

## NONCAPITAL PROJECT PAPER (PROP)

PD AAB-13281

## I. PROJECT IDENTIFICATION

Proj. No. 5240108-  
2

## PROJECT TITLE

Rural Market Women's Cooperatives

17p.

2. PROJECT NO. (M.O. 100-2)  
524-13-140-108

## 3. RECIPIENT (specify)

☒ COUNTRY NICARAGUA☐ REGIONAL ☐ INTERREGIONAL

## 4. LIFE OF PROJECT

BEGINS FY 75

ENDS FY 77

## 5. SUBMISSION

☒ ORIGINAL☐ REV. NO.

Sept. 6, 1974

DATE

DATE

CONTR. PASA NO.

## II. FUNDING (\$000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL \$	C. PERSONNEL		D. PARTICIPANTS		E. COMMOD- ITIES \$	F. OTHER COSTS \$	G. PASA CONTR.		H. LOCAL EXCHANGE CURRENCY RATE \$/US _____ (U.S. DOLLAR = 1)		
		(1) \$	(2) MM	(1) \$	(2) MM			(1) \$	(2) MM	(1) U.S. GRANT LOAN	(2) COOP. COUNTRY FAT. (100%)	(3) (100%)
1. PRIOR THRU ACTUAL FY												
2. OPBN FY	75					20	55					
3. BUDGET FY	75						75					
4. BUDGET 11 FY												
5. BUDGET 12 FY												
6. BUDGET 13 FY												
7. ALL SUBQ. FY												
8. GRAND TOTAL	150					20	130					

## 9. OTHER DONOR CONTRIBUTIONS Various Foundations contributing to FUNDE

(A) NAME OF DONOR	(B) KIND OF GOODS SERVICES	(C) AMOUNT
FUNDE (Nicaraguan Development Foundation)	Seed Capital for Loan	\$ 279,000

## III. ORIGINATING OFFICE CLEARANCE

INITIALS	TITLE	DATE
CM Jones: DVP	Program Economist	9/5/74
CLEARANCE OFFICER	TITLE	DATE
Jimmy O. Philpott	Program Officer	9/6/74

## IV. PROJECT AUTHORIZATION

## CONDITIONS OF APPROVAL

Note: This project is an Operational Grant (OPG)

State 266062 and Managua 4729 are included as integral parts of this PROP.

## 2. CLEARANCES

BUR. OFF.	SIGNATURE	DATE	BUR. OFF.	SIGNATURE	DATE
LA/MRSD	Marilyn Zak <i>Zak</i>	12/13/74	LA/DR	William M. Feldman <i>W. Feldman</i>	12/13/74
LA/CEN LA/GC	Thomas Mehen <i>Me</i> Leonard L. Lundy <i>L. Lundy</i>	12/13/74	PHA/PVC	Michael Rohla <i>M. Rohla</i>	12/13/74
LA/DP	Eugene Szepeszy <i>E. Szepeszy</i>	12/13/74	PPC/DPRE PPC/DPRE	Arthur Handly <i>A. Handly</i> Bruce Odell <i>B. Odell</i>	12/13/74
APPROVAL AAS OR OFFICE DIRECTOR			APPROVAL AAS OR OFFICE DIRECTOR		
SIGNATURE LA/MRSD, Donor M. Lion <i>Donor M. Lion</i>		DATE 12/16/74	SIGNATURE LA/LA, Herman Kleine <i>H. Kleine</i>		DATE 12/16/74
Director			Assistant Administrator		

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## I. Background and Project Description

### A. History of the Cooperative Movement in Nicaragua

To date, the cooperative movement in Nicaragua has not experienced great success. Administrative personnel have usually known little about techniques of management or social promotion and a few cases of dishonesty among administrative staffs have created feelings of distrust toward the cooperative movement in general. Because of this and because of a disinterest on the part of the public and government toward traditional cooperatives as a tool for development, past years have shown little increase in net capital and membership for the cooperative movement in Nicaragua.

#### A.1. FUNDE's Experience

In 1970, when FUNDE (Fundación Nicaraguense de Desarrollo) was created, it sought to change the situation described above. Since FUNDE was conceived as a means to provide opportunities to people with little in the way of financial resources and no access to bank credit, the organization decided to work with cooperatives, but to alter the traditional concept of coops as community organizations, treating them instead as financial intermediaries. These financial intermediaries (coops) would work in promotion, training and technical assistance for coop memberships, in addition to providing indispensable financial resources for seed capital.

An advantage of a cooperative as a financial intermediary is that it provides a vehicle for FUNDE to channel low-interest credit to many widely dispersed persons. These financial intermediaries serve as subsidiaries for FUNDE in different marginal communities, allowing FUNDE to maintain control over its loans without unduly centralizing its services. Most importantly, these coops are able to become self-sufficient in a short period of time, first in management and later in financial resources (see page 4). Also, because many individuals request loans of minimal amounts -- as little as \$100.00 -- a cooperative mechanism provides, perhaps the only way to administer these loans without high overhead costs. This approach has proven to be a considerable success (see table below).

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FUNDE's Training Department is in charge of promoting and selecting the communities interested in self-improvement. This same department trains community and cooperative personnel in basic accounting, bookkeeping, leadership, human relations, motivation and marketing procedures. Such training is also intended to help create in these individuals a social consciousness and new attitudes toward what they can do on their own. A further characteristic of FUNDE cooperatives is that they do not demand the usual bank guaranties such as mortgages or letters of credit which are unfamiliar to low income people. Despite the lack of guarantors, FUNDE has experienced a low rate of defaults on its loans through coops. The combined delinquency/default rate has been 8.5% of the total value of loans.

#### FUNDE experience with cooperative organization:

	<u>July 1970</u>	<u>July 1973</u>	<u>July 1974</u>
No. of Projects	1	186	528
Families benefited	16	5,835	11,285
Communities benefited	1	53	96
Values of loans (in cordobas)	3,500	2,100,000	2,832,000
Technical Asst. courses	1	44	191
Admin. techniques courses	-	17	58
Production Coops	1	27	65
Popular enterprises	-	48	74
Coops for small merchants	-	6	19
Members of small merchant coops	-	1,420	2,280

#### A.2. FUNDE's Urban Market Women's Cooperatives

The current market women's cooperative program is aimed at benefiting the women who sell goods in 14 urban markets by providing a convenient savings facility and by making credit available at interest rates much lower than that offered by street lenders which are usually the only alternative loan source. This cooperative program is one of the first cases in Latin America where market women have received attention. It is a project that could serve as a model for other Latin American countries as well as for the rural areas of Nicaragua. These cooperatives have provided Nicaraguan women with access to inexpensive credit and

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training in social promotion and management techniques for almost the first time in their lives. This is intended to lead to a positive process of full integration into the national economy.

Six of the fourteen coops have reached self-sufficiency - Managua (two markets), Diriamba, León (two markets), and Matagalpa. All six have taken less than two years to achieve self-sufficiency despite major earthquake losses for those of Managua. The other eight are also expected to be self-financing within their first two-years period.

#### B. Description of New Project - Rural Market Women's Coops

This new project is an extension of the credit union program to market women in small towns located in rural areas that are so important in a basically agricultural economy.

In addition to providing savings and credit facilities to market women, other small retailers in the towns would be able to join (many of these are women as well). In general, many of the persons now neglected by large public programs and financial institutions would be organized in a manner to enable them to participate more effectively in a modern economy.

Since 65% of Nicaragua's population lives in the rural areas, it is important to extend savings and credit operations into the small towns to which the rural population has access. The ultimate goal is a redistribution of income to this population and an increase in its economic power. In addition, this program should help to mobilize and pool limited credit, production and technical resources in the rural areas.

To improve the plight of the small farmers, this program is part of a basic strategy to improve the efficiency of the whole marketing process, starting with the retailers, and, in future steps, working back through the farm-to-market process, eliminating intermediaries in those areas where a cooperative organization can replace the function - e.g. credit unions instead of street lenders; consumer cooperatives instead of "profiteering" intermediaries who buy from truckers and re-sell to individual market women at inflated prices.

The role of women in this process is very significant at the retail level, at which this project intends to work. While men tend to be the truckers and whole families the producers, women are the market vendors. [The lower cost credit and organized buying capacity that this project aims to provide to market women is expected to appeal eventually to other human links in the farm-to-market system.

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## II. Statement of Project Goal

- A. Goal Statement: The principal aim of this project is to improve the living conditions of market women and their families in the rural areas, and to lower costs of marketing by improving efficiency of the process.

B. Measures of Goal Achievement

A substantial increase in personal income due to increased economic activity generated by credit unions and due to reduced costs of credit and economies of scale. Also increased self-confidence and self-management of community economic organizations.

C. Means of Verification

Estimates of costs of credits, total sales and inputs, as well as of average incomes, by the Evaluation Team at the beginning of the project and at regular intervals thereafter. Successful takeover of credit union financing and management by members.

D. Assumption about Goal Achievement

The economy of the nation will not suffer any drastic change that would alter the importance of the agrarian rural economic sector.

## III. Statement of Project Purpose

A. Project Purpose

To establish viable rural organizations serving market women and other small tradespeople, with credit and cooperative purchasing facilities.

B. End of Project Status

1. Twenty communities should have viable credit unions, totalling 6,000 active members, with a significant amount of savings (\$450,000 by 1976 or \$70-100 per member).
2. The twenty credit unions should each, at the end of the two years, be functioning as self-sufficient units. (Communities: Nandameo, Matiguas, Muy Muy, Nagaroe, La Paz Centro, Sébaco, La Trinidad, Condega, Totogalpa, Malpaisillo, Nindirí, Ciudad Dario, Santo Tomás, Somotillo, Jalapa, Pueblo Nuevo, Nandaime, La Libertad, San Pedro de Lovago, San José de Camoapa.)
3. Adequate coordination between the coops in the different regions should be maintained through an efficient central FUNDE office.

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4. An association of credit unions would be initiated for the purposes of information exchange, (although all would not necessarily be members as early as of CY 1976.)

C. Means of Verification

1. Inspection of the 20 sites and financial records to verify existence and level of activity of the projects.
2. Quarterly joint reviews with the cooperative assemblies and staffs.

D. Assumptions for achieving purpose

Rapid expansion in membership of the coops. Demand in rural areas for cooperative services similar to the great demand experienced for urban market coops.

IV. Statement of Project Outputs

A. Outputs

1. Promotional activities and education in general concepts of cooperativism carried out in 20 sites in rural Nicaragua.
2. Twenty credit union managers recruited and trained by FUNDE central staff.
3. FUNDE's accounting system initiated in all new credit unions and schedule for auditing every active credit union developed.
4. Baseline and final studies made of credit costs, total sales and average income of members, for each of the 20 credit union areas.
5. Adequate office facilities including furniture and equipment provided for each active credit union.
6. \$12,500 seed capital loan made available to each credit union by FUNDE.

B. Means of Verification/Output Indicators

1. Schedule of promoter visits
2. Inspection of each site: interview with manager
3. Review of accounting procedures at each site
4. Review of evaluation studies made
5. Inspection of site facilities
6. Review of financial records

C. Assumption about outputs

1. There will be credit available for FUNDE counterpart, and therefore for the cooperatives.
2. There will be an experienced and efficient administration at FUNDE headquarters.

Many of the benefits and outputs derived from the project do not easily lend themselves to quantification. Achievements in social consciousness and social well being are not considered quantifiable variables here.

V. Statement of Project Inputs

A. Inputs

1. AID's grant of \$150,000 for staff salaries and office facilities over a two year period.
2. FUNDE's counterpart would be \$ 279,000 for credit seed capital, and other costs.
3. The cooperatives would contribute by the end of two years capital of \$469,000 in the form of personal savings.

B. Budget Schedule of Cost Plan  
(US\$)

<u>Item</u>	<u>AID</u>	<u>FUNDE</u>	<u>COOPS</u>	<u>TOTAL</u>
1) Lending capital		250,000	450,000	700,000
2) Administrative loans (managers' salaries)	80,000		5,000	85,000
3) Central Office (supervision & Tech. assistance)	40,000	10,000		50,000
4) Office equipment	20,000	5,000	2,000	27,000

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5) Travel expenses	-	5,000		5,000
6) Rents & utilities	-	4,000	7,000	11,000
7) Education & Promotion Dept.	5,000	5,000	5,000	15,000
8) Evaluation Team	5,000			5,000
	\$150,000	\$279,000	\$469,000	\$898,000

TABLE A  
Summary of Combined Urban/Rural Market Women  
Coop Program

	<u>July 1974</u>	<u>July 1975</u>	<u>July 1976</u>
Coops	14	24	34
Membership	2,280	8,640	13,320
Savings	US\$100,000	\$503,000	\$1,330,000
Outstanding Loans	US\$227,571	\$864,000	\$1,665,000
Total Loans	US\$442,000	\$1,728,000	\$3,330,000



## B. Description of Inputs

### 1. Seed Capital

Estimates based on FUNDE experience indicate that the initial capital of a cooperative must be at least \$12,500 to allow its members to save \$22,500 in two years and thereby reach the self-sufficient stage. 20 cooperatives in this project times the minimum loan for starting this program yields \$250,000 total seed capital to be loaned by FUNDE which will obtain the funds through loans from private banks, foundations and institutions. Most cooperatives should reach self-sufficiency by the end of 1976 and should, by that time have saved a total of \$450,000. This would enable them to repay FUNDE's loans to them and continue operating on a viable financial basis.

### B. 2. Managers' Salaries

\$85,000 is allocated for salary payments to the managers of the cooperatives for the next two years.

Each manager would work full time and would be responsible for the operation and financial administration of his cooperative.

When the cooperatives reach the self-sufficient stage at the end of 1976, managers salaries are to be assumed by the membership.

	<u>Monthly payment</u>	<u>number</u>	<u>Monthly Total</u>	<u>AID</u>	<u>FUNDE</u>	<u>COOP</u>	<u>TOTAL</u>
Managers	\$177.09	20	\$3,541.80	80,000	5,000	-	85,000

### B. 3. Central Office

The Central Office would be in charge of supervision and technical assistance for both the current and new programs. This department has acquired experience through the urban program. Five additional persons would be added to the staff for a total of twelve persons. FUNDE would continue to pay the salaries for the first seven, and part of the salaries for two of the new ones;

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<u>New Positions</u>	<u>Monthly Salary</u>	<u>Number</u>	<u>Monthly Total</u>	<u>IN TWO YEARS</u>			
				<u>AID</u>	<u>FUNDE</u>	<u>COOP</u>	<u>TOTAL</u>
Cooperatives Technician	\$562	1	\$562	\$17,592			\$17,592
Secretary	\$171	1	\$171				
Auditor	\$450	1	\$450	\$10,800			\$10,800
Cooperative Training Specialists	\$450 each	2	\$900	\$11,608	\$10,000		\$21,600

The cooperatives technician would be in charge of evaluating the growth and development of each one of the cooperatives and of the program as a whole. This individual would provide technical assistance, training courses and general information for the members and staffs of the cooperatives.

The auditor would be in charge of monthly supervisory visits to each of the cooperatives. Also, he/she would analyze the default rate.

The two persons in the training department would be in charge of promotion of cooperative membership and recruitment and training of staff.

#### B.4. Office Equipment

The success of the program requires adequate office space and a minimum amount of equipment during the first two years.

	<u>Equipment Costs</u>			<u>Distribution of Costs</u>			
	<u>Price</u>	<u>Number</u>	<u>Total</u>	<u>AID</u>	<u>FUNDE</u>	<u>COOP</u>	<u>TOTAL</u>
Typewriter	\$350	20	7,000	7,000			7,000
Adding machine	\$250	20	5,000	5,000			5,000
Desk	\$200	20	4,000	2,000	2,000		4,000
File	\$300	20	6,000	6,000			6,000
12 chairs per coop	\$100/12	240	2,000			2,000	2,000
Telephone	\$ 30	20	600		600		
Office renovation	\$120	20	2,400		2,400		2,400
				20,000	5,000	2,000	27,000

### B. 5. Travelling Expenses

For continuous supervisory and training visits to widely dispersed areas, gas and per diem charges would average \$200+ per month, or a total of US\$5,000 for two years to be provided by FUNDE.

### B. 6. Rents and Public Services Payments

This FUNDE contribution includes rent for the central office and subsidies for the cooperatives' utility bills until each cooperative can cover all its own expenses.

### B. 7. Promotional/Tech Assistance Material

	<u>1st year</u>	<u>2nd year</u>	<u>AID</u>	<u>FUNDE</u>	<u>COOP</u>	<u>TOTAL</u>
2,000 posters	\$ 250	\$ 250	\$ 500			\$ 500
10,000 booklets	1,000	1,000	2,000			\$ 2,000
100 administrative techniques manuals	100	0	100			\$ 100
100 credit manuals	100	0	100			\$ 100
100 supervision manuals	100	0	100			\$ 100
100 educative manuals	100	0	100			\$ 100
Audio-visual equipment	250	250	500			\$ 500
Educative slides and pictures	800	800	1,600			\$ 1,600
(Local) 12 seminars	1,000	1,000		2,000		\$ 2,000
8 Regional seminars	1,500	1,500		3,000		\$ 3,000
8 promotional courses	1,000	1,000			2,000	\$ 2,000
8 financial and administration courses	1,500	1,500			3,000	\$ 3,000

\$ 15,000

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#### B. 8. Evaluation Team

To contract the services of social scientists (a psychologist; a sociologist and an economist) who would be added to a 4 person team already working in the evaluation of the market women project.

This team is responsible for conducting a continuing study of the program and as indicated, recommending improvements. Also they would compile and transmit findings to AID and to other Latin American institutions.

<u>Details of Evaluations</u>			<u>AID</u>	<u>FUNDE</u>	<u>COOP</u>	<u>TOTAL</u>
	<u>1st Year</u>	<u>2nd Year</u>				
Analysis of Growth	\$ 700	\$ 800	\$ 1,500	0	0	1,500
Economic Surveys	\$1,000	\$1,000	\$ 2,000	0	0	2,000
Psycho/Social Surveys	\$ 800	\$ 700	\$ 1,500	0	0	1,500
						<u>\$ 5,000</u>

#### VI. Course of Action

##### A. Method of Operation

The central role in implementing this project will rest with FUNDE. USAID's role will be that of financing agent for those activities to be funded under this project.

FUNDE, acting through its central office for cooperatives, will be responsible for contracting managers and paying their salaries, with such payments to be reimbursed by USAID. The 20 managers

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will be in charge of promoting, organizing and administering these coops under the surveillance of the Central Office.

B. Operational Plan

The activities during the first month of the project (est. January 1975) will be focused on the investigation of several geographic areas to determine which ones would be the most appropriate for the establishment of the first coops.

Recruitment of the managers and personnel in general would begin that same month.

Training courses for the recruited personnel would be given by FUNDE at the end of January.

During the next six months the first 10 coops are to be created.

The educational department would begin to work simultaneously with the creation of the Coops.

The evaluation team is to begin its work in April of 1975, when the program has definitely begun to function.

# IMPLEMENTATION PLAN

Month-Year 1	1	2	3	4	5	6	7	8	9	10	11	12
	Jan.											Dec.
1) Select and contract managers	(1)					(1)						
2) Training of personnel												
3) Detect the probable coop's members												
4) Promotion of the Coops												
5) Organize the Coops			1	2	3	4	5	6	7	8	9	10
6) Training of Coop members in cooperativism (general												
7) More specific training: administration technical assistance social education							1	2	3	4	5	6

## Addendum to PROP for Rural Market Women's Cooperatives

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### 1. Selection of future sites.

Sites were selected on the basis of the following criteria: key geographical position in relation to commerce within the departments; the lack of other inexpensive credit facilities; receptivity of the population as reported by FUNDE promoters in the areas; and within two key regions, selected by GON/ UNASEC for the first state integrated rural development.

Note: A few sites listed in the PROP are outside of UNASEC regions and will probably be changed.

### 2. Comparability of urban and rural markets.

Without some experimentation AID will never know for certain how comparable rural market towns are to urban areas. That is the purpose of this pilot project. Initial assumptions by FUNDE are that with promotion to develop and explain the savings habit, the more rural areas will respond just as positively to availability of less expensive credit as do urban areas market women. It is also important to note that Nicaragua is a small country, and that many women who sell in Managua and other urban markets come in each morning from the adjacent rural areas which makes them not so different from their counterparts whom we hope to reach with this project.

### 3. Financial operations of the proposed cooperatives.

Streetlenders, currently the only other source for most of the target group, lend at 20% per month, whereas these market credit union can lend at 2% per month - a difference of 18%. Of this 18% difference, 9% is required to be placed in the credit union as savings and 9% is never paid, i.e., remains as extra capital for the member. Interest rate spread is at least 16%. FUNDE lends seed capital to its member coops at 8% per year. The 2% monthly rate, uncompounded, is 24% earnings for the credit union. Members are paid 7% interest on their savings. Thus, 16-17% of total earnings is left to cover operating costs, including defaults. Any remainder after covering costs is distributed as dividends to members. Total operating costs is distributed as dividends to members. Total operating costs are estimated at \$3,370

annually per credit union, for salaries (\$2,125), equipment depreciation (\$270), rent and utilities (\$600), and promotion (\$375). Thus, on the basis of the total savings of \$22,500, 16% yields \$3,600 to cover operating costs of \$3,370 plus 1% for defaults. With regard to decapitalization, although the inflation rate here is not published, it is estimated to be less than the 24-26% interest rate charged, especially in the rural areas. In sum, experience to date with the above interest rates and minimum total savings has proved self-sufficiency can be successfully reached at these levels. The salaries for coop managers have proven sufficient to attract the quality management needed, taking into account the further training provided to them by FUNDE and the supervision given by FUNDE.

#### 4. Cash flow and demand analysis.

Conservative estimate of average savings per member per year is \$100. The first year, 10 credit unions are expected to be functioning with 125 members each, yielding \$125,000. The second year, an additional 10 credit unions would be functioning, yielding an additional \$125,000 in savings. The first ten credit unions are expected to have expanded to 200 person memberships by the end of the second year, with a total of \$200,000 in savings. Thus, after two years, the project's twenty credit unions would have a total of \$450,000 in savings. (125 plus 200 plus 124 equals 450).

#### 5. Availability of credit and ongoing costs after the project terminates.

After reaching self-sufficiency and being legalized, credit unions may seek funding directly from private banks or from the GON's Banco Popular, or continue to borrow from FUNDE at 8%. FUNDE has received from the local private banks (US)\$388,500 to this date for relending.

#### 6. Extent of participation of women in the administration of FUNDE and of the cooperatives.

Of the six leadership positions in each of the currently active market coops, women occupy four to six spots. FUNDE's evaluation team (3) is all female, as is advisory team (2) to credit union program. The Director of FUNDE's Rural Development program is female, as is the Director of Las Americas Cooperative Program.



7. Relationship between FUNDE's cooperatives and FECANIC's credit unions.

To avoid duplicity of efforts in promotion of future rural programs, FUNDE and FECANIC are negotiating an understanding concerning coverage. FECANIC states they intend to work at production points (i.e., small farmers and industry), while FUNDE will concentrate on marketing points. In the future, FUNDE cooperatives will probably elect to associate themselves with FECANIC, since FUNDE is not a federation as such.

USAID/Nicaragua:CMJones:12/12/74