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DECENTRALIZATION: FINANCE & MANAGEMENT PROJECT

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**PROGRAM OF REFORM IN THE AGRICULTURAL
MARKETING SECTOR, PHASE I**

**Program of Research on Market Transitions
(PROMT)**

**THIRD INTRA-ANNUAL ASSESSMENT
DURING YEAR 3 (1992-93)**

FINAL REPORT

**Decentralization Finance and Management Project
Associates in Rural Development, Inc.**

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EXECUTIVE SUMMARY

An intra-annual review of PRAMS I reform and restructuring activities in the North West Cooperative Association (NWCA) was conducted on 17-18 November 1993 in Bamenda. The review focused on program activities occurring since the last intra-annual review of 8-9 September 1993, implementation of the current Program Implementation Agreement (PIA), preparation of Internal Marketing Arrangements for 1993-94, and plans for reform and restructuring activities for Year Four of the program, the final year of PRAMS I.

The policy reform activities of PRAMS I, focused at the national level in Cameroon, are nearly complete. The 1993-94 season will be the first in which the government of Cameroon has completely withdrawn from its former dominant role in the marketing and pricing of arabica coffee. The arabica coffee subsector will therefore operate for the first time in a fully liberalized manner, with no legal monopolies in coffee buying and no government role in producer pricing and international marketing.

NWCA completed an effective marketing season in 1992-93, selling virtually all of its coffee at good prices relative to market conditions, reflecting the strong performance of the upgraded NWCA Marketing Department. The Marketing Department has also commenced forward sales for the 1993-94 season.

NWCA has also successfully completed an education program that will enable Cooperative Produce Marketing Societies (CPMSs) in the cooperative structure to establish separate producer prices for the 1993-94 season. This is a key step toward full implementation of the PRAMS I reform program at NWCA.

An action plan to introduce consistent accounting procedures throughout the cooperative structure is close to full implementation. The appropriate method by which to account for the movement of coffee through the structure is a lingering question, and the assessment concludes that a consignment method is more consistent with both actual practice and the reform objectives of PRAMS I.

A study conducted to determine the feasibility of washing stations in the North West Province concluded that they are not feasible at this time; however, other measures were identified to improve the quality of arabica coffee being grown and processed on the farm, in particular, the acquisition of high-quality, imported hand-pulpers.

To organize the forthcoming marketing season, NWCA is fully implementing a system of Internal Marketing Arrangements (IMAs), introduced in part earlier, whereby the NWCA supplies marketing and marketing-related services to its member unions at cost, and each union supplies processing and processing-related services to its member societies at cost. The costs are specified in an internal cost schedule negotiated and agreed to at the start of the season. Together with crop forecasts and a world-market forecast, the internal cost schedule

enables each CPMS separately to establish a producer price. The ownership of the surplus derived from the sale of coffee by NWCA is vested in each CPMS. Although numerous details remain to be worked out and some problems and shortcomings can be discerned, the IMAs are being seriously negotiated. Competitive pressures to reduce and control costs are already evident within the cooperative structure, as intended in the reform program.

A projected dissemination campaign for the new national cooperative law has not yet been carried out. However, the campaign is expected to be implemented soon. In the meantime, all of the cooperatives affiliated with NWCA are in the process of reorganizing in order to register under the terms of the new law. Numerous CPMSs have decided to divide and form new cooperatives. This long-awaited restructuring of societies has been made possible by the liberal provisions of the new law.

NWCA is now entering the fourth and final year of PRAMS I activities. Technical assistance activities are scheduled to end even earlier, by 31 March 1994. The Program Implementation Agreement (PIA) for Year Four includes activities planned to facilitate the 1993-94 marketing campaign, implement the new cooperative law, and establish a Coffee Quality Improvement Program, among other projects. A final Intra-Annual Review is planned for early March 1994.

SYNTHESE

Les 17 et 18 novembre 1993 s'est déroulé à Bamenda un examen en cours d'année des activités de réforme et de restructuration dans le cadre du PRAMS I, activités auxquelles s'est livrée l'Association coopérative du Nord-Ouest (NWCA). Cet examen a porté sur les activités du programme ayant pris place depuis le dernier examen en cours d'année des 8-9 septembre 1993, sur la mise en oeuvre de l'Accord d'exécution du programme (PIA) en cours, sur la préparation des arrangements internes de marketing pour la campagne 1993-1994, et sur les plans régissant les activités de réforme et de restructuration durant l'Année Quatre du programme, qui est l'année finale du PRAMS I.

Les activités de réforme des politiques au titre du PRAMS I, centrées au niveau national du Cameroun, sont pratiquement achevées. La période 1993-94 sera la première campagne de commercialisation et d'établissement des prix du café arabica ayant vu le gouvernement du Cameroun se retirer de la scène et abandonner son ancien rôle dominant. Le sous-secteur du café arabica opérera donc pour la première fois d'une manière complètement libéralisée, sans aucun monopole légal s'exerçant sur l'achat du café, et en l'absence de tout rôle gouvernemental pour la fixation des prix à la production et la commercialisation internationale.

La NWCA a mené à bien une campagne de commercialisation efficace en 1992-93, ayant vendu pratiquement tout son contingent de café à des prix qui étaient bons compte tenu des conditions du marché, un accomplissement qui reflète la manière efficace dont le Département de marketing de la NWCA s'est acquitté de ses fonctions après sa modernisation. Le Département de marketing a aussi commencé des ventes à terme pour la campagne 1993-94.

La NWCA a aussi mené à bien un programme d'éducation qui doit permettre aux sociétés coopératives de commercialisation des produits agricoles (CPMS) intégrées dans la structure coopérative, de fixer des prix à la production séparés pour la campagne 1993-94. Il s'agit là d'une étape clé qui doit mener à l'exécution intégrale du programme de réforme du PRAMS I au sein de la NWCA.

Un plan d'action en vue d'introduire des procédures comptables uniformes à travers tout l'ensemble de la structure coopérative touche à sa mise en application complète. Trouver une méthode appropriée permettant de rendre compte des mouvements du café à travers la structure, est une question qui demeure en suspens; l'évaluation à ce sujet conclut qu'une méthode de mise en consignation correspond le mieux tant à la pratique actuelle qu'aux objectifs de réforme du PRAMS I.

Une étude qui a été effectuée pour déterminer la faisabilité de la création de stations de lavage dans la province du Nord-Ouest a conclu que ces installations ne sont pas faisables à l'heure actuelle; toutefois, il a été identifié d'autres mesures devant améliorer la qualité du café arabica dont la culture et le traitement se font sur l'exploitation; parmi ces mesures figure en particulier l'acquisition de pulpers manuels importés de haute qualité.

Pour organiser la campagne de commercialisation qui s'annonce, la NWCA applique dans son intégralité un système d'arrangements internes de marketing (IMA), dont l'introduction partielle avait déjà eu lieu; ces arrangements prévoient que la NWCA fournit des services de marketing et des services liés à la commercialisation, à prix coûtant, aux unions qui en font partie, tandis que chaque union membre fournit à prix coûtant des services de traitement et des services liés au traitement aux sociétés membres de cette union. Les coûts sont spécifiés par un barème interne des coûts, faisant l'objet de négociations et d'un accord au début de la campagne. Associé aux prévisions de récolte et à une projection des marchés mondiaux, le barème interne des coûts permet à chaque CPMS de procéder séparément à l'établissement des prix à la production. L'excédent dont on dispose et qui résulte de la vente du café par la NWCA, est investi dans chaque CPMS. Bien qu'il reste de nombreux détails à mettre au point, et que l'on voie surgir certains problèmes et lacunes, les arrangements IMA font actuellement l'objet de négociations sérieuses. Les pressions concurrentielles poussant à réduire et contrôler les coûts se font déjà clairement sentir dans la structure coopérative, comme c'était l'intention du programme de réforme.

Une campagne de diffusion d'information qui avait été prévue pour cette nouvelle loi sur les coopératives nationales, n'a pas encore été mise en oeuvre. Toutefois, on s'attend à en voir l'exécution se dérouler bientôt. Dans l'intervalle, toutes les coopératives affiliées à la NWCA sont en train de se réorganiser afin de s'inscrire selon les termes de la nouvelle loi. De nombreuses CPMS ont décidé de se scinder et de former de nouvelles coopératives. Cette restructuration des sociétés que l'on attendait depuis longtemps a été rendue possible par les dispositions libérales de la nouvelle loi.

La NWCA entre maintenant dans la quatrième et dernière année des activités du PRAMS I. Il est prévu que les activités d'assistance technique finissent même plus tôt, le 31 mars 1994. L'Accord d'exécution du programme (PIA) couvrant la quatrième année comprend des activités calculées pour faciliter la campagne de commercialisation 1993-94, pour mettre en oeuvre la nouvelle loi coopérative et pour établir un programme d'amélioration de la qualité du café, entre autres projets. Un dernier examen en cours d'année est prévu pour le début de mars 1994.

I. INTRODUCTION TO THE REPORT

This assessment is based on an Intra-Annual Review of NWCA reform and restructuring activities conducted on 17-18 November 1993 in Bamenda. Participants in the review included a representative of the Cameroonian government's Arabica Policy Coordinating Committee (APCC), the NWCA board of directors [Kom Union absent], the general manager, assistant general manager, and other senior staff of NWCA, union managers [Kom Union absent], the 3-person technical assistance team supplied by the International Science and Technology Institute (ISTI), Peace Corps volunteers posted to NWCA as cooperative technical advisors (CTAs), the PRAMS I project officer and PRAMS I program coordinator from USAID, and a 2-person assessment team supplied by Associates in Rural Development (ARD) through the Decentralization: Finance and Management (DFM) project, AID/Washington. The full proceedings of the intra-annual review will be published by the ISTI technical assistance team concurrently with this assessment report.

The process of periodic review and assessment built into the design of PRAMS I calls for two intra-annual reviews, one in the spring and the other in early fall, and an annual review in November. Intra-annual reviews were conducted in May and September 1993. However, the annual review originally planned for November was postponed due to scheduling difficulties. In its place, a third intra-annual review was conducted. An annual review, which is a more thoroughgoing review of the whole year's activities, is attended by representatives from the entire cooperative structure, including each Cooperative Produce Marketing Society (CPMS), while intra-annual reviews are limited to representatives from each cooperative union. The review of preparations for the 1993-94 season, which necessarily occurs in November, was therefore conducted without the participation of the societies that form the base of the cooperative structure.

This report focuses on activities undertaken since the last intra-annual review in September, activities that conclude the Program Implementation Agreement for Year 3, which terminated on 31 October. The following topics are considered:

- (1) The Organization of Marketing Cooperatives;
- (2) Policy reform activities conducted at the national level;
- (3) NWCA marketing activities for the year ending September 30 and the 1993-94 season to date;
- (4) The implementation of action plans during 1993;
- (5) The internal marketing arrangements being developed for the 1993-94 marketing season;
- (6) Cooperative restructuring activities at the society and union levels;
- (7) The proposed Program Implementation Agreement for Year Four, the final year of the program; and
- (8) Proposed uses of local currency in the technical assistance project during the final year of the program.

II. THE ORGANIZATION OF MARKETING COOPERATIVES

Many of the issues discussed in this report are related to the nature of cooperatives as organizations. For this reason, the report begins by discussing how cooperatives in general are organized and how marketing cooperatives compare to other types of business enterprise.

The organization of a marketing cooperative begins with individual producers. Instead of marketing their produce separately, producers join together to market their produce as a group. Two factors can prompt farmers to take this step. One factor is market power. In a marketplace composed of many sellers and only a few buyers, buyers have greater market power and sellers may be disadvantaged, unless they can increase their own market power by acting collectively. The other factor is produce quality, when quality is difficult to discern at the point of sale. By acting jointly to increase quality, all of the producers in an area can realize an economic gain. The producers who market their produce jointly form an economic organization called a marketing cooperative. It functions by combining members' produce and selling it for a common price.

The Cooperative Produce Marketing Societies (CPMSs) of the North West Province are exactly this type of economic organization, described above. For this purpose, they collect their member's parchment coffee; however, they do not sell it-- not directly. Instead, CPMSs organize another cooperative, called a cooperative union, for the purpose of adding value to their produce by hulling, grading, and sorting it--activities more efficiently carried out on a larger scale than is represented by any single CPMS. Still, none of the eleven cooperative unions in the North West Province markets coffee directly. Instead, they have organized still another cooperative, a federation of cooperative unions called the North West Cooperative Association (NWCA). This is the organization that markets coffee to world buyers, as well as supplying various support services to member unions and their member CPMSs.

Each of these cooperatives is an association of members. For each CPMS, the members are individual producers. For each cooperative union, the members are CPMSs. For the NWCA, the members are cooperative unions. All of these organizations are marketing cooperatives, even though only the NWCA directly markets coffee. CPMSs market coffee by organizing cooperative unions, and cooperative unions market coffee by organizing the NWCA. Through this cooperative structure, the 35-40,000 coffee producers in the North West Province can speak with a single voice in the world market and, at the same time, acquire a common reputation for the quality of coffee they manage to produce. Yet, each producer is also a member of his own CPMS, a relatively small local cooperative where his individual voice can be heard and his interests protected.

It is important to understand clearly the relationship between the association of members formed by each cooperative and the organization of employees created by each cooperative to carry on its business. CPMSs, cooperative unions, and the NWCA each hire employees in order to staff an office able to take care of their business. These are service

units, created to deliver services to cooperatives and their members at cost. They are not profit-making businesses. The profit motive in a cooperative structure belongs to the individual producer, not the cooperative or its agents.

A cooperative is like a commercial, profit-making business in one very important respect: it must cover its costs from its own revenues. For this reason, cooperatives should be just as cost conscious, and just as alert to money-making opportunities, as any profit-making business. However, a cooperative business is unlike a commercial business in other critical respects. These dissimilarities must be understood in order to organize a cooperative so that its members can control the organization and make it serve their own economic interests.

A profit-making business in general seeks to (a) maximize its revenue from sales and (b) minimize its cost of sales in order to (c) maximize the difference between revenue and cost, called profit. A profit-making coffee export business will therefore seek to minimize its cost of goods sold. This means minimizing the producer price paid to its principal input suppliers--farmers. A cooperative business, by contrast, seeks to maximize its revenue from sales for the purpose of maximizing, not minimizing, payments to producers. This is because a marketing cooperative is directly accountable to its principal input suppliers--in this case, coffee producers. A marketing cooperative is a democratic organization of producers--a business organized and controlled by the producers of its principal inputs for their individual profit.

The distinctive character of a cooperative has important implications for organization. Cooperative affairs must be conducted with much greater transparency than a profit-making business would tolerate, and they require a different structure of control and accountability than found in a profit-making business. Although both types of business enterprise are accountable to their owners, in the case of a cooperative the owners are the producers of the principal input. Their economic interest is focused on the price they receive for their produce. The performance of the cooperative structure must therefore be closely tied to producer price. Good performance must be defined strictly in terms of the ability to maximize producer price.

The new internal marketing arrangements, first outlined in the Memorandum of Understanding (MOU) and now being implemented, view the cooperatives at each level of the structure as the suppliers of marketing services, at cost, to their members. The realization of this concept depends on a system of accountability, including appropriate accounting procedures and conventions, that compels each cooperative to view itself as a service organization responsible to its members.

III. POLICY REFORM ACTIVITIES

With the 1993-94 coffee marketing season, the policy reform component of PRAMS I will have been almost fully implemented. Full price liberalization will have been achieved. The government's Ministry of Commerce and Industry will soon announce its complete withdrawal from pricing and marketing activities in the arabica subsector. This withdrawal coincides with the implementation of the Arabica Market Information System (AMIS), Phase I, administered by ONCC, which disseminates price information (the New York "C" and FOB Douala prices) to the general public. In addition, the new cooperative law will have been disseminated and implemented. The principal impact of these reforms is to give arabica marketing cooperatives new freedom to operate, responding simultaneously to market signals and the economic interests of arabica producers.

Other conditions required by the grant agreement are close to completion as well. The transfer of assets from the National Produce Marketing Board, now being liquidated, to NWCA has been accomplished in terms of physical possession, but not in terms of a legal transfer of title. The adoption of a graduated tax on arabica exports has moved forward with the formation of an interministerial committee to draft a plan for submission to the national assembly. Once the transfer of assets is complete and a plan for a graduated tax has been developed, all of the conditions precedent to dollar disbursements provided by PRAMS I will have been satisfied.

IV. NWCA MARKETING ACTIVITIES AND INTERNAL COSTS

The performance of the NWCA Marketing Department for the 1993-94 season was exemplary. During the season, NWCA marketed 2,129 tons of washed arabica at an average price of FCFA 386/kg. Virtually all current stocks have been sold. In addition, NWCA sold 134.7 tons of unwashed arabica at an average price of FCFA 243/kg and 260.7 tons of robusta at an average price of FCFA 247/kg. NWCA also was able to market its old stocks, mostly to local buyers.

Some of the coffee processed and shipped late in the season encountered quality problems and was rejected by roasters. The Marketing Department has determined that most of these problems were caused by Class III coffee. Some downward adjustment in the average sales price is expected as a result of the quality claims.

The cost side of NWCA's marketing activities is less clear. However, the internal cost/kg of the NWCA (not including the costs of societies and unions), when computed with respect to 1992-93 arabica coffee only, is nearly FCFA 79/kg. This amount exceeds the expected cost, a disparity caused mainly by the low volume of coffee produced and marketed.

Accurate crop forecasting and budgeting are needed to avoid this type of cost over-run in the future. Assuming that costs have been reduced as far as possible, cost over-runs can only be avoided by making smaller per-kilo payments to farmers.

Recommendation 1:

The financial capacity of farmers to sustain a cooperative marketing operation is limited by the size of the annual crop, affecting the financial feasibility of NWCA operations both on an average basis over a multi-year period and in any one year. NWCA should pursue opportunities for growth by actively seeking to buy coffee beyond the limits of the North West Province. Over the next few seasons the extent of NWCA's regular operations should be proportioned to the average size of the crop it markets over a multi-year period. In addition, NWCA should draw up contingency plans for a temporary downsizing of its operations in the event of a low crop forecast.

The Marketing Department has already begun selling the 1993-94 crop by means of forward sales. So far, 1,150 tons of arabica have been sold at an average price of FCFA 484/kg. Additional forward sales are unlikely, however, because the Marketing Department plans to limit the amount of forward sales to roughly one-third of the crop forecast.

V. THE IMPLEMENTATION OF ACTION PLANS IN 1993

The Program Implementation Agreement (PIA) adopted for year 3 of PRAMS I committed all parties to the development and implementation of a series of action plans intended to bring NWCA and the cooperative structure to a point of full liberalization prior to the start of the 1993-94 marketing season. Confronting a crowded and ambitious agenda, NWCA and its advisors have worked diligently and with growing enthusiasm to bring these plans to fruition. As a result, the cooperative structure stands ready to begin the 1993-94 season with most of the basic features of the cooperative reform program now in place or soon to be implemented. The following discussion briefly reviews each action plan and its implementation, focusing in selected cases on remaining deficiencies and opportunities for improvement.

A. Producer Pricing

One of the basic components of the reform program adopted by NWCA is the determination of producer prices separately by each Cooperative Produce Marketing Society (CPMS), which form the base of the cooperative structure, instead of by NWCA as a whole. Only with such an arrangement will the producer price received by farmers depend directly on the operating efficiency of a farmer's own CPMS and own Cooperative Union, instead of on the average efficiency of all CPMSs and Unions. Society-level producer pricing generates the strongest possible incentives for the cooperative structure to control costs. Farmers are

given incentives to hold their cooperative officials accountable for their performance, while cooperative officials are given incentives to reduce costs in order to earn and hold the loyalty of farmers as cooperative members. These incentives are crucial to the long-term sustainability of the cooperative structure and the continued development of the arabica subsector.

The action plan on producer pricing called for an educational campaign designed to enable CPMSs to calculate producer prices, taking into account their unique costs, in addition to crop and international-market forecasts. A campaign was devised jointly by NWCA staff and IST! technical assistance that stressed the meaning of a free market, the cost components that each society must consider, the concept of cooperatives as producers of services demanded by farmers, a description of the Arabica Market Information System and the information it provides, and the keys to the success of the cooperatives--the maintenance of quality, prompt payment to farmers, and cost effectiveness. In October, workshops were conducted at each union and the information carried by societies to the section level. Ndop Union, for example, conducted 13 presentations at the section level with an average attendance of 20 farmers.

During the course of the intra-annual review, reports were heard from the union managers present [Kom Union was not represented], supplemented by the accounts of Peace Corps volunteers, who also participated in the information campaign. Without exception, the managers reported that societies and their farmers were now well versed in the producer-pricing arrangement and well satisfied with it. Only Moghamo Union reported an urgent need for additional help with education.

Recommendation 2:

On the basis of the successful educational campaign carried out by the cooperative structure, the NWCA should proceed to implement society-level pricing for the coming 1993-94 marketing campaign.

B. Finance and Accounting

The action plan for finance and accounting is part of a broad effort to strengthen NWCA's organizational capacity to manage and conduct its marketing and related activities. This effort has included an attempt to introduce consistent accounting procedures and generally accepted accounting standards at all levels of the cooperative structure. To this end, workshops have been conducted for unions and societies, and a computerized accounting system has been installed at the NWCA.

Accounting conventions and practices are not neutral instruments. Rather, methods of accounting influence both the information available to decision-makers and their incentives to perform efficiently. In a multi-tier cooperative structure, accounting practices substantially

define the financial relationships among the levels. It is important, therefore, that NWCA and its affiliates adopt accounting methods that are appropriate to the cooperative form of enterprise and, in particular, to the reform objectives of PRAMS I. This portion of the assessment examines the institutional effectiveness and propriety of the accounting system developed in conjunction with the action plan.

One question raised and discussed in the review concerned how to account for coffee as it moves through the structure from society to union to the NWCA. One proposal is to account for the transfer of coffee by means of an income statement accounting procedure. This would require that coffee received be recorded as a purchase and coffee transferred be recorded as a sale. It implies that societies sell coffee to unions and that unions sell coffee to the NWCA. Yet, the levels of the cooperative structure have never bought and sold coffee from one another, nor is such a relationship intended by the reform program. The alternative, presented during the review by the director of the NWCA Finance and Accounting Department, is to account for the transfer of coffee on a consignment basis. This method is more consistent with the actual relationships among the tiers of the cooperative structure.

Recommendation 3:

Both the NWCA and each union should account for their coffee inventories as financial obligations. The obligation of each union is to transfer payment for a particular amount of coffee to societies, and the obligation of the NWCA is to transfer payment to each union. Each obligation should reflect the amount of coffee in each classification received on consignment. The obligation should be recorded as a liability on the balance sheet and the inventory of coffee recorded as an offsetting asset. The obligation is removed from the balance sheet when it has been fulfilled with payment. This method of accounting correctly communicates that each level of the cooperative structure is a service organization and that members are entitled to the surplus generated from the sale of coffee on the market.

Another issue concerns the dissemination of financial information throughout the cooperative structure and, especially, to farmers. Farmers and their elected representatives need to have accurate information available about the true costs of services offered by the cooperative structure. They need to be able to compare costs from year to year and among cooperatives in order to hold cooperative officials accountable and make informed economic decisions about the services they want. In order to compare costs, it is necessary to distinguish fixed costs and variable costs. Fixed costs are those that stay the same as the amount of coffee marketed goes up or down, while variable costs change as the amount of coffee changes. Only variable costs can be compared from one year to the next on a per-kilogram basis. Fixed costs should be sorted out and communicated separately to members in terms of budget and expenditure totals, not hidden in per-kilogram costs. Although the entire structure has recently been going through a period of internal cost reduction, the extent of these reductions cannot be assessed without comparable cost figures from one year to the

next. For example, cost reductions were not apparent in the per-kilogram costs computed for the 1992-93 season because of the much smaller amount of coffee processed and marketed. Cooperative officials need to be able to demonstrate the extent of cost reductions to farmers.

Recommendation 4:

The Finance and Accounting Department of NWCA should annually publish a financial newsletter that reports the costs of services being supplied by all levels of the cooperative structure, as well as the revenues received from all sources. To the greatest extent possible, costs and revenues should be matched, that is, the costs of each separable activity should be matched to the revenues from that activity. Both actual expenditures for the previous year and budgeted amounts for the coming year should be reported. The report should distinguish indirect costs (overhead) from the direct costs attributable to separable activities. Within each direct-cost category, the report should distinguish fixed and variable costs. The variable costs directly related to processing and marketing should be reported on a per-kilogram basis, but all other direct and indirect costs should be reported in terms of expenditures and budget totals. The report should be organized to facilitate annual comparisons, as well as comparisons among cooperatives, and it should be widely distributed throughout the cooperative structure.

Finance and accounting also needs to give greater attention to depreciation. The basic purpose of depreciation is to provide for the renewal of assets. This concept is well accepted within the cooperative structure, but is not being consistently applied. Under the former regime of the National Produce Marketing Board, the cooperative structure was not responsible for capital investments. This has now changed, and funded depreciation accounts have become essential for the sustainability of the cooperative enterprise.

Recommendation 5:

Cooperatives at each level of the cooperative structure should begin setting aside a sum of money each year for the purpose of maintaining a fund that can be used to replace or restore worn-out equipment and facilities. With completion of the transfer of all remaining NPMB assets to NWCA and its affiliates, a review should be undertaken of the value and aging of all assets at all levels. On this basis, a replacement schedule should be developed and the cost of replacement estimated for, perhaps, a ten-year period. This schedule can be used to determine the appropriate size of the fund. The next step is to capitalize the fund. This can be done by making contributions over some period of years. Each annual contribution can be treated as a per-kilogram cost, determined on the basis of average expected coffee production, and included in the internal-cost schedule. Once the fund is capitalized, the amount needed to maintain the fund annually may decrease.

A final issue concerns future possibilities for continued improvement in the financial relationships among farmers, societies, unions, and the NWCA. The cooperative structure is now using a standard commercial accounting system. This system is less appropriate for a cooperative business than a "fund" accounting system. Fund accounting is a system that both enables producers to direct and control how various funds are used and assures that surpluses are returned to members. Each fund is raised from particular sources and intended for fairly specific uses. Instead of asking whether the organization is making a profit, the fund accounting asks whether the enterprise is managing various funds in best interests of its members and returning surpluses to the membership.

At present, the cooperative structure uses the variable revenue received from the sale of coffee on the market to cover both fixed and variable costs. This system has several drawbacks: (1) it lacks transparency because per-kilogram costs, which change with the amount of coffee being marketed, cannot easily be compared from year-to-year; (2) it inadvertently penalizes coffee production, that is, farmers should realize a cost savings as they increase production, due to the presence of economies of scale in processing and marketing, but instead they are forced to bear the same cost per kilogram no matter how much coffee they produce; and (3) it exposes the cooperative structure to a greater risk of large deficits due to market volatility.

Ideally, from an accounting standpoint, the cooperative structure should recover its fixed costs entirely from separate payments made by members. Only variable costs would then be subtracted from the revenue received when coffee is sold on the market and the remainder distributed as a surplus to members. This system would communicate clearly to farmers (a) how much it costs them to maintain the cooperative structure (fixed cost) and (b) how much it costs to process and market their coffee within that structure (variable cost). Several advantages would be obtained from this system: (1) costs could easily be compared from year to year and among cooperatives; (2) farmers would be encouraged to grow and produce more coffee; and (3) the cooperative structure would have a stable source of revenue to cover its core capacity independent of coffee harvests and sales revenues, both of which vary from year to year. At the same time, however, the payment of fixed costs only from membership dues might be viewed as less equitable than apportioning those costs among members on a per-kilogram basis.

To introduce such a system gradually, membership fees could first be established at each level of the cooperative structure. All societies would assess an annual fee of each member (some already do so). Unions would assess each society a fee based on its number of members. The NWCA would assess each union a fee, also based on the number of farmers served. Membership fees could eventually be used to cover all of the indirect costs of the cooperative structure, where indirect costs (also called overhead) refer to all fixed costs that cannot be attributed to a specific activity. Direct costs, on the other hand, refer to those fixed and variable costs that can be attributed to specific activities. For example,

expenditures for the board of directors and general manager of the NWCA cannot be allocated, except arbitrarily, among the various activities of the cooperative structure: these are indirect costs that should be matched to funds derived from membership fees.

NWCA could also establish separate subscription fees to cover the fixed costs that can be directly attributed to various support services, for example, engineering and internal audit. Subscription fees would purchase access to a service. The variable costs for services can then be recovered on a per-unit-of-service basis, such as per-visit. Only the variable costs that can be directly attributed to the processing and marketing of coffee would be recovered on a per-kilogram basis and subtracted from coffee sales receipts. This arrangement would increase the fiscal transparency of the cooperatives and make cost comparisons, both year-to-year and among cooperatives, much easier. Subscription fees would also make it possible for a union, for example, to choose not to subscribe to a particular service offered by NWCA, if it decided that it could procure the service more efficiently in some other manner (such as hiring its own employees or securing a vendor outside the cooperative structure). This would, in turn, bring a greater degree of competitive pressure to bear on the service departments of NWCA--pressure to reduce costs and/or improve service.

C. Marketing

The action plan for the Marketing Department of NWCA has been almost fully implemented, as reported and discussed in previous intra-annual assessments. As discussed above, the department is already engaged in the process of forward sales for the upcoming season. It continues to publish an informative monthly newsletter. The department also completed an extensive study of port charges experienced by NWCA and is developing strategies for further reducing these costs.

D. Engineering

The action plan for the Engineering Department of NWCA has also been almost fully implemented. Its latest activities include a study examining the feasibility of washing stations in the North West Province and, upon concluding that washing stations are not presently feasible, a further study for upgrading the quality of arabica production and establishing a Coffee Quality Improvement Program. Its priority recommendation pertains to the purchase of hand pulpers. Farmers have asserted a strong preference for the use of high-quality, imported pulpers, supported by the Marketing Department. Together with a training program in their use, imported pulpers have been judged to be the most cost-effective step that the cooperative structure can take to improve parchment quality.

Recommendation 6:

NWCA should implement the priority recommendation of its Coffee Quality Improvement Program to purchase high-quality, imported pulpers for use by farmers as the most cost-effective means of improving parchment quality.

E. Internal Audit

The action plan for the Internal Audit Service of NWCA has provided for a transition from internal audit control to an internal audit service, available throughout the cooperative structure. Under the terms of the new cooperative law, all cooperatives must be audited externally. The central mission of the Internal Audit Service is to assist all levels of the cooperative structure in keeping its accounts in an "auditable" condition. In effect, this means that the principal activity of Internal Audit has shifted away from auditing per se to training and technical assistance. Only in special cases is the Internal Audit Service expected to conduct audits--and always in response to a request from the organization being audited. For this reason, NWCA may want to consider renaming the department.

All organizations participating in the cooperative structure should follow consistent accounting practices that satisfy minimum standards. Much of the current action plan has focused on the achievement of this goal. NWCA will continue to exercise responsibility, through its Internal Audit Service or a comparable office, for the maintenance of a consistent accounting system throughout the cooperative structure. This in no way corresponds to official control over accounts. A statement of accounting standards will be included among the protocols agreed to by the cooperative organizations that participate annually in the structure's Internal Marketing Arrangements (IMAs). These standards, like all other elements of the IMAs, are subject to negotiation and agreement within the structure. The Internal Audit Service bears a special responsibility for developing these standards, monitoring their effectiveness, and reporting their findings and conclusions to the entire cooperative structure.

Some of the work of Internal Audit serves the entire structure collectively, while other services benefit particular cooperative organizations selectively. Services that benefit individual organizations, such as emergency audits or technical assistance that goes beyond that made generally available, can be separately billed on a unit-of--service basis. The Audit Service has begun to think through these issues. Like other indirect services, most of the costs of Internal Audit are charged against the marketing of arabica coffee on a per kilo basis. In the future, attention can be given to shifting the fixed costs of Internal Audit to a subscription basis.

F. Cooperative Law Dissemination

Although a plan has been adopted for disseminating the cooperative law throughout the NWCA cooperative structure, it has not been carried out. In the meantime, societies and unions have begun to reorganize, based on an earlier dissemination activity carried out in conjunction with the nationwide dissemination campaign. Because of the special implications of the new national law on cooperatives for the reorganization and reform of NWCA and the cooperative structure, a separate dissemination effort has also been planned as a PRAMS I activity. The integrity of the cooperative structure depends on the new law being properly implemented. Decisions on the organization of new societies, in particular, must be prudently made with a view to minimizing operating costs.

Recommendation 7:

The action plan on cooperative law dissemination should be implemented without further delay. The reorganization of cooperatives within the NWCA structure must go forward with or without the dissemination activity. In order for this action plan to be of value and to maximize the benefit that the cooperative structure can derive from the process of cooperative-law implementation, the dissemination activity must be carried out in advance of cooperative registration under the new law.

VI. INTERNAL MARKETING ARRANGEMENTS

The Internal Marketing Arrangements (IMAs) include a number of protocols intended to organize and coordinate the conduct of the marketing campaign throughout the cooperative structure. This section of the assessment reviews and comments on each element of the IMAs. It is important that this year's experience with the preparation and implementation of the IMAs be carefully monitored, so that problems and shortcomings can be corrected in the following year.

A. World-Price and Crop Forecasts

NWCA's current estimate of the world-market price is FCFA 365/kg, although the estimate was still under consideration at the time of the intra-annual review and is likely to be increased. Forward sales have been completed at an average price of FCFA 480/kg. Moreover, UCCAO (a competitive cooperative structure based in West Province) is reportedly anticipating a world-market price of FCFA 451/kg, while projecting an internal cost of FCFA 198/kg. In view of this information, NWCA may raise its market estimate to FCFA 400-410/kg; this would enable NWCA, with lower average internal costs than UCCAO, to pay farmers a competitive price.

In order for the negotiation of IMAs to go forward, NWCA must settle on an estimate promptly. The difference between the forward-sales price and the estimate is an allowance for the possibility that the market will decline. In the future, the NWCA Marketing Department should indicate the criteria being used to estimate the world price, including the margin allowed for error, and a firm date by which the pre-season estimate will be announced. The estimate should be "conservative" (to ensure that the cooperative structure does not operate at a loss), but the member cooperatives should be able to judge "how conservative" the estimate is. By agreeing to market coffee through the NWCA for the season, unions and societies agree to accept NWCA's pre-season estimate of the world-market price, which establishes the base on which modifications in the estimate will be made during the season. In order to enter knowledgeably into this agreement, each organization in the cooperative structure needs to know how and on what grounds the market estimate has been calculated.

The crop estimate for 1993-94 is 3,000 tons. This figure is derived from the separate estimates produced by each society (including any union intervention zones). The crop forecast is used to calculate per-unit internal costs at each level of the cooperative structure.

B. Internal-Cost Schedule

The heart of the IMAs is the internal-cost schedule, which specifies the per-unit costs to be charged for the processing and marketing services rendered by each union and the NWCA. Together with crop forecasts and NWCA's world-market price forecast, the internal-cost schedule provides the information needed by each society to determine the producer price (initial payment) to be paid to farmers on delivery of their produce.

NWCA reported a projected internal cost of FCFA 55/kg as of the intra-annual review; however, this cost is still under review and may be adjusted downward based on action pending by the board of directors.

The internal costs being reported by unions as of the intra-annual review are as follows (in FCFA):

| | |
|----------|-------|
| Bali | 66/kg |
| Central | 64/kg |
| Kom | N/A |
| Mbengwi | 60/kg |
| Moghamo | 60/kg |
| Ndop | 60/kg |
| Nkambe | 73/kg |
| Nso | 69/kg |
| Oku-Noni | 68/kg |
| Pinyin | 70/kg |

Santa 70/kg

Union costs range from a low of FCFA 60/kg in Moghamo and Ndop to a high of FCFA 73/kg in Nkambe [the Kom figure was unavailable]. The range is small. Without examining individual budgets, it is not possible to explain the source of the variation, nor to judge whether the estimates accurately reflect budgeted expenditures. It should be noted, however, that the reported variation is not obviously related to size of production. Two of the lowest production unions, Mbengwi and Moghamo, report (along with Ndop) the lowest internal costs, while Nso, the highest production union reporting, has an internal cost that is among the highest. This is inconsistent with the assumption that, due to economies of scale, larger-production unions are more efficient, that is, have lower per-unit costs.

It should also be noted that many of the unions are reporting internal costs well below those reported prior to the season last year. The biggest differences are for Pinyin and Nkambe. However, consistent with last year's figures, both remain among the highest cost unions. Moghamo, on the other hand, has gone from being one of the higher cost unions to one of the lowest cost unions. Bali and Mbengwi are the only unions to report higher costs this year than last. To some extent, these differences may reflect differences in crop estimates rather than differences in budgeted expenditures.

There are indications that some unions may be manipulating their reported per-unit costs by revising crop estimates upward. Inflated crop estimates produce deflated internal costs. The unions must realize that the IMAs commit them to receive no more than their reported internal cost/kg from coffee sales receipts. Underestimating their internal costs at the beginning of the season assures them of deficits at the end of the season. Under the terms of the IMAs, deficits cannot be financed by withholding surplus coffee receipts from societies and farmers.

Another question raised during the intra-annual review, but not resolved, was whether union internal costs include the estimated costs of credit financing and external audits. The costs of credit should be charged against each participating CPMS and therefore properly belong in CPMS budgets. Credit costs should be included in the internal cost of each CPMS; this procedure preserves to each CPMS the option of not participating in the credit plan arranged by its union or the NWCA. All cooperative organizations will bear the costs of external audits annually and, therefore, should be budgeted and included as part of the internal cost schedule.

Recommendation 8:

The NWCA Finance and Accounting Department should analyze projected union costs for the 1993-94 season, breaking per-unit costs down into the following components: production, fixed costs, and variable costs. The budgeted costs for 1993-94 should be compared with 1992-93 costs, both budgeted and actual. This work should be carried out at the level of the NWCA so that comparisons across unions can be easily made. In

the future, this analysis should be conducted prior to the marketing season and made available to inform all parties engaged in the preparation of Internal Marketing Arrangements [see Recommendation 4].

Internal costs being reported by CPMSs range from a low of FCFA 8.4/kg to a high of FCFA 31/kg. However, CPMS costs were not available for Kom, Moghamo, Nkambe, and Oku-Noni. Although some of these costs still seem excessive, many societies are now reporting internal costs under FCFA 15/kg. Some CPMS officials are reported to be feeling pressure to match the lower costs of neighboring societies.

The sort of competitive pressure now emerging among societies is a direct result of society-level producer pricing, as intended by PRAMS I reforms. Indeed, cost-cutting pressures are now in evidence at all levels of the cooperative structure. Although the pressure can also lead to efforts to hide costs, artificially inflating producer prices (as noted above), such a strategy is not likely to be sustainable. In the end, the organizations within the cooperative structure can succeed only by controlling costs.

C. Acceptance and Processing Procedures

After careful consideration, the NWCA Marketing Department, which has general responsibility for monitoring coffee quality, has recommended no basic change in the acceptance procedures for arabica coffee. Under the proposed agreement, societies will continue to sort parchment into three classes (very good, average, and poor), based not only on the number of good and bad beans, but also on variations in color and odor. This recommendation is based on the department's experience with quality claims from buyers over the past season. The department believes that most of these claims were made against Class III (poor) coffee. Unions will therefore be required to process Class III separately, but may mix Classes I and II.

Even though no basic change is being proposed, the procedures were not widely followed last year, due to the absence of IMAs. Therefore, the department plans to make a special effort to promote compliance with the procedures during the 1993-94 campaign.

D. Marketing Procedures

The proposed IMAs clearly authorize the NWCA Marketing Department to sell coffee at its own discretion in order to obtain the best average price for the year. The department also indicates plans to use a sales committee in the marketing process, although the draft IMAs make no mention of it. Under this procedure, no single person at NWCA is authorized to sell coffee; rather, at least three members of the senior staff (or board members), presumably including the director of the marketing department, must participate in a sales decision.

Some confusion was apparent at the review over the role of unions in sales decisions. The draft IMAs state that the marketing department will seek approval from "unions" prior to selling coffee below the "minimum" forecast price. The reference to a "minimum" price is inaccurate; rather the forecast price is an expected average price. The reference to "unions" is ambiguous, referring either to the union or unions where the coffee originated or to a majority of all unions as represented by decisions of the NWCA board of directors. The assistant general manager indicated that the intent was to require approval by the NWCA board--not the union(s) of origin--for all sales below the forecast price. The intended arrangement should be clearly stated in the IMAs.

E. Distribution of Sales Receipts

Two issues must be settled in order to distribute the receipts from the sale of arabica coffee. One is the ownership of a surplus or responsibility for a deficit; the other is whether unions (and their member societies) will be credited only with the sale of their own coffee or whether all unions will be reimbursed on the basis of the average sales price for all arabica marketed. Neither issue was addressed by the draft IMAs.

The principle established by the Memorandum of Understanding (MOU) among the NWCA, its affiliated unions, and USAID/Cameroon is that a surplus generated from the sale of arabica coffee is owned by societies. The amount of the surplus is determined by subtracting the internal costs agreed to in the IMAs from the actual sales price received. Both the NWCA and unions are entitled only to reimbursement for their internal costs as stipulated at the beginning of the season. Societies retain the surplus for distribution to producers as a second payment.

A deficit poses a somewhat different problem. If sales receipts generate insufficient funds to cover internal costs, the result is a deficit. Although prudent management should be able to avoid a deficit, the possibility of a deficit always exists, due to market volatility. The IMAs should therefore provide for the distribution of sales receipts in the event of a deficit. A reasonable principle to follow is "deficit sharing." Each level would absorb a share of the deficit proportionate to its share of internal cost plus producer price. Because all levels require incentives to avoid a deficit, it is appropriate that each level share in a deficit. This approach also has the advantage of being both straightforward and simple to calculate.

A decision is also needed on how to apportion sales receipts among unions. Two principal alternatives exist: (1) distribute sales receipts to the union of origin or (2) apportion the receipts based on the average sales price across all unions. The NWCA Marketing Department has proposed the average price method for the upcoming season. This issue was fully discussed in the last intra-annual assessment [see p.]. There is still, however, over the assignment of responsibility for quality claims. A consensus seemed to develop during the intra-annual review the indemnity paid on a quality claim should be charged to the union(s) of origin. This is a sound policy because it targets the incentive to avoid quality problems on

unions and their societies, where the responsibility for controlling quality lies. If this policy is adopted, it should be included in the IMAs in order that everyone can understand the assignment of responsibility at the beginning of the season.

In addition to these two issues, the last intra-annual assessment noted a potential problem with societies and unions that fail to deliver the quantity of arabica coffee that they agree to deliver in the IMAs. Crop estimates are used in the computation of per-unit internal costs, and budgets are established in part on the basis of crop estimates. Due to economies of scale in the processing and handling of coffee, average costs increase as quantity decreases. Because the unions and the NWCA commit themselves contractually in the IMAs to a certain internal cost, the crop estimates provided by each society (and union) should also be considered contractual commitments. If a society delivers less coffee than promised, the per-unit costs of its union and the NWCA will be higher than stipulated in the IMAs. Unless some provision is made for penalizing such a society, the burden of a cost overrun caused by an inaccurate crop estimate at the society level will fall on the entire union and the NWCA, not on the offending society.

This issue was discussed at some length during the intra-annual review. It was noted that minimum crop estimates can fail for a variety of reasons, some of which cannot be foreseen. This complicates the assessment of a penalty. However, societies can be viewed as the appropriate risk-taker because they are the owners of the surplus from arabica coffee sales. A society that does not fulfill its crop commitment would be assessed a penalty to be subtracted from its surplus. If the penalty exceeds the surplus, then the society would start the next season with a debit in its union account. The penalty is needed to create an incentive to make accurate crop estimates; otherwise, there is an incentive for societies to overestimate the size of the crop. The purpose of the penalty is not to punish societies, but to avoid inaccurate crop estimates. The size of the penalty should be based on the estimated per-unit increase in internal cost (including a penalty paid by the union to the NWCA) caused by a one-unit reduction in the size of the crop. If the penalty works, it would rarely be assessed.

If no penalty is used, unions and the NWCA should carefully scrutinize society crop estimates and challenge those that are not well substantiated. The crop estimate is part of the affiliation protocol and thus open to challenge.

F. Conclusion

NWCA has made considerable progress toward full implementation of the IMAs, led by the introduction of society-level producer pricing. Clearly, substantial efforts are being made to conduct the internal transactions of the cooperative structure in a systematic and agreed-upon manner, consistent with the reform objectives. Overall, the new system appears

to be working well. This being the first season in which full IMA-implementation has been attempted, however, it is important to identify problems and shortcomings for correction in the future. Some problems that have appeared thus far are noted below:

- The draft affiliation protocol states the parties to the agreement, as follows: (1) the North West Cooperative Association structure (NWCA), (2) the Apex organization of NWCA (Apex), (3) particular Area Cooperative Unions, and (4) particular Cooperative Produce Marketing Societies. There is, in fact, no difference between the North West Cooperative Association and the "Apex organization of NWCA;" they are one and the same. Neither are the management and staff of NWCA an organization separate from the NWCA. In the current structure, there can be no more than three types of parties to an affiliation agreement: NWCA, Unions, and Societies. The NWCA is an organization that represents all its member unions collectively, but each union may also act individually. The affiliation protocol is an agreement between the NWCA (representing all unions) and each union. Likewise, each union represents all its member societies collectively, but each society may also act individually. The affiliation protocol at this level is an agreement between each society and its union (representing all societies in the union). The "cooperative structure" is not a "party" that can sign an agreement; it is a relationship constituted by such agreements.
- The process for proposing, negotiating, and finalizing the IMAs should be organized in a systematic manner, following a clear sequence of steps. The process can be improved by formulating a policy statement to be adopted by the NWCA board of directors. Unions can usefully formulate and adopt similar policy statements that pertain to relationships with their own societies. Any changes in the policy statements should be made in advance of the preparation of IMAs for a particular season. Some features of the process may be adopted as by-laws; if so, the policy statement adopted by the board should also include reference to relevant provisions of the by-laws. The purpose of the policy statement is to provide a process for the orderly and well-informed negotiation of IMAs prior to each season. The statement on "The Budget Process and Determination of Internal Cost" included in the draft IMAs is a good start on such a policy statement. Included there are provisions for (1) crop forecasting, (2) budgeting formats and procedures, (3) export price estimation, (4) estimates of internal costs and revenues, (5) discussion of budgets and internal costs at all levels, (6) the publication by NWCA of internal costs for all levels, (7) the recommended method for society-level calculation of producer prices, and (8) budget controls (expenditures to be reported on a monthly basis and compared to budgeted amounts). In addition, the policy statement should provide (9) a statement of the principle to govern the distribution of sales receipts, and (10) a process to review the acceptance, processing, and marketing procedures (presumably to begin with the submission of recommendations by the NWCA Marketing Department). All of these provisions need to be in place prior to the negotiation of IMAs and therefore should be formulated as a separate policy statement rather than included in the IMAs.

- Negotiators at all levels need to know exactly the issues before them. The policy statement on IMAs therefore ought to include a specific format for the negotiation process, as well a procedure and timetable to be followed. These provisions are needed for both the negotiations between unions and the NWCA and the negotiations between societies and unions. The format ought to include a list of all items to be negotiated, along with standard protocols that contain blanks to be filled in as a result of negotiations.
- Greater attention should be given to the relationships between societies and unions in the future preparation of the IMAs. The NWCA board of directors correctly takes the position that it has no authority to regulate the relationship between a union and its societies. However, the format for the negotiation of IMAs must include the society-union relationship, and the preparation of this format is the responsibility of the NWCA Marketing Department (which similarly monitors society acceptance procedures and proposes changes). In particular, the format must include a statement of principles and procedures for the distribution of sales receipts between societies and unions as well as between unions and NWCA.

As the season progresses, other problems are likely to likely emerge and should be noted. This is to be expected as part of the normal process of adapting a new system to the needs of participants as these needs become known.

VII. COOPERATIVE RESTRUCTURING ACTIVITIES

A great deal of restructuring is underway at the society level, expected to increase in the number of societies from 40 to perhaps 60-70. This restructuring, made possible by the new cooperative law, has long been desired by the farmers in many areas. Many of the new societies have previously operated informally as "union intervention zones." The budgets being proposed by the new societies do not indicate a overall increase in costs and, in some cases, show a cost reduction. NWCA has been stressing that a small society is not necessarily nonviable, depending on how it chooses to conduct its business. A full assessment of the restructuring, however, can only be conducted after the 1993-94 season.

A question has arisen in Bali Union about the possibility of forming "common initiative groups" (CIGs), as allowed under the new cooperative law, instead of cooperative societies. CIGs, which are not required to submit to an external audit, are considered appropriate for small or new associations. Some Bali-area farmers have expressed interest in the formation of CIGs instead of continuing to associate with one of the two societies in Bali Union. To the extent that a CIG is easier and less expensive to organize and operate, it is a type of organization that may often be advantageous to local farmers. It will be necessary, however, to clarify whether the cooperative law allows cooperative societies and common

initiative groups to be members of the same union. If so, unions should strongly consider allowing CIGs to join. In general, unions should seek to accommodate local farmers in whatever form of association they find most advantageous to their interests.

VIII. PROGRAM IMPLEMENTATION AGREEMENT FOR YEAR FOUR

Year Four (1993-94) is the final year of PRAMS I assistance to NWCA and the cooperative structure; the ISTI technical assistance team will complete its work on 31 March 1994.

The draft Program Implementation Agreement (PIA) for Year Four covers the following subjects: (1) dissemination and implementation of the new cooperative law, (2) producer pricing implementation and education; (3) pre-export financing arrangements; (4) financial reporting; and (4) various projects to be conducted in cooperation with the technical assistance team. The work planned is briefly described below.

The work planned in relation to the cooperative law is a continuation of an action-plan left unfinished in Year Three (see discussion of the current PIA above); in addition, NWCA will develop a separate action to provide guidelines and assistance to member cooperatives concerning registration, splits and mergers, and the conduct of elections. With regard to producer pricing, the PIA commits NWCA to implement society-level producer pricing as provided for in the action plan developed during Year Three; in addition, NWCA will prepare a second action plan outlining steps to continue the process of society-level education. The former Crop Finance Revolving Fund (CFRF) provided under PRAMS I will be converted during Year Four to a Pre-export Loan Guarantee Fund (PLGF) in accordance with the action plan developed during Year Three. The PLGF will be managed by a fiduciary bank, as arranged by the Arabica Policy Coordinating Committee, for the 1993-94 season. Closely related to these pre-export financing arrangements, the cooperative unions affiliated with NWCA agree to transmit financial reports of the union and its affiliated societies to NWCA by the 15th of every month. The purpose of the reporting process is to assess the financial health of member cooperatives and their ability to repay loans. The transmittal of financial reports will be considered a condition for the receipt of pre-export credit. Unions are also required to notify the NWCA of cost overruns in excess of 15 percent or any circumstances that may impair their ability to repay financial obligations. Finally, NWCA and ISTI technical assistance will jointly prepare feasibility studies and plans related to the disposal of excess equipment, the conduct of external audits for 1991-92 and 1992-93, land titles, and a coffee quality improvement program (discussed above in connection with the current action plan for the marketing department).

It should be noted that most of this work must be completed prior to the departure of the technical assistance team by 31 March. "Year Four" is in reality less than five months from the date of the intra-annual review. There will be no time to waste if the new PIA is to be fully implemented.

An Annual Review of NWCA will be scheduled for late February or early March 1994. At this time, both Year Three and Year Four will be reviewed as part of a final assessment of PRAMS I activities related to the cooperative structure.

IX. USE OF LOCAL CURRENCY

USAID/Cameroon reports that the conditions precedent to the third and fourth disbursements allowed under PRAMS I have not yet been met by the government of Cameroon, leaving little likelihood that additional local currency will be forthcoming during the time remaining for PRAMS I. In view of the need for additional local currency to complete the program of assistance to NWCA, USAID has obtained authorization to deposit local currency from other projects into the PRAMS I account. Approval has been given to reallocate FCFA 550 million in this manner. This money, together with the local currency already in the account, will be programmed to support the following activities:

- (1) Pre-Export Local Guarantee Fund (FCFA 750 million)--this is simply a continuation of the financial commitment made previously to the former Credit Finance Revolving Fund.
- (2) Payment of 1991-92 arrears to farmers (FCFA 338 million).
- (3) Purchase of pulpers in accordance with the Coffee Quality Improvement Program (FCFA 250 million).
- (4) Provision of training in coffee marketing (FCFA 13.5 million).
- (5) Land certification (FCFA 37 million).
- (6) Radio network (FCFA 24 million)--this to include purchase, installation, and training.
- (7) External audits of NWCA for 1991-92 and 1992-93 (FCFA 30 million).
- (8) Support of the NWCA Internal Audit Service (no request as of the intra-annual review).

As in the case of the new PIA, the plans for the use of local currency will require a great amount of work in a short period of time.

X. CONCLUSION

The brief period of time that has passed since the last intra-annual review in September 1993 has been highly productive for the reform and restructuring of NWCA and its affiliated cooperatives. Although numerous details remain to be worked out, and some reform components are likely to be modified with experience, a new institutional foundation has now been laid for the development of the arabica coffee subsector in the North West Province--this to the credit of NWCA, its technical advisors, Peace Corps assistants, and program personnel from USAID/Cameroon. The most significant accomplishment is the successful completion of an education program related to producer pricing, which will now enable the cooperative structure to introduce society-level producer pricing for the first time. Already, this new pricing arrangement has begun to generate the anticipated competitive pressures and incentives needed to produce real, lasting cost reduction and control. At the same time, a greatly improved marketing department stands ready to export coffee in the coming season as well as to deliver assistance to unions and societies in the improvement of coffee quality. Progress has also been made in the area of finance and accounting, with the prospect of greatly improving cooperative management at all levels. Finally, the implementation of the new cooperative law is allowing farmers to restructure their societies according to their preferences for community-based cooperative organization.

There remain critically important tasks to be carried out, including the implementation of (1) the Pre-Export Loan Guarantee Fund prior to the start of the 1993-94 season, (2) the cooperative-law dissemination program, and (3) the Coffee Quality Improvement Program (especially the acquisition of high-quality imported pulpers as strongly desired by farmers). There is also a need to focus clearly and systematically on the implementation of internal marketing arrangements during the 1993-94 season, giving attention to issues such as the accuracy of crop forecasts and budget estimates at all levels. This close attention to implementation problems and difficulties is needed in order to provide a clear basis for adjusting the internal marketing arrangements for the 1994-95 season and beyond.

By continuing the high level of effort that has characterized the past few months, NWCA together with its unions and societies have the ability to conduct a successful 1993-94 marketing campaign and set the cooperative structure firmly on the path of economic growth to the benefit of farmers.