

COOPERATIVE DEVELOPMENT SERVICES

FINAL PROJECT REPORT

Cooperative Development Service Project

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## I. INTRODUCTION

The agricultural cooperative movement in Honduras can best be characterized as weak, due partly to the practices used in its development. Cooperatives in Honduras have generally been supported by government institutions to provide farm supply, credit and marketing services to their members. Few of these cooperative organizations have fulfilled successfully their potential and even fewer operate in a self-sufficient, independent manner.

The most notable agricultural cooperative failures have come out of the agrarian reform sector. The reasons for these failures and the obstacles hindering their development may be summarized as follows:

1. A weak internal financial structure
2. Inadequate administrative and farm management
3. High levels of credit delinquency and default
4. Low capital investment from membership
5. Lack of basic marketing infrastructure and outlets for selling members' production
6. Poor credit portfolio management
7. Limited membership and lack of cooperative leaders
8. Lack of an adequate institutional development effort by the promoters
9. Lack of cooperative education and training
10. Political interference
11. Unprofitable crops
12. Poor land and lack of farm infrastructure
13. Lack of group loyalty

One of the main objectives of the Cooperative Development Services project implemented by Agricultural Cooperative Development International (ACDI) under the sponsorship of the Government of Honduras and USAID/Honduras, was to address these problems and prove that a viable agricultural service cooperative could function effectively in Honduras and provide services that would directly and indirectly improve the standard of living for the Honduran rural poor. These objectives have not all been achieved but we feel that the importance and convenience of the regional cooperative "model" concept have been proven and foundations laid for future development.

## II. PROJECT BACKGROUND

Honduras is one of the least developed countries in the western hemisphere and, like most developing countries, its economy is largely dependent upon the growth and development of its agricultural sector. Small individual and agrarian reform

farmers constitute nearly all of the two thirds of the Honduran work force located in rural areas. The majority are illiterate subsistence farmers with limited financial resources and high indebtedness that forces them to deliver their harvest to their creditors at very low prices. Their principal crops are basic grains such as corn, beans and rice.

In order to increase small farmer productivity and income, the Government of Honduras and USAID/Honduras agreed to provide financial, marketing and technical assistance to farmers through the development of a regional cooperative model.

The original project design contemplated the creation of eight model regional cooperatives throughout Honduras, with the National Directorate for Cooperative Development (DIFOCOOP) serving as the GOH implementing agency. This design mentioned the desirability of creating regional cooperatives in both the traditional and the agrarian reform sectors.

In September 1980, the GOH proposed a reprogramming of the "model regional cooperative activity" based on an earlier DIFOCOOP proposal. The proposal included "a reduction in the number of model regional cooperatives to be created, from eight to four, and adoption of a policy opening up membership in these cooperatives to all farmers in a given geographic region regardless of whether the farmer is a land reform recipient or affiliated with any specific farmer organization."

After this reprogramming and through competitive bidding, ACIDI was contracted by USAID/Honduras in May 1981, to provide the technical assistance in the creation of the first two model regional cooperatives under the "Service Cooperative Activity of the Agricultural Sector II Program."

Two ACIDI principal advisers began work in June 1981. The team prepared an AID-approved work plan, contracted for, organized and equipped the central office and established administrative policies and procedures. Local office and field staff were selected and trained and the team carried out area selection and feasibility studies.

During the winter of 1981-82, project staff focused on recruiting members, encouraging development of start-up committees and establishing the first two regional cooperatives to support spring planting operations. Both cooperatives were located in valleys in northwestern Honduras, "Maya Occidental" in La Entrada to the southwest of San Pedro Sula, and "20 de Marzo" in Morazan to the east of that city. The elected boards of directors appointed managers and field men, approved work, budget and capitalization plans and signed agreements for operating cost support. Charters were formalized later in

ceremonies attended by government and AID dignitaries. Both cooperatives were identified mainly with the production of basic grains such as corn, beans and rice.

By the end of the second year of operations, USAID and DIFOCOOP agreed on an extension and expansion of the project to include a third ACIDI adviser. He was to work as a management and cooperative consultant to several cooperatives founded by ANACH, the major peasant association in Honduras. Due to problems encountered in providing technical assistance to these cooperatives, DIFOCOOP and USAID decided instead to include this technician in the model cooperative project team and to switch the emphasis from basic grain cooperatives to fruit and vegetable marketing cooperatives and the exporting of perishables to the U.S. winter market.

By mid-1983 and with the approval of DIFOCOOP and USAID/Honduras, project staff began reorganizing the CREHSUL cooperative and organizing the Fruta del Sol cooperative, whose members produce high value cash crops (melons and cucumbers) for export.

CREHSUL, located in the Choluteca region of southern Honduras, was formed in 1978 to promote the production and export of melons. When reorganization began, services to members were limited to: negotiating export melon prices with PATSA (a United Fruit subsidiary which operated the CREHSUL packing facility); selling unexportable melons on the local market and providing a loan guarantee for members seeking credit. Reorganization of CREHSUL would permit it to expand services for the eventual operation of the packing facility and to attain financial independence.

Fruta del Sol was organized in July 1983 following the same pattern established for the promotion and organization of Maya Occidental and 20 de Marzo cooperatives. Most members were recruited from the cucumber pilot project sponsored by the GOH and USAID/Honduras to develop, with technical assistance from the Standard Fruit Company, different varieties, and to construct and operate a washing, waxing, and packing facility with a view to entering U.S. winter markets. When the Standard Fruit contract ended, ACIDI was asked by both USAID and the producers to help organize the cooperative business to take over the packing, marketing and other aspects of the project.

The inclusion of these two export enterprises required considerable adjustments in the type of assistance provided by ACIDI. The ACIDI team lacked fruit and vegetable marketing expertise because export activities had not been envisioned as part of the project. Later, as it became evident that sufficient funds were not available in the technical assistance

project to continue providing three technicians until May, 1988, the estimated start-up date for a new AID funded cooperative project, one of the three ACDI technicians was dropped from the contract in December 1984 and a no-cost extension was approved thru June 30, 1985. During this six month period, the four model cooperatives were integrated into a second-level organization - Union de Cooperativas Regionales de Servicios Agropecuarios (UNIOCOOP). Organized on May 27, 1985, UNIOCOOP will provide continued assistance to its four cooperatives and to other cooperatives affiliating in the future.

### III. PROJECT PURPOSE

The project purpose could be summarized as follows: "to demonstrate, on a pilot basis, the feasibility of creating multi-community, multi-service cooperatives which have sufficient capital and access to resources and managerial talent to provide services efficiently to a significant number of farmers." Eventually, the model concept could serve as an example for other Honduran agricultural cooperatives.

### IV. OPERATING PRINCIPLES

To achieve the project purpose, operating principles were established early and followed throughout the life of the project. These principles are:

#### 1. Open Membership:

Membership in project cooperatives would be open to all working farmers in the cooperatives' service area, regardless of their political affiliation and form of land tenure. This is important, not only in complying with the democratic principles under which cooperatives must function, but also in generating sufficient membership to allow for economies of scale in purchasing and marketing activities. Large membership also increases a cooperative's capital base, thus improving the quality and diversity of the organization's services.

#### 2. Economic Viability:

A viable economic enterprise represents the base of nearly all successful cooperative experience. Before any model cooperatives were started, they underwent two basic, pre-established procedures:

- a. A "sounding out" (husmeo) exercise to establish the needs of potential members and their views about

constraints preventing increased production and income. The "husmeo" was undertaken in pre-selected areas with strong agricultural potential and an existing base of small farmers who could use effectively the services a cooperative might provide.

- b. If the outcome of the "sounding out" exercise was favorable, it was followed by an economic feasibility study to establish the potential of the business and estimate, in quantitative terms, the volume of business the cooperative would need over three to five years to become viable. In making these projections, the self-sufficiency of the cooperative at the end of the period remained the principal objective.

### 3. Internal Capital Resources:

A good and continuous flow of internal capital resources is needed to make a cooperative successful. It provides the financial soundness of a business enterprise and is a key element in obtaining external financial resources.

Model cooperatives comply with this principle through a permanent and systematic capitalization policy based on its credit service to members.

### 4. Professional Management:

Cooperatives, like any other business, require capable management for their development and sustained growth in order to provide high quality services to their customers (members), to meet competition and to produce positive operating results. Professional management was the most important factor considered for achieving success and a significant effort was put forth to recruit and train qualified managers, administrative and field staff as well as to train elected members of the boards of directors.

### 5. Service Package

Successful cooperatives furnish efficient and effective services which members need, want and are willing to pay for without reservations. The basic services provided by the models have met and continue to meet these criteria.

### 6. Delinquency Control

Production credit is the most important service provided by model cooperatives and default control is imperative. The models adhere to strict credit administration without jeopardizing the efficiency of the service.

7. Competitive Prices

Cooperative business enterprises should cover operating costs and produce profit margins necessary to capitalize the business and return any savings to members. Model cooperatives practice this principle with the full understanding of their member-clients and their prices are competitive in their respective markets.

8. Institutional Building

Institution-building is essential to cooperative success and to be successful depends on the degree to which people are involved in the development process so that they can identify their own well-being with the organization they are helping to build. The organization and operational structure of the models assures full participation of their members in the development process.

9. Cooperative Education and Training

Continuous and effective education and training activities are of paramount importance to the progress and development of any successful business undertaking, and cooperatives are no exception. This principle was practiced throughout the life of the project.

10. Operating Subsidies

Subsidies provided to the models to cover losses during the early years of operation and to buy the necessary equipment carried the condition: "No patronage refunds will be paid to members until the cooperative has built up reserves equal to the amount of the subsidy."

11. Fidelity Bonding

The employees responsible for the handling of cash would be covered by a fidelity bond paid by the cooperative to safeguard it.

V. ACTIONS TO ACHIEVE PROJECT PURPOSE

Project implementation demanded a lot of time-consuming actions and periodic readjustments in the operational strategy in order to establish the good base required by the models and continue a dynamic process of consolidation and expansion. Among those time-consuming actions and the following:

1. Organize central office operations
2. Plan, organize and practice the "sounding out" exercise and feasibility study of each model.

3. Select, train, persuade and discipline local staff in the project's strategy and course of action to achieve desired success.
4. Design, implement, evaluate and continue a systematic revision of the accounting system, administrative policies, procedures, and internal controls and, finally, train the administrative staff in their application.
5. Provide continuous on-the-job training of board and committee members as well as administrative staff in their functions and responsibilities.
6. Organize and carry out meetings, seminars and work-shops covering cooperative principles, business practices and self-evaluations of the project's development and ACIDI's performance with participation by model board members, managers, administrative and field staff and ACIDI technicians.
7. Establish, renew and practice membership promotion and selection procedures to screen out opportunists and persons with bad records at other credit institutions.
8. Instill in area farmers a vision of how the cooperative benefit them.
9. Develop sufficient group loyalty and discipline among members so they will invest in the enterprise and support its activities regardless of momentarily more attractive competing opportunities.
10. Convince members that cooperative business operations should be carried out on a profitable basis which requires managerial ability.
11. Establish and keep close relationships with suppliers and marketing and financing institutions with business interests in the models.
12. Develop and keep updating an effective, efficient and tailor-made service package that members consider attractive, are willing to pay for and retains their loyalty.
13. Emphasize the importance of members' paid-in capital and patronage of their cooperative in obtaining the economies of scale required to become self-sufficient and reduce their production costs.
14. Select and train capable, competent, visionary, aggressive and honest managers and staff who understand the dual concept

of member/client/ owner and who adhere to generally accepted administrative principles.

15. Organize, convince and train farmers to participate in the decision-making of their business enterprise.
16. Convince farmers to accept the risks involved in applying new production techniques.
17. Design, implement and keep updating business policies and operating procedures.
18. Encourage and sponsor production diversification strategies and look for market outlets.
19. Adjust project design to new developments or needs and exploit opportunities not identified during the planning phase but discovered in the course of work.
20. Orient cooperatives to respond to the demands of members and to business opportunities and still maintain standards of management and economic viability.
21. Confer continuously and hold meetings with AFILD and ANACH representatives on ANACH's cooperative plan and agree on a strategy to implement ACDI's plan that does not interfere with theirs.

Despite the time-consuming actions and other operational and financial problems model cooperatives have faced, they are established with the acceptance and support of farmer-members and with the recognition of the Honduran government and USAID/Honduras.

Yet, there is a long way to go. What has been accomplished should be considered the first phase in the models' development process. The second will be the consolidation of the concept and the third, their full development.

## VI. PROJECT ACCOMPLISHMENTS

A. This section presents the indicators which identify and support the project's achievements since its inception. The accomplishments themselves are documented in an evaluation report by Development Associates, Inc., prepared at the request of USAID/ Honduras in early 1985, and in quarterly reports submitted by ACDI/Honduras during the project.

### 1. Multi-Community Organization

The Grupo Local de Asociados (GLA) represents the model cooperative grassroots organization. Each GLA includes one or more "caserios" or "aldeas" which are closely tied communities. The GLA is the main force of a member's participation in the decision-making. Each GLA has its own board of directors and meets at least once a month for administrative or agricultural technical sessions. The GLA has proven to be a practical training ground for farmers as well as a source of leadership.

Each GLA has its own responsibilities. The following are the most practiced and important.

- o Promoting and recommending new members.
- o Preparing, with the cooperative extensionist assigned to the GLA, the annual investment plan the group will follow for each crop cycle.
- o Providing the social pressure needed for a member's loan recovery.
- o Promoting and organizing, with assistance from the cooperative extensionist, all cooperative and agricultural technical activities.
- o Recommending and forwarding member loan applications to the cooperative.

The presidents of each GLA also participate as members of a consulting committee to the cooperative. This committee meets quarterly with the board of directors of the cooperative and its manager to discuss problems of mutual concern and to analyze the conduct of cooperative business. These meetings serve as an important two-way communication channel between cooperative management, members and the board of directors.

The following table presents the number of GLAs belonging to each model and their membership as of April 1985.

Cooperative	No. of GLAs	Total Membership
20 de Marzo	21	720
Maya Occidental	25	650
Fruta del Sol	8	250
CREHSUL	4	120
<b>TOTALS</b>	<b>58</b>	<b>1,740</b>

## 2. Multi-Services

It was mentioned that cooperative success depends on how well it provides a service package which members need, want and are willing to pay for without reservations and prices of which are competitive in the marketplace. The models continue to improve their effectiveness and efficient in the delivery of their service packages. These services are:

SERVICES	20 DE MARZO	MAYA OCCIDENTAL	FRUTA DEL SOL	CREHSUL
Production credit	x	x	x	x
Agricultural	x	x	x	x
Land preparation (contract)	x	x	x	x
Extension	x	x	x	x
Crop experimentation	x	x	x	x
Soil sampling	x	x	x	x
Threshing	x	x		
Product class. and packing			x	x
Marketing		x 1	x 2	x 3
Cooperative ed. and training	x	x	x	x

1) coffee;      2) cucumbers & melons;      3) melons & watermelons.

During this coming crop season , 1985-86, 20 de Marzo and Maya Occidental cooperatives will begin storing, grading, drying and marketing basic grains. Under consideration are the pre-processing of cayenne and other chilis and a rice milling operation.

3. Capital Resource

a. Internal Resources

Each model cooperative operates with a strict capitalization policy. Any farmer requesting a production credit loan must have a paid-in capital account in the cooperative equal to 10 or 20 percent of the requested amount. In addition, he is required to increase his paid-in capital by 10 percent of the amount of his loan at the time the loan is paid off.

By requiring a paid-in capital base as a measurement of credit eligibility, the model cooperatives establish a degree of self-help commitment to form its capital base. This discipline has also helped in the process of "sorting out" members.

While the capitalization policies established by model cooperatives are strict, they have not barred members' access to credit. On the contrary, it has been demonstrated that small farmers have sufficient liquidity for the investment required to join the cooperative. The policies may restrict the amount a member may borrow initially but they assure long-term stable growth of both the cooperative and its members who would not ordinarily have saved to this degree. By the same same token, the increase in paid-in capital represents more credit margin for a member. Adhering to established policies also places the burden of capitalizing cooperatives on those using most of its credit services.

The following table presents the paid-in capital accumulated during the life of each model cooperative, as of April 30, 1985.

COOPERATIVE	PAID IN CAPITAL (Lempiras)
20 de Marzo	L.183,603.39
Maya Occidental	170,086.09
Fruta del Sol	302,381.20
CREHSUL	194,821.97
TOTAL	L.850,892.65

b. External Resources

Cooperatives, like any business, require loan capital resources to expand operations and make productive investments. The Banco Nacional de Desarrollo Agrícola, (PANADESA), the official agricultural bank in Honduras has been the only source of external financing the models have had access to. The funds provided by the

government of Honduras for the cooperative activity originated with USAID/H as part of Agricultural Sector II Program.

BANADESA's limited resources have restricted the models to production credit only. The models have had no access to medium- and long-term financing which is badly needed to establish the basic infrastructure required to improve services to members.

Without loan capital inputs, the model cooperatives would not be operating. BANADESA is a political instrument and, in many cases, loan applications are approved or rejected based on how much social or political pressure the applicant could apply instead of through sound credit analysis techniques.

The model managers are aware of the importance of establishing financial relationships with private banks. Fruta del Sol and CREHSUL have initiated such relationships by opening checking accounts, time deposits and also letters of credit for their import operations with private banks. During the 1984-1985 agricultural season, the four models used the following line of credit from BANADESA:

COOPERATIVES	LINE OF CREDIT (LEMPIRAS)
20 de Marzo	1,000.000
Maya Occidental	1,000.000
CREHSUL	2,750.000
Fruta del Sol	2,250.000

#### 4. Professional Management

Each of the four model cooperatives runs its business operations with a selected locally professional staff whenever possible. Primitive living and educational facilities in the towns where the models are located are serious constraints to attracting highly qualified persons, even if the cooperatives could pay top wages for their services. The present cooperative staffs are composed of primarily young professionals who are willing to undertake the challenges of being managers in growing businesses and who can improve their knowledge as the business grows.

At present, the managing staff in each cooperative is as follows:

STAFF	20 de Marzo	Maya Occidental	Fruta del Sol	CREHSUL
Manager	x	x	x	x
Accountant	x	x	x	x
Assistant Accountant	x	x	x	x
Secretary-Cashier	x	x	x	x
Assistant Secretary			x	
Extensionists	x (3)	x (3)	x(4)	x(4)
Packing Plant Chief			x	
Warehouse Keeper			x	
Watchman	x	x	x	x

Among the policies, procedures and management controls put into practice by the four models, the following are among the most important:

- o a practical accounting system (chart of accounts, general and auxiliary ledgers, ledgers required by law, accounting forms, checking accounts, etc.)
- o filing system
- o annual operating budget
- o annual work plan
- o credit regulations
- o local and international travel regulations
- o petty cash and special operating fund regulations
- o vehicle use and maintenance regulations
- o monthly financial statement preparation procedures
- o monthly board meetings
- o manager's monthly report to the board
- o competitive pricing policy
- o vigilance board periodic reviews
- o quarterly meetings of the consulting committee and management (board of directors and manager)
- o monthly staff meetings
- o perpetual inventories

In addition to the above, the central office's auditor makes periodic operational and administrative reviews at the four cooperatives. The reports are on file and have been very useful in spotting problems and resolving them before they become more serious.

### 5. Self-Sufficiency

December 1986 the projected self-sufficiency date of the four models was based on the following assumptions:

- o That 20 de Marzo and Maya Occidental would have in place for the 1984-85 crop season the basic infrastructure required to become competitive in marketing basic grains and other minor crops and to increase their membership and volume of operations. Unfortunately, their storage facilities, drying equipment, electric plant and other complimentary resources will not be ready until the 1985-86 crop season but they do expect to be nearly self-sufficient by the target date.
- o That CRESHUL and Fruta del Sol would have a normal 1984-85 operating year. Fruta del Sol and CREHSUL had a good crop year but disastrous marketing results. They now will need from three to five good business years to achieve self-sufficiency.

## 6. Other Important Achievements

### a. Excellent working relations were kept with:

- \* DIFOCOOP
- \* USAID/Honduras
- \* BANADESA
- \* Peace Corps
- \* Local suppliers
- \* IHMA - Programa Centros Rurales
- \* Private banks
- \* Kansas State University advisory team
- \* Mejores Alimentos tomato processing plant
- \* Centro de Desarrollo Industrial (CDI)
- \* Fundacion Panamericana para el Desarrollo
- \* FEPROEXAH
- \* Other GOH institutions

- b. Income was provided to unemployed workers (men, women and children) through paid labor. Local machinery owners were contracted for soil preparation, threshing, etc.
- c. Savings practices were stimulated through the credit capitalization policy.
- d. Credit services were expedited through a "line of credit system" with BANADESA and members.
- e. Basic food production was expanded.
- f. Importation of "divisas" by the exporting operation of cucumbers and melons.
- g. "Model" cooperatives continued receiving support from GOH and USAID/H despite the disastrous marketing year suffered by CREHSUL and Fruta del Sol.

- n. Independent and agrarian reform farmers were integrated in the same organization and representatives of both sectors were elected to the board of directors.
- i. Small farmers were instructed in the importance of businesslike operations versus paternalistic ones.
- j. Additional labor and land were incorporated into production activities.
- k. Additional agricultural inputs were provided for increased production and farmers learned new production techniques.
- l. Experimental plots were planted with the technical assistance of the Fundacion Hondurena de Investigacion Agricola (FHIA) to test for adaptability of new varieties of vegetables for both local and export markets--acorn squash, pickles and watermelon for export and soybeans, tomatoes and cabbage for the local market.
- m. Basic grain crop areas were replanted with chili peppers which were processed into mash for export.
- n. In cooperation with the FHIA, the cooperatives established a systematic method of soil sampling and a seed corn production program will be started in coordination with the KSU team.
- o. Mini-irrigation projects were begun by Maya Occidental and 20 de Marzo with technical assistance from a Peace Corps Volunteer and GOH technicians.
- p. Successful drip-irrigation experiments were performed in mixed melon plantings.
- q. Observation trips were made to farms in California and Florida to learn modern production and packing practices and attend export marketing and produce-related seminars.
- r. Contacts were made and small quantities of corn sold to private companies such as feed manufacturers and pork producers. These activities are expected to become more beneficial once the storage and drying facilities are available.

- s. In addition to the day-to-day technical assistance and on-the-job training given to directors, cooperative staff and active members, the following educational and training sessions were developed during the life of the project:

Activities	No.	Participants
Agricultural training sessions	56	871
Cooperative education seminars	99	920
National "Encuentros" with board of directors and cooperative staff	3	82
	158	1,873

Model cooperatives may well become the delivery system for other non-economic services identified with the small farmer target group. The models are in strategic locations and could serve as training centers. The multi-service cooperatives are capable of fulfilling greater needs and have a better chance for success than single-service cooperatives as more members express their preference for a variety of services from a single source. Furthermore, the adopted system of capitalization will serve as a guarantee for future external capital requirements.

#### 7. Impact

From the Development Associates, Inc. project evaluation, March 19 to April 14, 1985, we quote the following findings related to project purpose and impact:

- a. Management Capacity:  
 "Sound, effective, organizational structures, policies, procedures and management systems have been installed in all four cooperatives.
- b. Technical Services Provided:  
 "...the quantity and quality of services provided to the member are generally adequate.
- c. Social Impact  
 " Typical target group farmers for AID-financed projects were more common among land reform groups which were members of the export cooperatives and among minifundista members of basic grain cooperatives.

Agricultural activities funded by the cooperatives provide the needed cash flow to allow land reform beneficiary to continue cultivating the land collectively and keep operating.

As a result of services provided by the cooperative, minifundista farmers producing basic grains were able to increase productivity by approximately 65% percent. This increase implies a comparable increase in farm income.

Those basic grain producers who were able both to introduce some technology into the area devoted to basic grains and to begin cultivating export crops realized up to a 400 percent increase in income from the area devoted to annual crops.

Using cash received from cultivating melons, and proceeds advanced by the cooperative, medium-size farmers paid off old debts in order to continue operating.

Cooperatives, particularly those serving basic grain areas, were able to partially fill a vacuum in agricultural services. They provided funding for agriculture which normally was inaccessible minifundista farmers or small farmers in the regions considered.

This funding, coupled with technical assistance, allowed these farmers to increase productivity and begin understanding the basic financial principles of farm management.

In some areas local groups organized by the cooperatives (GLA) stimulated the development of local leadership and participation in community development projects.

Earnings received from agricultural activities financed by the cooperatives have permitted farmers to: (a) pay past due debts; (b) buy farm implements and partially improve their farms and (c) purchase household goods and appliances.

Overall, the model cooperatives have had a positive socio-economic impact on cooperative members."

## VII. PROBLEMS AND ACTIONS TAKEN

Any development project encounters problems during its implementation process. The more significant ones are briefly stated here to illustrate some of the constraints the team encountered during project implementation.

### 1. Change of Managers

The manager of 20 de Marzo was replaced after two years of good performance. He had lost his aggressiveness and failed in the leadership required to implement and direct future activities. The Maya Occidental manager also was replaced because of poor performance.

### 2. Professional Resources Limitations

The cooperatives suffered from lack of experienced local professionals to fill administrative positions. As a result, there was a considerable personnel turnover during the life of the project. In 20 de Marzo two accountants, three assistant accountants and one extensionist resigned or were replaced. In Maya Occidental two extensionists were replaced by the new manager.

### 3. Relations with the "Reform Sector"

The two basic-grain cooperatives, 20 de Marzo and Maya Occidental, have experienced problems with zealous reform sector promoters who engaged in malicious propaganda against the models. Most of these problems were of the "mud-slinging" variety. Members of the model cooperatives who belong to that sector were threatened with the story that their land would be taken away if they stayed with the model cooperatives. Some farmers were told not to pay their outstanding loans with the models. Due to of political implications, it is likely these problems will continue to cause "unrest in membership of the models. It was decided to intensify the member promotion campaign in the independent sector and curtail campaigning in the reform sector.

### 4. Marketing

The two basic-grain cooperatives have had serious problems in marketing members' production. Reasons are the lack of a marketing infrastructure and the inefficiency of the Instituto Hondureño de Mercadeo Agrícola (IHMA). This situation caused an increase in the delinquency rate, higher administration and financing costs and uncertainty in planning production credit.

It is expected that with the technical assistance provided by the Kansas State team, warehouse construction and purchase of grain shellers and dryers, some of these grain marketing problems can be solved.

The other two model cooperatives experienced a disastrous marketing year in their melon and cucumber exporting business. They can be considered financially insolvent. Refinancing of their debt with BANADESA for a five-year period is underway with good possibilities of it being approved. A generous input of external capital will be needed by both organizations to put them in a satisfactory financial position. The AID mission is working on a new project which would include such financing. A series of factors contributing to the losses includes:

- \* disease damage to cucumbers
- \* high packing costs at CREHSUL
- \* poor market conditions for both products
- \* poor communication from brokers to management about market conditions
- \* shortage of containers
- \* change in shipping schedules by transport companies

The following actions are being considered to alleviate these problems:

- \* sign an agreement with the shipping companies with contractual guarantees for containers and frequency of services
- \* improve channels of communication and information systems at all levels.
- \* install a pre-cooling system at Fruta del Sol (CREHSUL has one already)
- \* Employ and train a packing operation manager for CREHSUL before the season starts.
- \* Contact an experienced consultant to assist management during the operating season with packing and marketing.

##### 5. Extension Services:

Although the extension services provided by the models is considered good, they need constant upgrading. As membership grows, so does the number of farmers per extensionist. In order to maintain and improve the effectiveness of the services and intensify the systematic transfer of technology, methodologies will have to be improved.

To resolve this potential problem, the cooperatives will sign an agreement with the Honduran Agricultural research Foundation (FHIA) to provide agricultural technical assistance. In addition, the Regional Union of Agricultural Service Cooperatives (UNIOCOOP) will render short-term

technical assistance to the models to strengthen this aspect of their service capability.

6. Volume of Operations

The cooperatives need to increase their volume of operations to cover necessary ssary fixed costs and generate a profit.

In 20 de Marzo the potential exists for that increase and with little competition. With the rice-mill operation starting soon and marketing facilities installed and in operation for the next marketing season, there is no doubt that a good increase in business volume will occur.

Although Maya Occidental cooperative has good potential to increase its volume of operations, it faces considerable competition in the sale of agricultural products. Still, with the projected marketing facilities ready, the feasibility of operating a rice-mill, the increase in production and processing of cayenne and other chilis and last year's success in buying and selling coffee through FECOHCAL, the increase in business volume is possible.

7. Single Crop Production

CREHSUL is a vivid example of the risks involved when an agribusiness organization deals with only one product.

The crop diversification program initiated about eighteen months ago in all the models should start paying returns soon. During 1985-86 CREHSUL will be spreading its production risks among different crops: melons, sesame, sorghum, soybeans and upkeep of sugarcane plantations. The rest of the models are on the same track, with the FHIA and short-term technical assistance supporting these diversification activities.

8. Lack of Medium-and Long-Term Loan Capital

The models have faced a lack of medium- and long-term financing to make the investments needed to accelerate and consolidate their development process. Mid- and long-term financing is badly needed by the models to install the infrastructure required for storage, drying, shelling and transport.

This will enable the organizations to:

- \* commit themselves to a marketing operation
- \* compete successfully in the marketplace and complete the production service package to their members
- \* buy and install necessary machinery and equipment to assure expert produce preparation
- \* enlarge physical facilities to improve packing, grading and processing operations.

VIII. FINANCIAL INDICATORS

CREDIT EXPERIENCE  
As of April 30, 1985

(Lempira 2.00 = US\$1.00)

FARMER-MEMBER COOPERATIVE LENDING (ACCUMULATED)	20 DE MARZO	MAYA OCCIDENTAL	FRUTA DEL SOL	CREHSUL	TOTAL
Total credit extended	L 1,578,543	1,191,824	2,543,065	1,315,300	6,628,732
Un-matured amount	-348,030	-331,730	-327,491	29,843	1,037,094
Matured loans	1,230,513	860,094	2,215,574	1,285,457	5,591,638
Amount paid	-1,072,334	-764,528	-856,408	(1)954,452	3,647,722
Delinquent amount	158,179	95,566	1,359,166(2)	331,005	1,943,916
Percent delinquency	13%	11%	61%	26%	35%
Total Credit Received from BANADESA	L 1,667,844	1,495,765	3,159,402	2,699,534	9,022,545
Un-due Amount	-600,622	-440,476	-2,229,687	2,102,806	5,373,591
Amount Due	1,067,222	1,055,289	929,715	596,728	3,648,954
Amount Paid	-1,067,222	-1,055,289	-929,715	-596,728	3,648,954
Delinquent Amount(3)	-0-	-0-	-0-	-0-	-0-
% of Delinquency	-0-	-0-	-0-	-0-	-0-

(1) the fixed price paid by CREHSUL to their members and credited to their outstanding loans.

(2) L 1,210,714 of this amount is owed by members of the cooperative for cucumber production credit and packing costs incurred during 1984-85. The cooperatives have already applied for

five-year refinancing with BANADESA based on the justifications involved and the same procedure will be applied to indebted members. When this refinancing is completed, the delinquent amount will be L 148,452 and the delinquency rate will be only 6%.

(3) The outstanding loan with BANADESA will start becoming due in August, 1985.

MODEL COOPERATIVES  
SUMMARIZED POSITION STATEMENTS  
April 30, 1985

	MAYA OCCIDENTAL	20 DE MARZO	CREHSUL	FRUTA DEL SOL
Current Assets	L 775,090	1,063,665	1,200,279	4,432,390
Current Liabilities	478,859	715,460	2,351,260	4,170,313
Working Capital	287,231	348,205	(1,150,990)	262,077
Fixed Assets	216,727	166,145	506,018	325,631
Total Assets Less Current Liabilities	503,958	514,350	(644,972)	587,708
Less Long-term Debt	-0-	-0-	142,698	-0-
Excess of Assets over Liabilities (Net Worth)	503,957	514,350	(787,670)	587,708
<u>Represented by:</u>				
Paid-in Capital	170,086	183,603	194,822	302,381
Indivisible Net Worth	238,736	248,483	346,659	288,210
Reserves	87,245	74,945	82,462	119,600
Undistributed Profits	7,891	7,319	(1,411,613)	(122,483)
TOTALS	L 503,958	L 514,350	L (787,670)	L 587.708

STRUCTURAL RATIOS April 30, 1985

Current Ratio	1.59	1.49	0.51	1.06
Acid Test	1.42	1.15	0.66	0.30
Capital to Liabilities	1.03	.72	-0-	0.14
Capital to non current assets	2.32	3.09	-0-	1.80

MODEL COOPERATIVES'  
 SUMMARIZED INCOME STATEMENTS  
 FOR THE PERIOD ENDING APRIL 30, 1985

	MAYA OCCIDENTAL	20 DE MARZO	FRUTA DEL SOL	CREHSUL
-----				
INCOME (1)				
Gross Margin on Sales	L 24,130	10,318	53,075	(1,081,620)
Interest and other Incomes	25,600	28,113	111,273	69,390
	-----	-----	-----	-----
Total Income	49,730	38,431	164,349	(1,012,230)
EXPENSES				
Administrative	58,394	45,942	97,216	312,081
Financial and Others	9,315	13,009	60,619	98,474
	-----	-----	-----	-----
Total Expenses	67,709	58,951	157,835	410,555
Net Income	(17,979)	(20,520)	6,514(2)	(1,422,785)
Self-Sufficiency	73% (3)	65% (3)	104%	-0-
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With the exception of CREHSUL whose business year ends on April 30, the rest of the cooperatives close their operations on December 31.

(1) Does not include subsidies.

(2) This result will change to a loss once the cooperative receives final liquidation of its cucumber operation.

(3) This self-sufficiency percentage should increase by the end of the year as projected incomes for threshing, and marketing will be received starting in September.

### FINANCIAL ANALYSIS

The current position of Maya Occidental and 20 de Marzo is considered satisfactory. The current ratios (1.59:1 and 1.49:1 respectively) are below the tentative minimums (2:1) commonly considered normal for any business enterprise. However, since the acid test ratio is above 1:1, there is no reason for concern, especially since delinquency rates in both cooperatives are within the 10 percent range.

CREHSUL is almost insolvent and will need an infusion of additional capital to continue operations.

In the cases of Fruta del Sol and CREHSUL, a refinancing of the short-term loan payable to BANADESA is necessary to alleviate the present financial position until the investment of new capital is made.

With the exception of Maya Occidental, the equity of creditors in the other three cooperatives is above that of the owners. Such investment is in current assets what might represent a favorable position to the creditor but since the paying ability of CREHSUL and Fruta del Sol is so questionable it puts the creditors in a weak position to recover their investments when due.

The case of the 20 de Marzo is not as difficult as the other two. Its current ratio and acid test ratio plus a low delinquency rate makes its paying ability less risky to creditors.

### IX. THE FUTURE

The future of the model cooperatives looks optimistic regardless of the problems they now face. Agricultural business is a very risky one and a bad year can occur at any time. To overcome it, two or three good consecutive years are needed. This is normal for agricultural marketing firms.

The models have established themselves as viable, autonomous, business-like enterprises, which constantly assume more responsibility and have the full support of their members and the potential to become self-sufficient. These facts should encourage their sponsors to continue technical, and financial support in

order to consolidate what has been achieved, so they can become good examples to others and establish themselves as the development mechanism so long awaited by Honduran small farmers. It could be argued that this project is too costly but it should be remembered that cooperative development in developing countries takes time and patience. Often, cooperative development is charged with unrealistic expectations and there are those who become disenchanted when, in their view, cooperatives fall short. It is an error to expect a miracle overnight.

It takes a lot of time and effort to create a climate for change and even more to effect the change.

The models have taken an important step in improving their business operations. They have organized a second-level organization, the UNION DE COOPERATIVAS REGIONALES DE SERVICIOS AGROPECUARIOS. Its business services play an important role in the development and consolidation of the models and include:

1. Providing central purchasing and contracting services for supplies, agricultural inputs, transportation and equipment as well as marketing assistance and broker representation.
2. Serving as a communications center able to offer marketing, technical and financial information.
3. Conducting, or arranging for, periodic audits of the cooperatives.
4. Facilitating actions required for obtaining import/export permits and arranging for all other licenses and documentation.
5. Providing liaison services between cooperatives, the GOH, private institutions and international agencies.
6. Providing or arranging for training and technical assistance activities and
7. Providing financing and/or assuming an equity position with its affiliates to resolve short-term financial problems and to promote their continued development.

If continuing support to the models is approved, we are confident that by the end of 1988 these four regional cooperatives will be providing services to at least 5,000 small farmers with accumulated paid-in capital of L 2.6 Million (US \$1.3 million). Export and local marketing operations will be over L 2.0 million (US \$10 million); irrigated production of rice, melons, cucumbers, tomatoes, soybean and other vegetables will be underway; farmers will be applying new production technology resulting in higher

yields and lower costs; production risks will be distributed among different traditional and non-traditional crops through diversification programs being implemented with FHIA technical assistance; volumes of operations will be at self-sufficient levels; at least two of the four models will be processing some of the members' production; the models will represent the most important source of employment in their service areas and, most importantly, small farmer income will be increased substantially.

For all the aforementioned reasons, it is imperative that this project benefit from additional technical and financial support.

## COOPERATIVA REGIONAL DE SERVICIOS AGROPECUARIOS "CRESHUL" LTDA.

MODEL COOPERATIVEBALANCE SHEET

	1 9 8 4 12/31	1 9 8 5 4/30
<b>ASSETS</b>		
<b><u>CURRENT:</u></b>		
Cash	132,736	237,567
Accounts Receivable-Members	-o-	363,044
Accounts Receivable-Others	114,248	104,450
Inventories	64,847	494,908
Investments	12,202	300
Produce in Transit	-o-	-o-
<b><u>FIXED (Depreciated)</u></b>		
Buildings and land	108,203	134,422
Agricultural Equip. & Veh.	78,325	97,226
Office & Other Equipment	23,096	274,370
Others	1,260	-o-
<b>T O T A L   A S S E T S</b>	<b>L.534,917</b>	<b>L.1,706,287</b>
<b>LIABILITIES</b>		
<b><u>CURRENT:</u></b>		
Accounts Payable	210	218,570
Loans Payable	138,319	2,102,689
Unliquidated Subsidies	15,000	30,000
<b><u>LONG TERM</u></b>		
Loans Payable	167,585	142,698
<b><u>CAPITAL AND RESERVES:</u></b>		
Members Capital	143,182	194,822
Indivisible Reserves	104,698	346,659
Reserves	21,996	82,462
Undistributed Profits	(56,073)	(1,411,613)
<b>T O T A L</b>		
<b>LIABILITIES &amp; CAPITAL</b>	<b>L.534,917</b>	<b>L.1,706,287</b>

## COOPERATIVA REGIONAL DE SERVICIOS AGROPECUARIOS "FRUITA DEL SOL" LTDA.

M O D E L C O O P E R A T I V EBALANCE SHEET

	1 9 8 3 12/31	1 9 8 4 12/31	1 9 8 5 4/30
<b>ASSETS</b>			
<b><u>CURRENT:</u></b>			
Cash	37,396	656,218	664,340
Accounts Receivable-Members	218,100	815,428	1,782,894
Accounts Receivable-Others	112,230	256,387	306,003
Inventories	46,780	250,388	294,493
Investments	-o-	2,335	-o-
Produce in Transit	-o-	163,196	1,384,660
<b><u>FIXED (Depreciated)</u></b>			
Buildings and land	-o-	-o-	-o-
Agricultural Equip. & Veh.	69,342	79,193	76,597
Office & Other Equipment	14,903	195,640	249,034
Others	51,412	-o-	-o-
<b>T O T A L A S S E T S</b>	<b>L.550,163</b>	<b>L.2,418,783</b>	<b>L.4,758,021</b>
<b>LIABILITIES</b>			
<b><u>CURRENT:</u></b>			
Accounts Payable	11,184	377,054	1,793,893
Loans Payable	344,690	1,423,043	2,346,420
Unliquidated Subsidies	30,000	30,000	30,000
<b><u>LONG TERM</u></b>			
Loans Payable	-o-	-o-	-o-
<b><u>CAPITAL AND RESERVES:</u></b>			
Members Capital	78,201	269,305	302,381
Indivisible Reserves	64,765	282,966	288,210
Reserves	28,254	100,244	119,600
Undistributed Profits	(6,931)	(73,829)	(122,483)
<b>T O T A L</b>			
<b>LIABILITIES &amp; CAPITAL</b>	<b>L.550,163</b>	<b>L.2,418,783</b>	<b>L.4,758,021</b>

## COOPERATIVA REGIONAL DE SERVICIOS AGROPECUARIOS "MAYA OCCIDENTAL" LTDA.

MODEL COOPERATIVEBALANCE SHEET

	1 9 8 2 12/31	1 9 8 3 12/31	1 9 8 4 12/31	1 9 8 5 4/30
<b>ASSETS</b>				
<b><u>CURRENT:</u></b>				
Cash	31,167	25,790	173,914	121,173
Accounts Receivable-Members	184,678	260,655	414,634	428,510
Accounts Receivable-Others	28,357	43,239	64,856	140,929
Inventories	5,176	15,774	56,722	83,478
Investments	-o-	-o-	250	1,000
Produce in Transit	-o-	-o-	-o-	-o-
<b><u>FIXED (Depreciated)</u></b>				
Buildings and land	-o-	6,000	6,000	80,860
Agricultural Equip. & Veh.	3,116	50,760	47,212	82,214
Office & Other Equipment	11,472	22,146	31,483	40,073
Others	-o-	-o-	13,580	13,580
<b>T O T A L A S S E T S</b>	<b>L.263,966</b>	<b>L.424,364</b>	<b>L.808,651</b>	<b>L.991,817</b>
<b>LIABILITIES</b>				
<b><u>CURRENT:</u></b>				
Accounts Payable	6,855	7,295	15,750	9,965
Loans Payable	161,763	133,230	219,124	447,894
Unliquidated Subsidies	-o-	30,000	30,000	30,000
<b><u>LONG TERM</u></b>				
Loans Payable	-o-	-o-	-o-	-o-
<b><u>CAPITAL AND RESERVES:</u></b>				
Members Capital	65,255	114,508	161,636	170,086
Indivisible Reserves	11,025	97,200	234,820	238,736
Reserves	2,860	42,131	75,321	87,245
Undistributed Profits	16,208	-o-	-o-	7,891
<b>T O T A L LIABILITIES &amp; CAPITAL</b>	<b>L.263,966</b>	<b>L.424,364</b>	<b>L.808,651</b>	<b>L.991,817</b>

## COOPERATIVA REGIONAL DE SERVICIOS AGROPECUARIOS "20 DE MARZO" LTDA.

MODEL COOPERATIVEBALANCE SHEET

	1 9 8 2 12/31	1 9 8 3 12/31	1 9 8 4 12/31	1 9 8 5 4/30
<b>ASSETS</b>				
<b><u>CURRENT:</u></b>				
Cash	8,830	33,283	211,616	290,851
Accounts Receivable-Members	136,292	228,712	449,185	531,958
Accounts Receivable-Others	18,554	223,625	171,962	104,882
Inventories	8,655	15,900	48,579	135,974
Investments	-o-	-o-	-o-	-o-
Produce in Transit	-o-	-o-	-o-	-o-
<b><u>FIXED (Depreciated)</u></b>				
Buildings and land	-o-	3,000	11,385	41,636
Agricultural Equip. & Veh.	10,648	50,392	57,778	89,349
Office & Other Equipment	1,706	20,312	25,982	35,150
Others	10	10	10	10
<b>T O T A L A S S E T S</b>	<b>L.184,695</b>	<b>L.575,234</b>	<b>L.976,497</b>	<b>L.1,227,010</b>
<b>LIABILITIES</b>				
<b><u>CURRENT:</u></b>				
Accounts Payable	19,650	43,704	35,477	5,058
Loans Payable	88,094	234,498	424,570	680,402
Unliquidated Subsidies	-o-	30,000	30,000	30,000
<b><u>LONG TERM</u></b>				
Loans Payable	-o-	-o-	-o-	-o-
<b><u>CAPITAL AND RESERVES:</u></b>				
Members Capital	43,315	101,376	152,655	183,603
Indivisible Reserves	8,640	110,894	248,488	248,483
Reserves	3,719	54,762	85,307	74,945
Undistributed Profits	21,227	-o-	-o-	7,319
<b>T O T A L</b>				
<b>LIABILITIES &amp; CAPITAL</b>	<b>L.184,695</b>	<b>L.575,234</b>	<b>L.976,497</b>	<b>L.1,229,810</b>

**ANNEX B**

**LIST OF REPORTS AND EVALUATIONS PREPARED AS PART OF PROJECT #522-0150, Service Cooperative Activity, Agricultural Sector II Program, Regional Cooperative Development Project**

During the life of the cooperative development project many reports and documents were submitted to the USAID/Honduras Mission as part of the normal project implementation activities.

A summary of the content of these reports would be too voluminous to include as part of the final report. Below is a listing of the principal reports/studies that can be found in Mission files as well as in ACDI/W project files.

1. "Husmeo" reports related to site selection for locating the first two regional cooperatives in Morazan and La Entrada.
2. Feasibility studies corresponding to the development of the first two regional cooperatives in La Entrada and Morazan. "Estudio de Factibilidad Para La Organizacion de una Cooperativa Regional de Servicios Agricolas - Zona Negrito, Morazan" and "Estudio de Factibilidad Para la Organizacion de una Cooperativa Regional de Servicios Agricolas - Zona de La Entrada."
3. Feasibility studies corresponding to cooperatives in Quimistan La Florida, Comayagua (2 studies, one for the reorganization of the CARCOMAL cooperative and the second for the organization of a cucumber export cooperative) and Gayupe.
4. Feasibility studies for the reorganization of the CREHSUL cooperative and the organization of the FRUTA DEL SOL cooperative in Comayagua. "Estudio de Factibilidad Para La Reorganizacion de la Cooperative de Horticultores Surenos, Ltda" and "Estudio de Factibilidad para la Organizacion de una Cooperativa Regional de Servicios Agricolas en el Valle de Comayagua."
5. Quarterly reports were prepared and submitted to USAID/Honduras as per the following:

9/30/81	Quarterly Report
12/31/81	Quarterly & Semiannual Report
3/31/82	Quarterly Report
6/30/82	Quarterly & Semiannual Report
9/30/82	Quarterly Report

12/31/82	Quarterly & Semiannual Report
3/31/83	Quarterly Report
6/30/83	Quarterly & Semiannual Report
9/30/83	Quarterly Report
12/31/83	Quarterly & Semiannual Report
3/31/84	Quarterly Report
6/30/84	Quarterly & Semiannual Report
9/30/84	Quarterly Report
12/31/84	Quarterly & Semiannual Report
3/31/85	Quarterly Report
8/30/85	Final Report

The reader is encouraged to consult with ACDI and/or the USAID/Honduras Mission if (s)he has additional interest.

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