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ANNEX III

**MID-TERM EVALUATION OF THE
NTAE PRODUCTION AND MARKETING PROJECT**

(NO. 519-0392)

(CLUSA)

ACRONYMS

AID	Agency for International Development (U.S.)
CLUSA	Cooperative League of the U.S.A.
CRECER	Equitable Rural Economic Growth Project (No. 519-0397)
DIVAGRO	The Salvadoran Foundation for Economic and Social Development
EC	European Community
FAO	Food and Agriculture Organization of the United Nations
FUSADES	Salvadoran Foundation for Economic and Social Development
LOP	Life of project
MZ	manzana = 0.7 ha
NCBA	National Cooperative Business Association
NGO	A private, non-profit, non-government organization
NTAEs	Non-traditional Agriculture Export Products
NTAE Project	Non-traditional Agriculture Export Production and Marketing Project (No. 519-0392)
OCIA	Organic Crop Improvement Association
PROESA	Association of Salvadoran Producers and Entrepreneurs
PROXSAL	Salvadoran Producers and Exporters Organization
QAP	Quality Assurance Program
TA	Technical assistance
UCRAPROBEX	Union of Coffee Producers, Processors and Exporters
USAID	United States Agency for International Development
USDA	United States Department of Agriculture

NTAE PRODUCTION AND MARKETING PROJECT EVALUATION REPORT

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EXECUTIVE SUMMARY

The Non-traditional Agricultural Export (NTAE) Production and Marketing Project (No. 519-0392) began on June 28, 1991, and has a scheduled five-year life. The project is being implemented under a \$9 million Cooperative Agreement with the Cooperative League of the U.S.A. (CLUSA), a private, non-profit, non-government entity (NGO). The NTAE project is the continuation of an earlier, \$1.9 million pilot project carried out by CLUSA between August, 1988 - January, 1991. The goal of the NTAE Project is to increase rural incomes through production of alternative crops, and through access to more lucrative markets. The purpose of the Project is to increase the volume of selected NTAE products marketed abroad, which are produced by cooperatives and small farmers. Targeted beneficiaries are cooperative members, along with small/medium producers meeting CLUSA's selection criteria. The Project directly targets some 8,000 producer-members of agricultural cooperatives, and up to 25 private growers with no cooperative affiliation.

MAJOR CONCLUSIONS

- The program has been remarkably successful in meeting and surpassing its targets. There has also been a qualitative change in certain export markets through CLUSA's role as an "honest broker" in coordinating export programs between brokers, producers, and exporters. CLUSA has demonstrated that integrity in NTAEs is good business.
- The promotion of organic crops makes good economic sense because earnings tend to be greater than for traditional crops. The reason is that production costs are lower since on-farm labor is used to produce organic fertilizers and "natural" pesticides at a lower cost than imported, synthetic products. For most crops, yields of organically grown crops are similar to yields obtained from traditional agricultural practices. Market prices of organic products tend to be higher when these are targeted on small but growing "niche" markets.
- Approximately six CLUSA-assisted cooperatives are now sustainable producers and exporters of fresh NTAE products. Institutions are in place and market linkages have been created so that they could continue to operate without outside assistance.
- It is doubtful that the Salvadoran Producers and Exporters Organization (PROEXSAL) will be sustainable by the time the NTAE Project ends. The organization is young and inexperienced, has not achieved financial self-sufficiency, and may experience conflicts of interest in trying to serve its highly varied membership.
- The sustainability of CLUSA's cooperative development efforts have been severely impacted by rotation of cooperative boards of directors which results in periodic management changes. Unless this problem is addressed, CLUSA's work will never end. CLUSA must help its clients achieve a separation of cooperative management, which have

social and political concerns, from the management of the cooperatives business. Sustainability must be created on the business side of the operation.

RECOMMENDATIONS

- Given that USAID assistance under the NTAE Production and Marketing Project beyond the current completion date of June 30, 1996 is still being discussed, the team recommends that CLUSA plan for its orderly close.
- The mission and role of the Salvadoran Producers and Exporters Organization (PROXSAL) should be better defined. CLUSA should identify and assign responsibilities to all entities which will continue the organization's work after CLUSA leaves. This would determine which of CLUSA's functions should be assumed by PROXSAL, and which ought to be assumed by other entities. CLUSA should also help PROXSAL develop a self sufficiency plan.
- CLUSA should consider the entire farm as an enterprise rather than focus its efforts exclusively on NTAEs. In order to not detract CLUSA specialists from their NTAE work, much of this management development work could be done by sub-contracting with local experts.

LESSONS LEARNED

- When an adverse environment cannot be changed, one must change the strategy for Project implementation. The evaluation team heard repeatedly that frequent turnover of cooperative decision makers meant that CLUSA-assisted cooperatives either could not graduate, or else recommended practices would be suspended once the board of directors changed. CLUSA should make stable management a pre-condition for providing services.

RESPONSE TO REVIEWER'S COMMENTS:

The draft evaluation report was circulated for review and comment to USAID Officials as well as to the management and staff at CLUSA who have been involved in implementing the NTAE Production and Marketing Project. In most cases the final report was modified as appropriate to reflect the information provided by the reviewers. In other cases their comments are shown as footnotes to the relevant section of the text. In all cases the evaluation team has attempted to fairly reflect the comments of the reviewer in the final evaluation report.

I. INTRODUCTION

A. PROJECT BACKGROUND

The Non-traditional Agricultural Export (NTAE) Production and Marketing Project (No. 519-0392) began on June 28, 1991. The Project has a five-year life and is scheduled to end on June 30, 1996. Implementation is carried out under a \$9 million Cooperative Agreement with the Cooperative League of the U.S.A. (CLUSA), a private non-profit, non-government organization known in the United States as the National Cooperative Business Association (NCBA). The NTAE project is the continuation of an earlier, \$1.9 million pilot project entitled the "Cooperative Production and Marketing Project" carried out by CLUSA between August, 1988 - January, 1991.

The goal of the NTAE Project is to increase rural income through production of alternative crops, and through access to more lucrative markets. The purpose of the Project is to increase the volume of selected NTAE products marketed abroad, which are produced by cooperatives and small farmers. Targeted beneficiaries are cooperative members, along with small/medium producers meeting CLUSA's selection criteria. The Project directly targets some 8,000 producer-members of agricultural cooperatives, and up to 25 private growers with no cooperatives affiliation.

Broad Project objectives are a) to increase and improve the production and export marketing of NTAEs, b) to improve and expand NTAE marketing systems, c) to develop and strengthen linkages between producers, processors, and exporters of NTAE products, and d) to promote investment in NTAE production and marketing.

The current Project expands CLUSA's efforts initiated under the pilot project. In the earlier project, CLUSA worked with twenty-four cooperatives, five exporters, and four food processors in El Salvador, and three food brokers in the United States. Efforts were focused on establishing supply contracts between producing cooperatives, exporters, and U.S. brokers of NTAE crops such as honey dew melons, cantaloupes, blackeyed peas, sesame, okra, and baby cucumbers. Primary objectives included improving the cooperatives' linkages with firms in the market channels and increasing the volume of production and export of these products. The pilot project also provided for the initial development of a management information system for NTAE crop production, including both production and marketing information.

While the pilot project focused exclusively on Agrarian Reform cooperatives, eligibility for participation in the NTAE Project has been broadened to include any of the approximately 474 agricultural cooperatives in El Salvador as well as small producer groups satisfying the criteria listed below. Individual growers who form producer groups with a total area in production of at least ten hectares will also be allowed to participate in the Project, as long as they satisfy

minimum entry requirements of being producers of NTAEs, are located within the geographic coverage of the Project, and are willing to follow CLUSA's advice and guidance.

Producer selection criteria are as follows:

- a) Participating farms must be accessible during the rainy season. Transportation of farm products should not be a problem.
- b) NTAE production operations started in the same geographic areas served by the pilot project, but has moved into new areas as pacification has brought opportunities for expansion.
- c) Producers within a given region served by the Project should be located in the same general area, so that several groups can be served by the same project personnel.
- d) Participating cooperatives and producer groups must have the ability to access production credit.
- e) Total land available for production by any one group must be at least ten hectares.
- f) Assisted groups must have at least ten members, and must appoint a representative with whom CLUSA's staff can interact.

The following targets were set for the current Project and represent increases from the original targets established for the pilot project: a) thirty six cooperatives, and possibly a few individual farms, when taken together will provide 533,000 person days of employment in non-traditional crop production; b) an increase in production of 26,146,000 pounds of NTAE products will be produced by CLUSA-assisted enterprises; c) due to CLUSA's assistance and market facilitation, a total of 5,773 additional hectares will have been planted in selected NTAE crops by the end of the Project.

Attached Table 1 shows progress made to date toward achieving these targets, as well as other outputs planned for the Project.

The Cooperative Agreement also specified that counterpart funds would be provided by CLUSA in the amount of \$2,337,875. Of the total amount, service fees were expected to total \$77,500 over the entire life of Project (LOP). The remaining counterpart funds are to be provided as in-kind services contributed by the participating cooperatives and producer groups.

Attached Table 2 compares the budgeted funding level for the entire Project with actual expenditures reported to-date.

B. PREVIOUS EVALUATIONS

1. Final Evaluation of the Pilot Project

A final evaluation of the pilot project was performed by Checchi Consulting Co. of Washington, D.C., in September, 1990. A summary of the major conclusions and recommendations follows. A detailed analysis of specific issues and CLUSA's response to them can be found in the attachment to this annex.

Conclusions of Pilot Project evaluation:

- a) The project had a significant impact on the development of local exporters and in improving the degree of competition among them. It also produced some changes in the marketing of products to local processors. The overall execution of the Cooperative Agreement was good.
- b) The project design overestimated the managerial and economic capabilities of the cooperatives to produce and export NTAE crops, and therefore the time and resources provided by the project were insufficient. These factors resulted in heavy dependency on the Project staff by the cooperatives producing fresh export products. This dependency significantly increased the probability that achievements would dissipate quickly after the termination of assistance.
- c) The project should develop different approaches for providing assistance, depending on the complexity of producing and exporting different categories of NTAEs. For example, the selection criteria for cooperatives producing fresh export products should be more restrictive than the criteria for cooperatives producing only products for local processing (for later export). Cooperatives producing fresh export products should receive a full complement of technical agricultural assistance with managerial assistance. Those cooperatives producing only for local processing could continue to receive partial managerial assistance as required to help them obtain production credit for NTAE crops.

Recommendations of Pilot Project evaluation:

- a) The evaluation team recommended that the pilot project be expanded into a full project for a period of at least four years, fully incorporating the lessons learned in the pilot project. It was recommended that funding be increased to provide a full complement of managerial assistance to the cooperatives producing fresh export products. The new project should adopt a more intensive approach and methodology for those cooperatives producing fresh export products, including a full complement of administrative, organizational and financial management assistance. This assistance should be of a quality and intensity at least equal to that provided by TechnoServe, but without

"graduating" the cooperatives after only two or three years. Benefitting Cooperatives should pay (nominal) fees for this assistance. Partial managerial assistance should be provided to those cooperatives producing only for local processing. This assistance should be similar to that provided by the pilot project.

b) The ultimate success of the expanded project's assistance in developing NTAEs should be measured by the ability of the entire production and marketing system to continue by itself after the project is completed. Quantitative targets should be set with extreme caution since the fresh fruit cooperatives would need a long period of intensive assistance before they become capable of continuing on their own. Cooperatives producing NTAE products for local processing would need less time to acquire the skills to become reliable, high-quality producers.

c) USAID/El Salvador should develop a separate project to promote investment by U.S. fresh fruit brokers and other entities in local export firms. The development of local exporters into firms with a capital base and experience as market participants will contribute significantly to the long-term development of El Salvador's export capability in fresh produce. The entire process can develop more rapidly if relationships are established between U.S. firms and individual local exporters.

2. CLUSA's Internal Evaluation of the NTAE Project:

In September, 1993, CLUSA carried out an internal evaluation of the NTAE Project. The conclusions and recommendations of this evaluation are summarized as follows:

Conclusions of CLUSA's internal evaluation:

a) The CLUSA Project was a very well designed project. It perfectly meets the needs of the targeted clientele. Implementation has closely followed the project proposal. Verifiable project outputs in most cases exceeded the level expected at the time of the evaluation. The biggest weakness is in the area of developing complete action plans for participating cooperatives and in providing technical assistance and training in overall cooperative management and accounting.

b) In addition to quantifiable outputs, the Project has made contributions in human resource development, technology transfer and cooperative management. This has been done through training programs in production, packing and marketing of NTAEs, and special programs in diverse areas such as pesticide handling, agro-ecology, and business development.

c) CLUSA's linkages to recipient groups appear to be close and effective. All cooperatives interviewed were pleased with CLUSA assistance. They intend to continue and gradually expand their NTAE production.

d) CLUSA's assistance has been instrumental in helping cooperatives and exporters learn to trust each other. For example, cooperatives now understand the benefits of commission sales and other types of participation contracts. CLUSA has helped cooperatives and exporters evolve several different types of melon export sales contracts. As a result, cooperatives now have the option of signing contracts offering a combination of fixed price and commission arrangements which typically yield higher prices to the growers.

e) CLUSA's operating policy should be to provide free training and technical assistance to help introduce the cooperatives to NTAE crops. As the cooperatives reach a certain level of technical capacity to produce and export those products, they and/or their exporters and importers should be expected to pay for reduced levels of ongoing CLUSA assistance. CLUSA should, therefore begin gradually increasing the level of fees charged to existing clients.

f) CLUSA's focus is on the production and export of NTAE products. The prevailing philosophy is that the project should focus first on increasing production and yields of NTAEs as a way to generate revenue and improve the cooperative's financial position. Improved planning and financial control are not instituted until after the operation becomes profitable. However, the project was clearly expected to assist participating cooperatives to improve their overall business management and accounting systems. CLUSA should provide the overall action planning and management assistance called for in the project proposal.

Recommendations of CLUSA's internal evaluation:

a) CLUSA should develop a simple and functional program for assisting the cooperatives to develop action plans, understandable accounting systems and more effective organizational management. It may be worthwhile to re-evaluate the TechnoServe capability to assist in that activity.

b) NCBA should request USAID approval to immediately create a for-profit company, jointly owned by NCBA and selected project employees. Service fees and project assets would capitalize the company when the NTAE Project ends. CLUSA should prepare a business plan for the proposed new company to determine the services to be provided, market potential, organizational structure, and financial projections.

II. ANALYSIS

A. SUITABILITY OF PROJECT DESIGN AND IMPLEMENTATION STRATEGY

The NTAE Production and Marketing Project has four components:

- a) To bring about technology transfer by technical assistance and training of NTAE producers; linking the producers to processors and exporters, and by developing a network of agricultural service enterprises.
- b) To strengthen the marketing capability of exporters and processors by working in-collaboration with DIVAGRO¹ to create the capability in-country for quality control inspection and certification of exports, and by creating a quality assurance service for all products exported; to help exporters become familiar with U.S. Customs regulations and other requirements for exporting to the United States; to help design packing/loading systems to reduce handling damage to fresh products, and to carry out marketing feasibility studies.
- c) To carry out a modest but aggressive investment promotion campaign to identify foreign joint venture partners and link them to the Salvadoran NTAE sector, and
- d) to strengthen the administrative, organizational, and financial management capacity of El Salvador's cooperatives. In this regard CLUSA is expected to help the enterprises to action plans for the overall enterprise; to design and install accounting systems; to help bring about a functional management structure; to develop business procedures and administrative controls, and finally, to assist in the development of second-level Cooperative Associations.

Notably absent from the Project design was a credit component. However, this was most likely a strength - not an obstacle to implementation. The reason why is that it locked CLUSA into working with only credit-worthy cooperatives, which were likely to be better organized, at a higher level of administrative maturity, and therefore more likely to be successful NTAE producers. Furthermore, the requirement that the organizations themselves go through the planning necessary to obtain crop credit undoubtedly contributed to their institutional strengthening. Finally, the absence of a credit component enabled the project management team to focus on the transfer of production technology and marketing assistance to help NTAE producers and exporters, without the burden of administering a credit program.

¹DIVAGRO is the agricultural development division of FUSADES, the Salvadoran Foundation for Economic and Social Development. DIVAGRO was responsible for implementing the Agribusiness Development Project (519-0327) which ended on March 31, 1995.

The Project was designed to strengthen cooperative agribusiness management. CLUSA's approach to management strengthening is to focus on the production and delivery of a specific NTAE product and to institute crop production and management control systems as required to successfully produce and export the product. In many instances, CLUSA has also helped cooperatives strengthen their accounting systems, and to create a more effective organization better suited to non-traditional crop production and export. The cooperatives have the option of applying CLUSA's crop-based administrative systems for NTAEs in other areas, such as traditional crop production if they so desire. In all cases, however, CLUSA's assistance in management and organizational strengthening is carried out to support the production and export of non-traditional crops - not to create better managed cooperatives, per se. For example, if a cooperative produces traditional crops and livestock on 1,000 hectares and NTAEs on 10 hectares, CLUSA's assistance is geared toward the smaller unit of NTAE production.

The Project was also designed with the expectation that CLUSA should carry out "holistic" management development within the assisted cooperatives similar to the program carried out by TechnoServe. Under current implementation procedures, this is not being fully achieved. The Project design also specified that CLUSA should work with DIVAGRO to develop an in-country inspection, certification, and quality assurance service for all NTAE products exported. It was desired that CLUSA support the latter organization in its efforts to create a quality assurance program for NTAEs, initially inspired by the successful Chilean model promoted by the "Fundacion Chile". This is similar in concept to the "Good Housekeeping seal of approval" in the United States where an independent body assures the quality of a product. DIVAGRO constructed the Quality Assurance Program (QAP) laboratory as its main tool to provide quality assurance services. To be credible on a national level, however, programs of this scope require independent inspections, and the inspecting body must have the authority to inspect, and either pass or reject the inspected shipment. Furthermore, they are expensive and time consuming, and require a critical mass of products exported to pay the cost of service. Unless extremely well managed, these procedures simply add a bureaucratic layer to the export process and become a negative incentive to exporters. A possible exception might be the establishment of an official U. S. Department of Agriculture (USDA) pre-inspection in El Salvador which would avoid the need for an inspection in the United States. However, until the export of NTAEs reach a critical mass, even this is not economically feasible. In order to overcome the above mentioned obstacles, CLUSA provided inspection services in Miami and Texas and introduced the organic certified crop system to improve quality standards.

Given the present fledgling stage of NTAE development in El Salvador, a quality assurance program would be way ahead of its time, and will probably not occur in CLUSA's Project lifetime. The requirement to help create a quality assurance service is viewed as impractical, and it is recommended that it be dropped from the Project.

B. ANALYSIS OF PROJECT IMPACT

1. External Impact

The Project has already achieved most of the required outputs. Table 1 shows the progress made to date in satisfying the output levels required by the Cooperative Agreement. The figures shown in Table 1 are based on summary reports provided to USAID and to the evaluation team.

In addition to the achievement of Project outputs, CLUSA has renewed the potential for non-traditional agricultural exports. CLUSA's integrated approach to export production and marketing has brought a new category of participants to the business and has begun to instill a capacity for honest dealing among all players: producers, processors, exporters, importers and bankers. This effect transcends even the positive results demonstrated by the figures for production, income, employment and foreign exchange earnings.

CLUSA's principal contributions to the development of the NTAE sector have been the following:

- The introduction of a new dynamism into the identification, production and marketing of NTAES.
- The introduction of the concept of integrity as an economic factor: it is good business to provide quality products and service.
- The introduction of alternative production options into the traditional array of cooperative agricultural activities, and a new sense of confidence about their ability to successfully produce and market new crops.
- The introduction of alternative markets and market mechanisms in a situation previously dominated by a few exporters and processors.
- Opening a dialogue among previously non-communicative elements in the production-marketing process, and
- increasing the production and export of NTAES among all client groups.

Another illustration of CLUSA's initiative in El Salvador is its work in developing organic products and markets. There is a growing recognition that organic products are economically competitive in both the organic and the regular NTAE markets. It has been demonstrated that organic products can be produced at lower cost, with similar yields, and can be sold at premium prices in organic markets and at competitive prices in standard markets. The production of organic products provides greater flexibility to the producer, and converts many "traditional" products into NTAES, such as organic coffee. Attached Table 3 compares the production

economics for organic and traditional sesame and coffee, using average figures for CLUSA-assisted cooperatives over a two year period from 1993 to 1995. The Table shows that the economics of sesame production heavily favors the organic product, while the profitability of organically-grown coffee is about the same as the traditional crop. For coffee, reduced yields under organic production have thus far offset the benefit of lower production costs and premium market prices. However, the potential exists that coffee yields under organic production may improve in the future as the new cultural practices take effect. If this occurs, organically grown coffee would become considerably more profitable than traditional coffee.

Organic crops are also beneficial because their agricultural practices are less harmful to the environment. Furthermore, since they are more labor intensive than traditional crops they contribute to the goal of increased rural employment and greater income.

2. Impact on the Institutional Development of Benefitting Organizations

CLUSA has had a positive impact on the institutional development of the cooperatives served under this Project. One of the principal issues that CLUSA has confronted, and one of its major achievements, has been in reducing the influence of dishonest brokers and cooperative officials in the NTAE production and marketing chain. According to one produce buyer, this had reached such alarming proportions several years ago that his firm (along with others) had become reluctant to work in El Salvador at all. The buyer attributes the fact that his company is in El Salvador today to CLUSA's effectiveness in bringing about changes in the cooperatives as well as in encouraging reputable brokers to become established.

These changes took place within the cooperatives through intensive educational efforts, particularly during the period leading up to the election of the board of directors. CLUSA held weekly sessions with small groups to ensure that the members knew the role of directors, and to encourage them to elect the best candidate. This effort was successful in that it removed those directors who were willing to accept gifts from brokers in exchange for signing produce sales contracts with terms unfavorable to the cooperative. This problem has been aggravated by current legislation which calls for the election of cooperative directors every two years.

In most cooperatives, the CLUSA training team also organizes self-evaluations which follow the NTAE production season. Participants include the cooperative members who are primarily involved in crop production, along with the responsible CLUSA technicians. The group reviews the successes and failures of the production season, with a view toward making improvements during the next season. This helps establish a sense of local control over the production process, and provides real participation in the development of a practical work plan.

3. Gender impact

The project paper for the NTAE Production and Marketing Project did specifically identify women as participants and likely beneficiaries. Since the families of the cooperative members are the primary beneficiaries of the additional employment generated by NTAEs, women are among the beneficiaries. Participation by women has been primarily in weeding, harvesting, and packing NTAE products. The project paper stated that the Project should also have a positive influence on helping women gain access to management and decision-making jobs, but no specific targets were set for women as compared to men for either the amount or category of employment. As of March 31, 1995, a total of 677,000 person days of employment have been generated. Approximately one-fifth of this amount benefitted women, and four-fifths benefitted men.

In 1993 CLUSA did a study on the participation of women in non-traditional crop production. The study was carried out to better understand the situation of women and men in non-traditional agriculture, and reflects CLUSA's commitment to women's issues. While the women and men surveyed had similarly low educational backgrounds, the report shows somewhat different patterns of involvement and impact on men and women working in the non-traditional sector.

Men were older (mean age of 44 years), and much more likely to have a spouse or partner (89 %) than were the women participants (22 %). Women were, on average, 15 years younger, and nearly 80 percent had children. Nearly 40 percent of the women were single heads of household. Men were more likely than women to have permanent jobs in agriculture. Men were also much more likely than women to have received some non-formal training within the past two years. This was thought likely due to two reasons: a) because cooperative members have greater access to training opportunities, and most members are men; and b) women perceived that the training opportunities should be directed toward the literate in order that training be easily transferred to others, and apparently these were usually men.

When asked if they and their family were better off as a result of working with NTAE crops, 67 percent of the women interviewed answered positively. Men were even more enthusiastic, with a positive response of 80 percent. The report surmised that for women, work in traditional as well as non-traditional agricultural is often seasonal, where earnings are often low, and so less value was attached to NTAE opportunities than was the case for men, who typically experienced this work in addition to their other employment. The study concluded that the employment of women in non-traditional crop production is vital to the well-being of their children.

The evaluation team found that in the cooperatives visited, women were much less likely than men to be cooperative members, or to serve on cooperative administrative councils. By organizing a woman's electoral education committee, CLUSA did take steps in one cooperative to encourage women to nominate candidates and to be active participants in cooperative elections.

4. Impact on the environment

As part of its work to promote non-traditional crop production, CLUSA has assumed the role of advocate for environmental protection. Agricultural production is viewed from the perspective of its effect on the environment. CLUSA has promoted the concept of environmentally sound crop production throughout the rural sector.

The production of many non-traditional crops requires the use of agricultural chemicals. CLUSA has focused attention on the proper management of these chemicals, on the farm as well as in the home. Frequent training events have been aimed at a wide range of participants, including farmers, exporters, technicians, bankers, homemakers and employees of cooperative associations.

Environmentally compatible production has been taken a step further with the introduction of organic agriculture. CLUSA has promoted this concept to a wide audience. Conferences on organic production have been held for the benefit of CLUSA-assisted cooperatives which have been attended by representatives of the European Community (EC), the Food and Agricultural Organization (FAO), NGOs, the financial community and universities.

An important factor in organic production is the market advantage it gives to the producer. Furthermore, it offers the long range benefit of ensuring the future quality of the soil, which is agriculture's principal resource. CLUSA is placing increasingly greater importance to the production and export of organic agricultural products.

CLUSA has also initiated a reforestation program, as both an environmental and an agricultural activity. CLUSA's initiated the creation of the Asociación de Amigos del Arbol del Medio Ambiente, whose focus is on national reforestation. CLUSA has also incorporated reforestation in the farm development plans of its cooperative clients, and has seen about 500 manzanas reforested during the past three years. Reforestation and soil conservation themes are included in the training programs aimed at cooperative directors and members.

C. SUSTAINABILITY OF PROJECT BENEFITS

The development of the NTAE sector in El Salvador will be a long term process for a number of reasons: The internal effect of ten years of war on the population and infrastructure, and on the external business and investment community; an increasingly competitive export market; the involvement of new participants in both NTAE production and post-harvest activities, and a shrinking supply of financial resources for development. Given these conditions, the issue of sustainability is particularly salient for the future of NTAEs in El Salvador.

The aspect of sustainability that causes greatest concern is not the survival of current exporters, but rather the ability to sustain the progress that has been made in recent years, and to be able

to expand the NTAE sector to include the large number of potential participants. The challenge is sustainable growth, rather than maintaining the present level of exports.

The threat to future expansion is the inability to institutionalize the know-how, knowledge of the industry, market access and leadership that CLUSA has provided. Although there are several instances of well-established producers and exporters, especially in the areas of flowers, ornamental foliage and processed foods, generally the NTAE sector is in its infancy.

1. Sustainability of Export Programs

The CLUSA/El Salvador effort is not considered sustainable without continued USAID support, nor was it intended to be. Over the course of the Project, CLUSA has helped bring about export programs for new crops (organic products; sesame; marigold; watermelons) and has helped strengthen export programs for crops which were grown before CLUSA arrived in El Salvador (honey dew melons). The export programs for these crops are sustainable and will likely continue in some form, even without continued support from CLUSA.

CLUSA's emphasis on organics in the last two years has lead it to work closely with various organizations associated with organic marketing. There has been a close relationship established between El Salvador and the Organic Crop Improvement Association (OCIA), which will provide valuable contacts and assistance in the future. Among other assisted companies are Columbus and AGRODESA, both of which are involved in organic exports. The organic export program is strong and will no doubt attract, independently of CLUSA promotion, additional participants as its potential unfolds.

2. Sustainability of Assisted Organizations

Cooperatives: A test of sustainability is the ability of the cooperatives and other CLUSA-supported organizations to continue operating effectively without outside help. Over the course of the Project, CLUSA has provided substantial assistance to fifty-eight rural cooperatives, and to the institutional development of one producer's association: the Association of Organic Vegetable and Flower Growers. In the Salvadoran context, the concept of "sustainability" of cooperatives is a matter of degree - not a precise measurement. The reasons are that current government policy protects even insolvent cooperatives, and this policy distortion is compounded by the legal and political impossibility of foreclosure and seizure of land and other assets of insolvent cooperatives. The result is that many insolvent cooperatives continue to operate in one way or another, some in name only. In this regard, all CLUSA-assisted cooperatives are sustainable as institutions.

Looking at the sustainability of cooperatives as business entities, the picture becomes more cloudy. The best available indicator of sustainability of a commercial enterprise is its financial solvency. While the concept of bankruptcy is not legally applicable to cooperatives, their

financial condition is an indicator of their overall state of health. If the criterion for bankruptcy used by the Salvadoran private sector (negative net worth) is applied to the cooperatives, an estimated 34% of the cooperatives would be technically bankrupt. This estimate is based on a sample of twenty-three CLUSA-assisted cooperatives, for which information is available. It is estimated that approximately forty CLUSA-assisted cooperatives are sustainable business enterprises.

The final test of sustainability is how many of cooperatives and producer associations would continue to produce and export fresh agricultural products if CLUSA no longer operated in El Salvador.

CLUSA staff estimates that no more than six cooperatives presently have this capability.

Second-level cooperative unions: CLUSA supports the Union of Coffee Producers, Processors and Exporters (UCRAPROBEX), particularly for marketing organic coffee. CLUSA was also instrumental in creating the Association of Producers and Exporters, (PROEXSAL) as an NTAE marketing organization.

UCRAPROBEX has a strong balance sheet and a successful track record as a coffee exporter. The organization is well managed, and appears to have a bright future. This is a successful, sustainable organization.

PROEXSAL was constituted in October, 1994 by eleven founding members, including eight agrarian reform cooperatives and three second-level cooperative associations. Initial capitalization was \$C 220,000. Since its inception, PROEXSAL has received extensive support from CLUSA, and operates from offices provided by the latter organization. PROEXSAL's primary function is to assist NTAE development by providing marketing services. The organization has a permanent staff of ten people, many whom were previously employed by CLUSA. PROEXSAL is currently marketing and distributing fresh vegetables to local supermarkets in San Salvador, produced by the association of organic vegetable growers. The company is also negotiating a purchase contract for fresh onions, grapes, and apples with a U.S. exporter. The fresh products will be imported by PROEXSAL and marketed in El Salvador. During the 1994-1995 winter season, PROEXSAL provided for-fee export services to Cara Sucia cooperative for its melons shipped to the U.S. buyer, Lindemann Produce Company. For the 1995-1996 season, PROEXSAL plans to expand its melon export program to an additional three cooperatives, and to export hot peppers in brine as well as organic and traditional sesame.

PROEXSAL is CLUSA's plan for sustained marketing services in El Salvador, and responds to the recommendation in CLUSA's internal evaluation to create a commercial enterprise. However, the organization is young, inexperienced, without substantial cash reserves, and has few assets. The organization also lacks direction, and needs to define what member services it will provide over the long term. Above all, PROEXSAL needs a plan for survival after the CLUSA project ends. In its present condition, the organization is not sustainable.

3. Sustainability of Technical Assistance and Training Interventions

The final issue of sustainability of project benefits is the continuation of technical assistance and training programs after the completion of the Project Agreement. CLUSA provides these services to the cooperatives free of cost, which was repeatedly mentioned by the groups visited by the evaluation team as a major benefit to them. Discussions with cooperative members led the team to conclude that none of the groups would be willing to pay commercial rates for CLUSA services. This is a reasonable conclusion in that most of these services are "developmental" in nature, and are not commercially sustainable. However, "commercial" services (such as export assistance, or post-harvest handling) are recognized for their commercial value by the cooperatives, and are indeed sustainable.

D. PROJECT COST EFFECTIVENESS

CLUSA's method for determining Project cost effectiveness was modified slightly to meet the needs of this evaluation. CLUSA adds all costs related to project implementation which are under the control of the CLUSA/El Salvador Chief of Party, and relates the total cost to the number of cooperatives assisted, the number of hectares of non-traditional crops produced, the amount of NTAEs exported, and so on. For purposes of this evaluation, a similar calculation is made, except that the total Project expenditure is used as the basis for the calculation, including CLUSA's home office overhead, USAID-controlled costs, and those costs incurred by CLUSA's local office. From the point of view of USAID, all the items are components of the total cost of the Project, and should be considered.

The measures of cost-effectiveness calculated as described above are shown in attached Table 5. As shown, CLUSA's technical assistance program is expensive. At \$8.60 per employment day, the cost to the Project for one day of employment generated is nearly three times the average rural daily wage. However, much of this employment is sustainable, and will continue for an indefinite period. Therefore, the average cost will continue to diminish over the long run.

III. CONCLUSIONS, RECOMMENDATIONS AND LESSONS LEARNED

A. CONCLUSIONS

- The program has been remarkably successful in meeting and surpassing its targets. There has also been a qualitative change in certain export markets through CLUSA's role as an "honest broker" in coordinating export programs between brokers, producers, and exporters. CLUSA has demonstrated that integrity in NTAEs is good business.
- Recommendations arising from the pilot project have generally been followed. In the instances where they were not followed, in the opinion of this team better solutions were found. The one exception is the failure to provide a more "holistic" approach to

management assistance, in which management, planning, and accounting assistance are applied to the entire business.

- It is doubtful that the Salvadoran Producers and Exporters Organization (PROXSAL) will be sustainable by the time the NTAE Project ends. The organization is young and inexperienced, has not achieved financial self-sufficiency, and may experience conflicts of interest in trying to serve its highly varied membership.
- The promotion of organic crops makes good economic sense because earnings tend to be greater than for traditional crops. The reason is that production costs are lower since on-farm labor is used to produce organic fertilizers and "natural" pesticides at a lower cost than imported, synthetic products. For most crops, yields of organically grown crops are similar to yields obtained using traditional agricultural practices. Furthermore, market prices of organic products tend to be higher when these are targeted on small but growing "niche" markets. Additionally the team was impressed by the disciplined agricultural practices that accompanied organic agriculture (e.g. terracing), and by the use of non-synthetic fertilizers and pesticides which make the crop more friendly to the natural environment. The concept of organically grown products fits well with current market trends, especially in European markets.
- CLUSA has contributed to the institutional and development of management ability in the assisted cooperatives. However, it needs to do more to help improve the management of the cooperatives' traditional agricultural activities, as indicated in the project paper.
- CLUSA brings a much needed attitude of problem solving and innovation to NTAE production. Examples are organic activities, overcoming barriers to imports of fresh jalapeños by exporting processed product.
- Some CLUSA-assisted cooperatives are sustainable because institutions are in place and market linkages have been created so that they could continue to operate without outside assistance. Examples of these are honeydew melons, watermelons, organic products, and all crops produced for local processing and later export. About six cooperatives could continue to produce and export fresh products without outside support.
- The sustainability of CLUSA's cooperative development efforts have been severely impacted by rotation of cooperative boards of directors which results in periodic management changes. CLUSA feels that assisted cooperatives can never graduate under the present system. Unless the problem is addressed, CLUSA's work will never end. CLUSA must help its clients achieve a separation of cooperative management, which have social and political concerns, from the management of the cooperatives business. Sustainability must be created on the business side of the operation.

B. RECOMMENDATIONS

- Given that USAID assistance under the NTAE Production and Marketing Project beyond the current completion date of June 30, 1996 is still being discussed, the team recommends that CLUSA plan for its orderly close. CLUSA should also begin to identify and assign responsibilities to all entities that will continue the organization's work after CLUSA leaves (e.g. technical assistance, marketing services, and institution building), and help develop linkages with outside service organizations to provide the required services on a commercial basis. CLUSA should turn its full attention on leaving institutional structures behind and on making its clients as sustainable as possible, so that there are no shocks when CLUSA's services end.
- CLUSA should consider the entire farm as an enterprise rather than focus its' efforts exclusively on NTAEs. It makes little sense for cooperatives to be making solid gains from NTAEs if they are using these to subsidize losses on traditional crops. In order to not detract CLUSA specialists from their NTAE work, much of this management development work could be done by sub-contracting with local experts.
- The mission and role of the Salvadoran Producers and Exporters Organization (PROEXSAL) should be better defined. PROEXSAL, with only one year of existence, is still a developing organization, without a clear mission, and without a clearly defined role as an organization created to serve its members. Some of its activities may conflict or compete with its member organizations. CLUSA should help PROEXSAL develop a self sufficiency plan.
- The requirement to help create a national quality assurance program for NTAEs is viewed as impractical, and it is recommended that it be dropped from the Project.

C. LESSONS LEARNED

- When an adverse environment cannot be changed, one must change the strategy for Project implementation. The evaluation team heard repeatedly that frequent turnover of cooperative decision makers meant that CLUSA-assisted cooperatives either could not graduate, or else recommended practices would be suspended once the board of directors changed. CLUSA could have made stable management a pre-condition for providing services. Possible solutions could be to stipulate in the agreement with the cooperative that management must be stable for a fixed period of time, or that permanent steering committee would be named to manage NTAE crop production.
- Cooperative development in El Salvador requires education, not simply training. Project implementation must take a long-term view, beyond the end of the project. The challenge is to transform often-illiterate rural campesinos into business operators. Many of the

problems of cooperative development are defined as "cultural", which requires a change in behavior, or of mentality, which take a long time to accomplish. Follow-up assistance is required, even after "graduation".

TABLE 1 NTAE PRODUCTION AND MARKETING PROJECT
PLANNED AND ACHIEVED LEVELS
OF PROJECT OUTPUTS
(THROUGH MARCH 31, 1995)

OUTPUTS	PLANNED	ACHIEVED
Cooperatives Assisted	36	58
New Action Plans	52	51
Processors & Exporters	10	14
Off-shore Investors	5	10
NTAE Products Supported	8	15
Person Days of work (000)	533	677
Increase in Irrigated ha.	800	417
New Area Planted (Mz.)	6,000	10,612
Production Increase (000 lbs)	26,146	64,295
Beneficiaries of NTAEs	126,471	183,496

TABLE 2 NTAE PRODUCTION AND MARKETING PROJECT

PLANNED AND ACTUAL EXPENDITURES

BY MAJOR PROJECT COMPONENT

(\$000)

ITEM	PLANNED AMOUNT	ACTUAL AMOUNT (1)
USAID CONTRIBUTION		
Salaries	2,256	1,493
Fringe Benefits	489	422
Consulting Fees	253	140
Travel and Transport	729	413
Allowances	833	568
Other Direct Costs	878	423
Overhead	1,882	1,422
Sub-Contracts	344	133
Commodities/Equipment	950	705
In-Country Training	120	75
General and Administrative Expense	266	156
Sub-Total USAID Contribution	9,000	5,950
CLUSA COUNTERPART		
In-Kind Counterpart Contribution	2,338	2,116
TOTAL COST OF PROJECT	11,338	8,066

(1) Through March 31, 1995

TABLE 3 **NTAE PRODUCTION AND MARKETING PROJECT**
COMPARATIVE PRODUCTION ECONOMICS
FOR ORGANIC AND TRADITIONAL SESAME AND COFFEE

	Sesame		Coffee	
	Organic	Traditional	Organic	Traditional
Yield (lb/mz)	860	1,041	2,736	3,168
Cost (\$C/mz)	1,494	2,050	5,415	6,582
Price (\$C/lb)	3.58	2.64	14.56	13.08
Net (\$C/mz)	1,528	678	34,418	34,865

TABLE 4 **NTAE PRODUCTION AND MARKETING PROJECT**
INDICATORS OF COST EFFECTIVENESS
(FROM BEGINNING OF PROJECT UNTIL 3-31-95)

ITEM	TOTAL AMOUNT	UNIT COST (\$/UNIT)
Cumulative Project Cost	\$5,821,743	n/a
Employment Days Generated	677,000	\$8.60
Increase in NTAE area planted (ha)	10,612	\$548.60
Increase in volume of NTAE products exported (lbs)	64,295,000	\$0.09
No. cooperatives and small producers assisted	58	\$73,692.96
No. exporters and federations assisted	21	\$73,692.96
No. cooperative members	9,600	\$606.43

AN ANALYSIS OF CLUSA'S RESPONSE TO THE FINAL EVALUATION OF THE PILOT PROJECT

Several specific recommendations were made by the Checchi evaluation team in their 1990 evaluation of the CLUSA pilot project. Below we address the following questions: To what extent were recommendations of the evaluation implemented? Were there subsequent conditions which made these recommendations difficult to follow? Did CLUSA find better alternatives? The issue numbers used here refer to the Checchi report.

4.2.5 The selection criteria for cooperatives that are to export fresh products should be made more restrictive, and they should be encouraged to diversify for local processing. The cooperatives selected to produce fresh export products should receive a full complement of management assistance in addition to technical agricultural assistance.

The Non-Traditional Agricultural Export Production and Marketing project is a continuation and expansion of the pilot project; the starting point of the NTAE project was the situation inherited from that pilot project. It is evident from the production data in the first quarter of the new NTAE project that it has drawn on previous client cooperatives to bridge the transition between the two. Selection of new cooperatives and farmer groups for the NTAE project then responded to need and opportunity, rather than to the blueprint presented in the evaluation. The variety of groups accepted or created by CLUSA continues to expand with the increased scope, direction and magnitude of activities it has undertaken.

The selection of cooperatives and programming of development assistance is not based on an a priori determination that their future production be destined to export or local markets. The sale of product in these markets is not mutually exclusive; rather, it reflects the degree of enterprise development of the cooperative or group, its crop mix and the quality and volume of each crop. The logical market at any point in time is dictated by the current phase of enterprise and crop development, both of which are dynamic.

Cooperative selection is a continuous process, and while CLUSA has defined initial selection criteria, it is inclined to give the benefit of the doubt to interested cooperatives; subsequent cooperative performance is the key issue for continued participation. The elimination of cooperatives which prove to be inappropriate for the program may seem to be inefficient, however, it is difficult to assess with great accuracy the potential of a group of producers which brings to the table few of the characteristics of successful export enterprises. Similarly, the technical assistance given to each group is a factor of individual needs; however, there is clear evidence that there is a strong bias toward production technology transfer, at the expense of management training at the cooperative and enterprise level. This theme will be discussed further in a later section of the evaluation.

5.1.1 The Chief of Party should be a farm management/cooperative development specialist.

The evaluation recommended that the Chief of Party of the NTAE project combine the specialties of farm management and cooperative development, with a clear orientation toward the organizational aspects of project implementation, and that the long term fruit and vegetable advisor assume responsibility for field production and product marketing. The NTAE project continued with the same Chief of Party from the pilot project. It is assumed that part of the reason for this decision was that the person was in place and, according to the same evaluation that called for the personnel change, had done a creditable job. More importantly, however, is the rationale behind the decision to stay with the incumbent Chief of Party, whose specialization and experience is in the post-harvest aspects of NTAEs.

The final selection of a Chief of Party hinged on the expertise that he would bring to the project, which, in turn, would determine the relative priority given to versus production. The choice leads one to the old chicken-or-the-egg syndrome: Can you market NTAE products that you don't have? or Should you grow NTAE products for which you have no identified market? Obviously, they opted in favor of the chicken.

The NTAE sector is market driven. The NTAE "deal" begins with identifying market demand and ends with satisfying that demand with products which conform to precise and rigorous specifications. In the context of agricultural development, the discipline of NTAEs is as foreign to the producer as the crops themselves. The experience of other programs for NTAE development supports the decision to emphasize marketing, demonstrating that reducing market uncertainty is the most critical step to success. In addition, NTAE market development in El Salvador, especially for the cooperative sector, had to overcome the obstacles that ranged from the general unstable post-war condition to the questionable reputation of many of the exporters operating when the project initiated.

5.1.2 The expatriate Fruit & Vegetable Advisor would be responsible for further development of market linkages and would supervise the staff of Salvadoran agronomists specialized in the various non-traditional crops.

This was done.

5.1.3 Adoption of a TechnoServe style approach to management assistance, including production, administrative and social aspects of the cooperatives, where the recipient pays a nominal fee to CLUSA.

CLUSA did not adopt the Technoserve approach.

There are two clear models for enterprise development in question. The TechnoServe model is predicated on the assumption that creating a viable management capability and structure will

permit the cooperative to make rational decisions with respect to activities and technology. The CLUSA model looks to create that capacity by example; creating first a successful production and marketing operation for specific products, which, in turn, will serve as a blueprint to the cooperative for enterprise development.

CLUSA has had an NTAE mandate from the start, which TechnoServe did not have.

The solution to the administrative problem envisioned in the evaluation was that the cooperatives hire professional management to cover the areas of administration, production and accounting, even though it could have taken several years to find suitable persons to fill these positions. Again, CLUSA's approach is more realistic and flexible than that proposed in the evaluation:

Identifying "professionals" to fill these positions may well be a long process due to the availability of appropriate persons, the economic capacity of the cooperatives to pay market wages for competent persons and the frequent changes in the governing boards of the cooperatives. Many cooperatives are capable of developing competent people to occupy these positions, therefore hired management should be an option, not an obligation for any enterprise.

In the interim, while internal management is developed or outside management is hired, CLUSA provides technical assistance which often extends into the realm of de facto management. CLUSA's approach is the simultaneous development of export production and product management capability. Yet, it is recognized, even in CLUSA's internal evaluation, that the project has not created an enterprise management capacity at the cooperative level. The difference in focus between CLUSA and TechnoServe is clearly demonstrated by the nature of the "investment" plans which each prepares for client cooperatives. TechnoServe prepares a mid-term (five year) plan which covers all productive activities on the farm, whereas CLUSA's "investment" plan is a one year production budget for each NTAE. It does not include non-NTAE activities, nor does it deal with future production periods, even in the case of perennial crops, eg. organic coffee.

The jury is still out regarding the two approaches in the context of NTAE development; neither appears to provide the whole answer. Whereas the proponents of the TechnoServe model are quick to point out that poor cooperative management has been an impediment to NTAE enterprise development and has required that CLUSA reign with a firm hand, it is equally true that TechnoServe has done little in the area of NTAEs and has been successful in creating a well managed enterprise on a small number of the cooperatives it has assisted.

5.1.4 Partial managerial assistance should be provided to the cooperatives producing only those products that are processed locally prior to exportation.

The assistance being given is consistent with this recommendation.

5.1.4.1-3 Collaboration with TechnoServe for the development of cooperative management capability.

TechnoServe was subcontracted to provide assistance through work orders for specific services. One example of this relationship was the case of assistance provided to PROXSAL. Training activities were also conducted. CLUSA pointed out that this relationship was interrupted by the end of the TechnoServe RED-II project.

By and large, there has been no cross-fertilization of methodology and focus between the two projects. In this respect, the testing of a different development model, aimed specifically at NTAEs, should be given more time to produce results.

The impetus for creating greater inter-project collaboration comes from the desire to realize economies of scale and critical mass in the cooperative sector through the alliance of USAID activities which ostensibly have the same goal: increase the role of NTAEs in the Salvadoran economy. However, the two approaches as interpreted and executed by CLUSA and TechnoServe, have demonstrated an incompatibility either in the methodologies themselves, or the personalities of project managers. In truth, it is evident that there is some of both.

5.2 Develop separate project to coordinate local producers with export markets and buyers, and promote US investment in NTAEs in El Salvador.

The CLUSA model, at the national and farm level, is a sector development model which views NTAEs in a generic and inter-related fashion. The success of the industry requires establishing an NTAE mentality and infrastructure. NTAEs are not static commodities, but rather ones which respond to today's and tomorrow's markets. The evaluation's recommendation for establishing a separate project for market operations is inconsistent with the model, and with reality. The market orientation is not just a part of the CLUSA project, it is the CLUSA project. If, at some future date, the volume of exports warrants a full-time marketing effort for establishing buyer-seller accords and the economic climate of El Salvador is attractive to foreign investors, a larger scale, specific project could be contemplated. At present, however, the CLUSA approach of simultaneously developing producers, exporters and buyers is sound.