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DECENTRALIZATION: FINANCE & MANAGEMENT PROJECT

Managed by
Associates in Rural Development, Inc.

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PROGRAM OF REFORM IN THE AGRICULTURAL MARKETING SECTOR, PHASE I

FIRST INTRA-ANNUAL ASSESSMENT DURING YEAR 4 (1993-94)

FINAL REPORT

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

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EXECUTIVE SUMMARY

The final Intra-Annual Review of PRAMS I reform and restructuring activities in the North West Cooperative Association (NWCA) was held on 1-2 March 1994 in Bamenda. The review focused on the conduct of the present coffee campaign and the implementation of action-plans for Year 4 of the program, as well as the record of reform and restructuring over the whole life of PRAMS I.

NWCA is conducting the present campaign on the basis of new Internal Marketing Arrangements that provide for separate producer pricing in each of 73 primary societies. Each society determines a producer price based on the unique costs of the society, its union, and the NWCA. As a result, prices range from a low of 476 FCFA/kg to a high of 542 FCFA/kg across the province. The average price offered is 519.39 FCFA/kg, a price that compares favorably to the 400 FCFA/kg being offered by competitors. Around 62 percent of the expected crop of 3,000 tons has been sold through forward sales, reflecting the continued strong performance of the NWCA Marketing Department. Nearly 70 percent of the expected crop has been accepted by societies.

The Program Implementation Agreement (PIA) for Year 4 contains action-plans related to cooperative law dissemination, producer pricing education, and the establishment of a Pre-Export Loan Guarantee Fund (PLGF), among other agreements. The cooperative law dissemination has not yet occurred as planned; consequently, this activity may not take place within the period of the program. Producer pricing education has continued, and plans have been made to establish this activity on a regular basis. A fiduciary bank has been selected to administer the PLGF, and negotiations are underway with potential lenders as participating banks. These negotiations have proved to be difficult, reflecting the liquidity problems that have constrained the financial sector, and little time remains to work out differences.

The objectives and mutual obligations established in the Memorandum of Understanding signed by NWCA, its 11 unions, and USAID, have been achieved by the end of the program. These achievements were made during extremely difficult economic and political circumstances. Although implementation ran behind schedule, NWCA is now operating with new Internal Marketing Arrangements that allow for competition within the cooperative structure, controlling costs and increasing arabica quality. The reform of NWCA has been made possible by national-level policy reform that allows the cooperative structure to export its produce, compete with others anywhere in Cameroon, restructure societies and unions, and freely determine producer prices without government interference. Cooperative law reform, in particular, has allowed North West farmers to increase the number of their primary societies from 40 to 73 in a few short months.

The assessment makes a series of recommendations for taking the next steps in restructuring. These are to (1) analyze costs comparatively across societies and unions and disseminate this information widely, (2) consider partial consolidation of mills on an incremental basis, (3) reward producers who deliver high quality parchment, (4) set up ongoing farmer-to-farmer education programs on coffee quality, (5) maintain the basic reforms of the cooperative structure, especially society-level producer pricing, and (6) maintain the process of review and critical assessment followed during the reform program.

SYNTHESE

L'examen final des activités de réforme et de restructuration de PRAMS I en ce qui concerne l'Association coopérative du Nord-Ouest (NWCA) s'est déroulé les 1er et 2 mars 1994 à Bamenda. Cet examen s'est concentré sur la manière dont a été conduite la campagne du café en cours, et sur la mise en oeuvre des plans d'action durant la quatrième année du programme, tout en se penchant sur l'évidence de ce qui a été accompli en matière de réforme et de restructuration pour la durée toute entière du PRAMS I.

La NWCA, pour la conduite de la campagne actuelle, se fonde sur les nouveaux arrangements internes de marketing (IMA) qui prévoient un processus de fixation des prix à la production séparé pour chacune des 73 sociétés primaires. Chaque société détermine un prix à la production à partir des coûts qui sont propres à la société, des coûts propres à son union et de ceux de la NWCA. Le résultat est que les prix s'étalent à travers la province sur une gamme allant du prix le plus bas de 476 francs CFA le kilo, au prix le plus haut de 542 francs CFA le kilo. Le prix moyen offert est des 519,39 francs CFA le kilo, prix qui est comparablement bon par rapport aux 400 francs CFA qu'offrent les concurrents. Environ 62 pour cent de la récolte attendue, qui sera de 3.000 tonnes, a été vendue au moyen de ventes à livrer, ce qui reflète le niveau de performance continuellement élevé du Département du marketing. Un volume de près de 70 pour cent de la récolte attendue a été accepté par les sociétés.

L'Accord d'exécution du programme (PIA) pour l'année 4 contient des plans d'action concernant la diffusion de la législation sur les coopératives, l'éducation en vue de former à la détermination des prix à la production, et l'établissement d'un Fonds de garantie de prêts avant exportation (PLGF), entre autres termes de l'accord. La diffusion de la législation sur les coopératives ne s'est pas encore déroulée selon les plans prévus; par conséquent, il se peut que cette activité ne prenne pas place dans le cadre de la période du programme. L'éducation en vue de la fixation des prix à la production s'est poursuivie, et des plans ont été formés pour faire de cette activité une activité régulière. Une banque de fiducie a été choisie aux fins d'administration du PLGF, et des négociations sont en cours avec des prêteurs éventuels qui s'engageraient en tant que banques participantes. Ces négociations se sont révélées difficiles, un effet des problèmes de liquidité qui ont fait peser des contraintes sur le secteur financier, et il reste peu de temps pour concilier les points de vue divergents.

Les objectifs et les obligations mutuelles fixés dans le Memorandum d'accord qu'avaient signé la NWCA, ses 11 unions et l'USAID, ont été accomplis en date de la fin du programme. On est arrivé à obtenir ces réalisations dans le cadre de circonstances économiques et politiques extrêmement difficiles. Bien qu'il y ait eu un retard d'exécution vis-à-vis du calendrier, la NWCA fonctionne maintenant en suivant les nouveaux Arrangements internes de marketing qui permettent la concurrence au sein de la structure coopérative, prévoient le contrôle des coûts et le relèvement de la qualité de l'arabica. La réforme de la NWCA a été rendue possible par une réforme des politiques de niveau national, qui permet à la structure coopérative d'exporter ses produits agricoles, d'entrer en

concurrence avec d'autres producteurs partout au Cameroun, de restructurer les sociétés et les unions, et de déterminer les prix à la production en toute liberté sans ingérence du gouvernement. En particulier, la réforme de la législation sur les coopératives a permis aux exploitants agricoles du Nord-Ouest d'augmenter le nombre de leurs sociétés primaires, les portant de 40 à 73 dans un bref délai de quelques mois.

L'évaluation comporte une série de recommandations pour entreprendre les prochaines étapes de la restructuration. Ces étapes sont (1) faire une analyse comparative des coûts portant sur toutes les sociétés et les unions et donner une large diffusion à cette information, (2) envisager une consolidation partielle des usines en procédant par degrés, (3) récompenser les producteurs qui livrent du café parche de haute qualité, (4) mettre en place des programmes d'éducation permanents, avec échanges entre exploitants, sur la qualité du café, (5) maintenir les réformes fondamentales de la structure coopérative, spécialement la fixation des prix à la production au niveau de la société, et (6) maintenir la procédure d'examen et d'évaluation critique qui a été observée durant le programme de réforme.

I. INTRODUCTION

This report marks the final Intra-Annual Review and Assessment of NWCA reform and restructuring activities, conducted on 1-2 March 1994 in Bamenda. Some 275 people attended the review, including presidents, vice-presidents, and managers of 73 cooperative produce marketing societies (CPMSs), managers of 11 area cooperative unions, and the senior staff of the North West Cooperative Association (NWCA). Also participating in the review was the Director of the USAID Mission in Cameroon, in addition to USAID/Cameroon's program officer and the program coordinator for the Program of Reform in the Agricultural Marketing Sector, Phase I (PRAMS I). Other participants included the 3-person technical assistance team supplied by the International Science and Technology Institute (ISTI), 6 Peace Corps volunteers posted to NWCA as cooperative technical advisors (CTAs), and 2 field researchers posted to Yaounde and Bamenda as part of the PRAMS I research team. Attending as an observer was a representative of the Cameroonian government's Arabica Policy Coordinating Committee (APCC). The Assessment Leader (also Research Director) is supplied by Associates in Rural Development (ARD) through the Decentralization: Finance and Management (DFM) project, AID/Washington.

PRAMS I is a policy reform and cooperative restructuring program sponsored by USAID/Cameroon in cooperation with the Cameroonian government. The cooperative restructuring component, focused on NWCA and its affiliated organizations, was designed to include a process of periodic review and assessment, originally to consist of 2 intra-annual reviews and an annual review for each of the 4 years of the program. Due to political disruptions in the country, some of these reviews could not be convened as planned. Including the present review, a total of 1 annual and 5 intra-annual reviews have been conducted. Although normally limited to representatives from NWCA and each cooperative union, this final intra-annual review was expanded to include CPMS representation as intended for an annual review. Annual reviews were also defined to include formal participation by the APCC, but the only full-fledged annual review conducted was for Year 1 of the program.

This report has a dual focus. First, it examines the current performance of the cooperative structure and the implementation of action-plans specified by the Program Implementation Agreement (PIA) for Year 4, which terminates with the conclusion of PRAMS I on 30 June 1994. Second, it examines the reform of the cooperative structure over the life of the program, measured against the objectives and obligations specified in the Memorandum of Understanding (MOU) signed by NWCA, its 11 cooperative unions, and USAID/Cameroon on 17 October 1991. On this basis the assessment offers conclusions with respect to outcomes of the restructuring program and recommendations for the future organization and conduct of the cooperative structure.

II. THE 1993-94 COFFEE SEASON IN PROGRESS

This section of the report examines two subjects. First, it considers the Internal Marketing Arrangements (IMAs) and producer prices adopted by the cooperative structure to organize the conduct of the 1993-94 coffee season. Second, it reports on the actual conduct of the season to date.

A. Internal Marketing Arrangements and Producer Prices

The IMAs consist of a set of agreements between CPMSs and their Union and between unions and the NWCA. In these agreements the NWCA and each union stipulate an internal cost that amounts to a price for services to be rendered to the structure during the campaign. NWCA supplies export and related services to its member unions and each union supplies processing services to its affiliated CPMSs. The IMAs also include a world price forecast prepared by the NWCA Marketing Department and adopted by the NWCA Board of Directors, as well as crop forecasts derived from estimates made by each CPMS. The crop estimates permit internal costs to be expressed as costs per kilogram of coffee produced on a union by union basis. Each CPMS calculates a separate producer price by subtracting the internal costs of the NWCA, its particular Union, and the CPMS itself from the forecasted world price. In addition, the IMAs include agreements concerning coffee acceptance, processing, and marketing, plus rules and procedures governing both crop financing and the distribution of coffee sales revenues.

NWCA adopted a world market forecast of FOB 875 FCFA/kg to commence the 1993-94 season. Forward sales conducted in advance of the season have already sold 62 percent of the total estimated crop--3,000 tons. The average price obtained in forward sales is FOB 958 FCFA/kg. The forecast allows for a downturn in the market as well as possible claims against shipments. Average FOB Douala prices were 836 FCFA/kg in January and 750 FCFA/kg in February. The New York "C" price has trended slightly upward over the same period.

Internal costs are presently in a state of confusion due to the devaluation of FCFA in January 1994. Budgets still need to be revised to reflect the changes in relative prices induced by the devaluation. Producer prices were initially calculated on the basis of pre-devaluation figures and then adjusted in direct proportion to the devaluation. The producer prices being offered by each CPMS are shown in Table 1, together with union means and ranges.

TABLE 1: PRODUCER PRICES BY UNION AND SOCIETY
(Source: Arabica Market Information System,
18 February 1994). Prices in FCFA/kg.

Union	CPMS	Price	Mean	Range	Dif. from Mean, All Unions
Bali			534.00	16	+ 12
	Bali Cn	542			
	Nsammock	526			
Central			527.33	12	+ 5.33
	Bamenda-Kwen	520			
	Mankon	532			
	Tubah	530			
Mbengwi			500.00	0	- 22
	7 CPMSs	500			
Moghamo			530.00	0	+ 8
	4 CPMSs	530			
	4 CPMSs	NR			
Kom			529.09	10	+ 7.09
	10 CPMSs	530			
	Atumikuh	520			
Ndop			531.33	2	+ 9.33
	Central	532			
	East	532			
	West	530			
Nkambe			494.00	32	- 28
	Bongabi	502			
	Chinkabi	498			
	Mbentzi-Niya	500			
	Rom	476			
	Sabongari	480			
	Tang	NR			
	Wat	508			

Union	CPMS	Price	Mean	Range	Dif. from Mean, All Unions
Nso			520.86	14	- 1.14
	Jakiri	518			
	Kifem	516			
	Kikai Kom	526			
	Kimbo	524			
	Kombo Zone	526			
	Mbam Nkum	514			
	Mbiame	522			
	Melim Zone	524			
	Meluf	522			
	Meluf Zone	524			
	Miim-Buh Z	522			
	Nkar	512			
	Nkar Zone	522			
	Tatum	520			
Oku-Noni			517.38	18	- 4.62
	Din	520			
	Djottin	516			
	Fonti	516			
	Ibal	512			
	Jikejem	516			
	Lui	516			
	Mbam	522			
	Mbinon	524			
	Mboh	516			
	Mbokijeki-jem	516			
	Nkor	506			
	Nkwi	522			
	Oku	524			
Pinyin			530.00	0	+ 8
	2 CPMSs	530			
Santa			528	6	+ 6
	Akum-Bama	528			
	Awing	530			
	Balioham	524			
	Santa	530			
All Unions			522.00	40	

The producer prices exhibit substantial variation both among CPMSs and among unions. Across 69 CPMSs, producer prices range from a low of 476 FCFA/kg to a high of 542 FCFA/kg--a difference of 66 FCFA/kg. The average price offered across all CPMSs is 519.39 FCFA/kg.

Grouped by union, producer prices range from a low of 494 FCFA/kg (the average for Nkambe Union) to a high of 534 FCFA/kg (the average for Bali Union), a difference of 40 FCFA/kg. This variation in part reflects budgeted differences in the internal costs of unions. Nkambe Union is located farthest from Bamenda and contains many remote CPMSs; its lower prices likely reflect higher transportation costs. Bali Union, though small, operates a low-cost, efficient mill. If the two lowest unions are excluded, the range among the remaining unions drops to 16.62 FCFA/kg. Wide differences in the tonnages processed by unions (see Table 2) suggest strongly that the variation in producer prices among unions ought to be much greater than this.

Variation among CPMSs within unions is inconsistent. Six unions (Bali, Central, Nkambe, Nso, Oku-Noni, and Santa) exhibit significant variation among their member CPMSs. The variation is especially pronounced in Bali, Nkambe, Nso, and Oku-Noni. However, 5 unions (Mbengwi, Moghamo, Ndop, Kom, and Pinyin) exhibit little or no variation among CPMSs. The greater the number of CPMSs in these unions, the more likely that the lack of price variation reflects either collusion among cooperative officials or union dominance over the price-setting process. Either pattern potentially deprives farmers in such unions from the information contained in a comparison of costs across CPMSs and, thus, weakens the pressure on cooperative officials to reduce and control costs.

Financing arrangements within the cooperative structure provide for borrowing by CPMSs to buy parchment coffee from farmers, by unions to process coffee, and by the NWCA to export coffee. Responsibility for interest charges will shift as the coffee being financed moves from level to level. CPMSs will be responsible for paying the interest until the day coffee is delivered to the union; the union will be responsible until the coffee is ready for shipment. These arrangements provide an incentive to handle and process coffee quickly.

Coffee revenues will be distributed immediately on receipt in accordance with the internal cost schedule. When a surplus is realized on any given shipment, the surplus amount will be retained in a special account in order to pay any forthcoming quality claims. After all international transactions are complete, the balance of the revenues will be distributed to CPMSs, through their unions, for distribution to members as a second payment.

B. Conduct of the 1993-94 Season To Date

NWCA prices are very competitive. Currently, all other buyers operating in the arabica sector are offering 400 FCFA/kg, 77 percent of the average CPMS price within NWCA. As of 20 February 1994 the CPMSs have accepted a total of 2,098.781 tons of good arabica beans. This is 69.96 percent of the expected crop. The distribution of coffee accepted across unions and as a percent of the production forecast is shown in Table 2.

Table 2: Coffee Acceptance and Production Forecast by Union (tons).

Union	Accepted	Forecast	% Accepted
Kom	561.510	937.000	59.93
Nso	305.622	515.000	59.34
Oku-Noni	278.215	375.000	74.19
Santa	240.126	325.000	73.88
Ndop	219.884	263.000	83.61
Nkambe	214.487	201.000	106.71
Central	94.573	135.000	70.05
Pinyin	56.921	48.000	118.59
Bali	52.196	48.000	108.74
Moghamo	45.310	106.000	42.75
Mbengwi	21.937	48.000	45.70

At the end of the season, close attention should be paid to the accuracy of production forecasts, in particular those unions (and CPMSs) that have failed to meet their forecast. The calculation of internal costs on a per kilogram basis means that the integrity of the financial relationships between the levels of the cooperative structure depends on the accuracy of production forecasts. As of this date, two unions (Moghamo and Mbengwi) are lagging behind the others in coffee acceptance. It should be noted that unions located on the border with West Province are also buying coffee from non-member farmers in the neighboring province.

The 11 cooperative unions have processed a total of 1,446.728 tons of arabica, 68.9 percent of the coffee accepted. (No figures are available from Bali and Mbengwi Unions.) Sales to date total 1,900.020 tons at an average price of 958 FCFA/kg.

Since the last intra-annual review in November 1993, the 1992-93 season was closed out financially. At the conclusion of the season, 27 FCFA/kg remained for distribution to the structure. Because the 1992-93 season was conducted without reference to an agreed-upon internal cost schedule, in the absence of internal marketing arrangements (see November Assessment Report), there was no fixed schedule for the distribution of revenues or surpluses. The NWCA Board of Directors decided to retain 6 FCFA/kg at the apex and to recommend that unions retain 7 FCFA/kg and at least half of the remaining 14 FCFA/kg be paid to farmers.

These decisions were reserved for final resolution, however, by individual unions and CPMSs. Most CPMSs paid significant "bonuses" to farmers from these funds.

Casual observation in scattered parts of the province indicate that many farmers have notably increased the level of care being given to their coffee plantings. This can be attributed to several factors--the payment of "bonuses" from their 1992-93 coffee, the recent doubling of producer prices due to the devaluation, and the relative price advantage currently being enjoyed by North West farmers.

III. PROGRAM IMPLEMENTATION AGREEMENT: YEAR 4

The PIA for Year 4 contains agreements related to four major action-plans, in addition to various technical agreements. The four action-plans deal with (1) cooperative law reform, (2) producer pricing education, (3) the Pre-Export Loan Guarantee Fund (PLGF), and (4) financial reporting within the structure. This section reviews progress made toward the fulfillment of these agreements and other related activities.

A. Cooperative Law Reform

The current PIA commits NWCA and USAID to the implementation of a cooperative law dissemination program, one left unfinished from the previous PIA, prior to the deadline for re-registration of cooperatives of 14 February 1994. This activity was <u>not</u> carried out; staff members were trained to carry out the activity, but the dissemination activity has not yet occurred, apparently due to a dispute over funding. Yet, the local currency programmed for this activity remains available. A failure to implement this action-plan would be a serious omission, causing NWCA to miss a valuable opportunity to extend the sorely needed process of farmer education in the new "rules of the game" for cooperative organization. Unfortunately, the dissemination activity has not yet been scheduled, and time is getting very short. Given that staff members have already been trained to conduct this education, it should go forward as soon as possible.

Registration has proceeded in the absence of dissemination, often facilitated by Peace Corps volunteers in the field. The registration process has given rise to considerable controversy related to decisions made by the government registrar in Bamenda. Cooperative officials report that the registrar's office often seems unfamiliar with the law and tends to act arbitrarily. These observations cannot be substantiated in this review, but they are cause for concern and should be vigorously brought to the attention of the responsible government officials.

The liberal provisions of the law on the formation of cooperative societies, including "splits" of existing societies, have been welcomed in the North West and heavily utilized within the NWCA structure. The number of CPMSs has increased from 40 to 73 societies. Most of the increase has occurred in Nso, Oku-Noni, Kom, and Moghamo unions. There is no indication that the growth in the number of CPMSs has increased internal costs at this level of the structure. In many cases smaller, village-based societies are expected to increase farmer participation in the cooperative structure. Kom Union has, nevertheless, imposed a tonnage requirement for society affiliation with the union. Some farmers are choosing to affiliate as non-member "users' groups," which are not entitled to share in a second payment. Kom's policy runs counter to the clear intention of the reform program to condition society formation only on an ability to cover costs and satisfy farmers, not on arbitrary production thresholds. The long-run interest of the cooperative structure is best served by policies that encourage farmer participation and production.

In compliance with the law new elections have now been held throughout the cooperative structure. The election process and subsequent reorganization of boards of directors resulted in the selection of a new NWCA president and vice president. The new president, who also serves as president of Kom Union, is a first-time officer in the cooperative structure. Each cooperative organization was responsible for organizing and conducting its own election. While this will continue to be true in the future, NWCA also plans to establish a time-frame for elections, so that all CPMSs would hold elections by a given date, followed by all unions.

B. Producer Price Education Program

The education program on society-level producer pricing, carried out largely in October 1993 as part of the PIA for Year 3, was an outstanding success. NWCA has identified three topics to continue the education effort: (1) the procedure for calculating producer prices based on internal costs, (2) the nature of cost and how costs affect societies and farmers, and (3) the role of depreciation in society and union management. The first topic was the major focus of the initial education activity, but future education will concentrate on the comparative analysis of costs across the cooperative structure and the need to proportion depreciation reserves to variable property holdings. The NWCA staff is proposing that this sort of educational activity be budgeted as a continuous part of doing business in NWCA.

C. Pre-Export Loan Guarantee Fund

Efforts continued since the last intra-annual review to convert the FCFA 750 million Crop Finance Revolving Fund to a commercial Pre-Export Loan Guarantee Fund (PLGF) to be administered by a fiduciary bank. The APCC has selected Meridien Bank BIAO as the fiduciary bank, and NWCA has begun exploring financing relationships with a number of lenders who would use the guarantee fund as collateral for up to 75 percent of the amount of a loan to NWCA. However, a number of difficulties have arisen in working out agreeable relationships

between the fiduciary bank and participating lenders, aggravated by continued illiquidity in the banking sector. One problem that surfaced during the intra-annual review was a common demand by potential participating lenders in Bamenda that the fiduciary bank deposit a portion of the guarantee fund in a participant bank. However, the fiduciary bank is mandated to manage the guarantee fund; it is not authorized to split it up.

Time has now run very short for resolving these problems, and intensive efforts will continue. On the brighter side, some commercial banks have begun to express interest in supplying NWCA with credit on favorable terms, in at least one case with or without a guarantee fund, an interest underscored by the appearance of the representatives of 3 lenders at the intra-annual review. This is a very positive sign of the emergence of NWCA as a potentially successful cooperative enterprise engaged in a money-making business.

D. Financial Reporting

The availability of pre-financing to unions and societies is considered to be contingent on the timely forwarding of financial reports to the NWCA Finance and Accounting Department. NWCA is stressing the importance of financial records, including inventories and budget control reports, for obtaining commercial credit, as well as for maintaining organizational transparency and evaluating the performance of cooperative employees. NWCA will be unable to obtain pre-financing for those unions that lack good, up-to-date financial records.

E. Other Technical Plans

NWCA reports progress on preparations for the disposal of excess equipment. NWCA's inspection of machinery transferred from the National Produce Marketing Board (NPMB) is ongoing. Electronic equipment allowed by NPMB to sit outside in crates for six years, while awaiting its transfer to NWCA, has completely deteriorated.

External audits of NWCA for 1991-92 and 1992-93 will be carried out with PRAMS I support over the next few weeks, with completion anticipated before 15 April 1994. External audits are mandated by the new cooperative law and are necessary to obtain commercial credit. Moreover, external audits are an important instrument of internal control and accountability in a cooperative organization.

NWCA reports good progress on obtaining a license for the proposed radio network linking NWCA to the cooperative unions. Provided that the license can be obtained in time, PRAMS I funds will be programmed to purchase the necessary equipment.

Certification of land transferred to NWCA is in process. Fiscal stamps will be purchased in April and the final documents are expected to be ready in May. Land values must be known prior to purchasing the stamps.

NWCA's Coffee Quality Improvement Program, which previously recommended the purchase of imported pulpers and new tarpaulins for use in farm-level processing, is proceeding with the purchase of both items for sale at a discount to farmers. Despite objections raised publicly by a local manufacturer of pulpers, NWCA maintained its decision to import the high-quality pulpers preferred by farmers.

A training activity for the director and one other staff member of the NWCA Marketing Department is now underway in England and Germany. The training includes cup tasting and quality control measures. NWCA has fully equipped its cup tasting facility.

IV. REVISITING THE MEMORANDUM OF UNDERSTANDING: NWCA ACCOMPLISHMENTS THROUGH PRAMS I

The Memorandum of Understanding (MOU), signed on 17 October 1991, committed NWCA, the 11 cooperative unions, and USAID/Cameroon to a process intended to reform, restructure, and strengthen the cooperative structure. Twenty-nine months later, as PRAMS I draws to a close, it is time to reflect on what has been accomplished as measured against the objectives and mutual obligations specified in the MOU. This section reexamines the four major MOU objectives, as well as the performance of obligations by the parties to the agreement.

A. Cooperative Governance and Reform

The first objective stated by the MOU was this: "To reform the governance arrangements of the North West Cooperative Association so that the Association can be restructured from the bottom up rather than from the top down." (MOU, p. 4)

Reform depended on the revision of articles of association, an activity that could not proceed before enactment and implementation of a new national cooperative law. Due to the long period required to draft the new law, this aspect of NWCA reform could not be carried out until recent months, after the national dissemination of the new cooperative law was underway. As discussed above, the NWCA structure has now reorganized under the terms of the new law.

The cooperative law enables NWCA-affiliated cooperatives to function as voluntary, self-governing associations of farmers, fulfilling the MOU objective. Cooperative membership is no longer defined by territorial boundaries, and individual farmers are free to leave one cooperative and join another. Similarly, a CPMS is free to leave one cooperative union and join another, and a cooperative union is free to leave the NWCA. Farmers are free to form cooperatives as they wish, and existing cooperatives are free to subdivide or amalgamate. These new freedoms have already been used by North West farmers to create 33 new CPMSs. Moreover, one newly created society, formed from one previous society's section, opted to affiliate with a different cooperative union. Its decision was based mainly on reduced transport costs.

Much earlier in the program, another obligation created by the MOU was fulfilled when cooperative unions acquired the freedom and responsibility to employ their own managers, previously employed by the NWCA. All union managers are now selected and paid by their respective union and are accountable only to the union board of directors.

AID's obligations were to provide technical assistance to NWCA in order to assist with the process of rewriting articles of association and, in particular, to simplify CPMS-level accounting systems. These obligations were met. Peace Corps volunteers were also intended to assist with this aspect of the program and did so, in some cases making important contributions to the process.

B. New Internal Marketing Arrangements and Improved Technology

This objective reads as follows: "To develop new Internal Marketing Arrangements within the Association and improve processing technology that will enable farmers and their cooperative organizations to (a) improve the quality of coffee they market and (b) operate with greater efficiency." (MOU, p. 5)

Some aspects of the new Internal Marketing Arrangements (IMAs) introduced during the process of reform came early in the program, especially arrangements related to coffee quality, processing, and export marketing. The first IMAs for the 1990-91 campaign, continued into the 1991-92 campaign, provided a revised acceptance procedure that requires the sorting of parchment coffee into 3 quality classes. This procedure has been retained, though not always consistently followed, and is now viewed as quite important as a means to reduce quality claims from world buyers--claims that are cutting into farmer income. Some of the early IMA provisions dealing with processing and export marketing have been modified--class one and class two coffee are no longer processed separately and export marketing no longer is done on a union by union basis. These adjustments were made to accommodate technical constraints.

A key aspect of the IMAs, however, has been implemented only in the 1993-94 season--the final campaign in the program. This is the separate calculation of internal costs for each cooperative organization in the structure, enabling each CPMS to determine a producer price based on its unique cost schedule. This allows for price variation among societies within the structure, as discussed above. The system is intended to create strong demands at the base of the structure for cost reduction and control. By controlling their own costs and by pressing their cooperative union to control costs, each CPMS can maximize producer prices for their own members. They can do so independently of what other societies and unions are doing. This capability is created by society-level producer pricing and can be sustained only as long as this system is continued.

AID's obligations related to the provision of technical assistance in the preparation of IMAs and assistance in making key technical improvements. Many of the latter improvements occurred early in the program, especially the rehabilitation of coffee mills and installation of new equipment as indicated. Others occurred only as the program concludes--a feasibility study of washing stations conducted in Year 3), the purchase and distribution of pulpers (programmed to happen near the end of the program), a spare parts revolving fund (to be set up by NWCA using revenue from the sale of pulpers).

C. Cost Reduction

> The third objective stated by the MOU was this: "To reduce the per-unit operating costs of all cooperative organizations within the association--CPMSs, cooperative unions, and the apex organization--so that farmers can realize a greater income from the sale of coffee." (MOU, p. 5)

Cost reduction efforts began at the level of NWCA during the early part of the program and have continued. The largest share of cost reduction has been taken in reduced levels of staffing. Union-level cost reductions have been accomplished in a combination of ways--use of seasonal labor, payment by work-unit, technical improvements, and staff and salary reductions. CPMSs have also reduced costs, mainly in preparation for the present campaign and in response to the new producer pricing arrangement, which made societies directly responsible for the amounts paid to producers. The best indicator of the success of this part of the program is the price advantage enjoyed by NWCA's societies in relation to cooperatives outside North West Province. However, further cost reductions are possible, and these will be addressed later in this report.

AID's obligations were to provide severance payments for employees being laid off and to provide technical assistance for the purpose of upgrading the accounting system to an acceptable standard, enabling better information and control of costs. In addition, the cooperative structure created, and AID assisted, an expanded internal audit service at the apex to replace a system of union inspectors, who were terminated.

D. Export Marketing

Finally, the MOU stated this objective: "To create a marketing capability within the apex organization of NWCA, so that North West coffee can be well represented on the world market." (MOU, p. 5)

Considerable effort has been expended, and considerable success achieved, in meeting this objective. NWCA now has a well-staffed, well-trained marketing department fully capable of representing North West coffee to world buyers. AID's role was to provide the relevant technical assistance, training, and equipment. Two European training tours, one currently in progress, were undertaken. Two marketing experts have visited NWCA on numerous occasions to offer their

advice. A cup tasting room has been properly equipped and is ready to function. The marketing department publishes a newsletter that keeps the entire structure well informed of its activities. The best evidence of success in meeting this objective, however, is the strong performance of the marketing department for the 1992-93 season and in forward sales for the 1993-94 season.

E. Conclusion

All of the major objectives outlined in the MOU have been achieved by the end of the program--this in spite of disruptions and delays caused by financial and political crises in Cameroon. One procedural commitment--to conduct an annual review including participation by all levels of the cooperative structure and the APCC--was met only once, although the present intra-annual review approached the status of an annual review by including CPMS-level representatives. In addition, there was no annual Program Implementation Agreement for Year 2. There were frequent disagreements among the parties over how to implement various aspects of the program, but over time these differences have been satisfactorily resolved. Year 3 and the shortened Year 4 of the program have seen rapid progress being made, supported by the enthusiastic participation of NWCA, unions, and CPMSs, as well as the technical assistance team provided by USAID and Peace Corps volunteers.

Virtually none of these accomplishments could have been realized without the commitment of PRAMS I and the Government of Cameroon to national-level policy reform. The liberalization of the arabica sector sought by PRAMS I is now complete. NWCA and others are therefore free to export their own produce, free to compete anywhere in Cameroon, free to determine their own producer prices, and responsible for covering their own costs and keeping their own reserves. Although the reforms are young, and many of the key changes are in their first season, it is already possible to observe certain effects: competitive prices, reduced costs, more effective marketing, improved produce quality, improved management, structural changes among cooperatives, and signs of increased accountability and responsiveness to farmers.

V. PAST AND FUTURE USES OF LOCAL CURRENCY

The local currency accounts created by the Government of Cameroon from U.S. dollar disbursements have been used to finance 18 activities at NWCA. These are listed in Table 3. The only remaining activities are the finance of the radio network (45 million FCFA), the payment of 1991-92 arrears (338 million FCFA), and a proposal to come in from NWCA Internal Audit.

TABLE 3: USES OF LOCAL CURRENCY, PRAMS I

Activity	Million FCFA
Arrears	1,513
Refurbish mills	130
Crop Finance Revolving Fund	750
Motorcycles	10
Severance--NWCA	65
Vehicles	31
Annual/intra-annual reviews	82
Severance--Unions, CPMSs	117
Marketing department	11
Coop law dissemination/nat'l	21
Coop law dissemination/NWCA	15
Land certification	28
Pre-Export Loan Guarantee Fund	750*
Pulpers and tarpaulins	395
External audit	27
Radio network	45
1991-92 Arrears	338

*This item reallocates funds programmed earlier for the Crop Finance Revolving Fund.

For the future, USAID plans to leave behind two major sources of continued funding: (1) an institutionalized Pre-Export Loan Guarantee Fund (PLGF), provided that the PLGF can be set up in the short time remaining, and (2) an endowment fund to pay the operating expenses of AMIS, so that arabica farmers will not be required to support the market information system. Both funds would be operational for a 3-5 year period, depending on the outcome of negotiations with the Government of Cameroon. These funds will continue to support the transition of the arabica sector as liberal market reforms become more firmly established.

VI. CONCLUSIONS AND RECOMMENDATIONS

The basic reform of the cooperative structure is now in place, but restructuring has just begun. The internal marketing arrangements, including especially separate internal costs for all cooperative organizations and society-level producer pricing, have established a system that farmers and their elected officials can now use to advance farmers' interests--and put more money in their pockets--by controlling costs and increasing quality. This section will focus, therefore, on the next steps to be taken in the restructuring process.

Recommendation One: Compare Costs across Societies and Unions.

Within the past year a consistent accounting system has been introduced throughout the cooperative structure, a system that makes possible cost comparisons across societies and unions. The NWCA Finance and Accounting Department together with the Internal Audit Service should undertake a comparative analysis of society and union costs. The results should be disseminated widely and incorporated into an education program taken to farmers at the society level, where the demand for cost control must originate. This information will enable farmers and their elected officials to see how their society and their union compares with others on specific types of cost.

Recommendation Two: Consider Partial Consolidation of Mills.

The main indicator that costs are still too high in the cooperative structure is the existence of excess mill capacity. Significant cost reductions can be made by partially consolidating mill operations. This potential can be explored by NWCA in the comparative cost analysis recommended above. Societies need to study their union costs and press their union to take steps to combine operations with other unions if there are cost savings to be realized. It is not necessary to know what the correct number of mills ultimately would be in order to take steps to reduce the number. Step by step, unions can consolidate mill operations until there is no advantage to be obtained from further consolidation.

Consolidating mill operations does not require the amalgamation of the unions involved. Instead, two or more unions can enter into a contract that designates one of the union mills as the processing center. Each union would continue to exist and to represent the interests of its member societies. This is the basic purpose of a union, not to operate a mill and process coffee, but to make the most economical arrangements possible for processing the coffee produced in their union. Contracting may even be preferable to union amalgamation, for it leaves each union free to withdraw from an arrangement in which its interests are not well served or if the arrangement fails to generate the cost savings that were anticipated.

There are also some large unions that already benefit from economies of scale, which derive from large tonnages being processed in the mill. Yet, the internal costs of these unions are not significantly less than other, much smaller unions. This means that the internal costs of such large unions are too high. They should be pressed by their societies to reduce costs and pass the savings onto farmers through higher producer prices.

Recommendation 3: Reward Quality.

Quality improvement is essential to the future of the cooperative structure. The ability to consistently market higher quality produce is the major potential advantage of cooperatives over private traders. Societies should therefore maintain a rigorous acceptance procedure and experiment with ways of rewarding farmers who deliver high quality parchment.

Recommendation 4: Educate Farmers about Quality.

It is very important that NWCA establish an affordable process of farmer education. The cooperative structure cannot sustain an expensive training program on a continuing basis. But continuing education is what is needed. The most economical process of education, and perhaps the most effective, is farmer-to-farmer. Training can begin with a small group if the members of that group make a commitment to train others in their society or section. If farmers understand that they collectively stand to gain from improved quality, they may be willing to help one another learn and, what is more, hold one another accountable to quality standards. This should be especially true within societies that are village-based, societies whose numbers are increasing under the new cooperative law. The classification system used in the acceptance procedure can also be used to identify farmers who deliver poor quality parchment. These farmers can be visited by others who explain the proper methods to use on the farm.

Recommendation 5: Maintain the Reforms.

The cooperative structure has now established new internal marketing arrangements based on society-level producer pricing. Already this new system has begun to produce results. North West farmers are getting the best price for arabica coffee being paid in Cameroon. Yet, the best is yet to come! The new system has not been in place for even one entire season. It is brand new. As farmers and their elected representatives learn this system--learn what it means and learn how to use it--the results will get better still. In the long run everyone gains from this system. As the cooperatives reduce and control costs, farmers get higher prices. Higher prices encourage farmers to take better care of the coffee, producing higher yields and higher quality. As production and quality increase, cooperatives grow and prosper. NWCA and the cooperative structure are now on the path to economic growth.

To stay on the right path, farmers must maintain the reforms. They should insist that the new system be preserved. In particular, societies should not let anyone take away their freedom to set producer prices, for this freedom is the key to farmer prosperity and economic growth in the arabica sector.

Recommendation 6: Maintain the Process--Review and Assess.

This is the last intra-annual assessment, based on the final intra-annual review of the reform program. But the process of regular review and assessment should not end here. NWCA should maintain the process, regularly bringing together representatives of the cooperative structure for discussion and dialogue, critical assessment of performance, and the planning of future activities. The plans should annually be put in writing--much like the annual Program Implementation Agreement that has been part of PRAMS I. If NWCA, its unions, and societies are to maintain themselves as self-governing associations, they need this sort of process. Only by disseminating information widely, hearing a diversity of views, and discussing intently while disagreeing constructively, can the farmers of the North West Province and their elected representatives truly govern themselves for their common benefit.