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PROJECT REGPROGRAMMING CONSIDERATIONS

GUATEMALA SMALL FARMER MARKETING PROJECT

520-030/0238

by

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A. MAJOR CONSTRAINTS AND PROBLEM AREAS:

The following factors are interrelated in explaining why the project - especially the operations of CECOMERCA in Patzicia and Guatemala City - is not economically viable at this point in time. No one single factor can be cited as more important than another in inhibiting project progress, as envisioned in the original Project Paper time frame. Together they have brought the project to the brink of disaster.

1. No sustained effort was made by FECOAR, FENACOAC, or their locally affiliated cooperatives, to actively recruit vegetable/fruit growing members into CECOMERCA before facility construction was initiated at Patzicia.

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While the two federations subscribed the required Q90,000 capital and supplied affidavits from four local cooperative stating that 2,000 farmers had been registered in the program, these were only done to satisfy legal technicalities and to meet conditions precedent established by USAID prior to disbursement of funds.

The point is that active growers did not join CECOMERCA nor subscribe Q10 each as evidence of their interest in the marketing entity (membership equity stands at Q175 as of this date; not Q60,000 as envisioned in the original project paper).Neither the federations nor USAID/G insisted on this membership recruitment program's completion before initiation of other project activities, a tragic mistake. In effect an organization was created without a membership base to supply products to be marketed, and no producer members with personnel financial interest in the success or failure of it as a business enterprise.

2. Further evidence of the withholding of active support by the federations and their local cooperatives is seen in the fact that the Q800,000 of production credit available in the project at 6% interest, to stimulate start-up of commodity prodution by member/owners of CECOMERCA, was never disbursed to farmer members. It has not been utilized to this date. This was to be used as another powerful incentive to stimulate interest and new

production by member/growers, participation in providing raw product supply to the cooperative, and an important link in its ability to negotiate sales contracts with buyers for truckload quantities of high quality produce at specified times.

3. The management selected to run CECOMERCA did not include anyone with knowledge of, or ability to effectively sell in, the Guatemala/Central American produce markets. This capability was and is crucial to the success of the project, yet the federations' management has not insisted on it, nor did USAID/G identify the problem. What is worse, the technical assistance contracted to help CECOMERCA had nobody with this experience or capability recruited on its team, and never came to grips with the problem. There is evidence to suggest that the top two managers of CECOMERCA were selected on the basis of their loyalty to the respective federations they came from and not on ability to run a produce marketing business.

4. The technical assistance provided CECOMERCA was ineffective and should have been replaced or drastically altered early in the project life, and it did not include a knowledgeable produce marketing specialist.

In effect the purpose of the technical assistance envisioned in the project design was to train CECOMERCA management (on a one-to-one, daily basis) in those duties and activities required to organize, manage and operate a successful farmer-owned produce marketing cooperative. As such, USAID/G should have insisted that the team selected have demonstrated ability in the appropriate areas. Composition of the team should have been changed by USAID/G early in 1980 when the first Servicios Tecnicos del Caribe team leader left the project (not to be replaced for nearly one year, in effect leaving the CECOMERCA general manager without an advisor for this period), and it was evident that CECOMERCA had no membership/producer supply base and no sales thrust to its program. This leads to the fourth major constraint.

5. <u>USAID/G did not effectively monitor the project, its activities and problems during the crucial 1979-81 start-up period</u>. One gets the feeling that once the conditions precedent were legally (technically) met, the T.A. contract was awarded to Servicios Tecnicos del Caribe, and first funds were being disbursed, USAID/G assumed the posture that its responsibility was over, i.e, that the project would grow and be successful without further AID technical inputs or regular monitoring. Evidently serious project problems, as outlined above, were not brought to the attention of top USAID/G Mission management in a timely manner. USAID experience with similar projects in scope and financial size in Latin American indicate that they require monitoring and technical inputs of a qualified AID officer (at leat 25 percent of his time) in the first several years.

In summary, CECOMERCA had no interested grower/owner membership base, no active promotion and support from the federations and their local cooperatives, no qualified sales personnel knowledgeable of local markets and buyers in their management, ineffective expatriate technical assistance helping its management, and questionable project monitoring by the donor/loaner, USAID/G. It's a miracle that CECOMERCA is still operating today at all, given these factors.

Further exacerbating the 5 factors mentioned above have been: 1). the political and security instabililities in the western highlands, and 2). political, economic and security instability in Guatemala's traditional export markets for temperate fruits and vegetables in El Salvador, Nicaragua and Costa Rica. The former's impact on CECOMERCA has obviously been negative, especially from an organizational and "fieldmen contact with growers" point of view. The latter has been overplayed, in our opinion, since the populations of the three countries are still consuming large quantities of Guatemalan produced temperate fruits and vegetables daily. Obviously they are being supplied by Gutemalan growers and marketers on a regular basis.

B. SUMMARY OF RECOMMENDATIONS AND PROPOSED CHANGES.

The consultants' recommendations are shown in summary tabular form in Exhibits 1 and 2. It is recommended that USAID/Guatemala obtain the services of expert technical assistance based on the scopes of work provided, to develop a viable CECOMERCA cooperative membership base in the production areas most logical for the organizations supply of produce. This is programmed at

$145,000 for CY 1983, Exhibit 1, Item 1.a. At the same time, expert technical assistance in export and domestic sales and marketing improvement should be contracted for CECOMERCA by USAID/Guatemala. This is projected as a two-year task costing $225,000, beginning in CY 1983, Item 1, b.

Short term observational and work training should be provided selected CECOMERCA personnel, as needs arise, and as identified and planned by the technical assistance consultants. A total of $60,000 has been programmed for this purpose in the recommendations, Exhibit 1., Item 2. Since at present levels of sales and costs, as projected through CY 1983, CECOMERCA will still not have reached a break even point in its operations, the consultants have recommended that sufficient USG funds be made available to cover total losses for CY82 and CY83. This is designated as working capital in Exhibit 1., Item 3., and will require $356,870.

In cooperation with CECOMERCA management, the consultants developed a reprogrammed table of expenditures needed for new facilities and equipment, Exhibit 2. This was shown to cost a total of $777,000 to be financed from loan funds presently available, but disbursed as needed in CY 1982 through CY 1984, 5.b., Exhibit 1., Item 4. This represents a significant reduction from original plans, but is in line with the retrenchment explained earlier in the text necessary until operations, revenues and costs have improved.

In Exhibit 1, Item 5., funding is recommended to complete independent audits of CECOMERCA's financial operations yearly in CYs' 82, 83 and 84, at a total estimated cost of $15,000.

The consultants strongly recommend that a concerted effort be made by USAID/Guatemala to have the two federations, FENACOAC and FECOAR, complete their financial commitments to CECOMERCA by providing the remaining equity capital of $60,000 originally promised, Item 6. If the federations and their locally affiliated cooperatives join with the technical assistants proposed in a concerted membership recruitment effort, 1,000 bona fide owner-members of CECOMERCA will be actively participating in the cooperative and its business by the end of CY 1984. This will provide another $10,000 of equity capital for CECOMERCA. One aspect of the membership development effort will be the timely release of $800,000 in production credit, already programmed in the project but as yet not released, to provide member-growers funds for financing the inputs necessary to supply products for sale by the organizations.

If the federations and their locally affiliated cooperatives do not enthusiastically support the timely development of strong membership base for CECOMERCA, USAID/Guatemala will have to seek another institutional basis for the continuation of the project and the organization.

C. DETAILED DISCUSSION OF PROPOSED CHANGES IN PROJECT IMPLEMENTATION AND FINANCIAL PLANS NEEDED NOW.

Despite the constraints and problems identified in A. above, CECOMERCA is still operational; some indication of the agility of its present management. However, it cannot continue for long as presently operated.

Sales volumes are too low, cost of sales is too high as are operational costs. Fixed administrative overhead at its present level cannot be justified, at the current volume of business and must also be reduced.

The following changes in project implementation and financing are recommended in an effort to place the organization and project in a viable operational and financial mode in the next three years.

1. <u>Contract specialized technical assistance to promote organization of producer-growers, owner-members of CECOMERCA</u>. Seven hundred fifty bona fide members subscribing Q10 each in capital stock is the minimum goal sought in the first year of organizational activity, and another 250 subscribed in the second year, or a total of 1,000 paid in members by the end of the second year.

Total Organizational Cost	$145,000
(New Membership Equity)	$ 10,000

<u>Rationale</u>: CECOMERCA does not now have a member-grower supply base with which to work to obtain a reliable supply of temperate produce in response to favorable market demand. In effect, CECOMERCA management is going onto the open market soliciting purchases of produce in direct competition with trucker-buyers and others. The original project concept was to provide the management with a loyal, interested membership group with which to work for improved production/marketing flexibility, efficiency and producer profits. Some may argue that membership equity subscriptions of Q10.00 each will not

create much loyalty. In and by itself this may be correct; the objective here, however, is to gather commitment to an organization, to a progrm and its objectives. The joining with others by membership equity subscription, though a modest financial commitment, can permit other joint efforts for the benefit of all. Such marketing programs as full supply contracting, uniform planting and harvesting programs, varietal and quality standard control, etc., can only be initiated by cooperative marketing management if it has a known membership base with which to work. The project will fail if this membership-owner base is not established as soon as possible.

2. Contract Specialized Technical Assistance to train a newly-hired CECOMERCA Sales Manager in proper domestic, regional export and other export (i.e., U. S. and Europe) sales penetration techniques and sales contracting procedures.

Estimated Cost, First Year	$125,000
Estimated Cost, Second Year	$100,000
T o t a l	$225,000

Rationale: This is the most important side of a successfully operated business entity of any type. Without profitable market penetration with a superior product - or one conceived as superior because of viable quantity and quality deliveries in a timely manner - in effect confidence in the sales personnel and their behavior as representatives of the sellers, no cooperative, least of all a new one like CECOMERCA in Guatemala, will succeed. The original project paper was very specific about this important aspect of CECOMERCA's management needs.

> "The central marketing facility will be the Association's (cooperative's) headquarters and its vehicle for establishing a market presence as an effective and reliable large volume wholesaler of temperate climate fruits and vegetables...(it) calls for a general manager who must be thoroughly knowledgeable and experienced in the field of wholesale agricultural marketing. Ideally, the manager should be someone with established connections in Guatemala City's wholesale market. Two sales managers...the individuals selected...as with the general manager, should have established market connections."1/

Unfortunately this important guidance has not been followed by CECOMERCA Board of Directors, nor insisted on in organizational considerations by USAID project monitors. It cannot be ignored any longer. The technical assistance contract funds will be used to hire a consulting firm with a proven record or produce marketing ability in the United States and in Latin America (such as Central America Produce, Inc., 6-L's packing Co., Inc., Blue Anchor, Inc., or Bud Antle, Produce, Inc. - a subsidiary of Castle & Cooke).

1/ USAID/Guatemala Project Paper number 520-0238, July 21, 1977, pp. 32-33.

The general scope of work will be to: 1) Help train the new CECOMERCA sales manager in improved produce marketing sales techniques for institutional produce market penetration; 2) Sales contracting in export markets (in Central American and Caribbean countries, in North America and Europe); 3) Improving grading, packaging and storing to meet international standards and to capture higher-priced markets; 4) Improving location and use of market demand and price information and sales communications procedures with potential buyers; 5) Meet and develop regular contacts with selected buyers and importers in appropriate markets; 6) Other sales techniques appropriate to CECOMERCA's operation.

The Board of Directors of CECOMERCA must hire the type of qualified individual from within Guatemala described in the rationale above as Sales Manager for the Cooperative at the earliest possible time. Ideally this individual, as well as the General Manager, the Operations Manager, and all other top management executives of the cooperative, should be paid a reasonable base salary, plus a set percentage commission, as a bonus at the end of the fiscal year, of total profits (net savings) they have helped the owner-members earn from their management of operations. Total pay, based on an incentive system which rewards productivity, is far superior to a straight payment under these circumstances.

It is not anticipated that the principal officer of the expert produce sales consulting firm will take up residence in Guatemala. Rather, he will organize and guide his technical assistance utilizing periodic short-term visits to Guatemala, will travel with the CECOMERCA Sales Manager or General Manager as is Appropriate in the U.S. or elsewhere, but will rely on the day-to-day contact at CECOMERCA of his resident country technician. This individual shall have proven produce sales experience, fully know his firm's techniques and procedures, be a Spanish speaking technician and have the full confidence of the parent expert consultating firm in his ability to teach, as a counterpart, the techniques and procedures to CECOMERCA management. The consulting firm will also bring in specialized talent to train CECOMERCA personnel in specific subjects as needs arise.

3. Make available to the 750 newly subscribed member-growers the full $800,000 of production credit presently reserved in BANDESA who have signed full-supply sales contracts with CECOMERCA to deliver all of their fruit and vegetable production for the current production year.

Rationale: This amount of production credit will be sufficient to fund an additional two vcegetable cycles in the first year, each of 375 hectarea. In effect the 750 grower-members will be able to borrow sufficient production credit to cover costs of procuring all inputs for the first crop (say a cole crop), harvest and sell it to CECOMERCA, repay the loan and/or reuse the production credit for a second crop (say a tuber). The credit will then "roll over" after sale of the second crop, and repayments of the loans, to be available for the next crop cycle.

If this recruitment of members is successful, and if they supply their full production to the Cooperative, CECOMERCA's total revenue will increase after the first full year by between $1,800,000 and $2,400,000, depending on the mix of commodities grown and sold during the cycles, market prices, etc.

4. CECOMERCA - Financial and Operating Analysis

Fundamental to the progress of CECOMERCA in establishing an economically viable marketing organization is the rational utilization of project resources in the day-to-day operations. Management must be keenly aware of abrupt or subtle changes in the market place in order to be able to make the short and long term decisions which will be of benefit to CECOMERCA. Flexibility in administration and improving operating results should greatly concern both CECOMERCA's Board of Directors and Management. An analysis in summary form of the financial and operating activities of CECOMERCA for CY-81 and the first five months of operation ending May 31, 1982 is presented below. This analysis could have been more comprehensive had an objective audit report of CECOMERCA's financial and operating status, for any period, been available.

a. Balance Sheet

1) Cash and in Banks

In the Current Assets Account, cash on hands and deposits in banks appear excessive for the operating activities. The cash balance should include the asset identified in the balance sheet as Investments that is actually a savings account in BANCAFE earning 8% interest. At the end of CY-1981 total cash and bank deposits amounted to $453,939 and the balance sheet of May 31, 1982 shows $410,314 in this current asset account.

Observation:

Assuming that a cash balance is maintained equal to the current liabilities, cash requirements for the 5 months ended May 31, 1982 would appear to average some $60,000, freeing $372,000 for alternative investments in produce marketing.

2) Accounts Receivable

The accounts receivable pose a more serious problem to CECOMERCA in their composition, collection and amounts relative to sales. Accounts have increased as follows:

Period	Amount	As of % of Sales
12 months ended 12/31/81	$188,873	19%
5 months ended 05/31/81	209,537	37%
5 months ended 05/31/82	289,968	104%

An ageing of the customer accounts as of 12/31/81 shows the quality of the accounts as follows:

Account	Amount	Over 120 days	% of Sales
Local clients	$ 15,372	$ 13,636	89%
Exporters	76,691	56,488	74%
Producer Advances	21,475	3,775	18%
	$113,518	$ 73,899	65%

If the exporter deposits held by CECOMERCA to guarantee payment of out-of-country clients amounting to $14,580 were applied to the exporter receivables, the percentage over 120 days would still be more than 50%.

Observations

The deterioration of the accounts receivable should be one of the principal concerns of the General Manager since it reduces one of the most important sources of working capital in CECOMERCA. Additionally, it reflects negatively on the quality of the sales effort and highlights managerial deficiencies. CECOMERCA must develop an intelligent credit policy and collection procedure that does not allow a buildup of bad accounts.

b. Operating Statements

A summary of the results of operating activities for the first full year 1981 is shown in exhibit A comparison of the first 5 months of operations ending 05/31/82 with the same period of CY 1981 is also shown. To measure more accurately the relative changes for the different periods, costs and results are expressed as a percent of sales. Additionally, since a yearly budget is prepared in great detail on a monthly basis, the first 5 months of 1982 are shown with the actual 5 months of operation.

1) Sales

An analysis of SALES for the first 5 months of CY 1981 ending May 31, and for the same period in 1982, indicates that 95% of total sales for both were comprised of 3 products, potatoes, cabbage, and garlic. The contribution to gross margin made by each commodity is also shown below.

	1981		5 months - 1982	
Sales	$	Gross Margin	$	Gross Margin
Potatoes	237,692	4,340	62,606	$ 6,895
Cabbage	247,421	30,927	64,843	16,119
Garlic	60,326	2,292	138,367	36,835
	545,439	28,879	265,816	$59,849
All Other	22,791	301	13,604	2,387
Total Sales	568,230	29,180	279,420	$62,236

- While the gross margin in the first 5 months of CY 1982 improved to 22% of sales versus 5% for CY 1981, the volume of sales was a very poor 36% of budgeted sales and only 49% of sales for the same period in 1981. (See Exhibit 3).

Exhibit 4 shows the gross margin contributions by unit of the sales of potatoes, cabbage and garlic for the same 5 month periods 1981-82. While cabbage seemingly did not improve its gross margin contribution ($30,927 vs. $16,119), or on a per unit basis ($0.48 vs. $0.39), the cost of sales dropped significantly from 87 1/2% in 1981 to 75% in 1982.

The increase in gross margins in the first 5 months of CY 1982, if maintained, indicates that management is making progress in acquiring the necessary skills to conduct a viable commercial operation.

2) Costs

Control of operating and administrative costs still indicate that management has an almost total disregard of the effect of costs on operations. This is quite evident from a study of the monthly operating statement format that provides four pages of statistical information on buying and selling statistics and no detail of the operating costs and expenses. The latter must be brought under control as soon as possible.

In Exhibit 3, CY 1981 resulted in a loss of $198,132. The gross margin from sales was $9,908 or 1% of sales. Total operating and administrative costs amounted to $229,352 or 23% of sales. Certainly the sales strategy was a failure. If the gross margin generated from sales in the first 5 months of CY 1982 (22%) and the operating and administrative costs of CY 1981 had prevailed, 1982 could have reached breakeven point: Further by adding CECOMERCA's other income, a small profit could have been realized (983,287 x 22% = 216,323 + 21,312 - 229,352 = $8,283).

The gross margin from operations for the first 5 months of CY 1982 was an encouraging 22%. As noted, sales volume was less than half compared to the same period in 1981. The drop in sales volume is directly attributed to the loss of the Nicaraguan market in June, 1981. Sales plummeted from monthly average of $115,400 for the first 6 months of CY 1981 to $48,000 in the last half of that year, in effect a drop of 58% in sales volume. Sales volume for the first 5 months of CY 1982 averaged $55,884 per month.

However, with the satisfactory gross margin posted and a budget of 22% for all operating costs and administrative expenses, a breakeven should have been the result. (Sales $2,794.20 x budgeted expenses of 22% = $61,472). Actual costs for the 5 months were $186,740 to $125,268 over budget (204%).

Observation:

It has been made clear to the general manager that costs must be cut drastically and subsequently controlled. Management further agrees that the monthly statement of operating results in its present form does not provide the pertinent financial and operating information for timely and rational managerial decisions.

c. Budgets

CECOMERCA has developed monthly budgets for the following cost centers:

1. Administration costs
2. Procurement costs
3. Selling expense
4. Financial costs
5. Cash Flow
6. Product Procurement
7. Sales

The budget, in general, appears adequate in form and content. However, a procedure is lacking for routine comparisons with actual operating figures and periodic revisions when necessary.

Observation:

CECOMERCA's budgets should provide the board of directors and management a powerful tool to measure performance and to control costs. It is planned to correct the budgets once operating costs are brought under control and to utilize them to compare with actual operating results.

Exhibit 3

CECOMERCA

SUMMARY OF OPERATIONS - CY 1981 and 5 MONTHS OF 1982 TO 05/31/82

INDICATING RESULTS AS A PERCENT OF SALES

	CY 1981 12 months ending 12/31/81		CY 1982 - 5 months ending 05/31/82				CY 1981 - 5 months ending 05/31/81	
			BUDGET		ACTUAL		ACTUAL	
	$	%	$	%	$	%	$	
SALES	983,287	100	769,682	100	279,420	100	568,231	100
COST OF SALES	973,379	99	759,519	99	217,182	78	539,051	95
GROSS MARGIN	9,908	1	10,163	1	62,238	22	29,180	5
OPERATING COSTS								
PROCUREMENT COSTS	---	---	49,557	6	36,243	13	---	---
SALES EXPENSES	19,787	2	45,712	6	42,424	15	5,348	1
DEPRECIATION	20,143	2	12,407	2	14,691	5	5,616	1
TOTAL OPERATING COSTS	39,930	4	108,076	14	93,358	33	10,964	2
ADMINISTRATION EXPENSE								
GENERAL AND ADMINISTRATIVE	165,130	17	46,351	6	81,493	29	69,046	12
FINANCIAL EXPENSE	24,292	2	13,180	2	11,889	4	7,884	1
TOTAL ADMINISTRATION EXPENSE	189,422	19	59,131	8	93,382	33	76,930	13
TOTAL ALL COSTS AND EXPENSES	229,352	23	167,207	22	186,740	66	87,894	15
OTHER INCOME	21,312	2	---	---	20,635	---	6,662	1
NET MARGIN (LOSS)	$(198,132)	(20)%	$(157,444)	(21%)	$(103,867)	(37)%	$(52,052)	(9)%

Exhibit 4

CECOMERCA

CONTRIBUTIONS TO GROSS MARGIN OF PRINCIPAL CROPS SALES

FOR THE FIRST 5 MONTHS OF CY 1981 & 1982

Sales Product		SALES			COST OF SALES		GROSS MARGIN	
		$	Cwts.	Per Unit	$	Per Unit	$	Per Unit
Potatoes								
For the 5 months ended 05/31/82		$ 62,606	$ 6,879	$ 9.10	$ 55,711	$ 8.10	$ 6,895	$ 1.00
For the 5 months ended 05/31/81		237,692	19,146	12.41	242,032	12.64	(4,340)	(0.23)
Cabbage								
	1982	64,843	41,140	1.57	48,724	1.18	16,119	0.39
	1981	247,421	64,534	3.83	216,494	3.35	30,927	0.48
Garlic	1982	138,367	2,936	47.13	101,532	34.58	36,835	12.55
	1981	60,326	1,931	31.24	58,034	30.05	2,292	1.19
All Other Sales	1982	13,604	---	---	11,217	---	2,387	---
	1981	22,791	---	---	22,490	---	301	---
Total All Sales	1982	$279,420	---	---	$217,184	---	$62,236	---
	1981	$568,230	---	---	$539,050	---	$29,180	---

5. PROJECT FUNDING REPROGRAMMING - CECOMERCA

The rescheduling and modification of AID Loan 520-T-030 proposed by CECOMERCA and approved by AID and the GOG has two basic purposes. To provide CECOMERCA additional funds for working capital and technical assistance and to modify the physical facilities and reschedule their time of construction. Working capital and technical assistance will be made available as follows:

Source:

1st. Phase Capital Costs:	
Refrigeration	$ 40,000
Equipment	457,508
Building	(190,638)
TOTAL	$306,870
2nd. Phase Capital Costs:	200,000
TOTAL FUNDS PROVIDED	$506,870

Use:

Cost of Organization	$356,870
Technical Assistance	150,000
TOTAL UTILIZATION	$506,870

The GOG will assume the repayment responsibility to AID for the $506,870 in Loan Funds and, in turn, will provide the sum to CECOMERCA on a grant basis. Exhibit 5 shows the status of AID and GOG project funding and disbursement as of June 17, 1982 and prior to the reprogramming plan.

a. Projected Statement of Operation for 1982 and 1983

In the reprogramming of project activities the estimated results of operations for CY 1982 and 1983 show net operating losses for both years, Exhibit 6. Since costs have not been analyzed and a determination made of their variable and fixed nature, an arbitrary division has been made to estimate a break-even point. An attempt to arrive at a breakeven point for 1982 was not possible since computed total variable costs were greater than sales for that year. For 1983, estimated breakeven sales volume is $6.4 million dollars or 2 1/3 times the project's 1983 sales figure. Following the projected growth trend 1982/83, the breakeven point would be reached sometime in 1985.

Reprogramming of Project Funding

1) 1982-1983 Projected Losses from Operations

In CECOMERCA's reprogramming plan the total funds made available from AID Loan 520-T-030 were to be utilized as follows:

Organization costs	$356,870
Technical Assistance	150,000
TOTAL	$506,870

Actually, the organization cost portion of the funding, $356,870 will be utilized to cover the estimated operational losses for CY 1982 ($200,220) and CY 1983 ($156,650).

On the basis of the first 5 months of operations in CY 1982 and the rising trend in operational and administrative costs, losses could be greater than projected for 1982 and 1983. If a surgical cut in costs is not undertaken immediately, coupled with an effective cost control discipline, the losses for both years could be greater by some 15% or $140,000. This additional loss is estimated considering the improvement in the gross margin generated in the first 5 months of operations in 1982 (22% versus 14% gross margin projected for 1982 and 1983).

b. Reprogramming of physical facilities construction

As indicated in Exhibit 7, CECOMERCA plans for construction and acquisition of supporting equipment in 1982-1983 will require funds in excess of $900,000. Yet it should be noted that the volume and value of the marketing activity in the first 5 months of CY 1981 were more than double the comparable period in 1982 ($568,231 vs. $279,420). It appears conceivable that the building of additional facilities as scheduled could be held in check without affecting marketing activity in the short run.

It is suggested that the balance of CY 1982 serve as a retrenchment period permitting CECOMERCA to concentrate on the following courses of action:

1) Have a professional auditing firm perform an audit of the books for the 18 month period ending June 1982. Cost $5,000.

2) Rationalize its cost structure for performing the marketing activity by reducing operating and administrative expenses in line with historical costs (CY 1981) and budgeted figures.

3) Specialize in crops that it has become proficient in marketing and that are contributing a gross margin of 20% or more (garlic, cabbage, cauliflower, and onions).

4) Resolve the problem of paying for the garlic processing line in Patzicia. Through a gross misunderstanding or ignorance of AID's equipment procurement procedure CECOMERCA allowed a Puerto Rican exporter of garlic (Jimenez) to order and purchase garlic processing equipment from Spain. The machinery has been in CECOMERCA's custody and use for months without much hope of reimbursement from AID or from CECOMERCA.

It is recommended that the GOG or the parent Federation be requested by AID as part of the reprogramming, to provide funds to allow CECOMERCA to obtain ownership of the equipment and end the impasse: Cost: $27,000.

Exhibit 5

CECOMERCA

Project Funding and Disbursement Record

as of June 17, 1982

In Thousands $

	AID Loan			GOG Counterpart			GRAND TOTAL	
	Total	Disburs.	Balance	Total	Disburs.	Balance	Disbursed	Balance
First Phase								
Land	---	---	---	$ 400.0	$ 24.0	$ 376.0	6%	94%
Building and Equipment	$2,200.0	$235.2	$1,964.8	---	---	---	11	89
Working Capital	200.0	162.9	37.0	900.0	733.1	166.9	82	18
Production Credit	---	---	---	800.0	---	800.0	0	100
Total 1st. Phase	$2,400.0	$398.1	$2,001.9	$2,100.0	$757.1	$1,342.9	26	74
Second Phase								
Building and Equipment	1,000.0	---	1,000.0	---	---	---	--	100%
Working Capital	---	---	---	400.0	---	400.0	--	100%
Total 2nd. Phase	$1,000.0	---	$1,000.0	$ 400.0	---	$ 400.0	--	100%
TOTAL Funding and Disbursement	$3,400.0	$398.1	$3,001.9	$2,500.0	$757.1	$1,743.9	--	---
Percentage	100%	12%	88%	100%	30%	70%	20%	20%

Source: BANDESA

Exhibit 6

CECOMERCA
Projected Statement of Operations
CY Years 1982 and 1983
(In Thousands of Dollars)

Description	1982 $	1982 %	1983 $	1983 %	TOTAL $	TOTAL %
Sales	1,582.3	100	2,715.1	100	4,297.4	100
Cost of Sales	1,361.9	86	2,344.0	86	3,705.9	86
GROSS MARGIN	220.4	14	371.1	14	591.5	14
Cost of Operations:						
Procurement	127.2	8	143.1	6	270.3	6
Sales	109.7	7	115.3	4	225.0	5
Depreciation	29.8	2	83.8	3	113.6	3
TOTAL	266.7	17	34 .2	13	608.9	14
Administration Expenses:						
Administration	112.3	7	118.0	4	230.3	5
Interest Expense	41.6	3	69.6	3	109.2	3
TOTAL	153.9	10	185.6	7	339.5	8
TOTAL All Costs and Expenses	420.6	27	527.8	20	948.4	22
Net Margin (Loss)	($200.2)	(13)	($156.6)	(6)	($356.9)	(8)

	COSTS Variable	COSTS Fixed	SALES
Cost of Good sold	2,343,962		
Selling Expenses	115,298		
Procurement Costs	143,083		
Administration Expenses		118,051	
Financial Expense		67,591	
Depreciation		83,775	
Total Variable Cost	2,602,343		
Total Fixed Costs		269,417	
Total Sales			2,715,110

B/E Computation:

$$B/E = \frac{FC}{1-\frac{VC}{SALES}} = \frac{269,417}{1-\frac{2,602,343}{2,715,110}} = \frac{269,417}{.042} = \quad B/E = \$6,414,690$$

Exhibit 7

C. Construction of Physical Facilities

The reprogramming of building facilities as projected by CECOMERCA follows: (In Thousands of Dollars)

Description	1982	1983	1984 and Beyond
Huehuetenango - Buying Station	100.0	---	---
Quetzaltenango - Buying Station	---	250.0	---
Guatemala - Offices Refrigeration/o	20.0	100.0	330.0
Patzicia - Refrigeration/Packing line	80.0	---	---
Equipment	110.0	75.0	---
Vehicles	30.0	50.0	---
Offices	---	25.0	25.0
Communication System	---	30.0	---
Design and Supervision	---	63.0	39.0
Others	---	---	274.0
TOTAL	340.0	593.0	668.0

6. Short Term Observational and Work Training

A total of $60,000 should be reserved for use in 1982 and 1983 to provide total funding for up to 10 person-months of short-term observational training for CECOMERCA personnel. These funds will be used to defray the cost of sending selected administrative or technical personnel of the cooperative on location to study and receive informal training in very subject-specific activities which will help them improve the operational efficiency of CECOMERCA upon their return. The funds will be used to defray the costs of international travel, lodging and subsistence, local transportation, study materials supplies, etc.

Rationale:

Although the funds being reprogrammed above include significant amounts to provide technical assistance on a substaining basis for administration and technical people in CECOMERCA, there will be specialized training needs that cannot be provided for the CECOMERCA personnel in Guatemala. Therefore, funds must be reserved which permit this type of observational training to be conducted for the cooperative personnel on location outside of Guatemala.

Each observational training program must be closely tailored to the needs of the individual recipient so as to make that person more effective in his work at CECOMERCA upon return. Some examples of the types of observational training trips, by way of illustration only, that this funding could provide are presented below.

They are not necessarily the ones to be selected, nor are they complete as to content.

a. How Cooperative Managers Use Financial Documents as planning and Control Instruments.

1) The General Manager travels abroad to work with successful produce marketing cooperative managers in two different organizations for two weeks each. He studies each cooperative's particular set of financial statements (profit and loss, inventory and inventory control, sales and revenue journals, cost control journals, balance sheets, etc.) and observes how managers use them for planning business activities, and for other business decision making purposes.

b. Packing Vegetables to meet USDA Grade Standards.

1) The packing house operations manager spends one week in each of two packing sheds in the U. S. where he is taught by a USDA grade inspector the basic standards and observes fresh produce being packed and repacked to acceptable market grades.

c. Improving Produce Handling to Reduce Breakage, Bruising and Damage.

1) The Transportation Foreman is sent to Costa Rica to observe the use of new types and sizes of cardboard shipping containers used by fruit and vegetable cooperatives. He spends one week studying their packing and handling techniques and how they have significantly reduced losses due to damaged merchandise in the past two years.

7. FENACOAC, FECOAR, CECOMERCA Relationship.

The two cooperative federations have, early in the organization of CECOMERCA, provided $99,000 ($45,000 each) of equity capital for the marketing entity. They are pledged to provide a total of $150,000. Thus each federation is still to provide $30,000 of equity capital to CECOMERCA. The General Manager of CECOMERCA has requested these additional funds through CECOMERCA's Board of Directors, but the federations have not provided it as of this date. The federations managers have indicated that their present financial conditions preclude providing these funds to the cooperative at this time.

The consultants feel that USAID/Guatemala should make a strong effort to have the federations provide this final equity capital subscription to CECOMERCA as soon as possible for two reasons.

a. CECOMERCA badly needs the funding to provide it with working capital to assist it meet its operational needs in a timely manner.

b. It will serve as one indicator of the seriousness with which the individual federations are willing to support CECOMERCA at this crucial financial cross road in its history.

Rationale:

The earlier discussions of specific CECOMERCA financial and operational problems are self-explanatory and do not need further amplification here. There is, however, a serious concern on the part of the consultants that the federations and their local cooperatives have not united behind the marketing organization to help it grow and accomplish its objectives. The original intent of the project was to have the local cooperatives of each federation who had members producing the temperate fruits and vegetables to be marketed by CECOMERCA urge and facilitate these members to join it and to pay Q10 for an ownership share each. Evidence that this has not happened is the membership subscribed equity balance of Q175.00. The original project paper anticipated that Q50,000 would be paid in by the present date (from 5,000 members), and another Q50,000 by the end of phase 2, or a total of 10,000 member-owner-users.

USAID/G needs to seriously examine why this support for CECOMERCA has not come from the two federations and their local cooperatives. The original intent and objective was correct in that the project plan anticipated the use of membership subscribed equity shares as a means of recruiting new farmer members for both CECOMERCA and the local cooperatives affiliated with either FENACOAC or FECOAR.

"Members will be eligible to receive patronage dividends paid from the profits of the Association (CECOMERCA) based on the value of produce sold to the Association. Non-members, i.e. farmers who are not currently members of participating cooperatives, will be free to sell to the Association on the same basis as members except that a service charge (anticipated at 1% of sales price) will be levied. Since non-members will not be eligible to purchase shares, they will not receive patronage dividends. The differentiation between members and non-members should stimulate growth in cooperative membership... at the same time, the system permits participation by non-members thereby expanding the number of target group farmers who could benefit from the project as well as ensuring higher volumes."1/

It is a mystery why the federations and their local cooperatives have not joined forces to vigorously promote CECOMERCA membership and activity for the benefit of all. It could be a fear by local cooperatives affiliated with one federation or the other that there will be a shift in membership because of CECOMERCA affiliation and growth in a given production zone. There are other possible explanations USAID/G must determine why this has happened and find a way to correct it. CECOMERCA's organizational integrity, growth and financial health are all suffering because of the present impasse.

Finally, if in USAID/G's opinion the two federations and their local cooperatives will not participate in a vigorous CECOMERCA organizational and development effort, or if one withholds support, the ownership directorship arrangements will have to be altered for the benefit of CECOMERCA's long run financial health and success.

1/ Guatemala Small Farmer Marketing Project Paper 520-0238 dated July 21, 1977, page 36.