the past, been able to give little attention to concerns about providing farmers the very highest prices for their crops. On the other hand, the affiliates have provided many public goods and services that are normally the responsibility of the public sector, including road maintenance, health services, and school construction. The current financial crisis, the depletion of past reserves, and the prospect of the liberalization of coffee marketing have made the presidents and managers of UCCAO and its affiliates more aware of the need to increase the efficiency of their organizations. However, it is still tempting for these officials to provide social services and infrastructure investments to curry favor with their membership and the wider populations of their departments.

C. North West Province

In 1978, the apex organization for the 11 cooperative unions of the North West Province was reorganized, renamed the North West Cooperative Association, and appointed the sole licensed buying agent in the province for the NPMB (for a history of cooperative development in the North West see Appendices 3a and 3b). The nature of the monopoly marketing and cooperative regimes has provided the set of constraints and opportunities within which NWCA has been organized and the operational procedures and policies whereby it relates to the marketing board and Coop/Mut have been defined. In recent years, the economic and financial crises have strongly affected the strategies of all the key actors. The beginning rounds of negotiations concerning PRAMS and the agreement reached in February 1990 between NPMB and NWCA that permitted NWCA to export some of its own arabica coffee in the 1989/1990 marketing season have added new stresses to the relationship between NWCA and NPMB. The reform of the Cooperative Law required by the SAP has not yet been completed and has, as yet, had little impact on the nature of the cooperative regime within which NWCA and other cooperatives have operated this past year.

1. Institutional History and Relationships

NWCA and NPMB

From the inception of coffee growing in the 1930s until what is now the North West Province joined independent East Cameroon in 1961, first the primary societies and later the cooperative unions marketed coffee through private, expatriate-owned export firms. These cooperative units functioned very much like classic, independent, member-owned cooperatives to pool the coffee crop in an effort to improve their bargaining position with buyers. However, even after the West Cameroon Marketing Board took over as the only legal exporter of coffee, the cooperatives competed with increasing effectiveness against other licensed buying agents operating in the North West. It was not until 1968/1969 that the unions were granted the position of monopoly buying agent for coffee and cocoa in West Cameroon.

Awarding monopoly export rights over coffee and cocoa to a government marketing board, recognizing the cooperative unions as monopoly buying agents, and introducing a new Cooperative Law drawn from the Francophone tradition in 1973 all altered the nature of the coffee cooperatives in the North West. While some members and officers at all levels of the present organization still evidence a sincere attachment to the philosophy of the British cooperative movement that guided the early development of the primary societies, the realities of the NWCA's relationships with government bureaus have necessarily brought about considerable changes in cooperative organization and operation. In light of these relationships, it is understandable that younger members and more recently hired employees view the cooperative, as many government officials do, as an extension of the public sector's bureaucratic marketing regime.

The attitudes of the officials and members of the NWCA and the 11 area cooperative unions toward the increasing role of government authority in coffee marketing have been mixed. On the one hand, they actively sought and have carefully protected the safety from competitive pressures conferred on them by their appointment as monopoly buying agent in the North West. On the other hand, however, they have long sought the authority to market their own coffee that UCCAO and COOPAGRO exercise. In its role as the monopoly licensed buying agent for coffee and cocoa in the North West, the NWCA faces the particular problems of an agent that must accept not only a specified pattern of operation, but also a budget to pay for these operations that is determined by MINDIC and NPMB.

The apparent past strategy of ONCPB/NPMB was to keep producer prices and the BBA (the margin it pays its buying agents) as low as it felt was consistent with the continuation of arabica coffee production in order to build up its own surplus reserves. These reserves were initially intended for stabilizing producer prices, investing in infrastructure necessary to promote coffee growing, financing subsidized inputs for coffee growers in order to improve the quality and quantity of coffee grown in Cameroon, and financing the development of other sectors of the economy. Although funds for processing equipment for the North West cooperative unions have been forthcoming from the board in the past, world market prices for coffee have always exceeded the prices the marketing board has paid producers (see Appendix 4). In the face of efforts begun in 1989 by USAID/Cameroon and other international donors to win the approval of the GRC for the liberalization of the marketing of export commodities, the marketing board has attempted to defend its role in marketing by making it difficult for NWCA to function as an effective marketer of arabica coffee.

The NWCA has been obliged to attempt to cover its costs out of the BBA that NPMB allows while carrying out its responsibilities to buy coffee and cocoa throughout the North West. The marketing board has maintained the policy of offering all producers a uniform price for four categories of beans: washed good beans, washed bad beans, unwashed good beans, and unwashed bad beans. As the only licensed buying agent in the province, the NWCA is obliged to make some effort to collect coffee from all farmers who wish to market coffee. Farmers themselves understandably favor a cooperative structure that absorbs as much of the transportation costs of marketing their coffee as possible. The more transport costs that are paid for by the cooperative the larger the proportion of the uniform producer price they can enjoy.

Due to the poor road networks in the province, collecting the crop involves considerable transportation and personnel costs. The situations vary, but some primary societies and unions are faced with collecting small amounts of coffee from widely scattered villages over very poor roads. However, the cooperative is constrained by fixed amounts for transportation set by the BBA and a fixed salary schedule dictated by the Labor Code. The marketing board has not been willing to simply accept the conclusions of NWCA, which is after all a monopoly agent, about what is a "reasonable" buying allowance. It has assumed that the cooperative may wish to see the BBA increased in order to build up reserves or distribute rents at the expense of the marketing board.

What constitutes reasonable operating expenses, and, therefore, what is a reasonable BBA has been debated by the cooperative and the marketing board for decades. A planning mission that was asked by the Ministry of Agriculture to try, among other things, to calculate a reasonable BBA for NWCA generated the FCFA 132/kg figure that was subsequently agreed to by the NPMB for the 1982/1983 season. (The NWCA was actually given a supplement of FCFA 52.310/kg that was added to the BBA rate of FCFA 79.690/kg to bring the new BBA to FCFA 132.000/kg.) This rate was back-dated to the 1981/1982 coffee-marketing season and was maintained for the NWCA through the 1988/1989 season (see Galabe and Mallet, 1990: 105-109; Agrar und Hydrotechnik GMBH 1982a: 107-112). However, another analysis by Walker (1985) points out that the commission's analysis ignored some cost categories and analyzed the situation of only two primary societies in one union, thereby underestimating the costs of societies facing very different circumstances. As Walker's analysis makes clear, the costs faced by the 40 primary societies in the province differ radically.

The timing of access by the cooperative to funds for purchasing coffee has also been a source of conflict. In 1982, NPMB assured NWCA that it would make coffee advance funds available by the first week of December each year. This has not happened. Even if it had, NWCA would not have had funds when they needed them to buy coffee ripening earlier in the warmer, low-lying areas of Awing, Ndop, Moghamo, and Mbengwi (Agrar und Hydrotechnik GMBH 1989: 9).

Advances paid by the NPMB to NWCA to finance the purchase of coffee from farmers are based on the previous year's sales to NPMB. In 1983, the amount of prefinance was reduced from 100 percent to 50 percent of the value of the previous year's sales to the marketing board creating a shortage of funds toward the end of the marketing season. Prefinancing funds were supposed to be made available in December. At a meeting in September 1986, an agreement was reached whereby, after receiving initial coffee advances in November and December (respectively 40 and 20 percent of the value of the past year's sales), from February onward, the cooperatives would receive advances weekly according to the amount of produce they had purchased from farmers in that week. However, beginning in 1987, payments from NPMB became increasingly irregular in response to its own deepening financial difficulties and the central government's decision to use available funds to continue to finance government operations rather than pay farmers.

Disagreements between NWCA and NPMB over coffee rejected by the board have been based on a disagreement about which party should absorb which costs. NPMB requires that the coffee delivered to its warehouse in Bamenda be appropriately and consistently sorted by grade. Before it will accept a shipment of coffee from NWCA, NPMB runs calibration and moisture content tests and checks for the presence of bad beans. Between 1984/1985 and 1987/1988, NPMB refused to accept 1,715 tons of NWCA's coffee because the coffee failed calibration tests. This meant that the coffee had to be transported back to the union headquarters, re-sorted, and then returned to the marketing board. Much of the rejected coffee was F grade that contained beans so small that they should have passed through the F sorting screen and been sold as triage.

The unions complained that their machinery was too old to sort properly, and, because the marketing board was responsible for providing equipment, NWCA should not be held responsible for sorting errors. NPMB pointed out that the machinery would sort properly if the sorting screens were changed periodically as they should be. In addition, the contents of bags had to be checked regularly each day to ensure that the sorting machinery was operating properly. NWCA contends that, as its financial crisis deepened, NPMB was attempting to fabricate excuses that would permit it to buy only coffee that would earn a high price on the international market.

In 1986, NPMB agreed to order a sorting and conditioning factory to be built in Bamenda to sort all NWCA coffee. This equipment, in addition to the equipment for five new hulling lines, is still crated on the grounds of the NPMB in Bamenda. Its disposition is awaiting resolution of ownership issues in the context of policy changes required in USAID/Cameroon's PRAMS I.

NWCA and Coop/Mut

As the tutelary authority for cooperatives, the Ministry of Agriculture has, on the one hand, supported the expansion of the role of the apex organization to include more participation in general agricultural development in the North West than has occurred in the past few decades. The reorganization of NWCA in 1978 was undertaken, in part, to strengthen it so that it could play a principal role in a new North West Development Project. This project, which was funded largely by foreign donors and administered by the North West Development Authority (MIDENO), had cooperative development as one of its objectives. On the other hand, the Ministry has seen its tutelary role in the affairs of the cooperative grow as a result of the financial management difficulties of the apex and unions, due, in part, to the expansions.

The Ministry has interpreted the recurring financial difficulties of the cooperative as ample justification for the exercise of its authority to closely supervise financial and personnel decision making. In July 1981, the Minister felt obliged to intervene in the face of rapidly mounting indebtedness on the part of the NWCA and its unions as well as widespread reports of mismanagement of funds. The Minister dissolved the NWCA board of directors, fired the manager, and created an interim management authority. He also increased the resources available to the Coop/Mut, the administrative agency carrying responsibility for the development and supervision of cooperatives.

The Ministry's concern for the financial health of the cooperatives has also led it to intervene in the internal structuring of the NWCA cooperative system. At two junctures, in 1973 and in 1986, the Ministry strongly encouraged the amalgamation of primary societies in order to reduce operating costs. These amalgamations would also have the effect of changing the structure of NWCA to more closely resemble the Francophone model of cooperatives as represented by UCCAO. Two hundred fifty-one societies were merged into 100 in 1973. In these cases, the costs of salaries for primary society secretaries were eliminated. However, between 1959 and 1975, the number of unions nearly doubled from 6 to 11. This involved adding salary costs for a staff considerably larger than that of a primary society. These unions were carved out of large existing union areas to provide a union for specific ethnic groups and existing civil administrative units. These additions can be explained, at least in part, as the efforts of political leaders in the province to win favor with constituents.

In 1986, in an effort to forestall a Ministry plan to reduce its three-tier structure to a two-tier structure similar to UCCAO's, NWCA's board of directors voted to reduce the 92 existing primary societies to 40. Although the amalgamation decisions were presumably made on the basis of the viability of the societies (i.e., whether the tonnage they were marketing provided a BBA large enough to pay their staff), the decisions also reflected the interests of board members in protecting societies in their own constituencies.

Due to the nature of the 1986 amalgamations, the roughly 35,000 cooperative members in the North West are not evenly distributed among the 40 primary societies. Society membership varies from 300 to 1,000. Also, not all the persons selling to a primary society are members of the society and not all members grow arabica coffee. Nearly 100 percent of farmer/members of Kom, Nkambe, Oku-Noni, Ndop, Santa, Pinyin, Bali, and Central ACUs grow arabica. Nso ACU's membership is about 90 percent arabica farmers, Mbengwi ACU's is about 60 percent, and Moghamo ACU's is about 50 percent. However, even in the largest primary societies, remnants of the earlier, much smaller societies continue to exist. The persons who sell to the same weighing point or substore are often all members of a former primary society. The distribution of the quantities of coffee sold by each primary society member is roughly bell-shaped, with a slight skew toward larger amounts. This skew reflects the fact that wealthier members serve as middlemen who buy, at a reduced price, the coffee of smaller farmers who need cash for their coffee quicker than the cooperative is able to get it to them.

NWCA and the Ministry of Labor

In an effort to restrict the scope for nepotism in hiring and firing decisions, the Labor Code has established rigid salary schedules based on educational achievement and seniority and provided elaborate procedures and specific grounds for firing employees. The salary schedules have constituted an important rigidity in the cooperatives' operating costs. Since it is so difficult to fire employees, the cooperative, like other employers, has generally been unwilling to employ persons who agree to take a reduced wage for fear they will subsequently begin to press for the wage to which they are legally entitled. In the absence of a specific agreement that would exempt cooperatives from the law, the Ministry of Labor, if approached by an employee of the cooperative, would be obliged to enforce its provisions.

In response to the growing financial difficulties, employees of unions and primary societies have accepted since March a temporary 25 percent reduction in wages. In October 1989, the Ministry of Labor recommended that employers in both the public and private sector that were caught up in the economic crisis reduce salary scales rather than lay off employees. This provided the NWCA an opportunity to reduce some operating costs.

2. The Arabica Marketing Regime for the North West--NWCA's Structure and Its Relationships with NPMB and Coop/Mut

NWCA's Internal Governance Regime

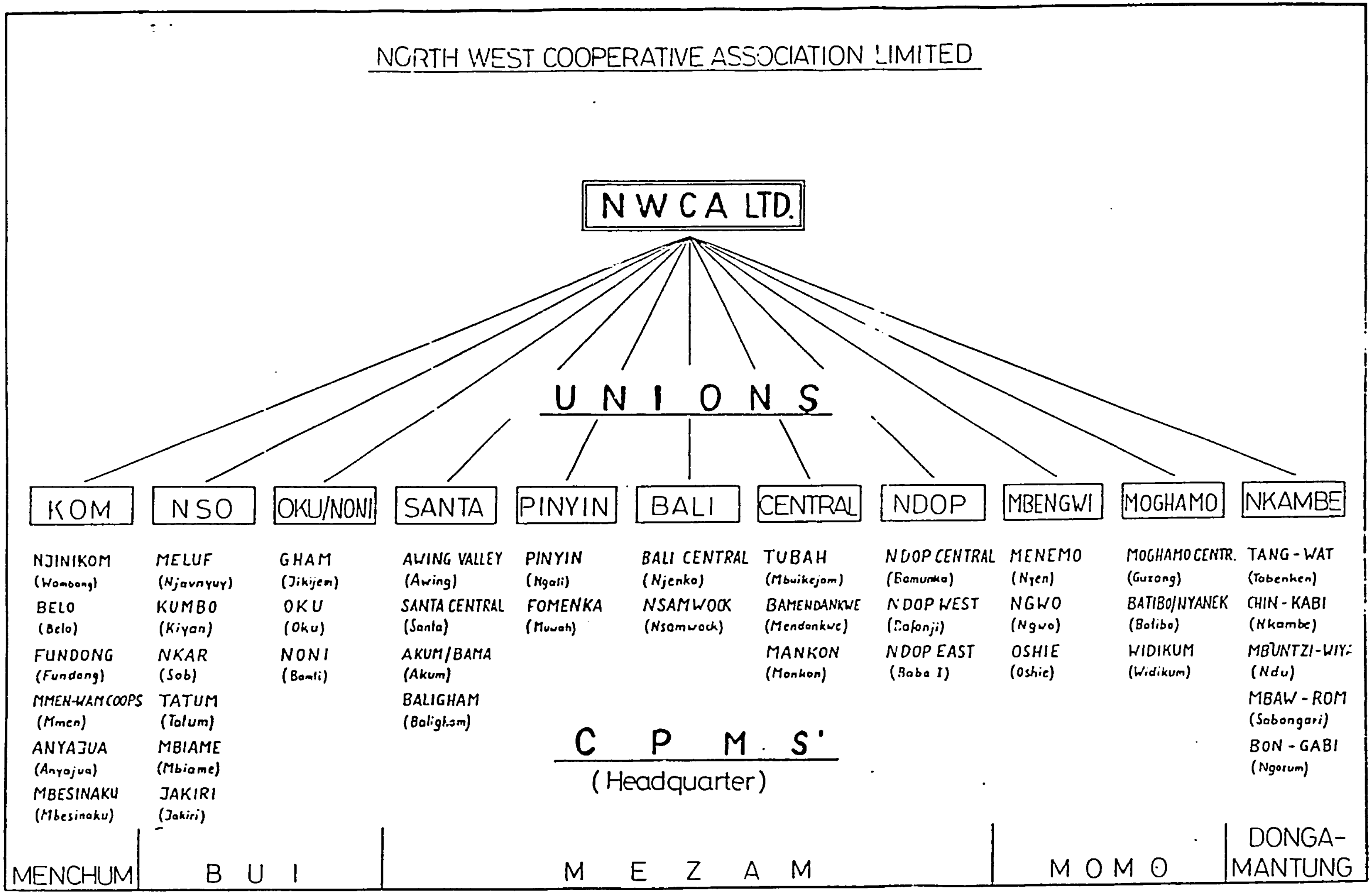
Bylaws for the apex organization, the unions, and the primary societies specify the rules regulating the membership and authority of the general assembly, the board of directors, and the manager at each level. An assembly of members of each primary society chooses its own president and members of its board of directors. It also chooses its delegates to an assembly that selects the president and members of the board of directors of the union to which it is affiliated as well as the delegates that will attend the assembly that chooses the president and members of the board of directors of NWCA. Delegates to the assemblies selecting officers for the union and apex organization are apportioned according to the tonnage produced by each of the constituent units. Normally, the board of directors of the union is composed of the presidents of the primary societies affiliated with the union; the board of directors of NWCA is composed of the men who are presidents of unions (who are also presidents of primary societies). The offices of the president and vice president of NWCA have traditionally gone to the presidents of the two unions with the largest tonnage. Currently, these are the Santa and the Kom area cooperative unions (ACU).

NWCA's current bylaws, which were written as part of the reorganization of the cooperative overseen by the MINAGRI in 1981 and 1982, established the apex organization as an association of unions (see Diagram V.1 and Map V.1). The terms of association make the unions almost captive agents of the apex. As the NWCA is obliged to follow the instructions of the NPMB and Coop/Mut, so member unions are obliged to accept the instructions of the NWCA regarding the marketing of coffee and cocoa, to organize their accounting and administration in accordance with the suggestions of the NWCA, and to undergo inspection by the NWCA at any time concern arises as to how they are carrying out their financial affairs. However, no union may withdraw from the association if its withdrawal would be "prejudicial to the smooth running of the Association--in particular, the withdrawal of the crop contribution which could possibly jeopardize the financial balance of the Association" (Bye Laws of NWCA Section 9a).

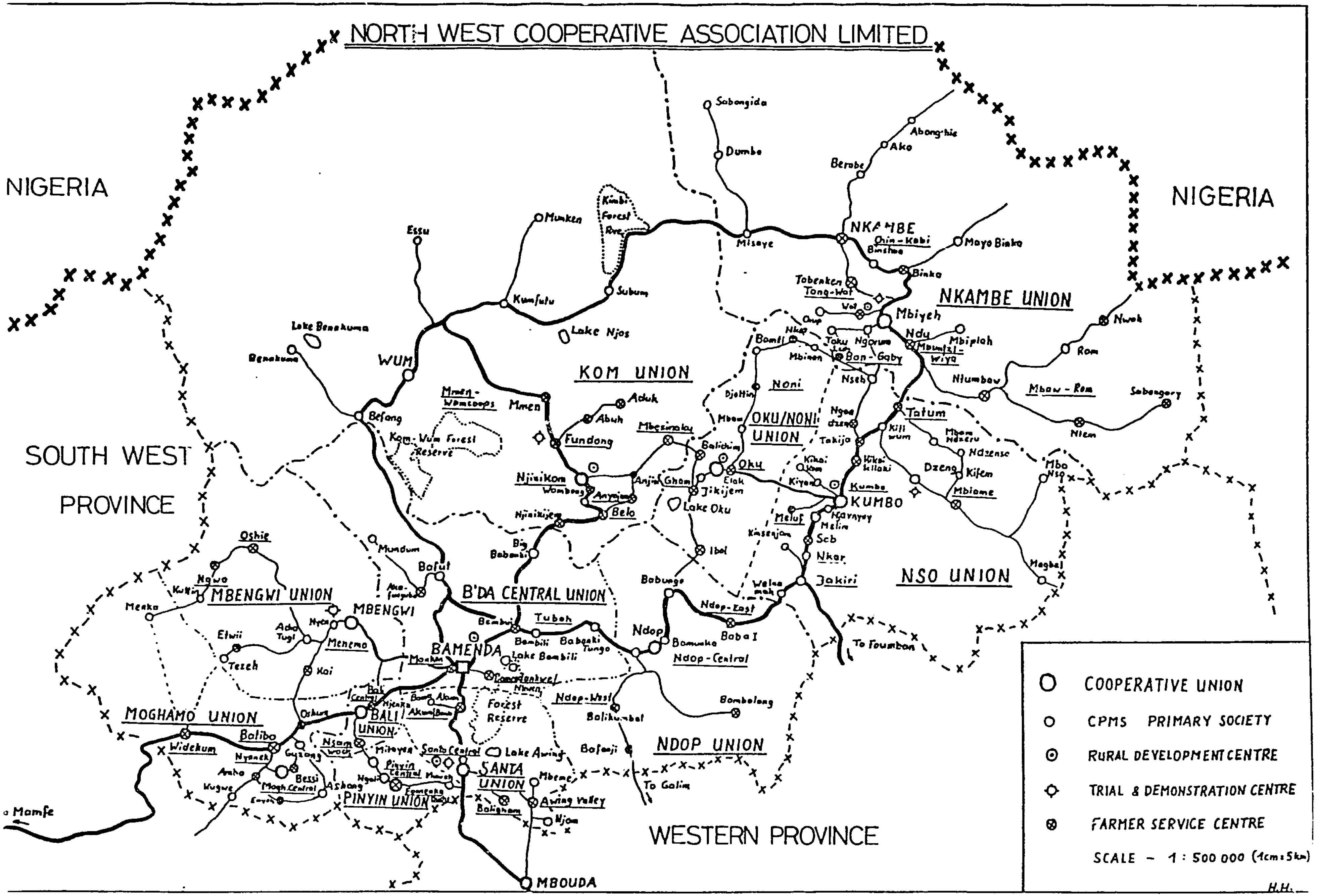
This provision is consistent with a view of the unions as the lower organizational levels of a single firm. It was also necessary in order to permit NWCA to fulfill its obligations as the only licensed buying agent for the NPMB in the North West. Then, as is the case today, all hulling and sorting equipment was located at union headquarters. One or two hulling lines were also located at the seats of primary societies. The withdrawal of a few key unions could have made it difficult for NWCA to collect and process an important proportion of the coffee in the North West.

In contrast, bylaws for primary societies provide for dissolution either on the initiative of the society itself or by order of the supervising ministry (see Bye Laws of Primary Agricultural Cooperatives Sections 64-69). Because primary societies receive prefinancing funds with which to pay farmers for their produce, they are obliged to turn over the produce they accept to a designated union. Members of primary societies must, of course, sell their produce to their own society; nonmembers must sell their produce either to the primary society or the union serving the area in which they farm. Selling produce to other cooperative units is considered smuggling.

Diagram V.1


NORTH WEST COOPERATIVE ASSOCIATION LIMITED
NWCA LTD.
UNIONS
KOM
NSO
OKU/NONI
SANTA
PINYIN
BALI
CENTRAL
NDOP
MBENGWI
MOGHAMO
NKAMBE
NJINIKOM (Wombong)
BELO (Belo)
FUNDONG (Fundong)
MMEN-WAM COOPS (Mmen)
ANYAJUA (Anyajua)
MBESINAKU (Mbesinaku)
MELUF (Njavnyuy)
KUMBO (Kiyan)
NKAR (Sob)
TATUM (Tatum)
MBIAME (Mbiame)
JAKIRI (Jakiri)
GHAM (Jikijem)
OKU (Oku)
NONI (Bamli)
AWING VALLEY (Awing)
SANTA CENTRAL (Santa)
AKUM/BAMA (Akum)
BALIGHAM (Baligham)
PINYIN (Ngali)
FOMENKA (Muwah)
BALI CENTRAL (Njenka)
NSAMWOCK (Nsamwock)
TUBAH (Mbuikejom)
BAMENDANKWE (Mendankwe)
MANKON (Mankon)
NDOP CENTRAL (Bamunka)
NDOP WEST (Bafanji)
NDOP EAST (Baba I)
MENEMO (Nyen)
NGWO (Ngwo)
OSHIE (Oshie)
MOGHAMO CENTR. (Guzang)
BATIBO/NYANEK (Batibo)
WIDIKUM (Widikum)
TANG-WAT (Tabenken)
CHIN-KABI (Nkambe)
MBUNTZI-WIYA (Ndu)
MBAW-ROM (Sabongari)
BON-GABI (Ngarum)
CPMS'
(Headquarter)
MENCHUM
BUI
MEZAM
MOMO
DONGA-MANTUNG

Map V.1


NORTH WEST COOPERATIVE ASSOCIATION LIMITED
NIGERIA
NIGERIA
SOUTH WEST PROVINCE
WESTERN PROVINCE
NKAMBE
NKAMBE UNION
KOM UNION
OKU/NONI UNION
NSO UNION
KUMBO
WUM
MBENGWI UNION
MBENGWI
B'DA CENTRAL UNION
BAMENDA
BALI UNION
MOGHAMO UNION
PINYIN UNION
SANTA UNION
NDOP UNION
MBOUDA
Momfe
To Foumban
To Galim
COOPERATIVE UNION
CPMS PRIMARY SOCIETY
RURAL DEVELOPMENT CENTRE
TRIAL & DEMONSTRATION CENTRE
FARMER SERVICE CENTRE
SCALE - 1 : 500 000 (1cm=5km)
H.H.

There is a strict division of processing and marketing functions between the primary societies, the unions, and the apex society that has dictated the type of equipment acquired by or for each type of cooperative unit. Due to the monopoly status of the NWCA and NPMB in the North West, the question of ownership of the larger equipment has not been of much concern to cooperative members or officers. Bylaws for the apex organization, unions, and primary societies provide for the sale of shares to their membership and for the investment of these funds in capital equipment. The assets of a cooperative unit purchased with the proceeds of the sale of shares would appear to belong unquestionably to that unit. The question of who owns the hulling equipment located at the headquarters of the unions, which was purchased by the NPMB, is moot in the context of the rule mentioned above that makes it very difficult for unions to leave NWCA. It is only in the context of a liberalized marketing regime that the question of ownership of union processing equipment would arise.

The question of who holds what property rights in hulling and sorting equipment is ambiguous, in part, because, over the history of cooperative development in the North West, both an apex organization and the individual unions themselves have served as licensed buying agents for the marketing board. The marketing board would have purchased equipment for the use of its licensed buying agents that were cooperatives. An incomplete table in Appendix 5 shows the date at which some of the equipment, funded by development grants from NPMB and its predecessors, were installed. Unions appear to have unassailable rights to claim about one-third of the equipment listed, which was acquired between 1932 and 1959 and between 1968 and 1978, when the cooperative unions, not an association of unions, functioned as licensed buying agents for the marketing board. In fact, it was not until NPMB agreed to buy a new sorting plant for NWCA that any consideration was given to processing coffee above the union level. At an earlier date, even processing equipment acquired by NPMB for NWCA would have been acquired for the unions' use.

Provisions of the Cooperative Law and the NWCA bylaws give Coop/Mut wide authority to intervene to ensure the smooth operation of the cooperative. Regulations elaborated over time define the procedures NWCA must use in order to secure the Minister's approval for the appointment and dismissal of all managerial and senior staff and the approval of all annual budgets and investments made by all cooperative units. For example, one such regulation that shapes the relationship between the NWCA's internal audit service and the inspectors of Coop/Mut restricts the ability of NWCA to place under "control" financial records of primary societies or unions already controlled by Coop/Mut inspectors until their investigations are complete. In these cases, NWCA must await the outcome of Coop/Mut's investigations of wrongdoing before it can proceed with its own investigations.

Provisions of the Cooperative Law and the NWCA bylaws authorize the MINAGRI, acting through Coop/Mut, to require that NWCA take steps to restructure itself in order to reduce its operating costs. In 1986, the Ministry strongly urged NWCA to reorganize itself as a two-tier organization in order to increase its efficiency. In an effort to avoid such a change, NWCA's board agreed to consider the amalgamation of some of the smaller unions. The board gave four unions three years in which to increase their viability by increasing their tonnage or they would be amalgamated.

Arabica Marketing Regime in the North West

As a buying agent for NPMB, NWCA must adhere strictly to regulations contained in a collection of presidential and ministerial decrees and orders issued by MINDIC in advance of each coffee-marketing campaign. These documents stipulate:

- the date of the opening of each coffee-marketing campaign, which is normally January 1;
- the names of the licensed buying agents for the season (NWCA has been appointed as an agent on a year-by-year basis);
- the levels of producer prices and the bonus for the season;
- the maximum permitted moisture content (12 percent) of coffee accepted for NPMB;
- the grades (A through F and triage) into which hulled coffee is to be sorted prior to acceptance for NPMB; and
- the percentage of coffee assumed to be contained in bags of unhulled coffee beans (80 percent in the case of washed arabica, 52 percent in the case of unwashed arabica).

The NPMB pays its buying agents differential rates for only four categories of arabica coffee based on whether beans that are washed or unwashed are good or bad. Bad beans are beans that were picked too early or too late, are rotten, or have been marred by insect bites. Buying agents must deliver to NPMB bags of coffee that are marked as Grade A, B, C, D, E, F, or triage based on the size of the beans. ONCPB/NPMB then assigns an additional descriptor--Choice-Screened, Extra Prime, Prime, Superior, Average, Marginal, or Triage--based on the number of visible "defects" found in a sample of beans from each bag. Prices paid NPMB by international buyers are calculated on the basis of the 37 possible combinations of grade *and* quality assessments.

Additional rules for accepting and processing coffee at each level of the cooperative have been worked out by the primary societies, unions, and the apex organization over time. These rules have been elaborated in order to protect farmers and ensure that NWCA can meet the requirements specified in the government decrees.

The level of compensation to cooperative units acting as buying agents for specific categories of acceptance, processing, and transportation costs incurred is specified each year by ONCPB/NPMB. At NWCA, the BBAs for cocoa, robusta, and arabica differ as does the way the BBA is divided among the three levels of NWCA. This allowance is supposed to reflect the off-farm value added by each level in the cooperative structure. For each kilogram of coffee that each level accepted, it received the following amounts:

primary societies	12.2 FCFA
unions	89.3
NWCA	30.0
Total BBA	132.0

Over time, NWCA and NPMB have negotiated numerous agreements regarding the level and actual timing of the payment of prefinancing and the BBA to NWCA. However, by mid-December 1989, NPMB was still unable to pay for 60 percent of the coffee sold in 1988/1989. Its total debt to farmers and cooperatives in the North West amounted to FCFA 3.9 billion. The financial collapse of NPMB at the beginning of the coffee-buying season required emergency alternative prefinancing for NWCA. As a result of negotiations between MINDIC, MINAGRI, NPMB, NWCA, USAID/Cameroon, and CCCE in February 1990, it was agreed that FCFA 1,500 million would be made available to NWCA from STABEX funds to finance FCFA 500 million in 1990 coffee purchases and to pay FCFA 1,000 million in arrears. The first FCFA 700 million would be made available in March; the last FCFA 800 million would be available in May. Once key authorities in the Ministry of Planning and Regional Development and the European Development Fund had agreed that STABEX funds should be used for this purpose, the funds were transferred directly to NWCA by the *Caisse Autonom d'Amortissement*, the GRC's disbursing agent. As of mid-June, NWCA had not received the second payment of FCFA 800 million, but had been told to expect it in July.

The financing negotiated at the February meeting did not replace the BBA and so did not provide funds for operating expenses involved in collecting and processing coffee. NWCA would have to secure these funds from NPMB as in the past. The NPMB notified NWCA in February 1990 that the BBA for the 1989/1990 season would be reduced by 20 percent (to FCFA 105.6/ton); then, in late April, they informed NWCA that the supplement that had earlier been allowed NWCA would be suppressed bringing the BBA down to FCFA 63.752/ton. NWCA objected to these reductions estimating that they needed FCFA 176/ton to cover legitimate costs. However, agreement on the amount of the BBA remained unresolved until late May 1990, when the board agreed to allow NWCA 80 percent of the supplemented BBA, which would amount to FCFA 105.6/ton. In the agreement reached in the February meeting, NPMB noted that the BBA would not be provided to NWCA for the collection of the 2,000 tons of its own coffee that it would be permitted to sell abroad this year.

At the February 1990 meeting, a compromise agreement was also reached that established the form that the liberalization of arabica marketing in the North West, already under negotiation among the GRC, USAID/Cameroon, and the World Bank, would take. The agreement authorized NWCA to export abroad 2,000 tons of its own coffee for the first time in the 1989/1990 season. Since it was not licensed to export coffee, NWCA would be required to export through either UCCAO or NPMB. Two sections of the NPMB proposal were not accepted by NWCA: the first specified the precise tonnage of each grade of coffee NWCA would be allowed to market independently and the second required that NWCA sell to NPMB 1,500 tons of coffee for each 1,000 tons it marketed independently. As of mid-June 1990, final agreement on these issues had not yet been reached by NPMB and NWCA.

3. Patterns of Production and Marketing

The 1990 production, processing, buying, and selling of coffee in the North West took place in the context of NWCA's cooperative marketing regime, which had been altered significantly by the financial crisis that has gripped the country, the decline in commodity prices, and early agreements reached by the GRC, USAID/Cameroon, and other donors regarding PRAMS I. NWCA will probably succeed in marketing arabica coffee overseas for the first time this year, but its total 1990 coffee purchases have been dramatically reduced and its financial viability has been severely undermined.

Still holding largely unpaid coffee sales receipts from several marketing seasons, farmers living in different parts of the North West adopted different production and selling strategies this past year. In general, farmers were unwilling to sell coffee unless they could see that they would be paid immediately and in full for it. Informants in the North West estimate that between half and three-quarters of the coffee from areas bordering on the West Province was sold outside the province before funds to buy coffee became available to primary societies in March.

In the area served by the Kom ACU, a mountainous area which is separated from Bamenda by poor roads, the opportunity costs of labor invested in coffee production appear to be relatively low. A large number of farmers appear to have harvested and sold their coffee to the cooperative after it became clear that the cooperative was actually able to pay for all the arabica it accepted this year. However, the amount of coffee received by the union so far this year has been considerably smaller. The amount purchased dropped from 1,624,596 kg in 1988/1989 to 626,760 kg as of mid-June 1990. Farmers in the area indicated that, despite poor roads, they have become more active in growing food crops such as plantains and fruit for sale outside the area.

In the Awing and Ndop areas where farmers have easy access to markets for coffee in the West Province, farmers actively cultivated and harvested coffee, then sold it to agents from the West Province beginning as early as October 1989. For the past few years, farmers have been replanting arabica in Ndop as part of a province-wide replanting scheme funded by the North West Province Rural Development Project. Both men and women in this area cultivate coffee and hold membership in primary societies.

In the lower-lying Moghamo and Mbengwi areas, some farmers have abandoned their arabica trees for the past few years, allowing tall grass to grow up among them. Arabica trees uprooted in recent years have tended to be replaced with robusta trees that do well at this altitude and produce more cherries and require much less labor than arabica trees. In recent years, diversification into food crops sold outside the area appears to have increased. Eucalyptus wood used mostly for fuel is the newest cash crop in the area.

Threatened with losing its authority to export arabica coffee, the NPMB has not been inclined to make it easy for NWCA to collect and market coffee. Delay has been the board's principal strategy. In mid-June, promises made to NWCA by NPMB on April 4 to provide funds for prefinancing and for arrears by April 16 have not been kept. So far, no funds have been made available to NWCA by NPMB for this marketing year. By mid-May, NWCA had used up the FCFA 700 million made available from STABEX funds in March. Of this, FCFA 200 million was used to pay arrears and FCFA 500 million has been used to buy 1989/1990 coffee. As of mid-June, the cooperative was still accepting coffee and awaiting the additional FCFA 800 million from STABEX.

A meeting in late May left several outstanding disagreements about the marketing of arabica this season between NPMB and NWCA unresolved:

- the amount NWCA would be required to market through NPMB in order to be allowed to market 2,000 tons itself;
- whether the 2,000 tons would have to include specific amounts of particular grades of coffee; and
- whether the government would insist on collecting the FCFA 38/kg *prelevement*, the export tax on arabica coffee.

Final agreement was reached on the amount of the BBA to be paid to NWCA for coffee marketed through NPMB. Although NWCA and UCCAO had reached a preliminary agreement in June 1989 that UCCAO would be the exporter for the 2,000 tons, in June 1990, the unions had not yet been told how to label its export bags. Apparently NWCA was delaying the announcement of the identity of the exporter until all the outstanding differences with NPMB were resolved. NWCA officials continue to hope that, once it has its 2,000 tons collected, hulled, and sorted, NPMB will reduce or remove the conditions it has planned to impose on NWCA's authorization to market coffee this season.

NWCA has been principally preoccupied this year with surviving the financial crisis and with collecting and processing the 2,000 tons of arabica coffee it is authorized to market abroad. Failure to successfully market the coffee would strengthen NPMB's argument that the cooperative is not capable of handling international marketing in a way that would preserve the reputation of Cameroon coffee. To ensure that it would actually get 2,000 tons of arabica to export this year, NWCA has paid farmers only for arabica coffee, although both arabica and robusta have been accepted. This policy has generated tensions between robusta and arabica farmers. For example, in Oshie CPMS, which is served by Mbengwi ACU, members of one ethnic group served by the society grow principally arabica and are being paid this year while the members of a second group that markets principally robusta have not been paid for their coffee this year. An NWCA staff member must travel to Oshie periodically to pay arabica farmers directly because the manager and president of the society's board of directors cannot be depended upon to pay only farmers selling arabica coffee.

Transporting and hulling coffee has been especially difficult this season since these activities could not be started until after the beginning of the rains in March. Considerable amounts of extra labor has been needed to dry and re-dry stores of coffee on the farms and at primary society and union warehouses. The rains will continue to worsen already poor roads in many areas. When the heavy rains begin in July, roads into Kom ACU headquarters, where the largest proportion of arabica in the province is processed, will become impassable.

As no BBA has been paid, funds for operating expenses have been very limited. In March, NWCA reached an agreement with union and primary society staff that would temporarily reduce their salaries by 25 percent in an effort to lower operating expenses. The hulling line in Mbengwi ACU was not operating in May due to a lack of petrol to fuel it.

Numerous illegal buyers of arabica coffee have operated in the North West Province beginning as early as October in the area served by the Ndop ACU. Individuals apparently buying coffee for resale to UCCAO cooperatives have paid cash for coffee at a rate that rose from FCFA 5,000 per "bag" (size difficult to determine) in October 1989 to about FCFA 15,000 in mid-May 1990. May prices were augmented by "dashes" consisting of free bags of fertilizer and cement. Coffee taken by North West farmers across the border has been sold in Galim and Mbouda, among other places. Although a decree was issued in February reiterating that NWCA was the only licensed buyer of coffee in the North West, so far, little coffee has been "arrested" (i.e., taken into custody by the gendarmes) as it was being carried out of the province. Apparently most of the coffee has been transported at night when gendarmes do not patrol the roads and/or the gendarmes have been accomplices in the illegal movement of coffee. Smuggling coffee across the border into West Province has a long history in this area, but the quantities involved have undoubtedly risen dramatically in the past several years.

4. Ownership, Commodity, and Financial Flows

The processes whereby the various rights that constitute ownership of coffee change hands, the coffee grown in the North West Province is moved from the fields into the hands of a licensed exporter of arabica, and money is moved from NPMB to the various cooperative organizations and to the farmer are briefly described below. The accounts are adapted where necessary to reflect changes introduced in this marketing season by the negotiations associated with PRAMS 1 and the economic crisis.

The Ownership Flow

NPMB is the only organization authorized to engage in market transactions that transfer arabica coffee grown in the North West Province to domestic or foreign buyers. Since the 1978/1979 coffee-marketing season, the NWCA has been appointed annually as the sole licensed buying agent for NPMB for cocoa and arabica and robusta coffee grown in the North West Province. Each farmer owns his/her coffee until he/she agrees to exchange it for a receipt of acceptance offered by the manager of a primary society at a weighing point. In the course of this transaction, ownership of the right to sell the coffee shifts from the farmer to NPMB, which also acquires, at this point, ownership of the right to the residual profit on the sale of the coffee. NWCA stands in an administrative relationship, not a market relationship, with NPMB; within NWCA, primary societies stand in an administrative relationship to their unions, which stand in an administrative relationship to NWCA. Each of these units acts in turn as a collection agent (some of which also provide processing services) moving coffee accepted from farmers in stages to NPMB, which then sells the coffee. These agents then distribute compensation in stages from NPMB back to the farmer. The BBA compensates these agents for their costs and also provides a small remuneration based on the amount of coffee collected.

However liability for the value of the coffee (as shown on acceptance receipts) received by the primary society, the union, and the NWCA representative at the NPMB warehouse in Bamenda remains with each of these organizations until it secures a receipt of acceptance for the coffee from the next organization in the marketing chain. This requires primary societies and unions to make provisions for watchmen at each of their collection/storage sites. The primary societies, the unions, the NWCA, and the NPMB are responsible for payments equivalent to the receipts they issue for the coffee they have accepted regardless of the subsequent value assigned that particular quantity of coffee by the union, the NWCA, the marketing board, or a foreign buyer. Thus, overgrading by a primary society or careless acceptance methods that do not detect rocks added to the sacks to increase weight requires that the differences between what the union pays and what the society owes farmers be covered with other funds.

The Commodity Flow

Farmers in North West Province are responsible for harvesting and transporting their arabica coffee to the nearest NWCA weighing point. Those who sell washed arabica are responsible for the washing process. Some unions that process little robusta, such as Kom, will not buy unhulled, unwashed arabica. Others, such as Mbengwi, that buy a lot of robusta (which is never washed) in addition to arabica own hulling lines that can be adjusted to hull either washed or unwashed arabica. The weighing point may be located at either the seat of a primary society or the seat of a previous primary society that has been amalgamated with another society, or the compound of a farmer who produces a very large volume of coffee. The weighing point must be located near a storage facility, whether it is a building constructed for a primary society or the home of an individual farmer who has agreed to store coffee for short periods of time. In most cases, the primary society is responsible for moving coffee from storage at weighing points into the warehouse at the society's headquarters. This is done using vehicles owned by private transporters.

Coffee is sometimes transported at the expense of unions. Kom ACU continues to assume the responsibility for transporting coffee from Wum even though the original primary society organized in Wum has been amalgamated with the society at Mmen, and Wum now has only the status of a weighing point or substore. This arrangement reflects the long distances involved and the discontent of local members that surrounded the closing of a primary society located in Wum, which serves as the administrative headquarters of Menchun Division. NWCA itself collected coffee for a year from the Awing CPMS when it was unhappy with its treatment by Santa ACU. NWCA trucks delivered the coffee to the union at Santa for processing.

The unions are responsible for arranging for the transportation of coffee in their own trucks or in those belonging to private transporters from the warehouse of each primary society to the headquarters of the union where it is hulled, sorted, and sacked for export. NWCA is responsible for the costs of transporting coffee in their own trucks or those of private transporters from the union headquarters to the large storehouse operated by NPMB in Bamenda.

Due to the adverse effects of the humid Douala climate on coffee, the NPMB stores its coffee in its Bamenda warehouse until just before it is to be shipped abroad. The coffee is then transported at NPMB's expense to a transitor's storehouse in Douala. A final export grading is carried out by NPMB at the transitor's store just before the coffee is loaded onto a ship to ensure that the coffee in the sacks corresponds to the grade and quality purchased by the buyer.

The Financial Flow--Financing for Coffee Acceptances

Despite repeated agreements about how and when money to compensate farmers for coffee would flow from NPMB to the cooperative and the farmers, these flows have always been subject to uncertainty and irregularity. In the past few years, money flows have been highly erratic due to the deepening economic crisis. According to the agreement reached between NWCA and NPMB in 1986, just prior to the onset of NPMB's financial difficulties, two prefinancing advances would be made available to NWCA in November and December. These advances would provide funding to buy, at the rate-per-ton fixed for the current season, 60 percent of the tonnage collected by NWCA in the previous year. From February onward, the cooperative would receive advances weekly according to the amount of produce they had accepted from farmers in that week. The size of these additional advances would be negotiated by the manager of NPMB's Bamenda branch and the manager of NWCA.

Due to its financial situation, NPMB was unable to make prefinancing available to NWCA for the 1989/1990 season. Instead, financing for coffee acceptances by NWCA was provided from STABEX funds as the result of pressure from USAID/Cameroon and other donors.

The flow of funds to farmers is initiated when farmers are issued receipts for coffee accepted at primary society weighing points by society managers. At the end of each week, society managers report the level of their coffee acceptances to their union manager, who travels to Bamenda to report these acceptances to NWCA and receives funds in the form of a bank check from NWCA to cover these acceptances. In most cases, the union managers cash these checks before leaving Bamenda and return with cash to their union headquarters. Society managers are then given cash with which to pay for their acceptances for the previous week. When they were offered, the "bonus" paid cooperative members based on tonnage sold was set by ONCPB/NPMB along with the producer prices at the beginning of the coffee-marketing season. The bonus, which was supposed to reflect the profit from the previous year's sale of coffee, was paid about halfway through the coffee production year.

The Financial Flow--Block Buying Allowance

The BBA paid by NPMB to NWCA was raised to FCFA 132/kg for the 1982/1983 coffee season and remained at that level through 1988/1989. This allowance provides virtually all of the operating expenses of the societies, unions, and the apex organization. When a NPMB employee accepts coffee brought into the NPMB warehouse in Bamenda, a store receipt voucher is issued that records the weight of the coffee, the value of the coffee based on the prices set for each type and grade of coffee that marketing season, and the amount of the BBA due to NWCA for the tonnage of coffee delivered. The store receipt vouchers were originally intended to be used as the basis for negotiations between NWCA and NPMB regarding further advances of funds for purchases after the initial advance had been used up. As ONCPB/NPMB's financial crisis deepened, NPMB had money for neither advances nor the BBA. Fabricating excuses for refusing coffee brought in by the unions was one way of reducing its BBA obligations.

Once BBA funds are received by NWCA, the sum is allocated to the three levels of the organization based on the tonnage they have accepted. For each kilogram of coffee that is collected for NPMB, NWCA keeps FCFA 30.5 for itself, passes through to the union FCFA 89.3, and gives FCFA 12.2 to the primary society that assisted in the collection of that coffee. BBA funds made available to NWCA are transferred to the union managers via a check on the NWCA bank account. The manager then distributes cash to the society managers served by their union.

The NPMB currently owes the NWCA for unpaid store receipt vouchers that include the BBA and the value of coffee received that date from the 1984/1985 marketing season. As noted in the previous section, NWCA did not have a final decision from NPMB about its BBA for this marketing season until the end of May. At that time, the rate was fixed at 80 percent of FCFA 132/kg or FCFA 105.6/kg. The 20 percent reduction was justified by reference to the Minister of Labor's suggestion that wages be reduced by 20 percent during the economic crisis. As of mid-June, NWCA had received no BBA, and available operating funds were reaching very low levels. During the 1989/1990 marketing season, NWCA has been using funds from a variety of sources to cover operating expenses. These include rent earned on buildings owned by NWCA in Bamenda, payments by farmers for fertilizer financed by a revolving fund provided by the European Development Fund and a bank loan, and reserve funds.

5. The Welfare Outcomes of Marketing Arabica Coffee

Income of Farmers Growing Arabica

Rural income in the North West has been declining for several years, reflecting reductions in transfers due to rising urban unemployment, lower commodity prices, and public sector debts due to farmers. Since March 1990, NWCA has been able to pay quickly for the arabica coffee it has accepted from farmers.

Once it is released, the second tranche of STABEX funds will be sufficient to pay for what arabica grown in 1989 still remains in the province. However, after funds from the second tranche are paid out, only FCFA 1 billion of the FCFA 3.9 billion in arrears owed to NWCA members by NPMB will have been paid (see Appendix 6). Most cooperative members are smallholder coffee farmers who intercrop their coffee with food crops. This production strategy, which partially explains relatively low coffee yields in the province (Wyeth 1990), has proven, however, to be an effective hedge against the uncertainty of coffee growing. Food crop production, some of which is sold, has prevented the complete collapse of rural incomes.

Arabica Production Levels

Levels of arabica coffee production in the North West (actually these figures represent the amounts of arabica coffee *accepted* by NWCA) have been dropping for the past 10 years from a high of 10,631 tons in 1979 to 2,372 tons as of mid-June 1989 (see Appendices 7a and 7b). Explanations of this phenomena vary, but part of the answer lies in the development of alternative cash crops in the province. The completion in 1983 and 1985 of the tarred roads linking Bamenda (via Bafoussam) with Douala and Yaounde, respectively, dramatically reduced transport costs for vegetable crops marketed in these two major population centers. The gap between the consumer price index and the producer price of coffee has steadily widened since the early 1970s (see Appendix 8). This gap has made coffee a less attractive cash crop than those food crops for which prices have risen along with the index.

It is difficult to determine exactly how much coffee was harvested in the North West this past year and how much was simply left on the trees. Estimates by NWCA of the amount of coffee smuggled to the West are simply estimates (see Appendix 9). Unions facing the threat of amalgamation all argue that production in their area has not declined, but that smuggling has increased--an argument that serves their interests in being given more time to prove their viability. Some other union managers argue that there is a cycle of coffee production and that coffee trees in general just did not bear very well this year--they predict a bumper coffee crop in 1990/1991. Larger farmers who have not been paid have had little cash with which to hire labor for their coffee farms. The amount of coffee harvested by residents of the province undoubtedly declined significantly this year. Since trees in the province are generally fairly old, the uprooting of trees that has occurred in some areas may not represent a great loss to coffee production levels.

Of greater concern in this regard is the diversification of cash crops that has gradually taken place over the past 10 years in the North West and the trend toward replacing arabica with robusta trees in response to the peculiar pricing signals generated by the ONCPB/NPMB in the past. For example, in the 1988/1989 season, a farmer lost only 7 percent of the price for good arabica beans if he/she chose to grow and sell first-quality robusta (or sell arabica unwashed) instead of washed arabica (see Table V.1 below). A farmer could easily offset this loss with the reduced labor costs and increased output levels associated with robusta production. The price schedule for the 1989/1990 campaign raises the farmer's cost of making this switch and more accurately reflects the demands of the international coffee market.

Table V.1
Producer Prices for 1988/1989 and 1989/1990 and
Percentage Reduction from Price for Highest-Value Coffee
for Each Season for Categories of Washed and Unwashed Arabicas

Type of Coffee	Years and Percentage Reduction			
Arabica	1988/89	Reduction	1989/90	Reduction
Washed-good	475*	0%	250	0%
Unwashed-good	440	-7%	220	-12%
Washed-bad	105	-78%	60	-76%
Unwashed-bad	85	-82%	45	-82%
Robusta				
Superior & Average	440	-7%	175	-30%
Marginal	420	-12%	155	-38%
Bad	85	-82%	45	-82%

* Prices in FCFA per kilogram

Marketing Effectiveness

In mid-June, NWCA had just barely collected and processed sufficient coffee to make up the 2,000 tons the cooperative is allowed to market this season. The considerable difficulties NWCA has encountered in accomplishing this derive largely from the fact that the cooperative did not have prefinancing of any magnitude before the end of March. An offer from Bernhard Rothfos, a large German coffee buyer, has been made for the 2,000 tons NWCA is authorized to market this year (see Appendix 10). In addition to an offer to buy all of North West's coffee in the future, the firm has also offered to send personnel to the North West to assist the cooperative in improving the quality of its coffee, operating the new sorting and conditioning plant now sitting in a crate on the grounds of the NPMB in Bamenda, and improving its international marketing capabilities. This same firm had a similar arrangement with UCCAO some years ago.

NWCA's General Manager doubts that they will have more than 500 tons to market through NPMB. He hopes that NPMB will ultimately abandon its demand that NWCA must market 1,500 tons of coffee through NPMB for each 1,000 tons it sells itself.

Quality of Arabica

A Rothfos representative has told NWCA that their current offer for North West arabica is about FF 30 to 40 (FCFA 1,500 to 2,000) per 100 kilograms lower for each grade than the prices at which they are currently buying UCCAO arabica (telephone conversation). This is because they have found that unwashed arabica is often mixed into bags of washed arabica produced in the North West adversely affecting the taste of the coffee. This has been an effort of either the unions or the NPMB to increase the value they receive for their coffee. A World Bank commodity specialist also indicates that Cameroon arabicas in general fetch from US$.05-.08/lb (FCFA 30-50/kg) lower than typical Central America arabicas due to the presence of over-fermented beans and stinkers (see Appendix 2). This assessment suggests that the way North West arabica is currently being washed (i.e., processed through pulping, fermentation, washing, drying) is inconsistent with the production of high-quality coffee and that insufficient care is being given to picking out bad beans. The Rothfos representative has said, on the other hand, that some areas in the North West have the potential to produce the very highest-quality arabica coffee.

NWCA was pleasantly surprised to find that 90 percent of the arabica it has bought this year was sold as washed, rather than unwashed, arabica. In light of the international buyer's contention (which the consultants were not able to investigate) that washed and unwashed arabicas from the North West are sometimes mixed, some caution must be used in evaluating this report. The proportion of washed to unwashed coffee sold to NWCA also does not necessarily reflect the proportions of the total crop marketed by North West farmers this year. Apparently few, if any, price differentials for different types of coffee were paid by illegal coffee buyers from West Province.

Efficiency

NWCA's operation deficiencies derive from rigidities within their own structure as well as from requirements imposed by outside authorities. Although NWCA's efforts have all been directed this year toward getting its 2,000-ton limit ready for market as quickly as possible, a large amount of coffee still sits at the Kom ACU awaiting processing as the rains erode the already poor roads between the union and Bamenda. One of the hulling lines at this union, which provides the largest volume of coffee in the province, is inoperable awaiting the importation of spare parts. Although the other two lines are being operated 16 hours a day, the union has not been able to process coffee as quickly as it has been accepted in recent months. Unhulled stock sits in the Kom ACU when hulling lines at unions in Mezam Division near Bamenda that have collected little coffee this year remain underutilized.

Inefficiencies also currently result from using administrative boundaries to define the territories assigned to some unions. The jurisdictions of the Moghamo and Mbengwi ACUs are defined by subdivision boundaries. As a result, the Moghamo ACU must transport coffee bought inside its territory at Menka, a long distance along the only passable road into Menka past the Mbengwi ACU hulling facility and then south to its own hulling factory at Batibo.

In late May, the Kom ACU and its associated primary societies were experiencing severe difficulties shared by other unions whose territories include areas in which relatively small amounts of coffee are being grown. Relatively little coffee is ever produced in the sparsely populated region northwest of Mmen, and by mid-May, travel over the poor roads in this area becomes difficult. Evacuating coffee from weighing points in these areas had become impossible for Mmen-Wum CPMS because local transporters would not accept the 20 percent reduction in the transport rate required by the reduction in the BBA. The Kom ACU finds it extremely expensive to travel to both Mmen-Wum CPMS and Mbesinaku CPMS to collect coffee relative to the amounts of coffee collected and is pressing these two societies to amalgamate with two others located closer to the headquarters of the union.

Inefficiencies also result from the lengthy periods NWCA must wait for Ministry approval for all investments--even small investments in inexpensive office equipment. Approval of annual budgets submitted in January has sometimes been delayed as late as the following January, at which point, it is time to present the next budget. In these cases, if changes are required by the Ministry, considerable time and effort is needed to juggle expenditures already made in the course of the year to make final balance sheets reflect the changes required by the Ministry.

The application of the Labor Code to the operations of cooperatives has kept the operation costs in the past year above the level justified by the international market value of the commodities being collected and processed by the cooperative. The application of the code to cooperatives injects rigidities into their operations that make it difficult for them to adjust to changing market conditions from year to year without a special pronouncement from the Minister that relaxes the application of the Code.

There are signs that some members and employees of the cooperative have thoroughly insulated their thinking about operating costs from the national economic crisis and commodity price declines that have profoundly altered their situations. The fact that some societies are still paying their own members to store coffee in their compounds at a rate established years ago indicates that they are insensitive to the implications of falling commodity prices. The fact that employees' wages were not reduced until March of this year, even though substantial arrears to farmers are owed from 1984/1985 and before, seems to indicate that some members and employees of the cooperative view it principally as an agency intended to provide employment opportunities in the province rather than an organization created to serve the needs of cocoa and coffee growers. Despite the financial crisis, no employee of any of the cooperative units has failed to receive his or her pay check, although, in this past buying season, checks have been delayed.

However, due to the severe shortages of operating funds this year, some of the constituent units of NWCA have adopted measures to reduce costs. NWCA has taken advantage of the Minister of Labor's willingness to allow negotiated wage reductions. Since March 1990, the staff of the unions and primary societies have accepted 75 percent of the wages due them. Employees at the Kom ACU reported that they consider this wage reduction only a temporary measure to cope with the present crisis and would be unhappy if these salary levels were to be made permanent. NWCA officers said that they were contemplating similar wage reductions for NWCA staff. In addition, some primary societies are paying only token amounts to members for the use of their compounds as substores and for their services as temporary watchmen for these stores of coffee due to the shortage of operating funds this year. Bali CPMS decided that this year there would be no remuneration for members of the board of directors attending board meetings and no society funds used for refreshments. Instead, farmer members of the society supplied food for the occasion from their own family storehouses.

Accountability

The changes that have taken place in the character of the North West cooperatives as the influence on cooperative affairs of the NPMB and the MINAGRI have increased have reduced rather than strengthened the NWCA officials' accountability to its membership. The primary societies have become the agents rather than the principal in relation to the unions and the apex organization. The smuggling activity taking place in this current coffee-marketing campaign indicates that, in a competitive environment, an unresponsive cooperative structure will not retain the allegiance of its membership.

NWCA's internal auditing staff readily admit that financial mismanagement by managers and bookkeepers at the union and primary society level continues to be a problem. They regret that the current auditing arrangements do not provide the quick and certain punishment of offenders that would help to discourage this type of behavior. Procedures that permit Coop/Mut to exclude NWCA auditors from access to controlled financial records until the end of Ministry investigations can mean that investigations are lengthy. This also means that persons under investigation are usually transferred to another post where they may continue to mismanage funds. NWCA has a reputation among the unions and primary societies for reacting quickly to reports of financial mismanagement. Ultimately, however, the course of action recommended as a result of NWCA's own investigations must be acceptable to the Ministry.

NWCA staff appear to differ considerably with Coop/Mut officials in their preferences regarding the treatment of persons shown to have stolen cooperative funds. The preference of the NWCA auditor is to fire persons who have been shown to have deliberately mismanaged funds (as opposed to having "lost" funds or stocks due to unintended bookkeeping errors). Coop/Mut officers prefer to keep wrongdoers at work in a position in the cooperative system as long as they express regret for their past actions and agree to pay back the money they have stolen. The implementing decrees for the Cooperative Law require that disputes be arbitrated in the hope of reaching a settlement before any legal action is taken. However, the Criminal Law Code applies to the operations of cooperatives, and the courts have jurisdiction in cases in which clear evidence exists of intent to embezzle funds. However, settling cases in court reduces the discretionary authority of local Coop/Mut officials whose recommendations are apparently sometimes influenced by the outcome of negotiations with the accused for illegal sidepayments. The NWCA board of directors and the MINAGRI are currently arguing about what action should be taken against a union manager who has stolen money from two different unions. The NWCA prefers to "fire" him for cause; the Ministry has asked that he be "terminated" so as to not prejudice his future employment elsewhere.

This particular manager was transferred from the Mbengwi ACU while his case was being reviewed by Coop/Mut and NWCA. Financial mismanagement appears to have been a persistent problem in this union. Persons interviewed in the Mbengwi area argued that if one of their own people were appointed manager, he "would not dare to treat his own people the way the managers from other areas have treated them." It is not entirely clear whether NWCA has necessarily decreased the temptations of union managers to mismanage funds by posting them outside their own home areas and by insisting on their being NWCA rather than union employees.

Most Coop/Mut field staff are devoted to assisting union staff in reviewing the books of the primary societies. Therefore, managers at the primary society level are particularly vulnerable to efforts on the part of Coop/Mut and others to secure illegal loans from cooperative funds. The threat held over managers who refuse loan requests by Coop/Mut inspectors is a negative audit report. Even if accusations cannot ultimately be substantiated, reports by Coop/Mut officials suggesting that a manager's books are not in order can unleash investigations that cause the manager a great deal of trouble and concern. Cooperative members are allowed to examine the records of the cooperative at any time, but they apparently do this very rarely, since such a request alone suggests that there has been wrongdoing--a suggestion officers and employees understandably do not like.

Persons associated with NWCA who are currently promoting the amalgamation of unions and primary societies seem convinced that ethnic group parochialism and pride are behind much of the resistance to amalgamation. Although they are careful not to offend cooperative officers by emphasizing it, members of these unions believe amalgamation may decrease the accountability of society or union employees. The easier it is for members to observe the operations of their society or union, the easier it is to detect abuses of authority. The preferences of any one member are more likely to be reflected in the policies of a smaller organization than in those of a larger one. Strong resistance was expressed in the Bali, Mbengwi, and Ndop ACUs to the prospects of amalgamation with other unions. In the case of the Bali and Ndop ACUs, amalgamation would combine two quite distinctly different ethnic groups with a third in the present Bamenda Central ACU. The other two amalgamations would merge the Mbengwi with the Moghamo ACU and the Pinyin with the Santa ACU.

Members of both the Bali and the Ndop ACUs admit to a sense of ethnic solidarity that they contend can work to the benefit of the cooperative. They claim that tonnage in their areas was much higher when each village society was competing against the others for the highest tonnage. Two amalgamations of primary societies carried out in 1986 in the Ndop area combined societies whose members did not get along well. Because the financial difficulties of NPMB began immediately after this, it is difficult to know exactly how much effect these amalgamations had on the substantial declines in tonnage in the Ndop area and how much was due to the fact that NWCA could not pay farmers. One of the societies amalgamated to form Ndop East had sold no coffee at all to the society so far this year reportedly because of this continuing friction. Union board members in both Bali and Ndop expressed a willingness to reduce costs in order to keep their own union and favored the reorganization of primary societies to reverse some of the amalgamations. Both the President and Vice President of NWCA agreed that decisions regarding amalgamations must be taken by unions themselves in light of their costs.

The NWCA and each union and primary society is governed by a board of directors elected by a general assembly in the Northern European and North American tradition. The traditional leaders of the North West Province, known as *fons*, virtually never serve as elected officers of cooperative units, but the members of the board of directors of each level of NWCA are often prominent, wealthier members of their communities. They are expected to represent local interests at the union and apex level of the organization. It is likely that farmers perceive these men as more capable of protecting local interests because they are powerful.

Among the elected cooperative officials, it appears that only presidents and treasurers, who oversee the use of money by managers, are involved in misuse of funds. This year treasurers are apparently occasionally offered gifts in exchange for the payment of a higher percentage of arrears owed them than the individual concerned would be otherwise entitled to. The consultants' brief field visits did not provide sufficient opportunity to determine whether elected officers known to misuse their office are nevertheless reelected due to their prominent economic or political positions in their communities.

Although wealthier members of a community may be a forceful advocate of local preferences, they are also undoubtedly more difficult for local people to control. Farmers find it easier to criticize employees of the societies and unions. In general assembly meetings, farmers apparently do not hesitate to criticize the behavior of weighing agents that are hired by the societies and unions. These agents are hired for each marketing season from the areas in which they will be weighing coffee.

Conclusions

Analyses quoted earlier in this report point out that farmers now growing coffee in the West and North West must be costing labor at a very low value if they are to be considered rational men. If the market price were to fall further, it would be unlikely that arabica coffee would continue to serve as a viable cash crop in Cameroon. If market prices were to rise, or if the value of Cameroon coffee were to increase due to quality improvements, there would seem to be a future for arabica production in Cameroon. The international market price for coffee is beyond the control of NWCA members, but the quality of the coffee grown in the

North West is not. International marketing experts contacted agreed that, given current knowledge and technology, farmers in the North West could substantially improve the quality of the arabica coffee they grow. However, existing means of compensating farmers for their coffee do not provide sufficient incentives for them to improve the quality of their "good" beans.

Supplying those incentives will require an institutional reform of NWCA. Fortunately, persons associated with the current substores, primary societies, and unions in the NWCA system have a history of joint activity that can provide the base for the construction of a more productive cooperative marketing organization. The NWCA was originally built up from a broad base of independent village primary societies that joined together to create the current unions. These unions competed effectively with experienced private traders until 1968. Pride in this past and continued loyalty to the cooperative and to the North West is evident in the need farmers evidenced, without any prompting, to justify their decision to sell coffee to the West. They said they knew they were "hurting the North West" in doing so, but they needed money desperately to pay for school fees and hospital care. The cooperative also has an impressive cadre of well-educated employees with which to work.

VI. AN INSTITUTIONAL ANALYSIS OF ARABICA COFFEE LIBERALIZATION

Although PRAMS is focused on export marketing in the coffee and cocoa sectors (with initial emphasis on the arabica coffee subsector, particularly in North West Province), marketing reform requires close attention to production problems. The design of marketing institutions affects the economic incentives faced by producers, including both farmers and processors, and thus affects the productivity of the sector. Marketing arrangements link producers to the world market through a series of transactions. How well this linkage works determines whether producers receive appropriate market signals. In endogenous terms, it is the productivity of the coffee sector that will determine the success or failure of marketing reform, although exogenous factors (such as a much needed devaluation of the FCFA) will also exert a powerful influence on the outcome of the reform. Productivity, here, refers both to quantity and quality. Coffee prices on the world market increasingly reflect consumers' sensitivity to quality differences. Development of the coffee sector in Cameroon depends on quality improvements guided by world market signals.

A. Operational Analysis

The outcomes of PRAMS I depend on the net value of the arabica coffee crop produced and the distribution of that aggregate value among the various persons and organizations involved in the production and marketing of the milder-tasting, washed arabica coffee. The six stages of washed arabica coffee production and eight functions associated with marketing are shown in Table VI.1. Presently, the procedures whereby coffee is accepted from the grower, the price paid to the grower, as well as the margins that licensed buying agents for ONCPB can pay each participant in the production/marketing chain is determined annually by presidential and ministerial decrees published by MINDIC. The series of transactions in operation for the NWCA and UCCAO prior to PRAMS I involve diverse participants performing production and marketing functions as indicated in Figure VI.1.

Table VI.1
Stages of Arabica Coffee Production

1) Growing
2) Harvesting
3) Washing (includes pulping, fermenting, washing, drying)
4) Hulling
5) Sorting
6) Picking out bad beans

Arabica Coffee Marketing Functions
(Subject to presidential and ministerial decrees that set producer prices and margins for buying agents)

a) Accepting (includes weighing, estimating quality of beans, bagging, paying person or organization from whom coffee is accepted)
b) Local transporting and storing (multi-stage)
c) Locating buyers on international market
d) Evaluating price offer, negotiating
e) Certifying quality
f) Transporting to port
g) Storing at port
h) International shipping

Figure VI.1
The Commodity Flow

NWCA:

Farmer	Primary Societies	Union	NWCA	NPMB	Private Firms
1	a	4	b	a	f
2	b	5		c	g
3		6		d	h
		a		e	
		b		f	

UCCAO:

Farmer	Center	(Section)	Coop	UCCAO	Private Firms
1	a		4	5	g
2			5	b	h
3			6	c	
			a	d	
			b	e	
			f	f	

Although the immediate, short-term difficulty in the coffee sector is the insolvency of the marketing system, the long-term problem is the maintenance and improvement of the quality of Cameroonian coffee, plus sound business management in both production and marketing. Under present policy, farmers who choose to market washed arabica coffee are paid a price that discriminates only between good beans and bad beans. Also under present production arrangements, washing is performed largely by household labor at the farm site. Incentives to the farmer to improve quality are slight. The returns from individual efforts to improve quality would, in this system, be shared with all other arabica farmers, assuming that farmers are allowed to benefit at all. Therefore, an individual farmer has little incentive to improve quality. In the past, price incentives have almost certainly played a large role in farmers' decisions to grow less arabica coffee and more food and other cash crops in the North West Province (Wyeth 1990a, 1990b).

In order to modify these incentives, changes must be introduced at the operational level that will adjust the price paid to the farmer according to the quality of the coffee presented for sale, and also reward processors at subsequent stages of production according to value added. The ultimate value of the produce is determined by the price paid in the world market. Therefore, the price paid to farmers and compensation paid to others ought to reflect the world market price. However, smallholders do not produce in sufficient quantity to be able to track their particular output to the point of sale on the world market.

Quality incentives need to affect those stages of production that are the most critical in adding value to the final product. The most critical stages of production for washed arabica coffee are growing, harvesting, and washing. By contrast, hulling is a relatively routine operation where there is little opportunity to increase coffee quality through improved technology. At present, smallholders are performing all three of the critical operations. Although smallholders can be expected to improve their growing and harvesting practices, given proper incentives, they are less likely to be able to improve the quality of pulping, washing, and drying arabica beans. Substantial improvement in these processes is likely to require a larger scale of operation, bigger than a single smallholder can sustain. At the same time, harvesting and subsequent pulping, washing, and drying require close coordination. Too much time must not be allowed to elapse between harvesting and washing, suggesting that the two operations must be performed on a coordinated schedule. Given transportation constraints in both the West and North West Provinces, timely pulping also would seem to require that washing facilities be located near farmers.

B. Market/Industry Structure

To determine what sort of market/industry structure is most likely to generate appropriate producer incentives, four configurations of private and cooperative organization are considered below. The existence of smallholders is assumed throughout, and therefore, vertical integration that would turn smallholders into wage or contract laborers is not considered.

Alternative 1: Market Transactions between Smallholders and Private Traders

This is the arrangement that would exist in the short term if the existing cooperatives were to collapse. The current series of administrative transactions that link the farmer with the apex organization of the cooperatives and ultimately, in the North West, with the marketing board, would be replaced by a series of market transactions. At each point of transaction, sellers would choose a buyer, and ownership of the commodity would be transferred from seller to buyer. The initial buyer is assumed to be a private trader who either sells to a processor or is employed by a processor.

Market Transactions:

Farmer	Trader	(Processor)	Exporter
1	a	4	c
2	b	5	d
3		6	e
			f
			g
			h

Farmers would continue to wash their coffee and sell to private traders, who sell to local processors, who sell to exporters. Local processing and exporting might or might not become vertically integrated. Farmers, under this arrangement, would be two or three steps removed from the world market by a series of market transactions. The degree to which these market transactions would communicate world market signals to the farmer is problematic. Private traders who do no more than buy washed coffee from smallholders cannot be expected to make fine quality distinctions, unless they are dealing with a processor or an exporter who does make those distinctions. Even then, making such distinctions would be costly for a trader who has not established long-term relationships with particular farmers, with only an uncertain payoff.

Private traders are apt to be interested in buying the farmer's current crop at the lowest possible price, but have little or no interest in paying a farmer well in order to encourage future quality improvements. Unless farmers have knowledge of alternative prices for various quality beans, they would operate in the market at a disadvantage. Highly competitive conditions, both among traders and private exporters, would be required for world market signals to be accurately reflected in prices paid to farmers. Moreover, if private traders did not take on the washing operation, their entrepreneurship would add little to the value of the final product.

Alternative 2: Market Transactions With Private Arabica Washing Firms

The best opportunity for private entrepreneurs to enter in a liberalized marketing context is at the first processing stage--buying cherry, then pulping, washing, and drying it. Private entrepreneurship would then add value, and entrepreneurs would reap a proportionate benefit, provided the prices are right. However, coordination would require a close working relationship between washing stations and farmers that goes beyond simple buying and selling. At the same time, scale economy considerations might limit the number of washing operations that could operate in close proximity to a given group of farmers. Both factors would tend to limit competition. In the absence of competition, farmers could face a local coffee market that might be easily rigged against them. A farmer's only alternative would be to continue his own washing and sell to ordinary private traders (or a cooperative as at present).

Alternative 3: A Cooperative Structure

Instead of a market structure, farmers can be linked to the world market by a cooperative structure. In place of a series of market transactions, there would be a series of administrative transactions-- governed, however, from the bottom-up rather than from the top-down as at present. Such a structure could be set up in such a way that small-scale cooperative organizations would receive clear signals from the world market, as well as benefit from investments in quality improvement. Within this structure, one important possibility is that small-scale cooperative organizations might take on the initial processing function. Since cooperative societies already exist, this seems to be an option that would minimize start-up costs. Given the requirement of close coordination between farmers and washers, relatively small washing stations serving groups of neighboring farmers would be likely to be optimal. Even in the North West Province, where primary societies continue to exist independent of cooperative unions, this would probably mean washing at a scale smaller than most primary societies, which have an average membership estimated at 850 to 900 farmers. In West Province, the existing affiliate cooperatives of UCCAO, which range in membership from 3,150 to 28,000 would clearly have to set up washing stations for subunits.

Cooperative Transactions:

Farmer	Primary Society	Union	NWCA	Private Firms
1	3	4	c	f
2	set price	5	d	g
	a	6	e	h
	b			

Alternative 4: Mixed Arrangement

A mixture of market-based and cooperative-based transactions is not only conceivable, but likely to develop if market relationships are not institutionally foreclosed. Such an arrangement exists now in Cameroon in areas outside the North West. Private traders and private processors might be able to function alongside coop buyers and coop washing stations. Private firms and coops would then compete against one another. However, ordinary private traders would be unlikely to be able to compete with a washing station (whether coop or private), once farmers have stopped washing coffee. Private traders would be limited then to buying unwashed arabica. As long as a farmer could get a better bargain (price or price plus dividend) from a processor, it is unlikely he/she would be interested in selling his/her produce as unwashed arabica, which should always fetch a lower price than washed arabica. Ordinary private traders would be effectively limited to robusta. A well-managed coop washing station that pays dividends to farmers should be able to compete on favorable terms with a private, profit-making washing firm. However, it is possible in the short term that private traders might be in a position to offer farmers a better price up-front. A private entrepreneur also might be able to enter in an area where the coop has not been successful for reasons of mismanagement. By treating farmers well and establishing regular, long-term relationships, he might forestall the organization of a coop and ensure the survival of his enterprise. However, in general, effective cooperative organization should be expected to obtain a major share of the market over the long-term as it did in the early days of cooperative development in the North West.

The question now is whether NWCA can be reconstituted to function as an association of cooperatives that operate at an effective scale of organization. In recent years, primary societies have been amalgamated to the point that many have in excess of 1,000 members. Primary societies this large may be unable to compete with private entrepreneurs who establish close working relationships with smaller numbers of growers. This creates an opportunity for private entrepreneurship in the North West, as well as in the West, that potentially exposes the existing cooperative structure to significant competitive pressures.

C. Property Rights Regime/Co-op Governance Structure

What sort of property rights regime (or set of rules about who owns what) is most likely to generate an appropriate market/industry structure for processing and marketing arabica coffee? Specifically, how can a property rights regime be designed to facilitate the development of a productive coop structure without foreclosing market relationships and private entrepreneurship? The basic question has to do with the "ownership" of coffee as a commodity. However, ownership is not a single property right, but rather consists of a number of rights. One ownership right is the right of a seller to transfer a commodity to a buyer. Another is the right to claim the residual income earned by the sale of commodities after marketing expenses have been paid. The following discussion proposes a separation of the right of transfer for washed arabica from the right of claiming residual income.

Additional questions to be addressed are: What sort of cooperative governance structure is consistent with the desired property rights regime? In the case of NWCA, what is to be the legal and political standing of primary societies, unions, and the apex organization in relation to one another? These questions lead to the basic rules of association that apply to primary societies and cooperative unions within the aggregate cooperative structure.

1. Coffee Ownership: Who are residual claimants?

It is presumed that washing can be effectively organized at a scale large enough to allow tracking the particular output of a washing station to the point of sale in the world market. Washing is also a critical value-adding activity. The best potential washing unit is therefore the best production unit for realizing the gain or loss associated with variation in world market prices (although it is uncertain how this consideration would relate to the minimum scale necessary for maintaining visibility to world buyers). In NWCA, primary societies, reconstituted where necessary to operate at an appropriate scale, are the best candidate for functioning as residual claimants. (In West Province, what are now cooperative subunits--sections or service centers--would be the best candidate.) The right to residual income from the sale of washed arabica would remain with primary societies until it is sold in the world market. Transactions that occur between the primary society and final delivery to world buyers would be administrative transactions, carried out through a cooperative structure.

With ownership vested in the primary society, variation in market price will be reflected in the primary society's receipts. This would be possible under alternative property regimes, but not required as a matter of property right. For example, if the right to claim residual income were vested in the apex organization, the degree to which primary societies would be paid according to variation in world market price would depend on apex policy. Tracking the commodity from the primary society to the world market would not be a necessity if primary societies were not residual claimants.

2. Collective Action within Primary Societies

Assigning the right to residual income to the primary society benefits the members as a group but does not directly provide the individual farmer with the benefits of maintaining high quality. The basis for individual benefits is the average quality of the coffee produced by all farmers in the coop. Within the coop, individual farmers depend on the farming practices of their fellow members for part of the return from their own efforts. This is a classic collective action problem. The smaller the coop unit, the more likely it is that members will be able to monitor one another and develop and enforce rules that contribute to more consistent high quality. The larger the unit that functions as a residual claimant, the more difficult the collective action problem becomes, and the more likely that the coop would be satisfied with a lesser-quality product and lower aggregate income.

One conceivable way of coping with the collective action problem would be to authorize the primary society to expel members who consistently market low-quality coffee.

Alternatively, the primary society can be authorized to set and strictly enforce standards for the coffee it will accept. For example, growers who bring in coffee that is less than 95 percent good beans might be asked to re-sort the parchment coffee themselves until their coffee met the set standard. This less exclusionary approach would allow all members to market their coffee but would limit the opportunity individual farmers would have to free-ride on the higher joint price paid for the coffee sold by the society as a whole. Coffee sold as unpulped cherry may be subject to visual quality distinctions not possible once the pulp has been removed. Some combination of standards and price incentives can be used to bring up the overall quality of a coop's produce, but only to the extent that there is general support for applying and enforcing quality distinctions in individual cases.

Primary societies, as currently organized in the context of NWCA, would have some advantage over the larger-scale affiliate cooperatives within UCCAO. However, even the primary societies now often have memberships in excess of 1,000 farmers, which is likely to be much too large for effective collective action to occur. Some period of experimentation with the subdivision of existing primary societies would be necessary to arrive at a workable cooperative structure.

3. NWCA Boundary Rules--Limited Exit Rights

The transactions internal to NWCA would not become market transactions where any buyer is free to transact with any seller. As discussed above, primary societies must have authority to buy and own the coffee crop so that the proceeds from sale in the world market will accrue to their benefit or loss. Although individual farmers would be free to choose whether to join the primary society, once they do, they would commit themselves to sell their crop to that particular primary society. This is necessary if the primary society is to use the crop to obtain prefinancing. Similarly, although primary societies should be free to choose to withdraw from NWCA, while they remain a constituent member they must commit themselves to sell their crop within the NWCA structure. Only individuals or primary societies that withdraw from NWCA would be free to sell the crop outside the cooperative structure. (If all of the primary societies with a cooperative union would decide to withdraw, then the union would also withdraw.) Still, after a transitional period, NWCA would no longer possess a territorial monopoly of arabica coffee marketing. Both individuals and primary societies would be free to withdraw from the cooperative structure and market their crops through private channels. Individuals who withdraw would be expected to deal with private traders or entrepreneurs. However, primary societies that might withdraw would be expected to associate themselves with some other marketing structure--perhaps UCCAO or a private exporter. The NWCA apex organization would thus be exposed to potential competition through the possible exit of primary societies, but would not be exposed to private competition for crops grown by members during any single marketing season.

4. Credit Arrangements

The distinction between the right to transfer to a buyer and the right to claim the residual income from a sale is also relevant to credit arrangements. For creditors, the issue of claiming residual income is not important. They are concerned about who holds the right of transfer. It is proposed that NWCA be given the right of transfer for each marketing season and so, in this sense, would "own" the coffee crop. The "ownership" question in the sense of who has the status of residual claimant is a question that can be considered an internal matter for NWCA. It has to be clear to parties within NWCA who the residual claimant is, while it has to be clear to outside credit sources who has the right to sell the crop grown by its members in each marketing season. NWCA as an apex organization and primary societies as constituent units might be considered "joint owners" who divide between themselves the prerogatives of ownership. Most importantly, together, they enjoy all the privileges of ownership. NWCA as a federation of cooperative societies clearly would own the coffee delivered by cooperative members during any one season.

The Program Assistance Initial Paper for PRAMS I suggested vesting ownership in the apex unit, which would then function as an exporter--in part, so that the apex unit would be able to use the crop as collateral to obtain prefinancing from world buyers or local banks. Treating primary societies as residual claimants does not adversely affect the basis for securing credit. It is the primary society or washing unit that ultimately requires credit to be able to pay farmers for their crop at the time of delivery. An apex organization can serve a useful function in aggregating the credit demands of member societies and arranging for a single loan, but the credit obligation would belong to each member society. As long as individual members and constituent primary societies are obligated to deliver their crop to the apex organization for export marketing during any given marketing season, the apex organization can use the crop as collateral for that year.

5. Internal Financial Arrangements within NWCA

Union and apex organizations would function as administrative agents of primary societies; that is, they would be assigned authority to act in behalf of the lower level but would not be vested with rights in the residual income from the sale of the crop. Before the beginning of a marketing season, primary societies would forward estimates of their crop size to the apex organization along with credit needs. The apex organization would negotiate for credit and distribute sufficient funds to primary societies to enable them to buy coffee from farmers at prices based on anticipated world market prices less estimated costs of processing and marketing.

Each primary society would mark the bags of coffee received from its members with it own name so that the coffee could be traced through the subsequent processing and marketing procedures. By agreement within NWCA, union-level and apex-level activities would each be assigned a margin to be paid from the proceeds of sale on the world market. A commission might also be paid to the apex organization in order to provide an incentive to secure the best price. All remaining proceeds (the residual income) would accrue to primary societies. In the event of a shortfall (i.e., the world price is not sufficient to cover costs), some arrangement would have to exist to apportion proceeds among the three levels. Each primary society, union, and the apex organization would also maintain a stabilization fund with strict rules of access, administered perhaps by a private bank acting as an agent of NWCA. In the event that world prices fall short of the level anticipated, the stabilization fund would be drawn on to repay loans used to finance the purchase of the crop.

6. Equipment Ownership

Equipment ownership rights within NWCA (including the rights to use, pledge as collateral, and transfer equipment to a buyer) must be carefully allocated among primary societies, unions, and the apex organization. The basic principle to follow is a benefit principle--to assign ownership to that level in the organization associated with a constituency that benefits from use of the equipment. Thus, NWCA would own large-scale storage facilities, transport equipment, and the conditioning plant currently held by NPMB (should it prove to be useful)--the use of which benefits the entire cooperative structure. Unions would own hulling and processing equipment that benefits its constituent primary societies. Primary societies, if they enter into this activity, would own weighing equipment and washing stations that would benefit all their farmers. The application of this principle for allocating equipment ownership is necessary to maintain a viable exit option for primary societies, while allowing unions and the apex organization to function as viable economic entities.

7. Rules of Association: Constituting and Reconstituting Primary Societies and Cooperative Unions within NWCA

If primary societies are to function as residual claimants in coffee marketing and are to retain rights of exit from NWCA between buying seasons, they must enjoy sufficient legal and political standing to maintain their corporate identity independent of the cooperative union and apex organizations. This implies a high degree of self-determination in primary societies. Furthermore, existing primary societies and cooperative unions may be inappropriately constituted for a variety of reasons, including previous amalgamations undertaken without the consent of constituent units, transportation inefficiencies, and an inappropriate scale of organization (too large in many cases) for taking collective action at the level of the primary society in relation to quality improvement and the (potential) operation of a washing station.

The rules of association for primary societies should approximate the following: membership should be voluntary and not limited by any sort of territorial boundary that would establish monopoly privileges for particular societies. Any group of farmers in the North West Province should be able to form a primary society, subject to reasonable procedures and standards pertaining to technical and financial feasibility, such as minimum coffee tonnage. Any existing primary society should be free to subdivide, creating two or more primary societies, following rules of equity. Subdivision should be contingent on the consent of each of those communities to be constituted as an independent primary society. Two or more primary societies should be free to amalgamate with the consent of each existing society. No authority external to a primary society, whether from within the cooperative structure or from the government, should be able to alter the charter of that society by subdividing it or amalgamating it with others. Similar rules should apply to the formation of cooperative unions by primary societies.

D. Export Structure

Below are three alternatives for addressing the issue of the appropriate market/industry structure for carrying out the remainder of the production/marketing operation, especially exporting.

Alternative 1: Coop Apex Organizations as Exporters

This is currently how UCCAO works and is the current PRAMS plan. As long as the size of the crop is sufficient to attract buyers, the apex organization should be able to carry out this task. A chief consideration is the accountability of the apex organization to constituent societies. The apex organization could hire an agent to whom a commission would be paid rather than employ someone full-time. Compensation by commission would serve to eliminate potentially high training costs, since it is likely that, once an employee paid a flat salary has become very proficient in marketing for the cooperative, a private firm will find it easy to lure him or her away with offers of higher compensation based on sales commissions.

Alternative 2: Private Exporters

Private exporters would not fit into a system in which primary societies retained a right to residual income. However, if there were private traders, a private exporter would be feasible.

Alternative 3: A National Arabica Coffee Auction

Arabica cooperatives in the North West and West Provinces could form a super apex organization for the purpose of organizing an auction similar to that found in Kenya. The GRC need not be involved and the coops need not exercise a monopoly on buying coffee (as is the case in Kenya). An auction might save administrative overhead costs for marketing and would have the advantage of facilitating the entry of coops into the export business. It would also provide a common point at which a final quality certification could be made. As a national institution, a coffee auction would also facilitate any needed restructuring of local coops in relation to their apex organizations. A group of primary societies could more easily exit, form a new apex organization, use a private huller, and send their crop to the auction without having to depend on an apex organization for exporting.

On the other hand, apex organizations can be expected to attempt to develop long-term relationships with foreign buyers. In order to do this, each cooperative must establish and maintain a reputation for the coffee they sell. Rothfos reports that UCCAO has improved the quality of its coffee over the years without the assistance of the marketing board. The addition of a super apex organization would also mean that coffee growers would have to control three rather than two organizational agents. However, two of those agents, the apex organization and the super apex that would organize the auction, would have more limited authority and responsibility.

E. Cameroonian Policy Regimes

Following are some basic rule changes necessary for providing a policy regime within which a suitable property-rights regime/coop governance structure and market/industry structure can emerge:

- a revised cooperative law must enable any group of farmers to form a cooperative and be able to buy and own coffee--this can facilitate needed restructuring of individual coops. Coop restructuring, rather than marketplace competition, is likely to be the basic mechanism for making adjustments in market/industry structure that lead to increases in productivity in the arabica coffee sector;

- government interference in coffee prices must be eliminated; and

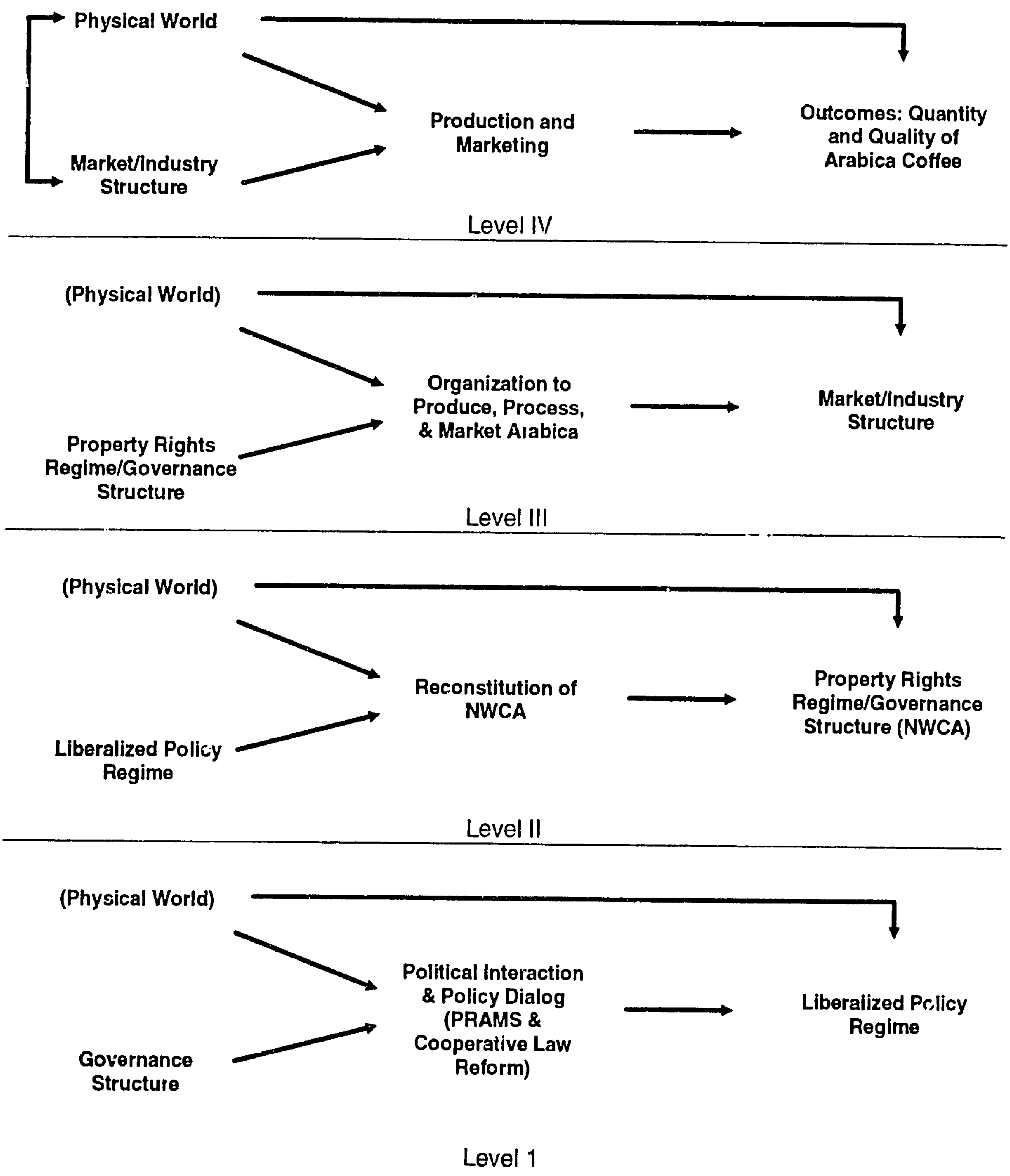
- authority must be allocated to private persons to buy and own coffee, sell it directly on the world market, and physically export the crop from Cameroon.

F. Summary

The argument in this section has proceeded through four analytical levels that can be diagramed as shown in Figure VI.2. The actual policy reform process begins at Level 1 at the bottom of the diagram. Policy dialogue now being undertaken by USAID regarding PRAMS and the World Bank regarding changes in the Cooperative Law, which might also make provision for adaptations in the Labor Code for cooperatives, can make fundamental changes in what might be called the policy regime. This policy regime would consist of the new set of rules whereby NWCA and other cooperatives might reorganize themselves.

Figure IV.2

Multilevel Institutional Analysis of Arabica Marketing Reform in the North West Province



Changes in NWCA's constitution that would take place at the second level of analysis would settle issues that include the distribution of ownership rights in crop and equipment among the primary societies, the unions, and the apex organization as well as the basic rules of association for primary societies and unions. This activity would result in a property rights regime and governance structure for NWCA. At the third level, primary societies, unions, and the apex organization of NWCA plus any other private firms or cooperative organizations would organize the processes of production and marketing (i.e., farmers decide whether to engage in washing or primary societies whether to organize washing stations). In the aggregate, these decisions would generate the market/industry structure for producing and marketing arabica coffee. Within this structure, at the fourth (operational) level, the actual production and marketing of coffee would occur. Outcomes at this level would influence future decisions at all levels, but most immediately at the third level where primary societies could decide whether or not they profited from association with the existing apex organization and where private traders might or might not decide to enter into competition with the newly constituted NWCA.

The basic institutional design recommended here for use within the North West Province has the following key elements:

- assignment of residual claimant rights to primary societies;
- assignment of exit rights to primary societies at fixed intervals that require a society to commit itself to market within the structure of NWCA for any given season; and
- assignment of self-determination powers to primary societies, including the ability of groups of farmers to form new primary societies.

Subject to these institutional parameters, primary societies are expected to reorganize to better serve their purpose as an arrangement for improving and maintaining quality and, in many cases, to take on arabica washing as a new function; cooperative unions are expected to reorganize in order to better serve their present functions; and the apex organization is expected to develop the capability to effectively and efficiently market arabica coffee abroad, as a representative of the constituent primary societies. These changes will require a period of experimentation and learning. In particular, it is important that a new institutional design not be judged on the basis of one or two seasons of operation. At the same time, a program of technical and institutional assistance can facilitate the process of adaptation and innovation that must occur in the North West Province if arabica coffee production is to become an economically viable enterprise that can contribute to development potentials.

VII. RECOMMENDATIONS

A. Analysis and Recommendations for the PRAMS I Program Agreement (USAID-GRC)

The most recent (May 199O) USAID/Cameroon negotiation document for PRAMS I would make the release of funds provided by this policy reform program contingent on the following actions by the GRC:

1. **Repay all the arrears owed by ONCPB to NWCA by December 199O at the latest.**

This point is crucial to the realization of PRAMS I objectives. If NWCA does not receive its arrears and straighten out its finances, it will not be in a position to market all of next year's crop or to regain the confidence of coffee growers.

2. **Authorize NWCA to export directly to foreign markets 100 percent of the North West Province's production by the beginning of the 199O/1991 marketing season.**

This is consistent with USAID's strategy of getting the ONCPB/NPMB out of arabica marketing in the North West as soon as possible. MINDIC currently prefers to delay the granting of 1OO percent export rights until January 1992 and to make this contingent on reforms within NWCA. The ONCPB/NPMB is also delaying granting the documentation needed by NWCA to export its quota of 2,000 tons for this marketing season. Assistance should be given where necessary to facilitate the processing of the documents NWCA needs to export 2,000 tons this year. Technical assistance to develop NWCA's marketing expertise may be needed if the longer-term association proposed by Rothfos, the German coffee broker, does not prove to be sufficient.

3. **Postpone the introduction of private LBAs in the North West Province until the 1991/1992 season (at least) and, subject to review, possibly until the 1992/1993 campaign.**

USAID/Cameroon should push for the later date because NWCA will need more time to undertake the internal restructuring necessary to make it more competitive. All efforts have been directed in this past season at coping with the financial problems in order to actually export the 2,000 tons permitted by ONCPB/NPMB. NWCA has had little if any opportunity to address itself to important questions of internal organizational change.

4. Transfer, in a timely and orderly fashion, ownership of the hulling and sorting equipment currently in NPMB/Bamenda's custody from ONCPB/NPMB's Bamenda Branch to NWCA by December 1990 at the latest.

USAID and NWCA need to determine, with the assistance of technically knowledgeable persons, the usefulness of the conditioning plant to NWCA. Clearly no program funds or negotiation time and effort should be expended in securing access to a piece of equipment that will be of little value to NWCA. If owning the equipment would strengthen the NWCA's capacity to export better-quality coffee, USAID/Cameroon should facilitate the purchase of the equipment from ONCPB/NPMB, if necessary. If ownership of the conditioning plant is to be transferred by ONCPB/NPMB, either by gift or by purchase, to a cooperative organization in the North West, NWCA would be the logical recipient.

ONCPB/NPMB is currently willing to transfer ownership of the five hulling lines in its custody, which are clearly useful pieces of equipment. To whom ownership of the lines should pass is an important question related to the kinds of structural change in NWCA that USAID/Cameroon would like to encourage. It would be consistent with the argument presented in Section VI of this report for ownership of hulling lines to be passed to the unions. Which unions should receive them is a question that should be decided by the cooperative.

For any property turned over to the NWCA primary societies, unions, or the apex organization, USAID/Cameroon should insist on unambiguous documentation of ownership so that each piece of equipment can be clearly identified by banks as an asset of NWCA or an appropriate constituent unit.

5. Suspend the ONCPB *prelevement* of FCFA 38/kg from January 1991 (the beginning of the 1990/1991 campaign) to December 1993.

The GRC is currently resisting this change because the funds generated by the *prelevement* make an important contribution to the government's general operating budget. A portion of PRAMS I program funds could be used to replace some of these funds in the short term. In addition, USAID/Cameroon should seek agreement on the permanent removal of the *prelevement*. The *prelevement*, which is in effect a tax on producers, reduces the price incentives to farmers needed to sustain interest in coffee farming in Cameroon. If an export tax on arabica is considered necessary, it should be clearly identified as such and calculated to sustain price incentives for coffee growers.

6. **Abolish the arabica coffee stabilization fund controlled and managed by ONCPB by December 1993 at the latest. Authorize stabilization funds controlled and managed by cooperatives, if approved by cooperative members.**

The government-controlled stabilization fund has not been used in the past to stabilize prices. Its dissolution will not be a loss to farmers and should be pursued.

The current Cooperative Law permits cooperatives to set up stabilization funds. UCCAO currently operates its own fund. Given its poor financial situation, it is doubtful whether the NWCA can generate sufficient profits by December 1993 to support its own stabilization fund. USAID/Cameroon should explore the possibility of providing some financial assistance to establish such a fund if NWCA is willing to make structural changes that promise to make it a viable coffee-marketing organization.

7. **Abolish the government-set minimum producer price for arabica coffee in December 1993 at the latest.**

The government has accepted this condition, but the delay in allowing marketing organizations to set their own prices is a potentially serious exposure for NWCA. It is unlikely that GRC will set the price below the current market price, but it could decide to set it too high. This would bankrupt NWCA. If USAID/Cameroon is unable to get the GRC to cease setting prices before December 1993, then UCCAO, COOPAGRO, NWCA, and USAID/Cameroon must be included in the price-setting deliberations.

8. **Adopt a system of allocating ICO stamps to ensure that arabica coffee can be exported without encroachment and benefit from the ICO support price in case the ICO agreement is reactivated.**

In the past, Cameroon could easily export all its arabica coffee within the quotas set for it by the ICO. The critical issue under a liberalized regime is how to foreclose bureaucratic manipulation of the actual disbursement of stamps by MINDIC should a new ICA be reached. This has been a problem for UCCAO in the past. USAID/Cameroon should consult with NWCA, UCCAO, and MINDIC to formulate rules that would ensure exporters of fair treatment in the distribution of stamps in the event that a new ICA is signed.

B. Recommended Changes in the Cooperative Law

To enable cooperatives in general and the NWCA in particular to become more competitive in a liberalized marketing environment, USAID/Cameroon should support the revision of the Cooperative Law to include the provisions listed below.

1. A provision that authorizes any person to freely associate or disassociate him/herself with a cooperative organization.

2. A provision that authorizes any group of farmers to form a cooperative and authorizes any cooperative to sell its produce and to export that produce.

3. A provision that authorizes any farmer to sell produce to a cooperative operating outside the administrative jurisdiction in which he or she farms.

4. A provision that explicitly authorizes (a) any farmer to join a cooperative outside the administrative jurisdiction in which he or she farms and (b) any cooperative society to join a cooperative union or cooperative apex organization outside the administrative jurisdiction in which its headquarters are located. Such a provision would address the assumption underlying Cameroon's current administrative system that the boundaries of all organizations should coincide with the government's administrative boundaries.

5. A provision that authorizes all cooperatives to organize themselves according to the scope of activities they wish to pursue, the size of membership they wish to include, and the extent of the geographical area they wish to serve.

6. A provision that authorizes all cooperatives to recruit and dismiss staff at all levels in conformance with the Labor Code and pertinent regulations. These decisions would require no authorization from a government agency.

7. A provision that clarifies the property rights of societies, unions, and apex organizations and their prerogatives in acquiring and disposing of property. Under the current regime, it is not clear who owns land, buildings, equipment, and machinery used by cooperatives. In many cases, these were originally acquired by the GRC and then distributed to cooperatives for their use.

8. A provision should be added to the law that gives constituent units of a cooperative organization, such as NWCA's primary societies, the option of withdrawing under conditions specified in the constitution of the apex organization. The current Cooperative Law provides for the dissolution of constituent units of a cooperative structure but makes no specific provision for the withdrawal of these units. Withdrawal would entail dissolving the tie with another cooperative organization while maintaining the corporate identity of the unit.

9. Provisions that limit the role of the tutelary authority of MINAGRI to registering cooperatives, assisting with cooperative education, and certifying that an external audit of each cooperative is carried out each year.

10. Provisions that provide for legal arbitration to settle disputes between the cooperatives and the government in a timely fashion. The current cooperative regime gives most of

the power to resolve disputes to higher administrative authorities. This leads to delays in resolving conflicts, provides cooperatives with little legal recourse, and raises transaction costs. Courts or some other third-party should be assigned a larger role in conflict resolution.

C. Additional Provisions that Should be Included in the Program Agreement with the GRC:

1. A revised Labor Code is necessary for improved performance in all sectors of Cameroon's economy. The SAP requires that the code be revised by the end of 1991. Until these changes can be made, the Ministry of Labor should be asked to grant NWCA a temporary exemption from the provisions of the code to permit the cooperative to renegotiate salary levels in order to reduce operating costs.

2. Securing property rights in buildings, equipment, vehicles, and the land under buildings for constituent units of NWCA is an important prerequisite for the future viability of the cooperative and its effective independence from government interference. Clear title would also make it easier for NWCA and its constituent units to use their assets as collateral for development loans from banks. NWCA, its unions, and primary societies appear to currently have clear title to vehicles and some buildings. Some of these units have already applied for certificates verifying their rights to the land under their buildings. The completion of this land rights certification process should be a condition for the release of PRAMS I funds by USAID/Cameroon.

D. Proposed Provisions for Reformed Bylaws for NWCA, Unions, and Primary Societies (These bylaws should be considered the constitutions of these organizations, and a distinction should be introduced between the constitutions for the NWCA, the unions, and the primary societies and a set of operating rules for these organizations.)

1. Provisions similar to Article 3(c) of the NWCA bylaws, which permit undertaking functions related to coffee processing and marketing and acquiring property including equipment with which to carry out these functions, should also be included in the constitutions of the unions and primary societies. This would permit primary societies to invest in the development of washing stations.

2. Provisions should be added to the NWCA constitution that award to primary societies the status of residual claimants of the profits from the sale of their coffee. This would require that provision be made to trace the tonnage of each society through to a point in the marketing process that would award some type of differential price based on a finer evaluation of quality than is currently made.

3. Provisions should be added to the constitutions of the NWCA and the primary societies that list the obligations of the members of primary societies as well as the obligations of the primary societies associated with the NWCA. These would include the obligation of the members of primary societies to sell their coffee to the society and the obligation of the primary society to market coffee through the NWCA.

4. Provisions should be added to the constitutions of the NWCA and the primary societies that grant primary societies the right of exit from their association with NWCA on the condition that adequate notice is given NWCA. What constitutes "adequate notice" must also be specified.

5. Provisions should be added to the constitutions of the NWCA and the primary societies that grant individual members the right of exit from association with a primary society on the condition that adequate notice is given the society. What constitutes "adequate notice" must also be specified.

6. Provisions should be added to the constitutions of the primary societies that would permit primary societies to address the collective action problem in raising the quality of their coffee. If all members will benefit from an increased price for society coffee without any obligation to invest in improved coffee, then no one will want to make those investments. In order to forestall such a problem, primary societies might be authorized to set minimum quality standards on the coffee they accept.

7. Provisions should be included in the constitutions of the NWCA, the unions, and the primary societies that provide for the withdrawal of a union from the apex organization whenever the primary societies affiliated with it vote unanimously in favor of withdrawal.

8. Provisions should be included in the constitutions of NWCA, the unions, and the primary societies that permit these organizations to take whatever equipment they own when they exit.

9. Provisions should be added to all constitutions to make the financial affairs of the societies, unions, and the apex organization more easily understood by ordinary members.

10. Provisions should be added to all constitutions that require an annual audit of the accounts of societies, unions, and the apex organization and an economic as well as financial analysis of the year's balance sheets.

11. Provisions should be added to all constitutions that establish sanctions and penalties for violation of contractual obligations and specific procedures for implementing them.

E. USAID-NWCA-CDC Recommendations

1. Prior to the release of any financial assistance to NWCA, USAID/Cameroon should secure NWCA's assurance that it will not oppose the complete liberalization of coffee marketing in the North West Province in 1992/1993.

2. USAID/Cameroon should explore the possibility of collaborating with the CDC in the following areas:

   - providing technical assistance to NWCA for the development of expertise in export marketing;

   - investigating the economic feasibility of setting up washing stations and liquoring procedures at the primary society level in the North West Province and, should these prove to be feasible, providing loans and technical assistance to get the new operations started;

   - providing a loan to NWCA to finance repairs to existing hulling lines and other heavy equipment;

   - providing a loan to NWCA for setting up a stabilization fund;

   - providing a loan to NWCA for the purchase of the new sorting plant if it appears that the plant would be useful to NWCA and if ONCPB/NPMB demands payment for the plant; and

   - providing loan funds with which to prefinance the 1990/1991 coffee campaign.

3. USAID should not agree to insure CDC loans. CDC should be prepared to assume some risk as an indication of its confidence in the viability of NWCA.

F. USAID-UCCAO Recommendation

USAID/Cameroon should seriously consider supporting a project designed by UCCAO that would build and evaluate the operation of experimental pulping and washing stations (*centres de depulpage collectifs*). The results of this experiment would assist USAID/Cameroon, UCCAO, and NWCA in evaluating the feasibility of the washing station strategy to improve the quality of arabica coffee, gaining more information about the economies of scale of this technology, and determining the willingness of farmers to sell fresh cherry rather than pulp it themselves.

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APPENDIX 1

LIST OF PERSONS INTERVIEWED

USAID/Cameroon

Jay Johnson	Director
Robert Shoemaker	Project Development and Evaluation Officer
Tham V. Truong	Chief, Office of Economic Analysis and Policy Reform Implementation
John Dorman	Agricultural Development Officer
Stuart Tjip Walker	Coordinator, Office of Economic Analysis and Policy Implementation
Brian Ames	Macro Economics/Private Sector Officer

Ministry of Agriculture

Peter Wyeth	Agricultural Economist, Cameroon Agriculture and Planning Project (CAPP)

Ministry of Agriculture, Department of Cooperation and Mutuality

Peter Schroeder	GTZ coop specialist and advisor for reform of the Cooperative Law

Commonwealth Development Corporation

Antony Ellman	Head of CDC mission
Helen M. Binns	Financial specialist, Asia and West Africa Department
Simon Paul	CDC field representative in Cameroon

World Bank

Takamasa Akiyama	International Commodity Markets Division

David A. Mitchkin	IBRD Representative in Cameroon
Laurenz Pohlmeier	Financial Analyst and Cooperative Reform Mission

Cooperative Reform Specialists

Lyle Brennerman	Cooperative specialist, World Bank Mission
Juergen Schwettmann	ILO Cooperative Specialist

North West Province

Dr. Robert Ghogomu	General Manager, NWCA
Samuel Asobo Mbuyah	Chief of Service, Internal Audit, NWCA
Jomi Ignatius Bobga	Chief of Financial Services, NWCA
Kelvin N. Galabe	Personnel Services, NWCA
Daniel Akoni Jam	Manager, Pinyin ACU
Isaiah Ndifon Tamanjong	Manager, Moghamo ACU
Paul Ngabier	Manager, Kom ACU
Fon Francis Aneng	President, Mmen-Wum CPMS
Julius Awah Kaim	Acting Manager, Mmen-Wum CPMS
Gabriel Kong	Treasurer, Mmen-Wum CPMS
Mbakwah Nkeh Pius	Mill Operator, Kom ACU
Job Ndong Ndoh	Bookkeeper, Kom ACU
Mathias Ntam	Acting Manager, Njinikom CPMS
Weighing Delegate	Njinikom CPMS
Francis Ngam	President, Belo CPMS; President, Kom ACU; Vice President, NWCA

Tita Fombon	President, Bali ACU
Members	Board of Directors, Ndop ACU
Martin Ndongnyam	Manager, Ndop ACU
Punda Ntirpang Pius	Manager, Bafanji CPMS
Dennis Lukong Wirba	Manager, Mbengwi ACU
Ephraim Amasi Ndambi	Cooperative Inspector/Bookkeeper, Mbengwi ACU
Rubin N. Dangsa	President, Menemo CPMS
Simon Achidi Achu	President, Santa CPMS; President, Santa ACU; President, NWCA
James T. Pukeleke	Storekeeper, Awing CPMS

Members of the following primary societies:
Awing CPMS
Bafanji CPMS
Njinikom CPMS
Pinyin CPMS

Adam David Fongyen	Deputy General Manager, MIDENO
Hartmut Hofmeister	Finance Advisor to MIDENO/NWCA
Ntungwen Fomuso	Chief of Branch, NPMB
Charles Nju	Mezam Division Chief, Coop/Mut
Kevin Ngala	Divisional Officer, COMIFO Credit Co.,

West Province

Henri Fankam	Directeur General, UCCAO
Pierre Moumie	Directeur adjoint, UCCAO
Josue Kenmou	Cooperative advisor to UCCAO
Francois Foka Mefinja	Directeur du Controle et de l'Informatique, UCCAO

Samuel Oukouomi	Directeur, Direction des Operations Agricole, UCCAO
Joseph Nkam	Sous-Directeur Financier de de la Credit, UCCAO
Louis Dongmo	Directeur Adjoint, Direction de la Production (Electronic Factory), UCCAO
Faustin Blaise Tchtat	Direction de la Commercialisation, UCCAO
Emmanuel Djieya	Agronomist, Direction des Operations Agricoles, UCCAO/PDRPO
Pierre Tsachoua Nzefa	Directeur, CAPLAME
Daniel Djeu	Chef Service Comptable et Financier CAPLAME
David Tsannang	Chef Service Education et Formation Cooperative, CAPLAME
Pierre Ngimpieba	President of UCCAO
Rene Ndongson	President of CAPLAME
Jean Mbosso	Coffee Planter, President of Bafou Section of CAPLAME
Jean Ndjoya	Former Agricultural Officer of Department of Menoua and currently doing research on production systems and farmer strategies in Menoua for Caisse Centrale
Moussa Pempeme Nji	Directeur, CAPLANOUN
Jean Baptiste Yonke	Directeur of SODERIM and former Minister of Agriculture
Jean-Duclos Nono	Gestionnaire for Societe Tzouvelos, a licensed buying agent for robusta at Santchou
Henri Monthe	Regional Director, E.A.M.I.
Dr. Max R. Langham	Advisor, Agricultural Economics, University Center of Dschang
Dr. Martin McKellar	Plant Scientist, University Center of Dschang

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APPENDIX 2

THE WORLD BANK/IFC/M.I.G.A.

Headquarters: Washington, D.C. 20433 U.S.A.

Tel. No. (202) 477-1234 // Fax Tel. No. (202) 477-6391 // Telex No. RCA 248423

FACSIMILE COVER SHEET AND MESSAGE

DATE June 1, 1990

NO. OF PAGES (Including this sheet) 2

MESSAGE NO.

TO

Name Ms. Helen Binns

Fax Tel. No. 011-44-71-828-5505

Company/ Organization CDC

City & Country London, England

FROM Name T. Akiyama

Fax Tel No. 202-477-0661

Dept./Div. Name International Commodity Markets Div. International Economics Division

Dept/Div No. 642-30

Room No. S-7043

Telephone No. 33855

SUBJECT/ REFERENCE

MESSAGE

I'm sorry for being late in responding to your request. Since my return, I've had to take care of so many things, and urgently as usually. However, I did manage to get some information you wanred. The information obtained were through Rothfos (West Germany), Volcafe (Switzerland) and some indepe..dent consultants.

There is quite a bit of difference in quality between arabicas from UCCAO and those from NWCA. Arabicas from both have problems of over-fermented beans and stinkers. This is basically caused by improper washing and fermentation processes. To cope with this UCCAO has been training farmers using a Belgium expert for the last three years. The training program has been a success and the quality of UCCAO arabicas has been improving. But because of the past history, UCCAO arabicas fetch about USc5/lb below typical Central American arabicas (for which the World Bank forecasts are available).

The problem is considerably more serious with NWCA arabicas. There has not been any training programs and farmers produce uneven and badly fermented coffee. In addition, the hulling machines actually being used are old and of bad quality and the people who run them lack the know-how to run the machines properly. Another problem with NWCA arabias is the new team of ONPCB which has been handling exports of NWCA arabicas. The team is inexperienced and is not doing the proper job of marketing the coffee. As a result, NWCA arabi fetch USc7-8/lb below typical Central American arabicas.

Transmission authorized by T. Akiyama, Acting Div. Chief, IECCM

If you experience any problem in receiving this transmission, inform the sender at the telephone or fax number listed above.

1884 (2-90)

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I raised the question of more centralized washing and fermenting as in Kenya, instead of each farmer doing them. There are two major problems with this approach. One is the roads. Arabica cherries should ideally be washed within 6 to 10 hours after picking. The road system is too inadequate to make deliveries of cherries to washing stations if they are far. Another problem is once it is done in a large centralized place, each individual farmer might lose interest in paying attention to quality as incentives might be lost. However, the benefit would be that washing and fermenting will be done by trained people with properly managed facilities. Given the situation, two approaches can be taken: (i) enhance training of farmers at UCCAO and start it at NWCA and (ii) examine the possibility of building small scale central washing stations and improve the road system.

At this stage, that's all the information I managed to collect. If there are further specific questions, please let me know.

Regards,

Takamasa Akiyama

APPENDIX 3A

HISTORICAL OUTLINE OF THE DEVELOPMENT OF THE NORTH WEST COOPERATIVE ASSOCIATION, LTD.

1932	Arabica coffee first planted in Santa.
1950	First cooperative society formed at Bafeng (Nkwen). Others formed in subsequent years.
1953, Aug.	Cooperative societies meet and form the Bamenda Provincial Cooperative Produce Marketing Union (BPCPMU).
1954	Southern Cameroon (present North West and South West Provinces) granted territorial autonomy within the Federation of Nigeria. A full Dept. of Cooperative Societies established and staffed. Level of oversight of and support to cooperatives increased.
1959, Oct.	BPCPMU meets; forms six union-level organizations. BPCPMU reconstitutes itself as an association of unions, the Bamenda Cooperative Marketing Association. Ltd. (BCMA).
1959/60 to 1967/68	BCMA is first apex cooperative organization to operate as a licensed buying agent for the marketing board.
1961, Jan.	Federal Republic of Cameroon achieved independence.
1961-1969	Three additional unions (Pinyin, Moghamo, Nkambe) created by dividing existing unions.
1968/69 to 1977/78	Cooperative unions (rather than an apex organization) operate as licensed buying agents for the marketing board.

Season	% of Total Arabica Marketed by Cooperatives in West Cameroon
61-62	33.47
62/63	49.31
63/64	54.67
64/65	55.76
65/66	66.39
66/67	74.79
67/68	72.54

1968/69	Cooperative unions appointed as only licensed buying agents for robusta by WCMB based on policy set by the West Cameroon Government.

	Commencement of the gradual introduction of cooperatives as sole licensed buyers of arabica and cocoa.
1968/69	WCMB begins to buy unwashed arabica coffee for the first time.
1969/70	Cooperatives appointed as only licensed buying agents for cocoa.
1970, July	BCMA reorganized as the Bamenda Cooperative Association, Ltd. (BCA).
1972, May	United Republic of Cameroon created.
1972/73	Cooperative unions become only licensed buying agents for WCMB for arabica coffee.
1973/74	First amalgamation of cooperative societies from 251 to 100.
1975	Two additional cooperative unions (Oku-Noni, Mbengwi) created by dividing existing unions.
1978	BCA becomes the North West Cooperative Association (NWCA) and assumes the role of the only licensed buying agent for arabica coffee in the province.
1982, Nov.	Current NWCA bylaws adopted.
1986	Second amalgamation of cooperative societies reducing them from 92 to 40. Proposal to merge 11 unions into 7 introduced. The affected unions (Pinyin, Ndop, Mbengwi, Bali) are given three years in which to increase tonnage in order to become economically viable.
1990, Feb.	NWCA authorized to market 2,000 tons of arabica through a licensed exporter.

<u>APPENDIX 3B</u>

HISTORICAL OUTLINE OF MARKETING BOARD DEVELOPMENT IN THE NORTH WEST PROVINCE

1942	West African Produce Control Board formed to market cocoa, palm oil, and oil seeds in all of British West Africa.
1947-49	Marketing boards for individual crops or groups of crops created in each colonial area.
1954	The Southern Cameroons (the present North West and South West Provinces) granted territorial autonomy within the Federation of Nigeria.
1955	The Southern Cameroons Marketing Board created to market cocoa and palm oil.
1961, Jan.	The Federation of Cameroon gains independence. The Southern Cameroons Marketing Board becomes the Western Cameroon Marketing Board (WCMB).
1961, Dec.	Arabica and robusta coffee added to the crops marketed by the WCMB. During the 1950s, cooperative societies in Southern Cameroons sold their coffee to two commercial companies, John Holt and United Africa Company (UAC), and to the Cameroon Cooperative Exporters (CCE), which was an apex society for both cocoa and coffee societies. Prior to 1954, only John Holt and UAC marketed coffee overseas. After 1954, CCE began to sell coffee through London brokers, but sales to the other two firms continued as well.
1972, May	United Republic of Cameroon created.
1972	Bamenda branch of WCMB opened.
1973, Dec.	Department of Cooperatives and Mutuality created within the Ministry of Agriculture. Current Cooperative Law adopted.
1974, Feb.	WCMB renamed the Produce Marketing Organization (PMO).
1976	PMO merged with marketing authorities in other parts of Cameroon to form the National Produce Marketing Board (NPMB).
1978, Sept.	NPMB begins operation.
1989, July	Agreement of the International Coffee Organization allowed to lapse.

Sources:

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COFFEE PRODUCTION AND PRICE TRENDS

Year	Production		Arabica Price			Robusta Price			Ara/Rob Price Difference	
	Arabica	Robusta	Fob	Prod	Prod/FOB	Fob	Prod	Prod/FOB	Fob	Prod
	mt	mt	FCFA	FCFA	(%)	FCFA	FCFA	(%)	FCFA	FCFA
71/72	30,451	63,427	248	175	70.6	231	114	49.4	17	61
72/73	31,341	62,935	284	175	61.6	231	119	51.5	53	56
73/74	24,668	66,974	296	200	67.6	229	119	52.0	67	81
74/75	31,123	80,025	324	190	58.6	244	123	50.4	80	67
75/76	21,990	57,185	660	245	37.1	570	132	23.2	90	113
76/77	18,877	62,192	1113	305	27.4	1025	195	19.0	88	110
77/78	21,466	64,352	681	325	47.7	599	250	41.7	82	75
78/79	24,803	80,661	613	360	58.7	608	280	46.1	6	80
79/80	24,401	71,624	786	350	29.7	706	310	43.9	80	40
80/81	24,122	88,256	573	350	61.1	521	320	61.4	52	30
81/82	25,417	78,626	737	360	48.9	602	330	54.9	135	30
82/83	21,838	103,154	928	370	39.9	695	350	50.3	233	20
83/84	16,832	105,000	1,177	430	36.5	1,142	390	34.2	35	40
84/85	18,932	117,854	1,350	495	36.7	1,174	460	39.2	176	35
85/86	18,967	76,829	1,412	520	36.8	1,013	470	46.4	398	50
86/87	22,562	123,988	765	520	68.0	847	470	55.5	-82	50
87/88	13,027	74,566	727	520	71.5	576	470	81.6	151	50
88/89	14,950	118,954	767	475	61.9	555	470	84.6	212	5

Sources:

Production: ONCPB

Figure for 1983/84 estimated from database kept by DEAPA on ONCPB purchases and stocks

Producer Prices: 1971/72 - 1977/78, ONCPB quoted in Agland study, p. 7, 1978 79 on, ONCPB

FOB prices 1971/72 - 1977/76, ONCPB quoted in Agland study. Annex Table 20, 1978 79 on, ONI

APPENDIX 5

NWCA CO-OPERATIVE UNION MEMBERSHIP, PRODUCTION AND ASSETS

Name of CU	No of Constituent CPMSs	No of Hulling Lines* Installed	No of Hulling Lines* Operating	Year of Installation*	Hulling Capacity (tonnes parch-ment/hr)* Installed	Hulling Capacity (tonnes parch-ment/hr)* Effective	Tonnes Coffee Made per annum (Av 1985-88) Arabica	Tonnes Coffee Made per annum (Av 1985-88) Robusta	Installed Storage Capacity (m^3)*	Vehicles (bracket Indicates Poor Condition)*
Bali	2	2	1	1960, 1984	0.65	n.a.	128	150	2,250	-
Central	3	1	1	1976	1.8	n.a.	374	50	3,000	(1 lorry)
Kom	6	3	2	1970, 1980	3.2	2.2	1,121	50	970	1 tipper
Mbengwi	2	1	1	1960, 1980	2.3	1.0	119	150	1,400	-
Moghamo	3	3	2	1960, 1980	2.4	1.5	127	500	2,280	1 tipper
Ndop	3	2	1	1962, 1980	2.3	0.8	299	50	2,800	(1 lorry)
Nkambe	5	3	1	1958, 1977	3.1	1.0	796	150	4,560	(1 lorry)
Nso	5	3	1	1969	5.4	3.0	882	50	4,364	-
Oku-Noni	3	1	1	1977	1.8	1.0	558	-	n.a.	1 tipper
Pinyin	2	1	1	1980	1.8	1.0	252	-	1,380	1 tipper
Santa	4	1	1	1980	1.8	1.0	768	-	1,416	1 lorry
Total	40	21	12	n.a.	26.55	n.a.	5,425	1,150	24,420	-

The figures in the colums marked with an asterisk are taken from studies conducted in 1984 by Agrar und Hydrotechnik, Germany. They will need to be updated.

Source: Ellmon, 1990.

APPENDIX 6

SUMMARY OF ARREARS OWED BY N.P.M.B. TO FARMERS AND COOPERATIVE STRUCTURE AS AT 11/05/90

YEAR	VALUE OF STOCKS	BONUSES DUE	PRODUCER PRICE + B.B.A.	TOTAL OWED BY N.P.M.B.
1984/85	-	-	128,249,713	128,249,713
1985/86	-	41,364,750	112,347,574	153,712,324
1986/87	-	68,120,835	757,017,994	825,146,829
1987/88	-	201,196,380	210,002,420	411,198,800
1988/89	208,388,828	223,034,680	1,945,985,227	2,377,408,935
	208,388,828	533,716,845	3,153,602,928	3,895,716,601

Source: North West Cooperative Association Limited

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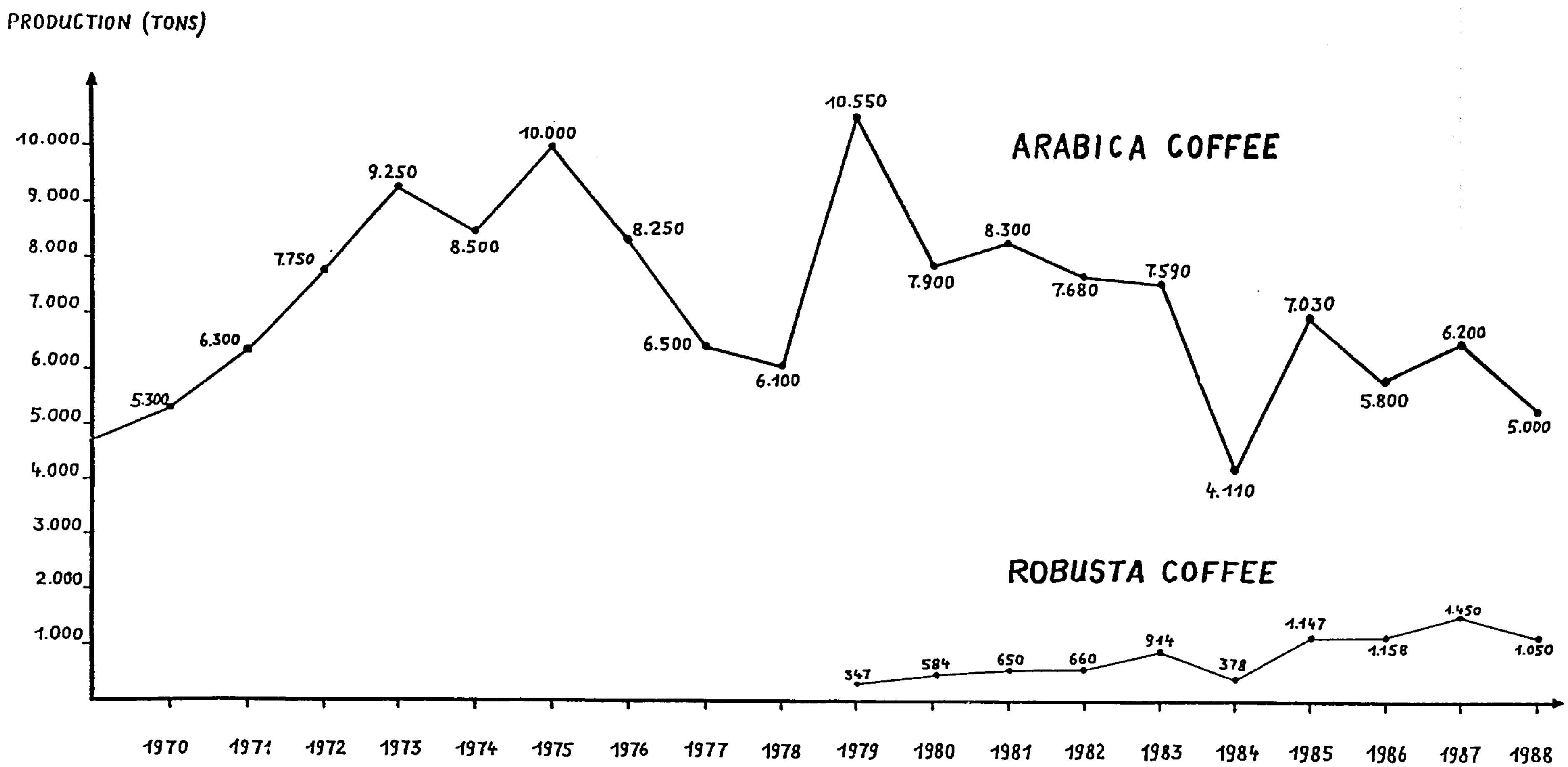
APPENDIX 7A

NORTH WEST COOPERATIVE ASSOCIATION LIMITED



APPENDIX 7B1

Chief of Bureau Produce,
North West Cooperative Association Ltd.,
P.O. Box 41, Bamenda.
28.11. 1989

The General Manager,
N.W.C.A. Ltd., Bamenda.

Sir,

PRODUCE PURCHASING AND FINANCING FOR 1988/89SEASON AS AT 16/11/89.

	ARABICA COFFEE					ROBUSTA COFFEE				COCOA			
	WASHED GOOD BEANS	WASHED TRIAGE	UNWASHED G. BEANS	UNWASHED TRIAGE	TOTAL	SUPERIOR AVERAGE	MARGINAL	TRIAGE	TOTAL	GRADE I & II	HORS STAND.	RESI DUE	TOTAL
NSO	431,529	46,526	29,427	5,793	513,275	7,878	-	2,431	10,309				
KOM	1,301,489	121,535	178,929	22,643	1,624,596	35,234	17,233	5,607	53,074	483	2,734	-	3,217
SANTA	722,473	32,665	388	20	755,546								
NKAMBE	671,738	91,194	32,193	8,011	803,136	53,572	33,060	27,100	133,732	16,279	2,828	-	19,107
OKU/NONI	393,104	45,344	25,918	4,319	468,685								
CENTRAL	407,497	17,529	5,422	340	430,788	43,659	-	3,596	47,255	4,524	484	-	5,008
PINYIN	303,972	17,925	9,598	777	332,272								
NDOP	180,780	9,000	6,060	420	196,260	39,060	-	3,156	42,216				
MOGHAMO	96,353	3,154	44,663	3,060	147,230	461,184	4,567	26,686	492,437	22,960	2,169	-	25,129
MBENGWI	107,273	6,005	10,692	934	124,904	141,486	27,110	19,542	188,138	3,807	9,908	67	4,782
BALI	100,114	7,858	6,300	1,680	115,952	169,258	-	11,806	181,064	11	-	-	11
	4,716,322	398,735	349,590	47,997	5,512,644	951,331	96,970	99,924	1,148,225	48,064	9,123	67	57,254

APPENDIX 7B2

Chief of Bureau Produce,
N.W.C.A. Ltd.,
Bamenda.
19-6-1990

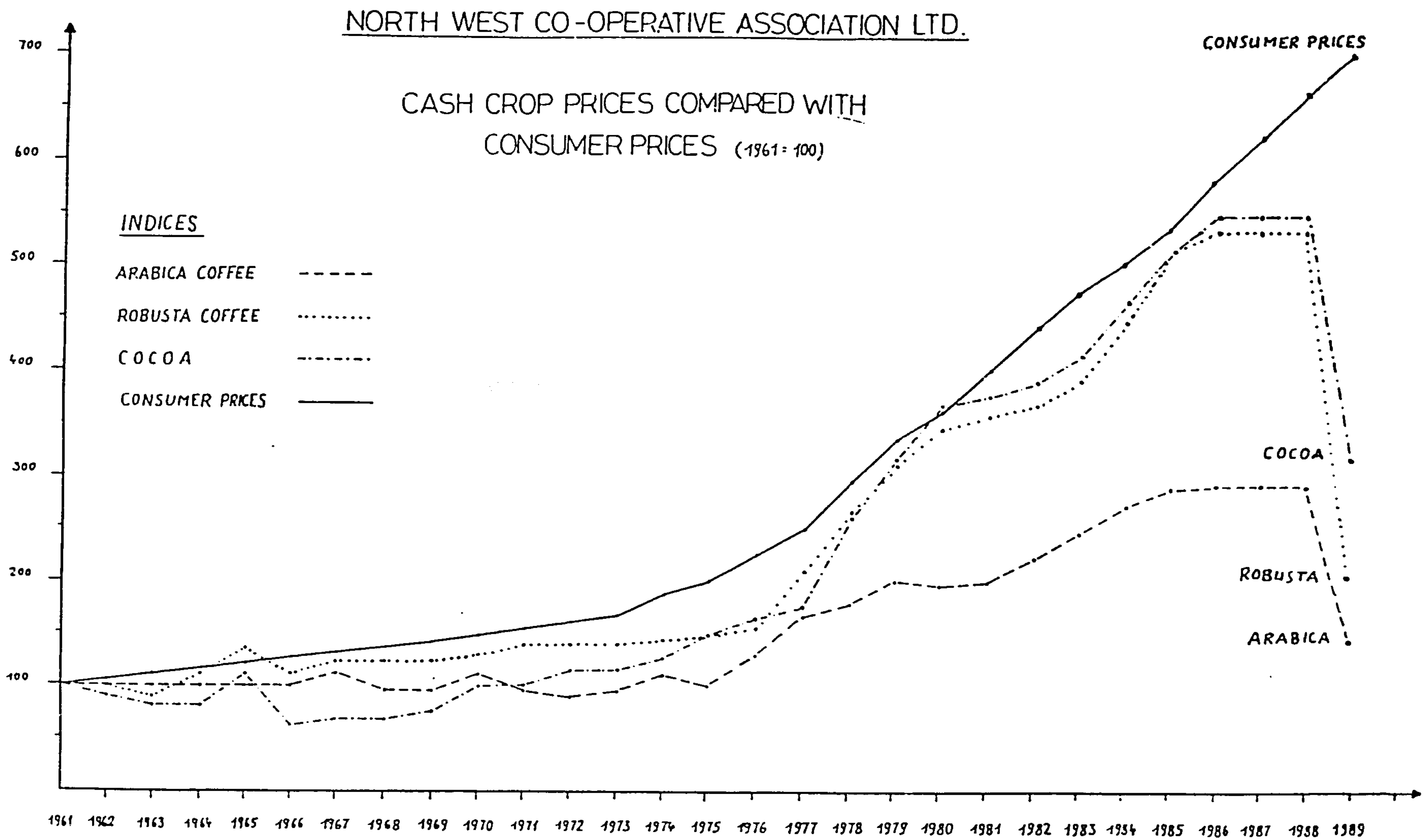
The General Manager,
N.W.C.A. Ltd.,
Bamenda.

Sir,

PRODUCE PURCHASING AND FINANCING FOR 1989-90 SEASON AS AT 16/06/90
(FIGURES IN KILOGRAMMES).

	ARABICA COFFEE					ROBUSTA COFFEE				COCOA			
	WASHED GOOD BEANS	WASHED TRIAGE	UNWASHED G. BEANS	UNWASHED TRIAGE	TOTAL	SUPERIOR AVERAGE	MARGINAL	TRIAGE	TOTAL	GRADE I & II	HORS STAND.	RESI DUE	TOTAL
NSO	272,230	29,383	49,301	9,757	360,671	11,538	-	3,498	15,036				
KOM	536,405	46,614	39,069	4,672	626,760	972	-	92	1,064	223	-	-	223
SANTA	203,172	8,880	36,956	2,413	251,421								
NKAMBE	222,041	31,835	17,724	6,097	277,697	11,868	14,283	8,544	34,695	8,057	429	-	8,486
OKU/NONI	303,746	36,544	9,674	1,378	351,342								
CENTRAL	102,254	6,613	3,872	328	113,067	11,188		932	12,120	-	339	-	339
PINYIN	39,522	1,826	100,334	6,075	147,757								
NDOP	80,002	10,234	3,587	686	94,509	13,166		8,023	16,189				
MOGHAMO	46,342	2,588	8,100	462	57,492	151,959		8,833	160,792	13,636	1,825	-	15,461
MBENGWI	41,015	3,472	5,577	564	50,628	19,995	4,894	2,706	27,595	-	682	-	682
BALI	33,686	2,020	4,839	566	41,111	74,003		6,926	80,929				
	1,880,415	180,009	279,033	32,998	2,372,455	294,689	19,177	34,554	348,420	21,916	3,275	-	25,191

APPENDIX 8

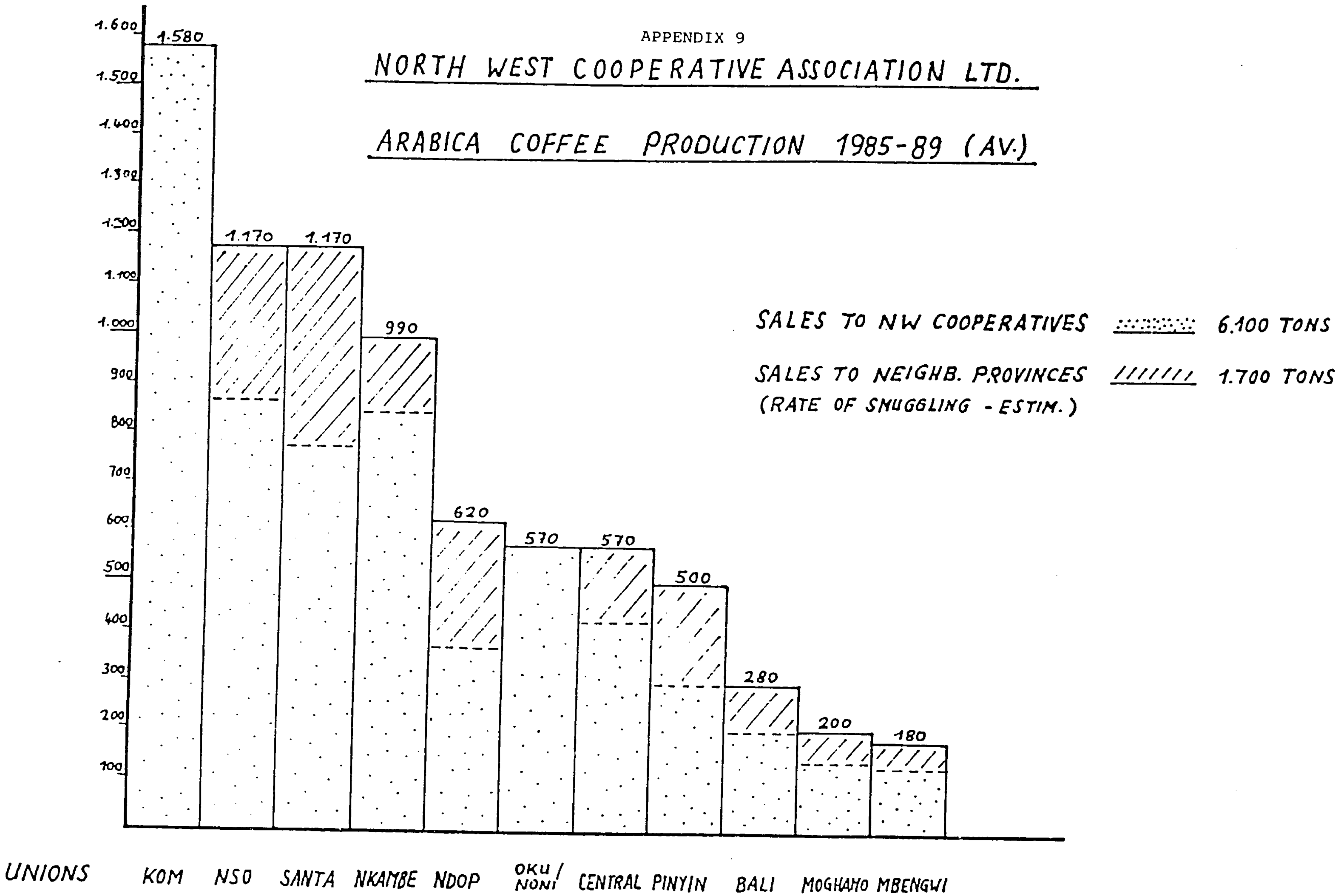


SOURCE. D E D (GERMAN VOLUNTEER SERVICE), GENOSSENSCHAFTEN IN KAMERUN, BERLIN / YAOUNDE 1985

APPENDIX 9

NORTH WEST COOPERATIVE ASSOCIATION LTD.

ARABICA COFFEE PRODUCTION 1985-89 (AV.)



APPENDIX 10

BR

BERNHARD ROTHFOS

XXXXXXXXXK GmbH

HAMBURG FREIHAFEN

BERNHARD ROTHFOS AG [illegible] HAMBURG [illegible]

TELEFON (040) 37 00 1 0
TELEFAX
TRADING (040) 37 00 1 338
FINANZEN (040) 37 00 1 339
ABWICKLUNG (040) 37 00 1 329
TELEX
TRADING [illegible]
FINANZEN [illegible]
ABWICKLUNG [illegible]

HAMBURG

F A C S I M I L E   M E S S A G E

Date/Datum : 31.05.90

To/An : North West Cooperative Association Ltd.
Attn. Mr. Hartmut Hofmeister

From/Von : Bernhard Rothfos GmbH - Mrs. Gisela Petersen

Re/Betr. :

Dear Mr. Hofmeister,

following your exchange of information and telefax with Ibero Cameroun, Douala we herewith like to give you our actual price quotation for the quantities and qualities in question (Arabica coffee type A to E, approx. 10% unwashed, July/August 1990 shipment):

Type A	FF 1,100.--	per 100 kls	cif
B	FF 1.075.--		
C	FF 1.075.--		
D	FF 1.050.--		
E	FF 1.000.--		

We would appreciate receiving your best possible offers, also for part quantities.

The coffee market is still struggling to hold the present level and unfortunately there are no immediate signs of higher prices.
There are big quantities, especially from Central America which have arrived in Europe and in the United States, which have a negative effect on prices and roasters seem to be very reluctant to buy.

We will keep you posted on further development.

Kind regards
G. Petersen

ANNEX A

INSTITUTIONAL PATHS TO A MARKET-BASED ECONOMY: A PROPOSED PROGRAM OF RESEARCH IN CAMEROON

I. Background.

The research program described herein had its genesis in the USAID/Cameroon FY 1990-94 Country Development Strategy Statement (CDSS). In that document, the Mission described a plan for improving its understanding of the institutional requirements of successful policy reform, where the intent of reform is to create sustainable, competitive market structures, while minimizing the social costs of transition. The key activity to be undertaken was the elaboration of an analytical methodology, or framework, that could help the Mission understand more fully (1) how particular configurations of rules, or institutional arrangements affect market behavior, (2) the key institutional components that must be modified to achieve competitive and efficient private markets, and (3) the most efficatious process by which these reforms might be achieved with minimum social costs.

Shortly after the completion of the CDSS, the Mission contracted with specialists from Indiana University (IU), to conduct a series of seminars introducing the Mission to the Institutional Analysis and Design Framework (IADF). The institutional specialists also conducted a case study of the Fertilizer Subsector Reform Program (FSSRP), now being implemented by USAID/Cameroon. Based on the results of the seminars, which demonstrated the impressive capacity of the IADF to explain the institutional transitions occurring in conjunction with the FSSRP, the Mission decided to continue with its efforts to further elaborate the framework to meet the needs of its policy reform efforts. Under the auspices of the R&D Bureau's Decentralization: Finance and Management (DFM) project, the Mission organized further seminars and, in particular, applied the IADF and its methodology in the design of the project component of the first phase of the Program for the Reform of the Agricultural Marketing Sector (PRAMS-I).

In conducting its policy reform analysis, design, implementation and monitoring activities, the Mission, through the IADF optic, has identified a series of basic issues regarding both the content and process of market-oriented policy reform that need to be researched. Toward this end, PRAMS-I includes a major research component.

Guided by the IADF, the research will investigate: (1) the utility of the policy reform "model" being developed by USAID/Cameroon to guide the process of policy reform; and (2) the implications of the policy reform experience in Cameroon for understanding the institutional requirements of market-based development. The research component will be implemented as a buy-in to the DFM project. The University of Indiana will have principal responsibility for directing the research in collaboration with Associates in Rural Development (ARD), prime contractor for DFM.

The remaining sections of this paper describe the four basic objectives to be addressed in the research and related conjectures, research methods and activities, the resources required, the research schedule and outputs to be produced, and the research budget.

II. Description of the Research Program.

A. Introduction.

Based on several years of reflective experience, USAID/Cameroon has identified a number of critical issues related to the design and implementation of policy reform programs. The Mission is convinced that these issues are relevant in most of Africa and the Third World. The basic issue is concerned with how to establish the necessary institutional frame for the development and maintenance of a market-based economy. In dynamic terms, the problem is to find a politically, economically, and technically feasible path for institutional change. For most African nations, the starting point along any such path is an authoritarian bureaucratic regime superimposed on a highly regulated economy. Starting at this point, is there a feasible path that leads to sustainable market institutions?

USAID-sponsored policy reform programs in Cameroon, together with other Cameroon reform programs underway concurrently, afford an opportunity to seek answers to this immediate and practical question through comparative research. The two principal USAID/Cameroon programs of interest are a fertilizer importation and distribution program, (FSSRP) and a coffee marketing program, PRAMS-1. At the same time, The European Economic Community (EEC) has sponsored a parallel fertilizer reform program in the northern part of the country. Also, the World Bank is supporting a number of reform projects in conjunction with its Structural Adjustment Loan (SAL) program for Cameroon.

The FSSRP, now in its third year, has thus far been successful in liberalizing and privatizing the importation and distribution of fertilizers used by coffee and some food producers (among others).

PRAMS-I has two components--a policy reform program and a cooperative restructuring program. The policy reform component is intended to liberalize the internal and external marketing of arabica coffee. The cooperative restructuring component is focused on the North West Cooperative Association (NWCA), the principal organizational structure for processing and marketing coffee in the North West Province. At the same time, a collateral reform effort is underway to liberalize the national cooperative law, affecting all types of cooperatives throughout the country. Subsequent phases of PRAMS may include robusta coffee and cocoa, address cooperative structures elsewhere, and, on the input side, liberalize the importation and distribution of pesticides. Each phase is to be accompanied by intensive project support consisting of in-depth analysis, on-site research, and joint deliberation among the parties.

B. Research Program Objectives and Conjectures

Four objectives will guide the research effort:

- To identify the practical problems, and analyze the underlying institutional constraints, that accompany the introduction of liberal market reforms and threaten their sustainability in the context of a less developed economy long dominated by government.

- To compare and evaluate two types of reform: (1) commodity-based reforms that attempt to introduce market institutions and practices into a particular subsector, or vertical "commodity slice," of the economy and (2) "crosscutting" legal reforms that cut horizontally across sectors and commodity groups and affect the formation of enterprises and/or conduct of economic transactions more generally throughout an economy.

- To compare and evaluate relatively more or less "intensive" approaches to policy reform as practiced by development-assistance agencies: (1) a less intensive approach that, after an initial assessment, focuses on negotiations to secure government agreement to policy changes, then disengages from participation in reform implementation once negotiations have ended; and (2) a more intensive with a focus on problem-solving that extends from initial assessment through policy negotiations and implementation, covering a period of transition to new economic arrangements.

- To field test and further develop the Institutional Analysis and Design (IAD) framework adopted by USAID/Cameroon to enhance its capacity to help guide the process of institutional and policy reform and, from experience, build a cumulative knowledge of how reform works.

Each objective is addressed below with a background discussion followed by a brief statement of the purpose being served by each research component. In each case specific conjectures are formulated to guide the research process. The conjectures, which are preliminary expectations based on theory and an analysis of limited experience to date, will either be rejected, qualified, modified, or accepted and elaborated during the course of the research.

1. Problems Encountered in the Process of Introducing Liberal Market Reforms.

a. Background.

Economic liberalization narrows the scope of bureaucratic power that can be exercised over private economic decisions, but does not eliminate it. Even after economic activities previously performed by government, or controlled by government, are transferred to the private sector, positive action by bureaucratic agents is still required on an on-going basis for liberalization to succeed. Policy reform implementation necessarily involves important functions that only governmental actors can perform. Their discretion can be used in ways that impede rather than facilitate the process of reform. Many bureaucratic actors have incentives to resist successful implementation, especially if their future authority and employment are at stake. Implementation in this context is inherently problematical. Moreover, even when implementation is successful, policy reform may not be sustainable given the incentives of bureaucratic actors to undermine a liberalization regime.

b. Purpose

This research component is intended to document the types of problems encountered during the policy-reform process in order to learn better how to program appropriate development assistance.

c. Conjectures

(1) Stakeholder Resistance.

(a) Successful economic (including governmental) actors in any economy can be regarded as self-interested stakeholders in the institutions that frame the economy.

(b) Stakeholders, many of whom will exercise, or have access to the exercise of, restrictive authority will adopt strategies to resist the successful implementation of liberal market reforms.

(c) New institutions create new stakeholders whose interests are contrary to the pre-reform stakeholders. In the absence of external assistance, post-reform stakeholders can be expected to be both ill informed and ill positioned to counter the resistance strategies of stakeholders in the old system.

(d) As reforms become better established, post-reform stakeholders will become better informed and better positioned to resist efforts to revert to the status quo ante. They may, nevertheless, remain weak relative to the position of pre-reform stakeholders and, therefore, depend on the economic and political progress of a more general reform movement.

(2) Lack of Complementarity between Economic Rules and Legal/Administrative/Political Rules.

(a) Liberalizing the substantive content of rules of market behavior reduces dependency on government, but it does not alter the institutional arrangements within which officials administer, apply, and enforce remaining rules. The effectiveness and sustainability of liberalization depends on how official discretion is exercised during implementation and in the course of applying rules to specific cases over time.

(b) Economic reform will be hampered by the lack of complementarity between liberal economic rules, on the one hand, and bureaucratic legal and administrative rules, on the other hand, resulting in higher transaction costs in the economy and foregone opportunities for economic development.

(c) Specific economic reforms will engender demands for--and the sustainability of specific economic reforms will depend on--more broad-based legal, administrative, and political reform.

(3) Coping with a Bureaucratic Regime

(a) Central governments that have long dominated their private economies have developed entrenched bureaucratic regimes that exhibit enormous resilience in the face of change.

(b) A bureaucratic regime governs by means of official discretion, hierarchically controlled. One of its collective purposes is to extract rent and, for this purpose, operates in secrecy.

Social norms among bureaucrats reinforce these tendencies. The preservation of rent-extraction opportunities is a high priority widely shared in a bureaucratic regime.

(c) Pre-reform stakeholders who occupy positions of power in the bureaucratic regime may be well-placed to resist economic liberalization during implementation and transition.

(d) Host countries and development-assistance agencies may be able to establish special, transitional decision-making arrangements to introduce market liberalization and govern the process of implementation and transition to a market economy in particular sectors or subsectors as a means of countering the entrenched power of a bureaucratic regime.

(4) Market Learning.

(a) To the extent that more liberal rules begin to govern economic conduct, a period of learning is required for the relevant actors and organizations to adjust to a new economic environment. Not only must these economic actors adopt new strategies, the required strategies may be unfamiliar. This applies particularly to indigenous actors, whose mental image of the way their world works, basic orientation toward life, and well established strategies for securing a livelihood may have to change. In many cases, the change may be viewed as very costly. For example, cooperative officials who are "big men" in their village and accustomed to being well paid for their service to the cooperative may have to serve with less remuneration. Cooperatives that once could depend on the government to assure their survival must learn to survive on their own and in the face of competition.

(b) Learning depends to some extent on trial and error--learning from both one's own experience and the experience of others. Learning therefore implies some degree of failure. Some economic organizations can be expected not to survive the transition to a market economy. This is part of the necessary and unavoidable social cost of transition.

2. <u>Commodity-slice vis-a-vis Crosscutting Reforms.</u>

a. <u>Background</u>.

Assuming that everything cannot be changed at once, it is necessary to limit the scope of a reform program and choose a particular focus of effort. One possible focus is on "commodity slices," in which case commodity-specific policies are modified and an effort is made to introduce market-based practices throughout a particular subsector. Another possible focus is on the removal or attenuation of crosscutting legal constraints that affect the acquisition of specific factors of production (e.g., a labor code) or that affect the formation of economic enterprises (e.g., a corporate or a cooperative law) or the conduct of economic transactions more generally throughout an economy (e.g., a commercial code). Commodity-based reforms affect a vertical slice of an economy, attempting to introduce complementary institutional changes at all stages of production and exchange in a particular industry. The emphasis is on achieving complementarity of institutional arrangements throughout a subsector. A crosscutting reform affects a functional component of a more general set of economic transactions and organizations. These reforms operate more indirectly by removing constraints that impact economy-wide and reducing transaction costs, thus facilitating processes of economic organization and exchange.

b. <u>Purpose</u>.

The main purpose of this research is to offer guidance in determining the appropriate focus and scope of specific policy reform efforts jointly undertaken by development assistance agencies and host countries.

c. <u>Conjectures</u>.

(1) Interdependencies between Commodity-based and Crosscutting Reforms.

(a) Commodity-based reforms depend in varying degrees on changes in crosscutting rules that affect economic transactions more generally. Some commodities are so important to a national economy that special policy regimes have been created to control them. These commodities not only require specific reform efforts but are more independent of crosscutting reforms when implemented. Other commodity-based reforms necessarily depend on collateral reform efforts--they cannot be sustained without modifying, or at least neutralizing the effect of, key crosscutting rules. In still other cases, commodity-based reforms are more difficult to implement or less effective in operation without crosscutting reforms, but nevertheless are able to succeed, at least in the short-term.

(b) A reform effort focused on a major commodity is likely to have greater impact on economic growth in the short- to medium-term than is a single, crosscutting reform.

(c) At the same time, however, a major commodity-based reform may benefit significantly from crosscutting reform efforts focused on selected rules and regulations.

(d) Therefore, a mix of reform types--some focused on selected commodities, others focused on selected crosscutting rules--is apt to have a greater payoff than a reliance on one type of reform to the exclusion of the other.

(e) Constituencies that benefit from commodity-based reforms will be more concentrated and, therefore, will be more effective stakeholders able to defend the reform from efforts to subvert or reverse it. The long-term beneficiaries of any particular crosscutting reform, though potentially greater in number, are less concentrated and more difficult to organize as an effective constituency.

(f) Commodity-based reforms that obtain partial success lead to a greater demand for crosscutting reforms, thereby increasing their political feasibility.

3. <u>Less Intensive and More Intensive Reform Approaches</u>.

a. <u>Background</u>.

A less intensive approach to policy reform aims to achieve structural economic change mainly by negotiating to secure changes in national legislation that liberalize economic activity. It is a policy-focused approach that leaves implementation to the host country and its established institutions. A more intensive approach includes negotiated changes in national law and policy, but also remains fully engaged in the reform effort through implementation and a period of institutional transition. The focus is on iterative problem-solving that begins with a diagnostic assessment and extends through policy dialog, implementation, and the actual establishment of market relationships among private as well as public sector actors. In this way, errors can be corrected, and an initial change can lead to further change as a reform progra. unfolds.

b. Purpose.

The purpose of this research is to offer guidance in determining in the choice the most appropriate approaches to policy reform by development- assistance agencies and to provide an assessment of the level and type of effort required to make policy reform work. Included is an understanding of the appropriate scope of reform and when and how to disengage from the reform process.

c. Conjectures.

(1) Less intensive approaches to reform have both advantages and disadvantges:

(a) Single issue reforms that are narrowly focused on a few decisions and require little discretion to implement (e.g., the elimination of price setting or import quotas) can be successfully and efficiently introduced using a less intensive (and less costly) approach.

(b) More complex liberal market reforms entail problems not confined to issues that can be settled in pre-reform negotiations. By limiting its attention to this stage of reform, a less intensive approach is unable to affect a number of subsequent important institutional choices on which successful reform may depend.

(c) Some reforms that can be implemented with a less intenseive approach will be more productive if reforms requiring a more intensive approach are undertaken concurrently and vis versa.

(2) More intensive reforms depend on the following programmatic features to be effective:

(a) Monitoring and influencing bureaucratic decisions that bear on implementation, focusing attention on key legal and administrative activities, and providing information to economic actors on key government decisions in order to increase the transparency of decision-making.

(b) Monitoring and influencing private decisions that bear on the restructuring of key intermediate transactions that link economic actors.

(c) Facilitating the learning of market principles and strategies by providing information and advice to potential market actors and by providing technical assistance to key intermediate economic organizations (e.g., cooperatives).

(d) Compiling specific time-and-place information related to the problems of relevant economic actors and designing reforms adapted to those problems.

(e) Designing and iteratively redesigning transition structures to facilitate the exit of government agencies, the entry of private firms, and/or the restructuring of existing enterprises and, in general, to reduce the social costs of reform.

(f) Anticipating potential obstacles to implementation and economic restructuring and remaining fully engaged to revise the reform program, making institutional adjustments as unforeseen obstacles are encountered.

(g) Organizing post-reform stakeholders into effective constituencies to sustain a liberalized sector.

(3) The outcomes of more and less intensive approaches can be compared as follows:.

(a) More intensive reform approaches are more costly to employ than less intensive approaches.

(b) A more intensive approach requires that development-assistance agencies remain engaged in the process of reform for a much longer period.

(c) More intensive approaches are more likely to lead to full implementation of reforms.

(d) More intensive approaches are more likely to minimize the necessary social costs of transition.

(e) Once a reform is established, a more intensive approach is more likely to be sustained over the long-run.

4. Development of a Framework for Applied Institutional Analysis.

a. Background.

Intensive policy reform depends on an ability to recognize and diagnose problems, identify the working parts of a situation, and consider how institutional alternatives might alter the situation so as to engender different outcomes. This requires considerable attention to institutional detail. The institutionalist framework to be field-tested is composed of four elements:**1.See Oakerson, Wynne, Truong, and Walker, Privatization Structures: An Institutional Analysis of the Fertilizer Subsector Reform Program, for an elaboration and explanation of the framework.*

- An analysis of the structure of the relevant physical world or hard constraints and the limitations and opportunities it creates.

- An analysis of institutional arrangements, which are composed of rules that specify who decides what in relation to whom;

- An analysis of patterns of interaction among decision-makers who choose strategies to relate to one another;

- An analysis of outcomes or consequences in terms of stipulated values.

The framework rests on an assumption that the structure of the physical world together with institutional arrangements define discretion and create incentives that shape patterns of interaction among decision-makers--patterns of interaction that, in turn, lead to outcomes. Perverse incentives result from a lack of fit between institutional arrangements and the physical world. The task of institutional design is to modify institutional arrangements by changing rules so as to better match the structure of the physical world. This allows decision-makers to achieve more mutually productive relationships. Multiple levels of analysis are used to trace the effect of institutional changes starting with basic governance arrangements all the way to the production and exchange of specific commodities.

b. Purpose.

1/ See Oakerson, Wynee, Truong, and Walker, Privatization Structures: An Institutional Analysis of the Fertilizer Subsector Reform Program, for an elaboration and explanation of the framework.

The main purpose of this research component is to provide development-assistance agencies and host countries with the analytic tools necessary to diagnose problems and design institutional arrangements related to programs of institutional and policy reform.

c. Conjectures.

(1) The structure of the physical world related to the production, distribution, exchange, and consumption of specific commodities will impact significantly on the outcome of intensive policy reforms.

(2) Institutional arrangements will impact significantly on the implementation of policy reforms at a minimum of three levels: (a) a governance level concerned with the creation of a liberal market regime; (b) one or more intermediate level(s) concerned with the creation of transitional arrangements and the emergence of private industry structures; and (c) an operational level concerned with production and exchange. Each di-tinct level should be addressed in order to maximimize the probability of successful reform.

(3) Property rights are an important element of the institutional arrangements that define a liberalized market, including both the right of transfer and the right to claim a residual after transfer. The distribution of property rights among producers at various stages of production and exchange should reflect the physical nature of the commodity and circumstances of production as these relate to the incentives required to produce efficiently.

(4) Individual market actors will respond to a change in the structure of incentives to the extent that they understand the implications of the change for their own and others' decisions or behaviors and the associated benefits and costs.

C. Research Methodology

The research program is addressed to complex issues involving a limited number of cases in Cameroon. Case-study methods will be employed as the predominant means to generate information for comparative analysis. A series of case studies will be conducted, each one focused on a different policy-reform effort in Cameroon, selected for purpose of comparison. The case studies will be supplemented by concept papers and literature reviews designed to provide both theoretical and methodological guidance to the research process and a broader empirical background against which to interpret results.

1. <u>Background Papers</u>

In view of their importance in creating the setting for the long-term research effort, all background papers will be completed within the first four months of this buy-in. Four papers have been programmed.

a. <u>Framework</u>. The first paper will describe the institutional analysis and design framework (IADF) that provides the conceptual umbrella for the research program described in this buy-in. The paper will describe not only the basic analytical framework, including its general conceptual and cognitive aspects, but also the framework's specific application in Cameroon in helping the Mission understand and guide structural reforms aimed at expanding the role and increasing the efficiency of private markets in Cameroon. The paper will also describe the overall role and application of the framework in the conduct of the research program outlined in this buy-in. The paper will be written in the U.S. by the Research Director, who will be a senior institutional specialist as provided under this buy-in, and should be completed within the first 6 months of the research program. It will take 3 weeks to prepare.

b. <u>Organizational Models of Policy Reform</u>. The second paper will involve mini-case studies comparing and contrasting the organizational structures, policies, strategies, objectives, priorities and incentives of the World Bank, European Development Fund and AID with respect to the programming and implementing of structural adjustment and specific types of policy reform interventions flowing therefrom. The primary focus will be on comparing and contrasting the methods and approaches followed in designing, implementing, and evaluating structural adjustment activities. Do these organizations, for example, have a theory that is used to guide the policy and institutional (i.e. laws, regulations and procedures) change efforts they are financing? and how do they see their role in the institutional change process? This paper will be based almost entirely on a synthesis of secondary literature and published information that is readily available. It will be prepared in the United States by the Institutional Economist provided under this buy-in and approved by USAID (or by an external subcontractor approved by USAID). It is expected to take about 1.5 months to prepare. It will be completed within the first year of the program.

c. The History of Market-Based Economic Development in the West. A third paper will be prepared on the development of free competitive markets in the western world. The primary focus of this paper will be on generalizing the historical institutional path(s) that were followed in the transition from traditional economies to modern markets. The paper will be based entirely on secondary literature. It will be drafted in the United States by the Institutional Economist provided under the buy-in and approved by the Mission. It is expected to take 1 month to complete.

d. Bureaucratic Regimes: A Conceptual Prototype. The fourth paper will describe the concept of the bureaucratic regime and its general manifestations in Cameroon. Given the changes underway in Cameroon, this paper will provide a conceptual base for studying a bureaucratic regime in transition. The paper will discuss the origins, objectives, and functioning of a bureaucratic regime, and relate to the uncertainties and tensions created by transition. The paper will be drafted in the US by the Research Director based on work he has carried out for USAID/Cameroon. It is estimated that it will take approximately 4 weeks to prepare.

2. Case Studies

A total of five case studies will be conducted under this buy-in. The scope and intensity of the data monitored under each case study will vary according to data needs. In this regard, research activities will be driven by two related needs. The first involves the practical need of USAID/GRC managers and technical assistance personnel for timely information about the effects of specific changes in institutional arrangements being implemented under USAID- assisted policy reform activities. This will permit appropriate adjustment in those activities to minimize the social cost of the reforms being implemented. The second involves the Mission's need for information regarding the four research objectives discussed above to guide programming decisions concerned with identifying a feasible institutional path to sustainable, market-based economic growth. In programmatic terms the Mission seeks guidance on how best to design and implement structural adjustment aimed at liberalizing and privatizing an economy while minimizing social costs. Because of the general nature of the issues involved and the need for comparative data, the cases to be studied include selected IBRD and EEC funded programs.

Based on these needs, the five cases include, in order of scope and intensity of data monitoring, USAID/Cameroon assisted PRAMS-I, FSSRP, and coop law reform, EEC assisted PSIE, and SAL-I plus a still-to-be-selected specific IBRD policy reform activity.

a. PRAMS-I

PRAMS-1 has two components: (1) a policy-reform component aimed at liberalizing the marketing of arabica coffee in Cameroon and (2) a project component aimed at restructuring of the North West Cooperative Association (NWCA) in the North West Province.

The policy-reform component specifies five basic changes: (1) replacing the present system of administered prices with market-based pricing; (2) removing government control over marketing costs and margins and replacing the existing inefficient tax structure with a single graduated tax; (3) eliminating any direct government role in either the internal or external marketing of arabica coffee; (4) replacing the existing system of administered quality control with a market-based system; and (5) limiting the power of the government to intervene in the internal management and governance of arabica coffee marketing cooperatives through a reform of the national cooperative law. One major result of these changes is the dissolution of the National Produce Marketing Board (NPMB), formerly responsible for the export of agricultural commodities. Thisi will allow competitive market dynamics to be introduced into the arabica coffee subsector at all stages of processing and marketing.

A field researcher will be based in Yaounde to monitor the implementation of the policy-reform component, including the NPMB's dissolution and its impacts.

claimants are linked to international markets. Instead of conceptualizing NWCA as a single firm, the association is viewed as a complex structure that potentially allows opportunities for entry and exit by individuals, primary cooperative societies, and cooperative unions. Quasi-market arrangements within the cooperative structure are expected to facilitate the communication of world market signals to farmers and their primary societies. This is viewed as a prerequisite for economic development in the arabica coffee sub-sector. The utility of this theoretical apparatus in designing institutional arrangements within NWCA can only be assessed through a careful study of experience as the reform program unfolds.

Because both management and research information needs will be addressed under the PRAMS-I case study, intensive monitoring of the PRAMS-I experience in the North West Province as well as in Yaounde will be required. NWCA operates at three levels of organization--an apex or general level, 11 cooperative unions, and a base of 40 primary cooperative societies. Decisions and activities at each level must be monitored, but it is the primary society level (including the farm level) that poses the greatest challenge. The number of primary societies is expected to increase as the program unfolds. For these reasons, 11-13 Peace Corps volunteers and five Cameroonian counterparts (recent university graduates) will be recruited to undertake the bulk of the monitoring at the primary-society (and farm) levels. The PCVs and their counterparts will have both technical assistance and research responsibilities, i.e., they will be expected to provide information and counsel to cooperative officers and members as well as to observe the cooperatives and report their observations regarding cooperative restructuring and the four major research issues. Their role will be highly interactive.

To provide technical guidance and coordination for the data collection activities of the PCVs and their counterparts, a full-time field researcher will be assigned to Bamenda. The Bamenda field researcher will coordinate closely with a Yaounde-based field researcher to ensure that data collection relevant to the four research questions is compatible.

The PCV field monitors and their counterparts will be trained in the rudiments of institutional analysis and design, and sensitized to the critical design features of the plan for NWCA's restructuring [see attached document describing PCVs' and their counterparts overall responsibilities]. Detailed research schedules and formats will be written to guide field activities, Monitoring will include interactions between USAID and NWCA; between local decision-makers in the North West and those in relevant offices of the central government; and between USAID decision-makers and central-government representatives responsible for implementing policy reforms. If experience with the FSSRP is an accurate guide, this dimension of the PRAMS-I reform process will be critical to its success. Although USAID program implementation personnel in Yaounde will be directly in touch with these issues as they develop, it is important to have a researcher on site whose major responsibility is to record the unfolding events and experiences that characterize the implementation/ transition process. The researcher will also monitor broader impacts flowing from the dissolution of NPMB.

The policy reform component is complemented by a project component to assist the restructuring of arabica coffee marketing cooperatives in the North West. The key to the development of the arabica coffee subsector is thought to be the improvement and maintenance of quality. World market signals, which are very sensitive to quality, have to be effectively transmitted to farmers through their cooperative marketing structure. Farmers and their agents must realize either the gain or the loss from controlling or failing to control quality. In order to succeed within a cooperative structure, farmers must be able to act collectively at three different operational stages--when coffee is accepted from farmers, graded and bulked, and finally exported. The institutional design for restructuring NWCA is intended to facilitate this process in two ways: (1) by developing internal pricing arrangements that create incentives for quality control and improvement and (2) by developing governance arrangements that allow the cooperative structure to be controlled and adjusted at farmer initiative from the bottom-up. This entails reversing prior trends toward top-down control of the cooperative structure.

The institutional design being tested in the North West draws on concepts of property rights, transaction costs, industry structure, and polycentric order--all within the IAD framework. The use of these concepts is linked to theoretical arguments concerning each concept more generally. PRAMS-1 affords a very good case for examining the relationship between the nature of a good (arabica coffee) and the emerging structure of an industry. A key issue is concerned with who has the status of a residual claimant and how residual and updated on a month-by-month basis. Each PCV/counterpart researcher will have a check-list of activities and decisions to monitor on a regular or seasonal basis and be required to write a monthly report. In addition, each PCV/counterpart researcher will pursue a schedule of activities designed to learn more about the nature of the community that forms the primary social and institutional context for each cooperative society. This will provide an important research base for assessing the actual social costs of the reform program as well as the potential social costs of alternative reform approaches. It will also provide information about how communities handle the increased responsibility and authorities they inherit as a result of liberalization.

Peace Corps Volunteers will be provided adminstrative support by Peace Corps Yaounde. Their Cameroonian counterparts will be provided administrative support (recruitment, salary payments, fuel, etc.,) by the MIDENO Project.

b. FSSRP.

The FSSRP, which has completed more than three years of its authorized five-year life, is the program in which USAID/Cameroon initially developed its more "intensive" approach to policy reform and, for this reason, is an important case study. The Yaounde-based researcher will have responsibility for continued monitoring and data collection related to FSSRP implementation. A consultant provided under the buy-in and approved by the Mission will expand and update the case-study work already completed on this program and integrate the results of continued implementation activities. Information generated through implementation monitoring will also prove helpful to USAID personnel responsible for managing FSSRP. For example, at this stage of implementation, information on the status of coalition building among those who have or will benefit from the liberalization could prove most helpful. Also, tracking the level and nature of competition among importers and distributors is necessary to ensure the sustainability of the market efficiencies already realized under this program. Information regarding FSSRP impact and implementation costs will be obtained primarily from annual review data currently being collected on a periodic basis by a U.S. consulting firm.

c. Cooperative Law Reform.

This predominatly, UNDP/ILO-funded project was selected as a case study because it is an example of a crosscutting policy intervention that is important to the long-term success of two commodity-slice reforms-- FSSRP and PRAMS-I. As with FSSRP, considerable time has passed since the reform of the cooperative law was established as a GRC priority in 1988.

Thus, the Yaounde-based researcher will need to focus initially on gathering historical data. To obtain this information the researcher will rely heavily on secondary sources supplemented by interviews with key participants in the coop law reform effort from USAID, UNDP/ILO, GTZ and the GRC. The researcher will also monitor future progress in promulgating a liberalized cooperative law by engaging in periodic data collection activities (interviews/secondary data reviews) until a new law is passed by the National Assembly. Thereafter, monitoring will shift to the implementation and application of the new law.

d. PSIE.

This EEC-funded and implemented fertilizer reform activity was selected as a case study because it is a companion to the FSSRP. Given its similarity to FSSRP with respect to long-term goals, PSIE provides an excellent opportunity to do a comparative study of the EEC policy implementation approach, which contrasts sharply with that of USAID/Cameroon. Again, since it is in the final year of its implementation, the primary research task will be to gather historical data on the implementation process. For this the researcher will rely heavily on secondary data (reports, evaluations, etc.), on the implementation process and its outcome. In addition, the researcher will interview EEC/Yaounde staff responsible for PSIE's implementation. This research will be carried out by a contractor provided under this buy-in and approved by the Mission.

e. SAL-I and a Component Project.

The IBRD first Structural Adjustment Loan was included as a case study because it will provide several examples of the World Bank's policy reform philosophy and approach, which also contrasts sharply with those of AID and, in particular, USAID/Cameroon. As two of three planned disbursements under SAL-I have been made, the primary task will be to collect historical implementation data, followed by monitoring of continued implementation through the completion of SAL-I. In addition to the general focus on SAL-I, one new IBRD-funded policy reform project will be selected as a case study. The selection will be made with the objective of providing an example of a relatively less intensive reform effort as a comparison to the more intensive approach followed by USAID/Cameroon. This work will be carried out by the U.S.-based Institutional Economist provided under this buy-in.

3. Methodological Guidelines for the Preparation of Case Histories.

Detailed methodological guidelines will be prepared by

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the U.S.-based research staff to assist field researchers with the compilation of case histories. The following guidelines are illustrative:

- Structure case histories according to the Institutional Analysis and Design Framework (IADF).

- Describe pre-reform study and information-search efforts and methods by USAID/Cameroon or other donors. Describe and summarize the extent of time-and-place-specific knowledge and information used in the process of program design. Specifically, (a) to what extent did program planners investigate and take into account the physical characteristics of commodities included in the scope of the reform program and (b) to what extent did they study the full range of ru'es governing the relevant subsector activities [see attachment on types of rules]?

- Describe analytic framework (if any) used by agencies (other than USAID/Cameroon) to guide policy and institutional reform.

- Describe the process whereby this program focus was selected, the factors considered in the decision, and how the focus may have changed during the course of pre-reform decision-making.

- Note how participants decided to define and limit the scope of the reform program, and how often the scope may have changed during the course of design and implementation.

- Describe networking among reform participants including donor agency, government, and private individuals.

- Describe the puzzles that are encountered as implementation/transition proceeds. Puzzling situations are those in which decision-makers are unsure what to do next. They may seek out additional information, re-analyze the situation and rethink strategies, and pursue further negotiations. Care should be taken to describe the degree of uncertainty and methods used to think through and resolve each puzzle. [Note that this is easier to do if the researcher is monitoring a situation as it unfolds, than if one is reconstructing a situation from interviews. Looking back, decision-makers tend to reconstruct a puzzle in view of its solution instead of articulating their original sense of puzzlement.]

- Note deviations between a priori expectations and what eventually happened during policy dialogue, implementation, and transition. What decisions and actions or inactions do participants identify in retrospect as having been in error? What do they believe was the source of the error? What alternatives were available?

- Care should be taken to estimate the person-time (including all professional, direct-hire personnel and contractors) expended by USAID/Cameroon and others on total policy dialogue and program implementation activities. Estimates of past work time should be based on documentation as well as interviews and derived from a chronological reconstruction of the full set of events. Vague recollections of time spent are not a sufficient basis for estimation.

- Both policy dialogue and implementation should be studied from multiple perspectives. From separate interviews, the researcher should investigate how donor and host country personnel regarded each other during these processes in order to understand the strategic interactions between them.

- Describe the frustrations articulated by participants and identify the principal sources of frustration.

4. <u>Tracking the Effect of Crosscutting Policies on Reform</u>.

Because Cameroon's crosscutting institutional arrangements (labor code, investment code, commercial code, commodity policy, property rights, contract enforcement systems, etc.) are currently in a state of considerable flux, it is essential to include a system for keeping researchers (not to mention USAID program managers) informed about the status of key crosscutting policy reforms and their implications for the commodity slice reforms being supported by USAID. To address this need, the Contractor will enter into a subcontract with a local private institution such as the Center for Research in Applied Economics (CRAE) or the Private Sector Research Institution (PRISERI). These are non-profit research institutes which are both headquartered in Yaounde. The CRAE has considerable experience in conducting studies on Cameroon's legal, regulatory and procedural arrangements and their impact on private competitive markets. As a result of its work in this area, the CRAE has developed a significant library of up-to-date publications of laws and regulations relevant to the research to be carried out under this buy-in. Moreover, because of its previous contract work and informal association with USAID/Cameroon, CRAE's chief researcher has a general understanding of the IAD framework being progressively applied by the Mission to its policy reform activities.

The PRISERI is a more recent creation which, like CRAE, is staffed by faculty from the University of Yaounde. The contractor is encouraged to review the research capability and products of these and other research groups in competitively selecting an appropriate subcontractor.

D. Scope of Work

To address the objectives of the above described research proposal, the contractor will provide the following:

1. Research Personnel.

a. U.S.-based Research Team.

The U.S.-based team will include:

Research Director (RD)	6.0 months per year
Institutional Economist (IE)	6.0 months per year
Research Assistant (RA)	6.0 months per year
Part-time Secretary	6.0 months per year

The Research Director (RD), who will operate from the Workshop in Bloomington, will be responsible for coordinating and supervising the entire research program. He will also supervise and contribute to the preparation of interim and final reports.

The Institutional Analyst will be responsible for organizing a database and reviewing field reports, doing secondary research, and contributing to interim and final reports.

The Institutional Economist will be responsible for providing economic analysis in support of the research program, writing two background papers, carrying out selected research tasks, including the IRBD case study, and contributing to interim and final reports.

U.S.-based personnel will travel to Cameroon as needed to supervise field personnel, conduct research, and gain first-hand field experience. Travel time is expected to include up to 12-15 person-weeks per year.

The maintenance of a data base and the summary and integration of field reports will occur primarily in Bloomington and require both administrative and research assistance. Significant report writing will also be done in or coordinated through Bloomington, requiring secretarial support.

b. <u>Field Research Team</u>.

(1) <u>Description</u>.

The field research team will include:

Bamenda-based Researcher (ABD)	Full-time
Yaounde-based Researcher (ABD)	Full-time
Local Institute (CRAE)	Continuous

The field research team will include a full-time researcher (All-But-Dissertation Ph.D. Candidate - ABD) in Bamenda who will guide the data collection and reporting activities of the PCVs. S/he will also conduct data collection and analysis activities supplementing that of the PCVs.

A second full-time field researcher posted in Yaounde will have responsibility for a series of case histories, requiring both recent historical reconstruction and on-going monitoring of activities and events. His/her responsibility will include periodic data collection analysis and reporting regarding AID/Cameroon's role in policy reform under PRAMS-I (policy reform component), FSSRP, and Cooperative Law Reform.

(2) <u>Detailed Responsibilities</u>.

(a) <u>Bamenda-based Field Researcher</u>.

- Coordination of the research activities of Peace Corps Volunteers stationed in the 11 cooperative unions [see attached document on responsibilities of PCVs].

- Monitoring of all reform-related activities at the apex level, remaining closely in touch with technical advisors and NWCA staff, and keeping a chronology of major activities and events with descriptions.

- Monitoring of restructuring activities at all levels of the NWCA: The field researcher will directly monitor (1) efforts to divide existing CPMSs and (2) activities at CPMSs and unions experiencing greater hardship or difficulty. Individual case histories will be written for each case of CPMS division and of CPMS or union failure. Other CPMSs may also be singled out for individual case histories (e.g., CPMSs that adopt innovative processing technology, develop extension programs, or adopt new internal governance arrangements).

- Compiling quantitative data on CPMS operations, utilizing the PCVs as primary collectors.

- Monitoring the emergence of private traders in the North West, interviewing traders and farmers who sell to traders or to competitive cooperatives in the West Province. CPMSs exposed to greater competition from private traders or West Province will also be given particular attention.

- Preparing a comparative analysis of CPMS performance taking into account the such factors as: size and heterogeneity, location, business practices, equipment and facilities, exposure to competition, union affiliation, and history of financial difficulty and/or corruption.

- Monitoring and investigating the effects of changes in the national cooperative law on NWCA and its constituent cooperatives and ccoperative unions; writing a summary report.

- Preparation of monthly reports that describe on-going reform activities, problems, and issues.

- Preparation of a final summary report.

(b) Responsibilities of Yaounde-based Field Researcher:

- Preparing a Case History of PRAMS I, Policy Reform Component, to date:

  [1 month--first priority]

  - Review of documents.
  - Interviews with key Mission and Government personnel.

- Summary of Status Quo Ante.
- Chronology of events.
- Key issues in negotiations and how resolved.
- Major sticking points/accomplishments in implementation to date.
- Writing an account of the policy dialogue.

- Continued Monitoring of PRAMS I, Policy Reform Component, Implementation and Preparation of Summary Case History:

  [on-going]

  - Recording problems and difficulties with implementation as they arise, and how resolved.
  - Interviewing key government and mission personnel involved with each major sticking point in implementation.
  - Keeping a chronology of events and activities.
  - Writing a summary case history.

- Review of the FSSRP and Continued Monitoring of Implementation:

  [2 weeks, 2nd priority, and on-going]

  - Recording problems and difficulties as they arise and how resolved.
  - Keeping a chronology of events and activities.

- Preparing a Case History of Cooperative Law Reform Activities To Date:

  [2 months, 3rd priority]

  - Review of documents.
  - Interviews with key mission, government and other donor personnel involved.
  - Chronology of events and activities.
  - Writing a case history of the law-reform process to the point of legislative enactment.

- Continued Monitoring of the Cooperative Law Reform Effort in the Implementation Phase.

  [on-going]

  - Interviews with government officials [COOPMUT Registrar, MINAGRI].
  - Interviews with officials and managers of selected cooperatives and cooperative

unions around the country.
- Writing a report on implementation problems and successes.

- Coordination with Local Researchers re; Crosscutting Effects Study.

[on-going]

2. Research products.

The principal research products will be delivered as follows;

a. The four background papers will be delivered by the end of the first year.

b. One interim review of field experience (including a review of current policy issues) will be delivered by the end of the first year.

c. Six written case histories based on the case studies (including one each for the policy reform and restructuring components of PRAMS-1) will be delivered in draft form during the 22nd month of the project.

d. Three policy issue papers, addressing each of the first three research objectives discussed above, will be delivered during the last month of the research program.

e. A final project report that summarizes case histories, presents final conclusions, and includes final drafts of baackground papers and policy issue papers will be delivered within three months of the conclusion of the project.

3. Summary of Research Responsibilities of Personnel.

Case Histories:

PRAMS-1, policy reform	Yaounde-based field researcher
PRAMS-1, coop restructuring	Bamenda-based field researcher
FSSRP, continued monitoring	Yaounde-based field researcher

FSSRP, update & extension	Consultant
PSIE (fertilizer)	Consultant
Cooperative Law Reform	Yaounde-based field researcher
SAL-1 reform project	Institutional Economist
<u>Background Papers:</u>	
Framework	Research Director
Organizational Models	Institutional Economist
Western Market Development	Institutional Economist
Bureaucratic Regime	Research Director

4. <u>Delivery Schedule.</u>

Training of Field Personnel	January	1992
Placement of Field Personnel	Jan.- Mar.	1992
First Interim Report	August	1992
First Annual Review Meeting	September	1992
Background Papers	Dece mber	1992
Second Interim Report	August	1993
Second Annual Review Meeting	September	1993
Written Case Histories	October	1993
Policy Issue Papers	November	1993
Final Report	December	1993

APPENDIX

THE RELATIONSHIP BETWEEN ECONOMIC AND POLITICAL LIBERALIZATION

I. Background.

In addition to the research objectives discussed in this proposal, a fifth objective has been contemplated, if additional funds were to be made available. This Appendix lays out a proposal for extending the research to include an investigation of the relationship between economic and political liberalization or democratization.

II. Description of the Research Component.

B. Research Program Objectives and Conjectures.

5. The Relationship between Economic and Political Liberalization.

a. Background.

Increasingly, international donors are seeking a linkage between economic and political liberalization, with the dual expectation that market-based economic development will contribute to democratization and that some degree of political liberalization may be a necessary condition of sustained economic growth. Much of the history of the Western world suggests that economic and political liberalization are closely tied together. The nature of the linkage, however, and its implications for development assistance are far from clear. The extent to which donors ought to explicitly condition assistance on political liberalization is uncertain. It is important to ascertain the degree to which economic liberalization has political implications and vice versa.

b. Purpose.

This research component is intended to provide international donors and host countries with a better indication of the multiple linkages between economic and political liberalization. This would enable donors to design programs that better assist the development of both market-based economies and democratically organized polities.

c. Conjectures.

(1) Transfer of Economic Power.

(a) Economic liberalization contributes to political liberalization by deconcentrating economic power. Resources once concentrated in the hands of government are dispersed through economic liberalization to a number of private parties. This leads to greater economic pluralism and, since economic wealth is a source of political power, to greater political pluralism as well.

(b) Economic liberalization simultaneously reduces the discretionary power of bureaucracy and enhances the autonomy of private citizens. Autonomy increases the capacity of citizens to hold governments accountable, which is an essential feature of democracy.

(c) Economic liberalization reduces government employment, decreasing the percentage of the population directly or indirectly dependent on government employment for their livelihood. Because government employees are stakeholders in the relative dominance of government in a society, they are less likely to challenge government power. Reductions in the government work-force therefore improve conditions for democratization.

(d) The combination of reduced bureaucratic discretion and decreased government employment diminishes the capacity of the government to extract and distribute economic rent to support a governing class; as this capacity is diminished, one of the basic purposes served by non-democratic governance is eroded, and conditions for democratization are improved.

(e) As economic liberalization meets with limited success, demands will be created for political liberalization that can further extend the benefits of a market-based economy. Demands for a rule of law in order to facilitate contracting and for physical infrastructure, such as roads, will increase; these demands will lead eventually to demands for democratic control governance.

(2) Learning the Practice of Democracy.

(a) As Alexis de Tocqueville noted, free voluntary association provides individuals with local practice in democracy that supports the extension of democracy to more extensive, national institutions. Economic liberalization increases the number of such opportunities by providing both freedom to organize and freedom to practice self-governance once organized.

(b) The practice of private business, allowed by economic liberalization, increases the level of skill in the population related to organization and problem-solving among people on the basis of mutual self-interest. Skill in organizing, the development of a problem-solving orientation to the ordering of human relationships, and a habit of individual reflection on mutual self-interests (as opposed to purely individualistic self-interests)--all these are promoted by economic liberalization and, in turn, encourage democratization.

(c) Among the specific organizational/associational skills learned in the private sector is constitution-making. By entering into bilateral and, even more so, multilateral contracts, and by organizing associations such as cooperatives, individuals learn the skills of making and keeping formal agreements, of rule-making and rule-application, and of using institutional arrangements as instruments for accomplishing common objectives. This learning contributes essential skills to the practice of democracy.

(d) Individuals may also learn, in a liberalized economy, to relate to other people more on the basis of individual merit than ethnic background. This relationship depends also on the existence of a more dependable legal system, so that it becomes less costly to conduct business with parties outside one's own ethnic group. A liberal market economy can therefore soften the edges of ethnic diversity in a heterogenous society and better enable a national community to find agreeable grounds for mutual accommodation and civil peace.

C. Methodology.

1. Background Papers.

One additional background paper based on a review of theoretical and empirical literature will be written. The paper will deal with the historical relationship between economic and political liberalization in terms of complementarities, tradeoffs, other interdependencies, and developmental sequences.

2. Case Studies.

No additional case studies would be conducted to address this research component. However, additional data would be collected and additional interviews conducted in each of the five case studies proposed.

3. Methodological Guidelines.

The relationship between economic and political liberalization is a long-term question that can only be studied over a 10-20 year period. This research will primarily collect base-line data against which change can be measured and assessed in such areas as: (1) the number of self-organizing and self-governing cooperatives that are created, particularly in the North West and West Provinces; (2) the impact of the reformed cooperative law on local farmer control of base-level farmer associations, particularly in the West Province; (3) the reduction of discretionary power, measured in both legal terms and monetary terms, that occurs in the national bureaucracy as a result of reform; (4) the increase in the discretionary power of private economic actors measured in monetary terms; (5) the decrease in public-sector employment resulting from reform (e.g., in ONCPB/NPMB, FONADER, Coop/Mut, CENADEC, etc); and (6) the decrease in government capacity to extract and distribute economic rents.

In many case, the base-line should include both pre-reform and post-reform measures. The number of so-called "cooperatives," for example, is initially expected to decrease after liberalization of the national cooperative law because many of the organizations now considered to be cooperatives are little more than extensions of the government. After an initial period, the number of cooperatives is expected to increase as people become aware of the new opportunities to create self-organizing, self-governing cooperatives.

D. Research Personnel, Schedule, and Products.

1. Research Personnel.

No additional personnel would be required, but one additional year for all personnel would be sought in order to address this question as well as extend the entire research effort.

2. Research Products

One additional background paper would be written, noted above, and one additional policy issue paper prepared at the conclusion of the research.

3. Revised Research Schedule

Training of Field Personnel	October	1991
Placement off Field Personnel	December	1991
First Interim Report	June	1992

First Annual Field Review	July	1992
Four background papers	October	1992
Fifth background paper	May	1993
Second Interim Report	June	1993
Second Annual Field Review	July	1993
Drafts of 3 policy issue papers	September	1993
Training of Field Personnel	October	1993
Placement of Field Personnel	December	1993
Draft off 4th policy issue paper	May	1994
Written Case Histories	June	1994
Third Annual Field Review	July	1994
Final Report	December	1994