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AGENCY FOR INTERNATIONAL DEVELOPMENT  
UNITED STATES OF AMERICA A. I. D. MISSION  
TO EL SALVADOR  
C/O AMERICAN EMBASSY,  
SAN SALVADOR, EL SALVADOR, C. A.

August 11, 1988.

Mr. Richard Westlyng  
Director of Financing  
National Cooperative Business  
Association (NCBA)  
1401 New York Avenue  
N.W. Suite 1100  
Washington, D.C. 20005-2160

SUBJECT: Cooperative Agreement  
No. 519-0353-A-00-8455-00

Dear Mr. Westlyng:

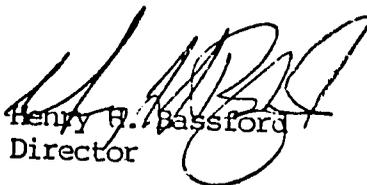
Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby enters into a Cooperative Agreement with the National Cooperative Business Association (hereinafter referred to as "NCBA" or "Grantee"), a registered cooperative development organization, for the sum of \$1,900,000 to provide support for the El Salvador Cooperative Production and Marketing Project, as described in Attachment I, entitled "Schedule", and Attachment II, entitled "Program Description", of this Agreement.

This Cooperative Agreement is effective and obligation is made as of the date of this letter, and shall apply to commitments made by the Grantee in furtherance of program objectives through January 31, 1991.

This Cooperative Agreement is made to NCBA on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment I, entitled the "Schedule," Attachment II, entitled "Program Description," and Attachment III, entitled "Standard Provisions," which have been agreed to by your organization.

Please sign the original and three (3) copies of this letter to acknowledge acceptance of the terms and conditions of this Agreement, and return the original and two (2) copies to USAID/El Salvador.

Sincerely yours,

  
Henry H. Bassford  
Director

Acknowledged by:

Signed:   
~~Richard Westling~~ Richard Westling  
~~Director of Financing~~ Controller  
National Cooperative  
Business Association

Date: 8/16/88

FISCAL DATA

Appropriation : 72-1181021  
Budget Plan Code: LDNA-88-25519-KG13  
Project Number: 519-0353  
Total Estimated Amount: \$1,900,000  
Total Obligated Amount: \$1,900,000  
Funding Source: USAID/El Salvador

Attachments:

1. Attachment I: "The Schedule"
2. Attachment II: "Program Description"
3. Attachment III: "Standard Provisions" for U.S., Non-governmental Grantees  
(June 1987)

SCHEDULE

A. PURPOSE OF AGREEMENT

The purpose of this Cooperative Agreement is to provide support for the National Cooperative Business Association's program in El Salvador designed to strengthen the organizational, administrative and financial condition of approximately 26 cooperatives and expand and improve the linkages of these cooperatives with packers and processors of nontraditional exports, thereby contributing to increased production and export of nontraditional products.

B. PERIOD OF AGREEMENT

1. The effective date of this Cooperative Agreement is the date on which it is signed. The expiration date of this Agreement is January 31, 1991.
2. Funds obligated hereunder are available for program expenditures for the estimated period from the date of this Cooperative Agreement through January 31, 1991, as shown in the Financial Plan below.

C. AMOUNT OF AGREEMENT AND PAYMENTS

1. The total estimated amount of this Agreement for the period shown in Section B.1 above is \$1,900,000.
2. A.I.D. hereby obligates the amount of \$1,900,000 for program expenditures during the period set forth in Section B.2 above.
3. Payment shall be made to the Grantee in accordance with the procedures set forth in optional Standard Provisions entitled "Payment - Letter of Credit (Nov. 1985)" of Attachment III, Standard Provisions for U.S., Non-Governmental Grantees, from A.I.D. Handbook 13, Appendix 4C.

D. A.I.D. INVOLVEMENT

USAID/El Salvador will participate in the activities under this Agreement in the following manner:

1. USAID will review and approve the selection criteria for cooperatives to participate in the program and will assist NCRA in the identification and selection of beneficiary cooperatives.

2. USAID will approve the selection of the NCBA chief of party.
3. USAID will approve the terms of reference of the NCBA sub-contract with Technoserve, Inc., to ensure that the required work does not negatively impact on other USAID-funded programs with Technoserve. In the event that the NCBA sub-contract with Technoserve adversely impacts the performance of the USAID financed Rural Enterprises Project (No. 519-0312) with Technoserve, the USAID may request the termination of the sub-contract and selection of another firm to provide needed technical services.

E. ILLUSTRATIVE FINANCIAL PLAN

1. The Illustrative Financial Plan for the total life of this Project by line item is shown on the following page. Revisions to this Plan shall be made in accordance with the mandatory Standard Provision No. 4 entitled "Revision of Grant Budget (Nov. 85)." Actual expenditures may vary by up to 15% from the line items show below, without prior written approval by A.I.D., provided that the total amount of funds obligated is not exceeded. Any variations in the Agreement budget line items in excess of 15% must be previously approved, in writing, by A.I.D.

F. REPORTING AND EVALUATION

1. Financial Reporting Requirements

The Financial Reporting Requirements are detailed in the attached optional Standard Provision No. 1 entitled "Payment - Letter of Credit (Nov. 85)." The financial reports entitled "Financial Status Report" (SF-269), and "Federal Cash Transaction Report" (SF-272), shall be submitted quarterly to AID/Washington, with copies to the USAID/El Salvador, Rural Development Office (RDO). On a monthly basis, NCBA will send a copy of their Internal Financial Report to RDO, USAID/El Salvador.

ILLUSTRATIVE FINANCIAL PLAN IN US DOLLARS a/

| <u>LINE ITEM</u>                                  | <u>YEAR ONE</u> | <u>YEAR TWO</u>  | <u>YEAR THREE</u> | <u>TOTAL</u>     |
|---|-----------------|------------------|-------------------|------------------|
| 1. Salaries                                       | 106,300         | 129,465          | 62,440            | 298,205          |
| 2. Fringe Benefits                                | 20,560          | 24,208           | 11,660            | 56,428           |
| 3. Consultant Fees                                | 11,110          | 18,900           | 11,910            | 41,920           |
| 4. Travel and Transportation                      | 31,620          | 20,845           | 24,957            | 77,422           |
| 5. Allowances                                     | 60,250          | 65,819           | 35,190            | 161,259          |
| 6. Other Direct Costs<br>(Burdenable)             | 15,320          | 18,549           | 8,710             | 42,579           |
| 7. Overhead <u>b/</u>                             | 90,710          | 102,781          | 57,295            | 250,786          |
| 8. Subordinate Agreement                          | 173,710         | 313,110          | 220,900           | 707,720          |
| 9. Procurement of Equipment                       | 94,450          | -                | -                 | 94,450           |
| 10. In-Country Training                           | 5,550           | 12,600           | 5,960             | 24,110           |
| 11. General and Administrative<br>Costs <u>c/</u> | 15,566          | 18,105           | 11,450            | 45,121           |
| 12. Evaluation/Audit<br>Contingencies             | 50,000          | -                | 50,000            | 100,000          |
| <b>Total Costs - A.I.D. Grant</b>                 | <b>675,146</b>  | <b>724,382</b>   | <b>500,472</b>    | <b>1,900,000</b> |
| 13. NCBA Counterpart <u>d/</u>                    |                 |                  |                   |                  |
| Contribution                                      | 259,200         | 433,200          | 451,200           | 1,143,600        |
| Personnel   | 241,200         | 400,200          | 418,200           | 1,059,600        |
| Operating Expenses                                | 18,000          | 33,000           | 33,000            | 84,000           |
| <b>Project Total</b>                              | <b>934,346</b>  | <b>1,157,582</b> | <b>951,672</b>    | <b>3,043,600</b> |

a/ Includes a 5% p.a. increase for inflation.

b/ Total Modified Direct Cost (1 thru 6) multiplied by provisional overhead of 37%.

c/ G & A rate 3%.

d/ The counterpart contribution is determined based on the estimates of the personnel and operating expenses contributions of the participating cooperatives and private firms. An additional non-AID contribution, by the Cooperative Business International (CBI) and through a Coop-to-Coop Program of NCBA (pursuant to Attachment II, Section H.1.e.) has not been included because reliable estimates of the value of these services/assistance cannot be made at this time.

## 2. Program Progress Report

The Grantee shall monitor performance under the Agreement and ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance targets are being achieved. Based upon this monitoring, the Grantee shall submit quarterly technical performance reports to the RDO, USAID/El Salvador that briefly present the following information for each activity under the Agreement:

- a. A comparison of actual accomplishments with the targets established for the period in the implementation plan;
- b. Reasons why established targets were not met;
- c. Adequacy of remaining funds to reach targets; and
- d. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

If any performance review conducted by NCBA discloses the need for change in the budget estimates in accordance with the criteria established in mandatory Standard Provision entitled "Revision of Grant Budget (Nov. 85)," NCBA shall submit a request for such revision.

## 3. Evaluations

- a. NCBA agrees to carry out, with A.I.D. participation, annual in-house reviews of program activities to assess performance in project implementation and progress toward achieving the Project's objectives. These reviews will also consider possible modifications to project implementation and design, as appropriate. Each review will serve as the basis for preparing the subsequent year's implementation plan and budget.
- b. The Project will undertake its first formal in-depth project evaluation around the fifteenth Project month, using A.I.D. specialists and/or independent consultants contracted by USAID/El Salvador and paid for with Grant funds provided under this Agreement. The evaluation will identify any obstacles in project implementation and design, will determine whether the Project is meeting or will meet established Project objectives. Based on this evaluation, USAID/El Salvador, will determine whether the Project shall be continued.
- c. Within sixty days following termination of the Project, the Grantee will submit to the RDO, USAID/El Salvador, a final evaluation report of the activities that it has carried out under this Cooperative Agreement. This report, in addition to summarizing progress in meeting the Project purpose and assessing contribution toward project goal, will include a section on "lessons learned" for use in future cooperative production and marketing projects.

G. SPECIAL PROVISIONS

1. Within 30 days of signature of the Agreement, NCBA will provide A.I.D. evidence, in form and substance satisfactory to A.I.D., that the Agreement has been executed by a duly authorized representative of NCBA and that such Agreement constitutes a legally valid and binding obligation of the organization. Such statement should also include the name of the person(s) empowered to act on behalf of the Association for all purposes relevant to this Agreement, along with a specimen signature of such person(s).
2. Within 45 days of signature of the Agreement, NCBA will submit a workplan of activities to be financed for the first year which shall include, but not be limited to, a detailed budget and implementation schedule and the draft selection criteria for cooperatives for Project assistance, for A.I.D.'s review and approval.
3. Within 60 days of signature of the Agreement, NCBA will furnish to A.I.D. a draft of the terms of reference for the sub-contract with Technoserve. Upon receipt of the USAID's approval of the terms of reference, NCBA will sign and submit a copy of the executed subordinate agreement between NCBA and Technoserve, Inc., where the roles and responsibilities of NCBA and Technoserve for carrying out Project activities are specified in accordance with the Project description.
4. NCBA agrees that assistance to cooperatives whose export plans include crops or products destined to third country markets, which are also exported by the U.S. to those countries, and for which the Salvadoran exports may result in significant impact on the U.S. exports to those markets, will not receive assistance financed under the Grant, in accordance with A.I.D. Policy Determination 15 (PD-15), unless A.I.D. makes a prior determination in writing that the specific assistance in question would not violate the requirement of PD-15.
5. NCBA agrees that assistance will not be given to cooperatives or agribusinesses in the production, processing, or marketing of sugar, palm oil or citrus for export.
6. In addition to NCBA's submission to A.I.D. of the first year implementation plan and budget for the Project activities, NCBA agrees to submit subsequent annual implementation plans and budgets for A.I.D.'s approval.
7. NCBA agrees to pay no more than reasonable prices for any goods and services financed in whole or in part under this Agreement. Such items will be procured by employing fair and good procurement practices to assure the most effective use of the funds provided.

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8. Audits and Inspections. The A.I.D. Office of the Regional Inspector General may conduct audits of the funds made available during project implementation through contracted certified public accounting firms, which are affiliated with firms in the United States, or by U.S. government staff. The reports shall provide certified opinions on the accountability for project funds, internal controls over the funds, and compliance with the applicable laws, regulations, and Grant Agreement terms. The audits shall be conducted under generally accepted government auditing standards as promulgated by the United States General Accounting Office.

NCBA will ensure that: (1) independent accounting records are maintained for the use of the funds provided under the Agreement, and that these records shall be kept separate from the records of all other funds from other sources; (2) the books and records related to the Grant and maintained by NCBA shall be retained in good order for three years after the final A.I.D. disbursement; and (3) the books and records shall be adequate to show the nature and extent of competitive solicitations for goods and services, the basis for awards, and overall project progress.

Representatives of A.I.D. will have access to project-related books, records, and the other documents, project construction sites, and NCBA personnel related to the project. These representatives may be from outside the country and may include A.I.D. audit and inspection officials.

9. Standard Provisions. Attachment III contains the Standard Provisions for U.S., Non-Governmental Grantees (June 1987). All mandatory Standard Provisions contained in Attachment III are applicable to this Agreement. In addition, the following optional Standard Provisions of Attachment III are also applicable to this Agreement:

- (1) Payment - Letter of Credit
- (4) Air Travel and Transportation
- (5) Ocean Shipment of Goods
- (6) Procurement of Goods and Services
- (7) A.I.D. Eligibility Rules for Goods and Services
- (8) Subagreements
- (9) Local Costs Financing with U.S. Dollars
- (13) Negotiated Indirect Cost Rates - Provisional
- (14) Regulations Governing Employees
- (21) Title to and Use of Property (U.S. Government Title)
- (24) Use of Pouch Facilities
- (25) Conversion of United States Dollars to Local Currency

H. OVERHEAD RATE

Pursuant to the optional Standard Provision No. 13 entitled "Negotiated Indirect Cost Rates - Provisional (May 1986)," a rate or rates shall be established for each of the grantee's accounting period during the term of the Grant. Payments on accounts for allowable indirect costs shall be made on the basis of the following negotiated provisions rates, applied to the base set forth below:

| <u>Rate</u> | <u>Base</u>                 | <u>Time Period</u>          |
|-------------|-----------------------------|-----------------------------|
| 37%         | Total Modified Direct Costs | July 29, 1988 until amended |

I. TITLE OF PROPERTY

The Grantee will have use of property financed under this Agreement until the termination of Project activities. Upon termination of Project activity, Project-financed property will be returned to the USAID/El Salvador in accordance with optional Standard Provision No. 20 entitled "Title to and Use of Property (U.S. Government Title) (Nov. 85)," attached to this Agreement, unless otherwise agreed to in writing by A.I.D.

J. AUTHORIZED GEOGRAPHIC CODE

The Authorized Geographic Code for procurement of goods and services under this Agreement is 000, the United States, and Caribbean Basin Initiative (CBI) designated member countries of the Central American Common Market, except as A.I.D. may otherwise agree in writing.

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PROGRAM DESCRIPTION

A. TITLE

El Salvador Cooperative Production and Marketing.

B. PROJECT GOAL

The goal of the Project is to increase foreign exchange earnings, diversify agricultural production, and increase rural incomes and employment.

C. PROJECT PURPOSE

The purpose of the Project is to increase production of nontraditional products from cooperatives. This will be accomplished by strengthening the organizational, administrative and financial condition of the participating cooperatives and expanding/improving their linkages to private packers/processors who export, primarily to the U.S.

D. PROJECT BACKGROUND

El Salvador's agricultural production base and employment in the sector is heavily dependent on export crops such as coffee, cotton and sugar. One of A.I.D.'s objectives over the next three to five years is to diversify this base to include nontraditional products, such as fresh and processed fruits (non-citrus) and vegetables, spices, bananas and plantains, flowers, and shrimp and other seafood. Problems to be overcome in the diversification process include opening new markets for private agribusiness firms as well as small producers, introducing new technologies (e.g., improved seeds and expanded use of irrigation), and increasing the quality and quantity of fresh and processed products suitable for export markets.

E. PROJECT ACTIVITIES

This Project will provide technical assistance and training to expand or create linkages between small farmer cooperatives and private agribusiness firms to increase market access for the cooperatives while expanding the sources of production available to the private processors and exporters. In addition, A.I.D. funding will be used to meet the local operating expenses of NCBA and the sub-contracted firm, and to finance supervision from NCBA's Washington office. Project activities will meet four criteria:

1. Complementarity with the Salvadoran Foundation for Economic and Social Development (FUSADES) and Technoserve Inc. The NCBA Project activities will support USAID's strategy to promote nontraditional exports, by

complementing the programs of agricultural technology dissemination and cooperative management development carried out by FUSADES and Technoserve, respectively. Specifically, the NCBA project will work with Category A cooperatives, many of which achieved this level through technical assistance of Technoserve, to negotiate production contracts with agribusiness firms receiving loans or technical assistance through the FUSADES' Agricultural Diversification Program.

2. Coordination with Salvadoran Government Entities. The Project will coordinate with other agencies working with cooperatives in El Salvador, including Banco de Fomento Agropecuario's (BFA) credit agents, the Ministry of Agriculture and Livestock's (MAG) Enterprise Development Division, the National Center for Agricultural Technology's (CENTA) extension service, and the Office of Rural Development's (ODER) credit project personnel.
3. Target Cooperatives and Target Products. The Project will focus on cooperatives which have the greatest likelihood of successfully producing export crops. NCBA will use information available from USAID's Office of Rural Development, Technoserve, and GOES Agencies, to select the target cooperatives based on criteria to be agreed upon with USAID, which will include factors such as the prior production experience of the cooperatives, the matching of product demands with the ecological conditions of cooperative lands, transport considerations, and a financial analysis of the return to cooperative members. Technical assistance and training efforts will be focused initially on only a few cooperatives producing target crops. As experience is gained, outreach demonstrations and training programs will be used to replicate the results thereof on other cooperatives.
4. Private, Public and Cooperative Sector Linkages. The Project will strive to link public, private and cooperative organizations, utilizing their respective institutional strengths to further develop the nontraditional crop industry.

The Project is designed to achieve eight primary and secondary objectives:

1. Primary Objectives:

- a. Improve cooperative linkages with private firms, as defined by an increase in the number of private packers/processors purchasing products from cooperatives and the variety of products purchased from cooperatives;
- b. Increase volume of nontraditional production from cooperatives through the improved management of existing lands, increased yields, and the expansion of acreage under irrigation;
- c. Increase sales of nontraditional crops produced by cooperatives to U.S. markets; and
- d. Introduce shrimp farming on two to three cooperatives.

2. Secondary Objectives:

- a. Improve yields of nontraditional crops by 25% on target cooperatives through improved production techniques;
- b. Improve profitability of nontraditional crop production;
- c. Increase land under irrigation, primarily through assistance to help cooperatives better manage their irrigated land; and
- d. Diversify production of export crops.

The Project has two principal components, or areas of activity, as follows:

1. Fruit and Vegetable Production

The Project will focus for the first eighteen months of this Agreement on twelve target cooperatives. These target cooperatives will be selected from "traditional" cooperatives which existed before the 1980 land reform, Agrarian Reform Phase I cooperatives, and Phase III cooperatives in El Salvador. The Project activities under this component are the following:

- a. Identify and Screen Cooperatives. The first major activity of the Project will be to identify and screen the initial population of cooperatives producing, or interested in producing, nontraditional export crops. In general, participating cooperatives will be Category A or those B cooperatives having the potential to produce nontraditional crops for the export market.
- b. Needs Assessment. The NCBA team will conduct a comprehensive needs assessment to serve as a baseline of production data and managerial strengths/weaknesses of cooperatives. A survey of cooperatives will assess management and technical capabilities in the areas of production, financial management, and business practices. Based on these assessments, twelve target cooperatives will be selected in consultation with A.I.D.
- c. Survey of Private Firms. In addition to the survey of cooperatives, the NCBA team will conduct a census of all packers/processors, to review their sources of raw materials, export volume and business plans for the future. It will also discuss relationships with cooperatives and identify those firms most willing and interested in strengthening the linkages with coops and expanding and diversifying production.
- d. Business Plans. Based on the above assessments, a business plan for each of the target cooperatives will be developed. The plan will address the deficiencies of the cooperatives on an individual basis and outline specific actions to be taken by the coop and the NCBA team. The business plan will be submitted to the cooperative for discussion and will consider the objectives of the Project and the desires of the cooperatives and the needs of the private export firms. In developing this plan, and in providing technical assistance, NCBA will monitor contract negotiations, production techniques and administrative control systems on the cooperatives to identify additional needs of the cooperative or constraints to a broadened role of cooperatives in agricultural diversification.

- e. Technical Assistance and Training. The Project will adopt an intensive and focused approach to develop the farm management skills of cooperatives. Target cooperatives will receive technical assistance and training to enable them to meet the objectives for the cooperative set out in the business plan developed jointly by NCBA and the cooperative.
- f. Expansion of Irrigated Lands. As appropriate, NCBA will assist cooperatives to prepare feasibility studies on expansion of irrigation infrastructure and submit loan applications to appropriate financial institutions for equipment and infrastructure development. Advisory assistance for the assembly and installation of newly acquired production equipment and infrastructure will be provided and technical assistance will be intensified as new technologies are put into operation. During this phase of work, NCBA will work closely with USAID staff to avoid duplication of services offered by FUSADES, GOES institutions, or other firms.
- g. Outreach. During the second year of the Project, an outreach training program to transfer management techniques to an estimated twelve "secondary" cooperatives will be carried out. Training programs will be conducted by the local farm management consulting firm which will be subcontracted with Grant funds, pursuant to the terms of this Agreement.

## 2. Shrimp and Fresh Water Shrimp Production.

Salt and fresh water shrimp can be successfully produced in many regions of El Salvador. By September 1988 the second phase of a plan for developing a national shrimp industry will be completed by the Tropical Research and Development Inc. of Florida (financed by USAID/El Salvador). Based on the results of this study, NCBA projects working with two to three cooperatives to develop shrimp farming as a viable business venture for cooperatives.

Under this component, the NCBA team will assist in the organization and management of shrimp growers on two to three target cooperatives, utilizing technology provided by private firms. These firms will instruct cooperative members in the production of larvae and feed formulations and the care and harvesting of shrimp for export.

Shrimp production is expected to commence with pilot projects involving a few farm families, each of which controls its own pond. The first projects will be located on well-managed cooperatives where individual initiative is encouraged. Two to three pilot shrimp production areas should be stocked during the first two years of the Project. In the next months, when management requirements are understood and technical difficulties have been largely overcome, the pilot projects can be quickly replicated by other secondary cooperatives.

F. PROJECT IMPLEMENTATION AND ADMINISTRATION

Grant funds will provide financial support to NCBA to carry out the type of activities described above. Specifically, the Grant will finance the costs of contracting qualified managerial, technical and logistical support personnel during the life of the Project, and a sub-contract with a firm to provide training to improve farm management skills of the cooperatives. NCBA will appoint, as Project Manager and with A.I.D.'s concurrence, a full-time representative in country. This Project Manager will have extensive experience in agribusiness production and marketing. The Project Manager will be supported by NCBA's Director of Latin American and the Caribbean, as well as NCBA's Director of Operations (for procurement and administrative support) and the Director of Recruitment (for identification of short-term consultants), all of them located in Washington, U.S.A. Five Regional Farm Manager/Advisors to provide assist the target cooperatives with the implementation of the business plans will also be hired by NCBA to implement Project activities. To complement this staff, NCBA will negotiate a sub-contract with a firm with experience in working with cooperatives to strengthen their farm management (basically accounting) skills. This sub-contractor will be required to hire a Project Coordinator, who will be responsible for day-to-day oversight of the short term technical assistance and training required for the participating cooperatives.

In total, an estimated six-person months of short-term training and technical assistance will be required for each of the participating target cooperatives. An additional three-person months will be needed for the secondary cooperatives. The amount of assistance required per cooperative may vary substantially. Therefore, assistance to be provided will be defined on the basis of the aforementioned needs assessment.