Strengthening Coffee Cooperatives (CCH)

521-0169/2 PD-AAT-249 USAID/Haiti 44839

4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY)

☒ REGULAR EVALUATION ☐ SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 83	B. Final Obligation Expected FY 85	C. Final Input Delivery FY 85	A. Total $ 370,000 B. U.S. $ 370,000	From (month/yr.) 5/83 To (month/yr.) 5/85 Date of Evaluation Review 8/1/85

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
As a result of Mission review of the attached evaluation and PES reports, Mission management, concerned about the long-term institutional viability of CCH, established the following Conditions Precedent to Disbursement for the follow-on phase, with CLUSA as Grantee:		
a) Evidence, in the form of a legal opinion, that CCH has obtained title to the land or property necessary to carry out the project activity, or that there have been set in motion the necessary procedures to assure such title;	CLUSA/USAID Project Managers	November 85
b) A letter of commitment from the Ministry of Commerce indicating that an export license has been or will be granted, or that such license is definitely not necessary for CCH to export coffee;	CLUSA/USAID Project Managers	November 85
c) Evidence from the Ministry of Plan that the revolving fund currently used by CEPEC and managed by OPRODEX has been transferred to CCH, or that it will be transferred, and that until such time as the transfer occurs, CCH will be able to make use of the fund; and	CLUSA/USAID Project Managers	November 85
d) A letter from the board of directors of CCH stating that a full-time CCH director has been appointed.	CLUSA/USAID Project Managers	November 85

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

☐ Project Paper ☐ Implementation Plan e.g., CPI Network ☐ Other (Specify)
☐ Financial Plan ☐ PIO/T
☐ Logical Framework ☐ PIO/C ☐ Other (Specify)
☐ Project Agreement ☐ PIO/P

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A. ☐ Continue Project Without Change
B. ☒ Change Project Design and/or
☒ Change Implementation Plan
C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

John Lewis, USAID/Haiti/A&RDO
Yves Saintil, OPRODEX Director
Robert Gilson, USAID/Haiti/DRE/MEO
Daniel César, USAID/Haiti/DRE

12. Mission/AID/W Office Director Approval

Signature

Typed Name Jerome French

Date

AID 1330-15 (3-78)

/1/

STRENGTHENING COFFEE COOPS (521-0169/2) EVALUATION

PROJECT EVALUATION SUMMARY (PES)

This PES not only highlights findings and recommendations of the attached evaluation report (DAI, May 1985), but also incorporates results of independent assessments performed by the Mission's DRE/EVAL Office staff, particularly with respect to the management structure of CCH, and raises some critical issues to be addressed in the follow-on phase of the project, with CLUSA as the designated Grantee. A separate economic analysis of the CCH revolving fund is in the process of being conducted and will be submitted at a later date.

13. SUMMARY

The achievement of the project purpose - strengthening the existing CCH coffee cooperative network -- fell short of expectations. Indeed, the administrative structure that was supposed to be put in place to direct project operations (i.e., the CCH Executive Committee) was never fully established, because all of the required personnel were not selected. According to the OPG Agreement, the Executive Committee was supposed to be composed of the following members: a Project Director, a Field Coordinator, a Secretary General, a General Manager (CEPEC) and an Accountant. In fact, only the Project Director and the Accountant were on board by the end of project date. The specific reasons and constraints leading to this situation are discussed in detail below, in paragraph 18 ("Purpose").

A fundamental problem, critically affecting project success was the delay experienced in completing construction of the coffee processing center under the Small Farmer Marketing project (0083) which was to be turned over to CCH management upon completion. Indeed, the center remains unfinished to date and it remains unclear whether OPRODEX will be willing to turn over title of the center to CCH when it is completed. This issue, along with the need to guarantee annual coffee export license permits to CCH, needs to be resolved prior to the approval and authorization of a proposed follow-on project involving CCH and the processing center.

Another serious problem encountered during the two-year LOP period was CEPEC's negative financial performance for FY 1984. The DAI report noted an operating deficit of $159,386 - increasing to a level of $266,516 after subsidies are costed out - for the FY 1984 period. This compares unfavorably with the coffee center's reported profit of $140,713 for the previous year, or a deficit of only $13,204 with subsidies costed out. CEPEC was thus unable to distribute patronage rebates to CCH cooperatives in FY 1984. Unless CEPEC realizes windfall profits for the current Fiscal Year, the prospects of passing on rebates to the cooperatives are not encouraging for FY 1985. As a consequence, numerous cooperative rank-and-file members are discontent for not having received the anticipated bonuses, and some cooperatives have withheld coffee shipments to CEPEC because they no longer have confidence in the coffee center's management. Although this situation has not had any significant adverse impact on the CCH cooperative movement up to now, it certainly calls into question the viability of CCH coffee exporting operations, until such time as CCH takes up management responsibilities for the coffee center. As a result of these developments, OPRODEX has commissioned the local branch of Peat, Marwick & Mitchell to audit CEPEC operations to determine the causes of the coffee center's financial difficulties.

14. <u>EVALUATION METHODOLOGY</u>

This PES report draws heavily on the results of a DAI assessment of the coffee sector in Haiti, conducted in April/May of 1985 - particularly their examination of coffee cooperative performance which makes specific reference to CCH project activity. In addition to the above, several interviews were conducted with key coffee sector personnel to ascertain current concerns and recommendations, as well as to gather and assess current information and data regarding the status of the key activities carried out under the project.

The DAI study examined in-depth three key areas of concern in the coffee sector. These are identified below, along with the methodology used to carry out the study. A more detailed discussion of the overall findings of the DAI study is to be found in Section 15, External Factors. The three areas studied by the DAI report were:

a) the role of coffee in the farming system, by outlining the resource environment, enterprise pattern and economic objectives of the farmers and describing the role of coffee in meeting farmers' objectives and priorities;

b) the competitiveness of the coffee market, by testing the efficiency of the coffee market and reviewing the most recent literature written on the subject to date; and

c) the performance of the cooperatives, by focusing on the financial and social constraints affecting the long-term institutional viability of the cooperatives. In addition, the economic performance of the coffee pilot center, CEPEC, was also examined, as well as the role of the Union of Haitian Coffee Cooperatives (CCH) in supporting the coffee cooperatives.

Research methods consisted of sample surveys of rural farmers, cooperative rank-and-file members and management officers, as well as speculateurs or middle-men. In depth financial analyses were also conducted for a limited number of cooperatives and CCH and CEPEC offices were also visited. Farmer interviews lasted from 60 to 90 minutes with the emphasis put upon the quality of information generated, rather than on the quantity of interviews performed. Questionnaires were not used. Interviews were informal to induce farmers to feel more comfortable in expressing their opinions on the subjects discussed. Before the survey began, a list of topics to be discussed was drawn up, which was modified substantially during field operations. In general, only a few topics were covered with any single farmer, since going in depth on a few subjects was preferable to getting bits of information on a large number of subjects.

15. EXTERNAL FACTORS

The Mission has been involved in the coffee sector since 1974, starting out with the implementation of the Small Farmer Improvement project (PPC), 1974-1981, followed by Small Farmer Marketing (PCC), 1977-1985 and Strengthening Coffee Cooperatives (CCH), 1983-1985. Providing that certain critical policy isues - identified in paragraph 13 above - are satisfactorily resolved, the Mission intends to fund a follow-on phase to the CCH project. Over the years, three fundamental assumptions have shaped the Mission's development approach and strategy to this subsector.

The first assumes that coffee is a profitable crop for farmers to grow, provided that they are given the appropriate mix of economic incentives (e.g., coffee tax reform) and inputs (i.e., technologies appropriate to their needs and circumstances). Ironically, after the Mission has finally prevailed upon the Haitian Government to reduce the coffee tax by 10% (from 26% to 23%) - as a result of intensive and protracted Mission negotiations with the GOH - to increase producers' income, this assumption has been called increasingly into question, in light of substantial price increases in recent years experienced by many food crops, such as maize and beans, that compete with coffee. In addition, since land is the constraining resource in Haitian agriculture and given the fact that coffee is less labour-intensive than most food crops, a transfer of resources from coffee to food crops seems logical. In fact, there are widespread reports that many farmers have replaced their coffee plantations with food crop fields.

The second assumption is based on the theory that the coffee sector is characterized by inefficiency, collusion and exorbitant profits earned by speculateurs and exporters. Accordingly, PCC was developed on the supposition that the creation of a parallel cooperative marketing system would break the oligopsonistic power of the exporters, resulting in higher prices paid to farmers and greater efficiency in the coffee marketing sector. This assumption, based on a study conducted by Girault, 1982, is challenged in the

DAI attached report. Drawing from analyses carried out by Mats Lundahl (1983), and Capital Consult (1983), the report concluded that although the number of exporters is relatively small and concentrated, there is no demonstrated evidence that they act together to fix prices and allocate quotas. Indeed, there exists some degree of competition among them, as evidenced by the high turnover in firms involved in coffee exporting and the fluctuations in market shares among participants. However, the competition is far from perfect with some exporters being in a position to increase their market shares by accumulating more export stamps and paying less taxes than their competitors, by cultivating high-level Government/social contacts. Moreover, in individual markets in which a few firms control most of the coffee purchased, some degree of tacit oligopsonistic behavior likely exists. This results in farmers receiving prices lower than they would normally receive if there were more competition.

The third assumption, related to the second, postulates that coffee cooperatives provide real economic benefits to farmers. Financial data compiled on six cooperatives indicate that they all earned an operating profit the year they were analyzed (see pages 65-67 of the attached report). Profits earned before distribution to the membership ranged from $0.01 to $0.10 per pound of coffee purchased, or from 1 to 20 percent of the initial price cooperatives paid to producers, that is, the local or speculator price. The unweighted average of earnings for the six cooperatives was $3,800, or $0.06 per pound. This represents an economic benefit to the farmer of 9 percent over prices offered by speculators. In fact, three of the cooperatives surveyed paid a patronage refund to their members, with dividends ranging from $0.08 to $0.11 per pound of coffee sold, or 10 to 20 percent higher than the speculator price. As importantly, the data show that three of the six cooperatives sampled earned operating profits, even when subsidies allocated to the cooperatives (e.g., training, equipment costs, salary support of management personnel, etc.) were costed out. The average earnings for all six cooperatives were calculated to be $1,912.

Though impressive, it should be noted that the findings are drawn from a limited sample (6 out of 61 cooperatives and pre-cooperatives, or 10% sample). The major conclusions of the data - that cooperatives earn operating profits and that they provide member producers more economic benefits than the farmers would get from speculators - could apply to the great majority of CCH cooperatives, inasmuch as the report concluded that the sample population is representative of the universe. Nevertheless, additional research is needed to determine with a greater degree of accuracy the magnitude of operating profits and the level of increased incomes accruing to cooperative members.

16. INPUTS

According to the OPG Agreement, training was to be provided to the members of the CCH Executive Committee and the regional monitors in the following areas:

- structure & organization of cooperatives
- organization & management of cooperative enterprises
- coffee tecnnology
- coffee marketing
- accounting
- planning & analysis

The monitors, acting as the field extension arm of CCH, were in turn supposed to train local cooperative management personnel in putting in place sound financial and organizational management practices at the cooperative level.

With respect to the Executive Committee, the Project Director and the Accountant were not sufficiently trained: the former attending only one coffee marketing conference last year in Costa Rica, and the latter participating in only one of the three six-week training sessions at INAGHEI. The Project Director needs additional training in coffee tecnnology and marketing inasmuch as these areas will figure prominently in his scope of work in the proposed follow-on phase.

With respect to the regional monitors, the Vice-President of the CCH Board indicated in an interview that in addition to the six-week training sessions held for the monitors every year of the IOP period by INAGHEI - the country's higher education public administration institute - training was also provided by the Project Director, doubling up as the Field Coordinator, to the monitors 2-3 days each month, usually in Port-au-Prince. As is detailed in paragraph 17, below, the impact of the training on the local cooperatives was modest. The Project Director did not have sufficient time to supervise and train the monitors in the field. The Field Coordinator must assume full-time responsibility supervising and training the monitors in the field to train local management personnel and implement the desired new management practices.

Additionally, project management could have made more effective use of the ILO cooperative expert assigned to the CNC for training purposes. In an interview, the ILO official stated that he felt he was underutilized and that he was disposed to provide additional training support to CCH, if requested. He also announced that he is almost certain of being provided with three UN Volunteers to strengthen field monitoring capability in the near future. With the objective of fully utilizing these free T.A. services, Mission and CCH project management personnel are strongly encouraged to utilize where possible the ILO expert in any follow-on activiy.

Another important input was the establishment of a CCH administered loan program to speed up marketing transactions, by extending loans to cooperatives to allow them to pay member producers quickly for their coffee and occasionally, to advance cooperatives money while awaiting payment from CEPEC for coffee delivered. The regional monitors were to play the leading role in administering the loan program in the field: from evaluating the feasibility, to preparing the required documentation for the loan application and monitoring the repayment schedule. Though the repayment rate for FY 84 was high - as of February 85, 19 cooperatives out of 23 have repaid their loans in full, accounting for 87% of the funds disbursed - only 83% of the total $250,000 have been lent out. The CCH Project Director justified this action on the basis of wanting to lend cooperatives relatively small amounts during the first years, because of their inexperience in handling loans. At the same time, CCH is already requesting USAID to increase the amount of the revolving fund to take into account future demand growth. Such an action cannot be justified on the basis of current practice, nor in the absence of realistic future demand projections.

Despite the high repayment rate, the DAI report found CCH management of the fund to be less than optimal. The following constitute the deficiencies identified:

a) records on loans were very disorganized;

b) required signatures were missing in loan documents in several cases;

c) loan due dates were missing in several cases or sometimes when they were mentioned, they preceded the disbursement date;

d) interest payments were not made to CCH in several cases;

e) loans were granted in some instances without completion of all the required forms; and

f) poor performance in managing a loan appears to have been rewarded, in some cases. For example, CODENCEF, Fond Beron, repaid its 1983 loan 10 months late with no interest, and then received a loan three times larger on the day the loan was finally repaid.

Scarcity of management and supervisory cadre at the CCH central office was identified as a primary cause for this lackluster performance, as it was in failure to fully implement the required management practices at the cooperative level. Increased supervision of the monitors' field activities and the effective integration of the ILO expert in the project's training program could go a long way toward redressing this situation.

17. OUTPUTS

The regional monitors were supposed to train and actively assist local cooperative management cadre to implement more rational management practices. A good beginning was made in instituting the required changes, but a good deal yet remains to be done. For example, there was some improvement made in the record-keeping system of several cooperatives, but CACRON, Haut Cap Rouge, has four different enterprises but no idea about the relative profitability of each. Furthermore, the cooperative is stocking all of its coffee awaiting a higher price rather than following the more prudent policy of selling coffee throughout the season. At EFCJEN, Fond Jean Noel, columns were drawn up showing coffee purchases per month over the past year, but the columns were never summed up. This same cooperative had a loan outstanding for $1,000 on which it was paying 1 percent interest per month, even though it didn't purchase any coffee during the preceding six weeks and was not likely to purchase any significant quantity until the start of the next season, six months away.

With respect to the performance of the regional monitors, there is much left to be desired according to an October 1984 project report written by the CCH Project Director cum Field Coordinator, summarizing the results of performance indicators developed to measure the analytical, problem solving and planning capabilities of regional monitors. The report concluded that only three out of eight monitors performed satisfactorily in the area of analytical skills, and four out of eight, in those of problem solving and planning.

18. PURPOSE

The primary purpose of the project was to strengthen the administrative structure of CCH to allow it to assume increasing responsibility for project implementation, especially with respect to the management of CEPEC. An associate purpose was to reorganize the cooperatives and pre-cooperatives at the local level by putting in place more rational financial and organizational management practices.

These objectives were only partially achieved in both instances. With respect to the primary purpose, the delays experienced in completing the coffee processing center, which CCH was to ultimately operate and manage resulted in CCH's inability to recruit a full contingent of Executive Committee members as had been planned under the project, as several of the positions were tied in with the center's operation. Additionally, CCH personnel claimed that qualified personnel could not be found to fill several of the other key positions, which resulted in a full time OPRODEX employee taking on the position of both Project Director and Field Coordinator under the project. Whether this individual was receiving remuneration for all three positions is not clear; however, needless to say this was not an ideal situation as the Director's/Field Coordinator's full attention to project activities was never realized under the project. This kind of situation should not be allowed to develop under any future activity of this sort.

Likewise, the causes for modest achievements of the sub-purpose were discussed in detail in paragraphs 16 and 17, above.

19. GOAL/SUBGOAL

No goal was formulated for this project.

20. BENEFICIARIES

The OPG Agreement estimated that 20,000 poor rural coffee producers would be the primary beneficiaries of the project. In addition, it was anticipated that additional benefits would accrue to the GOH in the form of increased revenues from coffee taxes. It is unfortunately difficult to compute accurately the magnitude of benefits accruing to targetted beneficiaries, inasmuch as such data are currently unavailable. Nevertheless, some estimates can be derived. With respect to coffee producers, the sample survey referred to in paragraph 15 above found that profits earned by six cooperatives, before distribution to the memberships, ranged from $0.01 to $.10 per pound of coffee purchased, or from 1 to 20 percent of the initial price cooperatives paid to producers, that is, the local or speculator price. The unweighted average of earnings was calculated to be $3,800, or $0.06 per pound, representing an economic benefit to the farmer of 9 percent over prices offered by speculators. In addition three of the six cooperatives surveyed paid a patronage refund to their members, with dividends ranging from $0.08 to $0.11 per pound of coffee sold, or 10 to 20 percent higher than the speculator price. Thus, six cooperatives convincingly demonstrated their ability to earn profits for their members. Since these cooperatives are said to be representative of the general population, it could be said that the majority of the CCH cooperatives and pre-cooperatives do provide economic benefits to their 17,376 members.

With respect to GOH revenues, the value of coffee exported by CEPEC is as follows: $747,728 (1982), $931,933 (1983), $1,124,372 (1984) and $1,352,287 projected for 1985. Applying the 26% ad valorem tax rate on coffee for 1982-1984, and 23% for 1985, yields the following GOH revenues from coffee: $194,409 (1982), $242,303 (1983), 292,337 (1984) and $311,026 (1985). Thus, GOH revenues from CEPEC exports rose to about 60% in 1985 compared to the 1982 level, one year prior to the initiation of the project. It is questionable at this point whether this considerable increase can be attributed solely to project activities, for other factors, such as the international coffee market price, would have to be taken into account.

21. UNPLANNED EFFECTS

One of the unplanned effects of the project is the fact that many, if not most, coffee cooperatives were founded by, and continue to be dominated by the rural elite who exploit the peasants on a regular basis. The DAI study found that poor rural farmers who did not join the cooperatives, perceive these institutions as another way for the rural elite - and by association, the Government - to extend its power to yet another facet of their lives.

This situation allegedly came about because cooperative development did not specifically focus on small farmers. Typically, seminars to develop an interest in cooperatives were held during the late 1970s and early 1980s in a number of areas, and rural elites were invited to attend. They then went back to their home areas to organize cooperatives, with the understanding that money and equipment would be made available by the Government and USAID to help the cooperatives get started. As it is a common occurrence in development that a new technology or institution meant primarily for small farmers is captured by the rural elite, and since no special effort was made to direct cooperative development at the small farmer, it is understandable that cooperatives would benefit those in the best position (socially and economically) to take advantage of the benefits.* In some cases, the founders and leaders were speculators themselves and therefore had a direct interest in limiting membership in the cooperatives. In one area for example, farmers explained that joining the cooperative was not an option for them, since they sold their coffee directly to the cooperative president.

Fortunately, this situation does not hold across the board. For example, cooperatives formed with the assistance of Catholic priests in southwestern Haiti, such as CAVDAC in Chardonnières, can legitimately be called popular institutions. Intensive organizational and mobilizing efforts over long periods of time were required to develop the interest and participation of small farmers in the cooperatives.

With regard to the CCH movement specifically, it is felt that in order to be institutionally viable in the long-term, CCH needs to focus on training and on the application of democratic decision-making principles in cooperatives dominated by elite elements. The role of the regional monitors will be critical in this regard. In addition, UNICORS - the regional cooperative organization grouping the southwestern cooperatives - can also play a useful role in this context by participating in training activities and acting as a show case.

Another unplanned effect is the increasing challenge posed by certain coffee exporters to the long-term viability of CCH cooperatives located in isolated regions traditionally recognized as the exporters' parochial domains. In a reported case, the exporter substantially pushed up the local coffee price in an effort to drive the cooperative out of business. Fortunately, the cooperative was able to meet the price, with the help of CCH credit funds. But it is questionable whether cooperatives can indefinitely survive such determined onslaughts. In that regard, the ILO expert recommended that an emergency fund be established either at the cooperative or CCH level, to meet such eventualities. The Mission could support that effort by allocating a part or the whole amount of the funds generated from interest earned from the revolving fund loans for that purpose.

The third unplanned effect identified is CEPEC's virtual alienation of the cooperatives by failing to distribute anticipated rebates over the LOP period, as was already discussed in paragraph 13, above. Because of this, some cooperatives have withheld from 25% to 50% of the amount of coffee they have brought - according to various sources - and are marketing it through more traditional marketing channels. According to project reports, the cooperatives are so suspicious of CEPEC management that they reportedly vow to continue this action until CCH assumes management of the coffee center.

22. LESSONS LEARNED

One of the lessons learned from this effort is that follow-on activities should not be developed and approved until the predecessor activities they are based upon have been fully completed and operational, i.e., in this case the establishment of an Executive Committee being tied in with the completion of the coffee processing center which was a key activity of the predecessor project.

Another lesson to be drawn from this effort is the fact that activities of this sort need to be more closely and carefully monitored, so that adjustments/modifications can be made as required during the life of the project. Efforts should have been made early on to a) locate a full-time Project Director and Field Coordinator, b) upgrade the training of regional monitors and cooperative personnel and c) better utilize the T.A. available in Haiti.

23. SPECIAL COMMENTS/REMARKS

None.