

11

PD-AA4-987  
60211



USAID GUATEMALA



AGENCY FOR INTERNATIONAL DEVELOPMENT  
UNITED STATES A.I.D. MISSION TO GUATEMALA

1000 GUATEMALA or c/o American Embassy  
7th FLOOR MIAMI 23024 Guatemala City, Guatemala, C.A.

November 16, 1988

Mr. Robert D. Sherer, President  
COOPERATIVE LEAGUE OF THE USA  
1401 New York Avenue, Northwest  
Suite 1100  
Washington, DC 20005

Subject: Cooperative Agreement No. 520-0355-A-00-6062-00  
Amendment No. 3

Gentlemen,

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, A.I.D. hereby amends the Cooperative Agreement as follows:

1. Attachment 1, the Schedule, Section F, Special Provisions, Paragraph 1, Estimated Level of Effort, Phase II, add "Administrator/Liaison 8 1/4 months. (Although funds to cover the position through the PACD have been obligated, the position is authorized only for the three-month period December 1988/February 1989. The additional level of effort is subject to review and approval by the Contracting Officer's Technical Representative).
2. Attachment 2, Program Description, Phase II is revised as follows:

I. PROJECT PURPOSES AND OBJECTIVES

A. Purposes

The purpose of Phase II activities are to strengthen the Guatemalan dairy industry at production, processing, and marketing levels, and to increase the quantity and quality of dairy products consumed by the Guatemalan population.

B. Objectives

The objectives of Phase II activities include:

1. Two profitable, self-sustaining dairy processing cooperatives.

2. Increased milk production. Dairy herd management will be improved for farmers in areas supplying the XELAC and VERALAC cooperatives.
3. Improved quality of milk and cheese products (i.e., sanitary standards) of XELAC and VERALAC. Moreover, the quality of cheese produced by small cheese makers in the Coban and Quezaltenango area will be improved.
4. Increased income of farmers supplying raw milk to the XELAC and VERALAC cooperatives.
5. Improved markets for XELAC and VERALAC products. The markets will be advanced by improving marketing skills and techniques and building up the cooperatives' marketing infrastructure (i.e., additional cooling capacity, vehicles, outlets).
6. Improved public policy. Dairy policy formulated by government agencies, producers and processors and consumer representatives will be improved through provision of a modest amount of technical advice on an as needed and if requested basis.

C. End of Project Status

Conditions expected at end of project include:

1. Two profitable, self-sustaining dairy processing cooperatives.
  - a) Average capacity utilization will rise to 70% in both XELAC (to 9300 lts/day) and VERALAC (to 10,400 lts/day) during LOP.
  - b) Proceeds generated from sale of non-fat dry milk processed through the two cooperative plants will be used to pay higher prices for milk, increase refrigeration capacity at the plants, build up their milk collection facilities, and purchase vehicles for their marketing department.
  - c) Because of the above investments, after PACD, both XELAC and VERALAC will be able to generate sufficient sales and profits so as to become financially viable institutions.
2. Increased milk production
  - a) Average daily receipts at both plants must rise during the life of the project.

Projected increase in average receipts will be in the order of 80% at VERALAC and 70% at XELAC. To obtain higher milk receipts members supplying milk to the plants must increase at both cooperatives reaching 90 at VERALAC (current active membership is 43) and 135 at XELAC (currently standing at 90).

- b) Two hundred (200) producers will participate in a farm management improvement program. Of these, sixty (60) will receive follow-up and additional training.
3. Improved quality and sanitary standards of milk and cheese products at XELAC and VERALAC
    - a) Two hundred and twenty-five (225) small to medium cheese producers, primarily from Coban and Quezaltenango, will receive training courses in the areas of sanitation, improved manufacturing practices, and products diversification.
    - b) Advanced training for nine (9) individuals selected from VERALAC and XELAC and from participants in the project's in-country training program will be provided in the U.S.
    - c) Microbiological quality indicators will be monitored for the dairy products of VERALAC, XELAC, and selected small processors trained under the project.
  4. Increased income of farmers supplying raw milk to the XELAC and VERALAC cooperatives.
    - a) Farmers supplying XELAC and VERALAC with fresh milk will receive an estimated 12% increase in price for milk sold (current prices per liter at VERALAC are Q0.50 and Q0.60 at XELAC).
    - b) During the life of the project, revenues to farmers supplying milk to the two coops will increase by approximately Q220,000 (Q130,000 at VERALAC and Q170,000 at XELAC) as a result of the higher milk prices paid.
  5. Improved markets for XELAC and VERALAC products. The markets will be advanced by improving marketing skills and techniques and building up the cooperatives' marketing infrastructure (i.e. additional cooling capacity, vehicles, outlets).
    - a) 1987 sales will increase from about Q600,000 per year to Q1,500,000 per year in CY 1989 at VERALAC and from Q600,000 to Q1,200,000 at XELAC

- b) A General Manager will be hired at VERALAC.
  - c) Daily sales routes will be increased at each plant (currently, each plant operates only one route).
  - d) Completion of a marketing study for dairy products.
  - e) A fully staffed and operational marketing department within each cooperative. Personnel for this department will be trained and assisted by CLUSA during the LOP.
  - f) The cooling capacity will be doubled at each cooperative: VERALAC from 22.5 sq.mt. to 45 sq.mt. and XELAC from 30 sq.mt. to 60 sq.mt. This increased capacity will be funded from profits derived by processing non-fat dried milk provided under Title II.
  - h) VERALAC will increase the number of stores selling their products from the current 90; XELAC will increase stores selling their products from the current 40.
  - j) At least two new products will be added to the VERALAC product line. The XELAC line is quite complete and rather than augmenting the number of products, the project will improve the quality of existing products.
6. Improved public policy
- a) Technical assistance will be provided to GOG institutions in charge of establishing policies to regulate imports of milk products.

#### Beneficiaries

The project will benefit directly about 500 farmers, coop members and small processors. These include members of VERALAC and of XELAC, about 200 small to medium dairy farmers and about 225 cheese processors. Indirectly, consumers will benefit from greater availability of milk products and improved sanitary standards.

## II. PROJECT ACTIVITIES

The project will carry out a number of discrete but interrelated interventions supported by technical assistance and training to selected producers and processors, the channeling and/or the monetization of donated dairy and related commodities, and policy dialogue involving the Government of Guatemala and private producers and processors. These will, in turn, benefit consumers through increasing the quantity and quality of dairy products available in the country.

Activities will be as follows:

A. Production, Processing, Marketing at Cooperative Level

The project will concentrate its efforts on two regional processing cooperatives (XELAC in Quezaltenango and VERALAC in Coban) and farmers supplying them in order to make those two institutions economically viable and increase the incomes of participating farmers.

To make the cooperatives profitable requires them to diversify their production into higher value products and increase their capacity utilization, particularly during the dry season when availability of fresh milk is limited. Profitable cooperatives represent outlets for the small farmers in the two regions who maintain cattle as part of their farming system as a source of animal protein, and to provide cash income through the sale of milk.

1. Production

The project will provide technical assistance in nutrition, animal health and sanitation, and handling of milk to producers associated with the processing cooperatives, and to small farmers located within the collection zones of the plants.

The thrust of work with small farmers will be in the establishment of cooperative collection schemes, either through the establishment of collection centers where volume justifies them, or collection routes serviced by the members.

The project will assist 200 farmers in the above-mentioned areas during the life of the project. Technical assistance will be reinforced through the establishment of a demonstration herd - at least one in each region - where appropriate farm management techniques will be put in practice.

Because small farmers generally depend on middlemen or milk haulers to collect their milk and distribute it to the plants, they are more subject to the seasonal variations in price. Thus, much milk is lost during the rainy season because of the low prices. By establishing cooperative collection centers where milk is refrigerated, farmers themselves will be in charge of distribution and will have market power that will allow them to negotiate better prices with the plants, particularly during this season. The establishment of collection centers will also result in a higher quality product which commands higher prices and will constitute less of a health hazard to consumers. The

project will provide technical advice to XELAC and VERALAC in order to determine the feasibility of establishing these centers. Technical assistance will also be provided to assist in their installation and operation.

Classroom training will be provided to 60 of the 200 farmers. This intensive training will be provided to those who demonstrate the most interest and have the capacity to invest their time and some resources in upgraded herds. Training will focus on indepth herd management techniques, accounting/record keeping to establish yields and costs of production, and health and sanitary standards. Following the training, follow-up technical assistance will be provided on a one-on-one and small group basis.

## 2. Processing and Marketing

The two cooperative dairies currently produce and sell milk (whole and skim), cream, cheese (several types) and yogurt. Quality and sanitary standards are generally good. The major problem is that the availability of raw milk fluctuates dramatically throughout the year. More milk is available during the rainy season when natural pasturelands are more abundant. The solutions include increased milk production for farmers as well as better management of product lines. That is, diversification of products in line with seasonal availability of liquid milk. This can be done, for example, by blending liquid milk with non-fat dry milk, by producing different types of cheeses, and by entering new markets (i.e. increased sales of high quality cheeses to Guatemala City).

The project will provide technical assistance to the two cooperative plants in order to help them diversify their production, increase utilization of plant capacity and develop new markets for their products. This assistance will be provided in cheese-making technology, quality control, inventory management, plant maintenance, management and accounting systems. On-the-job and classroom training will be provided to cooperative employees to improve their managerial and technical skills.

Financial analyses will be conducted to assess the cooperatives' financial condition. Based on these analyses, it is possible that additional assistance will be provided to assist in restructuring debt and seeking new investment and working capital credits.

In the marketing area, research will be conducted to assess the demand for high quality cheese in Guatemala City. This research will consider the prices consumers are willing to pay, the competition from import and other domestic

dairies, the distribution channels and other factors. Based on this research, marketing strategies will be prepared for each dairy.

Also, an estimated six employees will be sent to the U.S. for courses conducted by Land O'Lakes cooperative dairy.

The 800 MT of non-fat dry milk (NFDM) to be provided will be used in each dairy to blend with liquid milk. This will have an immediate impact in that plant utilization will be increased and therefore the dairies will have more products to sell. Profits should also improve. The dry milk, in effect, will provide an injection of working capital to the dairies.

The NFDM will be distributed between the two cooperatives with which the project will be working (300 MT will be assigned to XELAC and 500 MT to VERALAC). The primary use of NFDM will be to blend with fresh milk and thus increase plant utilization. This will allow the plants to broaden their product line while at the same time be able to continue producing their regular product line which has a rapid turnover and produces the steady cash flow required to continue operating. Because NFDM will be sold at concessional prices to the plants, the extra production will represent additional revenues which can be transferred to members and non-members through higher prices paid for milk.

Higher prices paid for milk will result in increased supply of milk to the plants; supply which they could not afford with their current liquidity status. Although at first the added supply will come mostly from what is currently diverted to the informal or parallel market, increasingly, it should come from small farmers currently not participating in any market. What is intended is to avail the plants with a permanent increase in their milk supply while at the same time providing farmers with increased revenue from their dairy operations.

B. Processing and Marketing at the Level of Small Cheese Producers

An estimated 65% of marketed milk, some 60% of production, goes to the raw milk sector and much of this raw milk to unpasteurized cheese and other manufactured milk products. This sector is important because its member plants are small-and-medium-sized, are located throughout the country, and draw upon the production of small and medium volume dairy producers, and because the output potentially affects the health and nutrition of a large sector of the low-and-moderate income population of the country. In Guatemala City alone, there are an estimated 50 small processing plants.

The project will provide technical assistance and periodic formal training to small cheese and cream manufacturers in quality control, diversification of product line, hygiene, and marketing. Training will take place at two small training centers, one at Tactic located near VERALAC, the other at Palin located on the outskirts of Guatemala City. The project will train an estimated 100 small processors.

The training activities will be an integral part of the project; the objective of training is to provide cheesemakers, particularly those in the informal sector, with alternative ways of processing their milk which will result in a safer product from a health standpoint and a more profitable operation by using more modern techniques appropriate to their environment and resources.

There will be two types of training; the first type - and perhaps the most important to the overall sector - will be directed towards informal processors currently operating around the large urban centers in Guatemala and selling their product mostly to low income consumers. Training will concentrate on sanitation, good manufacturing practices, hygiene, and handling of milk and milk products. The emphasis will be on quality from a bacteriological point of view and on increased profitability and yields through better techniques for local cheese production. Alternatives for acidified milk processing will also be provided. Ten such courses will be conducted during the life of the project.

A second type of training will be provided for those cheesemakers wishing to diversify their product line. This will be directed to medium-and-small formal-and-informal cheese processors. Training will consist of four one-week sessions over the life of the project. This training will be repeated twice and directed at 15 participants per session; the sessions are non-exclusive such that different people may attend each one-week session depending on their requirements and production and resource limitations.

In order to carry out training, two training centers are being equipped; one in the Coban area and one close to Guatemala City. The centers will each have a cheese vat and laboratory, in addition to usual training facilities, such that training will be essentially hands-on rather than purely theoretical.

### C. Policy

Governmental policy and several policy actions currently under consideration were described previously in Section I.

The project team will provide advisory assistance in this area only on an as needed, if requested basis. Essentially, this will entail the review of sector analyses, position papers and

policy recommendations which might be prepared by the government (usually the Ministry of Agriculture) and the National Dairy Promotion Council. This assistance is expected to occupy only a small percentage of the time of the team leader and perhaps a limited number of short-term technical advisors.

### III. PROJECT MANAGEMENT

#### A. NCBA

##### 1. Field Team

##### a) Team Leader/Economist

The team leader/economist will exercise field responsibility for the work and welfare of the team. Specific duties and responsibilities will include:

- Program and manage the allocation of funds resulting from monetization of donated commodities.
- Advise counterpart organization on collection and analysis of dairy production, consumption, and trade data. Help develop automated information system for analyzing actual and expected dairy farm production costs and other statistics.
- Assist in program development and human resource development at counterpart institutions, especially cooperative dairies. Advise on setting priorities, developing strategies and tactics, recruitment, personnel evaluations, etc.
- Articulate dairy policy reform proposals in consultation with, or in support of local counterpart organizations.
- Coordinate the distribution of donated dairy commodities among selected cooperatives. Keep track of inventories and deliveries to cooperatives and prepare all required reports to CARE, USAID, and the cooperative's management.
- Responsible for the administrative and financial management of the project, including direct coordination with NCBA staff in charge of preparing documentation for financial management of the project.
- Coordination with Mission officials on the application of the Cooperative Agreement stipulations, i.e. Contract Officer, Project Officer and Controller.

b) Processing Plant Specialist

- The processing plant specialist will provide field-level technical assistance to beneficiaries. This will include technical assistance in production to the two cooperative plants. It will also include serving as a technical advisor to small farmers and their organizations in the sanitary and efficient handling and transport of milk from farm to plant or consumer.

In addition, the processing plant specialist will:

- Define specialized plant and transportation technical needs, preparing terms of reference for short term local and expatriate specialists.
- Define and manage training short courses to be held in Guatemala, in collaboration with the team leader.
- Identify candidates for placement in project training in the United States.

c) Administrator/Liaison

Technical Aspects

- Maintain liaison with CARE and other appropriate institutions on the implementation of the agreement covering shipment, distribution, and use of non-fat dry milk (NFDM) in order to assure adequate controls of storage and use of product from port to point of final distribution and use of the commodity.
- Provide technical assistance to the Cooperatives in the area of marketing both through direct follow-up of their marketing departments and the identification and hiring of appropriate short-term consultancies for specific training and technical needs.
- Schedule and coordinate all short-term consultancies, local and foreign, as required by the field technical personnel (technical team leader, dairy processing, and dairy production specialists).
- With the technical team leader, develop procedures for reporting on utilization of income or increase in net profits generated by operations involving reconstitution and sale of NFDM, and monitor the investment of such funds on improved infrastructure and plant equipment.

- Develop in conjunction with AID's ORD and the technical team staff a detailed plan for utilization by the Project Office of funds generated directly from monetization of NFDM. Implementation and monitoring of a reporting system to reflect approved expenditures for this component.
- Provide direct technical assistance in the area of Cooperative strengthening to VERALAC advising the Board of Directors' on issues such as the authority and functions of the Board of Directors; delegation of responsibilities and authority to the General Manager; budgetary controls; understanding financial statements, etc.

#### Administrative

- Establish memorandum of understanding or Letter of Agreement with CARE on the handling of NFDM.
- Finalize request to Mission of NFDM.
- Prepare memorandums of understanding with the XELAC and VERALAC Cooperatives on the use of funds derived from the use of NFDM.
- Finalize the financing and logistics for the distribution of NFDM from the port of entry to the Cooperatives.
- Establish and monitor a bank account to handle funds derived from sale of donated NFDM.
- Maintain liaison with Care, USAID, and other institutions directly or indirectly involved in the handling, transportation, and utilization of NFDM in order to ensure compliance with all reporting requirements on use and distribution of the same.
- Provide administrative backstopping for all Dairy Development Project activities including management of funds (Cooperative Agreement Grant Funds, Local Currency Funds, and Monetized Income), preparation of transactions reports. Included are the review and submission of vouchers as prepared by the CLUSA/NCBA Washington office. Manage office operations pertaining to the Dairy project within the Joint Projects Office established and maintained in Guatemala City by CLUSA/NCBA.

- Assist in the preparation and submission of quarterly, semiannual, and annual reports as required by USAID under Project Agreement, and any other reports as may be requested on an occasional basis by USAID and other institutions (CARE, VERALAC, GOG).

## 2. Home Office

The Home Office will actively and continuously support the field team by assuring timely funding and disbursements, handling procurement from the United States and third countries as appropriate, assuring compliance with U.S. government regulations, recruiting short-term consultants, monitoring disbursements and expenditures, etc. A Washington, DC-based Project Manager will monitor project activities, make periodic on-site visits as provided in the budget, arrange a final evaluations, and participate, as needed, in some of the short term technical assistance activities.

The Project Manager will be supported by a Director for Contract Administration, a Director for Recruitment and Training, and a Director of Operations who will provide international procurement and related logistical support. Backstop support from Washington will also include periodic direct involvement by NCBA's Vice President for Food Policy and Government Relations, who manages Food for Peace and other Food aid programs.

### B. Land O'Lakes

NCBA will sign a sub-grant with Land O'Lakes (LOL) and provide specialized technical assistance from their home office for U.S. training courses and for in-country training.

### C. Counterpart Relationships

NCBA will negotiate subordinate agreements, contracts and memoranda of understanding, as appropriate, with VERALAC, XELAC, and CARE (the latter for importation and maintaining of dry milk).

#### IV. IMPLEMENTATION PLAN

An implementation plan was prepared per the original Cooperative Agreement. This plan was not approved because of the decision to de-emphasize the policy component. In addition, the plan was prepared prior to the acquisition of 800 MT of non-fat dry milk. Except for the policy component, which will be deemphasized, the plan remains generally valid. Nonetheless, the plan will be updated prior to December 31, 1989.

#### V. EVALUATION PLAN

Monitoring and evaluation will be a key project activity to increase effectiveness of the other project components. Baseline data on the two cooperative dairies, on the producer farmers and on the small cheese processors will be collected by CLUSA prior to December 15. Objective indicators such as quality of raw and processed milk, costs of production, gross and net revenues and costs, profit margins, plant utilization rates, will be collected and analyzed for the dairies. For the participating farmers and cheese processors, costs of production, revenues profit margins and net incomes will be documented.

The use of the NFDM will be documented as well to analyze impact on the coops. Lastly, sales of milk products will be analyzed so that local consumption patterns can be disaggregated from sales to Guatemala City. An internal project review chaired by NCBA's home office project manager will be conducted during April 1989. The review will involve NCBA, participating local institutions, and USAID/Guatemala.

At the end of the project, an independent outside evaluation will be conducted to assess project impact and make recommendations for future efforts, if any, to strengthen the dairy industry. The draft scope of work for the final evaluation will be presented to AID/Guatemala's Office or Rural Development by July 1, 1989.

3. Schedule, Section D, Financial Plan in US\$, substitute as follows:

<u>Line Item</u>	<u>US Dollar Amount*</u>
1. Salaries and Wages	225,130
2. Fringe Benefits	38,225
3. Consultant Fees	12,204
4. Travel and Transportation	78,227
5. Allowances	109,422
6. Other Direct Costs**	61,992
7. Overhead	212,026
8. Subordinate Agreement	246,404
9. Procurements	112,648
10. General and Administrative Cost	27,387
11. In-Country Training	46,335
12. Evaluation and Baseline Survey	<u>30,000</u>
	\$1,200,000
	=====

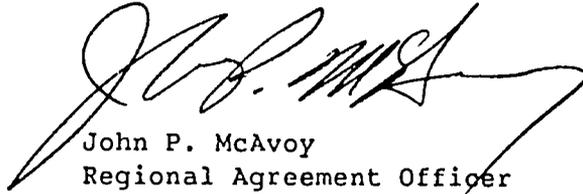
\* The above Financial Plan is illustrative in nature, and the Recipient can adjust individual cost lines by a factor not to exceed 15%. Any adjustment exceeding 15%, or any increase in the total Agreement Amount requires the prior written approval of the Contracting Officer.

\*\* CLUSA is authorized to utilize up to \$25,000 from "Other Direct Costs" line item to cover transportation, storage, and guard services for 800 MT of donated PL480 non-fat dry milk.

This Amendment is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning with the effective date and ending September 30, 1989.

Please sign the original and five copies of this letter to acknowledge receipt of this Amentment No. 3, and return the original and four copies to USAID/Guatemala.

Sincerely,



John P. McAvoy  
Regional Agreement Officer

RECEIVED:

By:   
Title: Contract Officer

FISCAL DATA

Appropriation No.	72FT800
Budget Plan Code	YKAX-88-25520-KG00
PIO/T No.	520-0355-3-80146
Project No.	520-0355
Amount Obligated Prior to this Amendment	\$1,200,000 + Q180,801
Amount Obligated by this Amendment	None
Total Obligated Amount	\$1,200,000 + Q180,801

3913G