PD-ABA-754

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Best available copy -- pages ii and vi are missing

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS) ISN 65[illegible]6

PD-ABA-754

A. REPORTING A.I.D. UNIT:
ORD - USAID/Guatemala
(Mission or AID/W Office)
(ES# 90-02)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
yes ☒ slipped ☐ ad hoc ☐
Eval. Plan Submission Date: FY 89 Q 4

C. EVALUATION TIMING
Interim ☒ final ☐ ex post ☐ other ☐

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
520-0286	Mid-point Evaluation of the Cooperative Strengthening Project	1986	8/91	11,000	11,000

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
* Complete Evaluation Summary and issues paper for Project Implementation Review	BLennon/ORD TCornick/ORD	1/90
* Develop Log Frame for use in developing the draft Amendment to the FENACOAC Cooperative Agreement	JMagill/DAI BLennon/ORD	12/89
* Prepare SOW and PIO/T for contracting of short-term technical assistance in completing the Amendment	REduardo/PDSO	1/90
* Coordinate completion of Rural Financial Mkts. Assessment and preparation of draft Land Mkts. Strategy Paper	BLennon/ORD RCastro/ORD RTsuji/ORD	1/90
* Prepare PIO/T for extension of long-term technical assistance contract w/WOCCU to avoid ongoing implementation delays	BLennon/ORD REduardo/PDSO	2/90
* Develop local currency financing alternative (e.g., GOG counterpart) to expand the Project credit component	BLennon/ORD	2/90
* Circulate draft Amendment for Mission review and final authorization	TCornick/ORD BLennon/ORD REduardo/PDSO	3/90

(Attach extra sheet if necessary)

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 12 day 15 yr 89

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature	B Lennon	[signature]	[signature]	[signature]
Typed Name	Barry Lennon	Francisco Perez T.	Tom Kellerman	Anthony J. Cauterucci
Date:	2/26/90	2/26/90	3/2/90	3/5/90

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H. EVALUATION ABSTRACT (do not exceed the space provided)

The Cooperative Strengthening Project (520-0286) is an institutional development initiative with the federated cooperative movement. The purpose is to strengthen the service delivery and management capabilities of participating organizations through a combination of technical assistance, training, policy guidance, and the investment of financial resources (i.e., credit and recapitalization funds). The Project is administered by the National Federation of Savings and Loan Cooperatives (FENACOAC) through a Cooperative Agreement with USAID/G. The mid-point Evaluation was completed by a 3-person technical team from Development Alternatives, Inc., using project documents, interviews with Project personnel and cooperative staff, and field visits to participating organizations. The major findings and conclusions are:

* The Project represents a significantly different approach to cooperative development and is in sharp contrast to traditional AID-sponsored cooperative development activities that focus on either (a) organization and promotion or (b) production, processing, and marketing technologies.
* Implementation has been distinguished by imaginative interventions, a successful, methodological approach, and a particularly competent project team of local and expatriate technicians.
* The project appears to be achieving its objective of bringing about fundamental changes in the participating federations and cooperatives.
* Significant changes in policies, interest rates, pricing, capitalization, and delinquency-control can be traced to project initiatives. The foundation for sustainable cooperative operations is being created.
* The project's focus on administration and financial management is appropriate and essential given the current status of the various cooperative groups in Guatemala.
* The financial stabilization component has used an innovative approach that avoids grants and forces participating organizations to "earn" financial assistance over a five-year period.

The evaluators noted the following lessons:

* It was essential to implement the administrative and financial reforms before engaging in other program activities to avoid wasting resources;
* Tying disbursements of financial resources to operational performance helps insure that changes are being internalized;
* Initial projections of the implementation schedule were overly optimistic for such a complex institutional development program;
* Institutional development programs must also address the economic issues facing rural cooperatives (i.e., limited earnings potential) by developing profitable member service programs which can generate the income needed to ensure long-term sustainable operations; and
* Developing a viable and effective cooperative movement requires a long-term effort and commitment.

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US$)	Source of Funds
John Magill	Development Alternatives Inc. (DAI)			
Eric Nelson	DAI	IQC PDC-5315-I-00-8101-00	$56,179	DA/Grant 520-0286-A-00-6329
Miguel Rivarola	DAI			

2. Mission/Office Professional Staff Person-Days (estimate) 20

3. Borrower/Grantee Professional Staff Person-Days (estimate) 30

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: ORD/USAID/GUATEMALA   Date this summary prepared: February 7, 1990

Title and Date of Full Evaluation Report: Midterm Evaluation of the Cooperative Strengthening Project November, 1989

Background Description: The Cooperative Strengthening Project (520-0286) is an US$11.0 million institutional development effort which targets the federated cooperative movement of Guatemala. The purpose is to strengthen the service delivery and management capabilities of participating cooperatives through a combination of technical assistance, training, policy guidance, and the investment of financial resources (credit and recapitalization funds). The goal is to increase rural family incomes and productivity by providing cooperative members with access to improved and expanded services through their organizations. The Project is administered by the National Federation of Savings and Loan Cooperatives (FENACOAC) through a Cooperative Agreement with USAID/G signed on August 26, 1986. FENACOAC provides overall policy guidance, manages the Project's financial resources, provides general administrative support, contracts and procures local services and commodities, monitors participant compliance with the terms of the Agreement, and submits regular financial and progress reports to the USAID Mission. Day-to-day implementation of Project activities with each of the five participating cooperative federations (e.g., technical assistance, feasibility analyses, and training) is carried out through a Project Management Office (PMO) organized by the FENACOAC and staffed by local and expatriate technical personnel. USAID/G contracted a consortium of cooperative development organizations led by the World Council of Credit Unions (WOCCU) to provide FENACOAC with advisory assistance in Project development and technical support to the participating cooperative federations.

Guatemala lacks an integrated public and private sector infrastructure to provide production support services to the agricultural sector. This is viewed as one of the primary limitations to increasing agricultural production, productivity and farm incomes. The Project is one alternative being pursued by the Mission to increase and improve the intermediation of services to the small farmer client group. Currently five (5) federated cooperative systems are working with the Project. They represent approximately 217 base-level cooperative affiliates and possess a membership of 130,000 individuals.

Evaluation Purpose and Methodology: The mid-point Evaluation of the Project was conducted by a three-person team from Development Alternatives, Inc. (DAI) in October/November, 1989. The purpose was to assess progress and to evaluate the potential for expanding the scope and focus of activities to be supported with Project resources. The evaluation team used USAID/G documentation, interviews with Project personnel and cooperative staff, and field visits in completing the evaluation. The findings are being used to guide the development of the planned FY90 Amendment to the FENACOAC Cooperative Agreement.

Principal Findings and Conclusions: The Evaluation noted that the Project represents a significantly different approach to more traditional AID-sponsored cooperative development programs. It was compared to an IMF-type program due to its hard-nosed focus on policy, administration and financial management

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reform before organizations are provided access to financial resources. The evaluation concluded that this approach was both appropriate and effective given the problems facing the cooperative movement, and significant improvement in the administation and management of participating cooperatives has resulted. Leadership and cooperative staff are aware of the need for fundamental change in the way their cooperatives operate; there exists a willingness to adopt institutional reforms; strategies for renewed institutional growth have been developed; an entrepreneurial spirit has been introduced; and concrete actions have been taken to improve cooperative services while enhancing earnings.

In aggregate terms among the five participating federations, the period 1986-89 has evidenced a 212% increase in cooperative membership, a 123% growth in share capital and savings, and a reduction in outstanding loan delinquency from 52% to approximately 36%. The most significant changes in cooperative operations resulting from the institutional development program with the participating cooperative organizations are summarized as follows:

1. Artisans Cooperative Federation (ARTEXCO) - Management is now focused on production and marketing of handicrafts; sales volume has increased from $36,000 in 1987 to $348,000 in 1989; accounting records are up to date; and project-financed renovations have improved product quality through the introduction of dyed yarns which do not bleed.

2. Federation of Regional Agricultural Cooperatives (FECOAR) - New delinquency controls have been introduced; delinquent members have been purged from membership rosters; new, more productive fertilizer blends have been introduced; a new pricing policy includes the capitalization of five percent of credit sales to create reserves for bad debts; and, the Federation has increased share capital interest from 2 to 10 percent. Finally, the agricultural extension program has had dramatic and positive impact on member yields and costs of production.

3. Federation of Guatemalan Agricultural Cooperatives (FEDECOAG) - The Federation has shifted from its social orientation and intermediation of donor assistance to a businesslike, profit-making relationship with its affiliates. Staff was reduced by 50 percent; interest rates are being steadily increased; and a debt restructuring proposal has been submitted to the Agricultural Development Bank (BANDESA).

4. Federation of Cooperatives of Alta and Baja Verapaz (FEDECOVERA): A debt resturcturing proposal has been developed and submitted to BANDESA; a new credit policy has been introduced; strict budgets have been prepared for all 32 member cooperatives; and staff has been reduced by 30 percent to control operating overhead.

5. National Federation of Savings and Loan Cooperatives (FENACOAC): A new capitalization policy has been introduced; market rates have been adopted for both savings and loans; policies have been adopted to lessen the dependence on external capital and promote domestic savings; loans are reclassified annually, calculation of loan delinquency is based on sound banking procedures, and delinquent accounts have been purged; and it is committed to the development of a permanent capital base for credit unions and the federation.

The Financial Stabilization component was also found to be well-conceived, designed, and implemented, and positive indicators of progress were noted. Stabilization funds totalling $2.3 million have been disbursed to two federations (FENACOAC and FECOAR), all six FECOAR cooperative affiliates, and nine of the credit unions affiliated to FENACOAC. In particular, the evaluation concluded that the changes in administrative and operational practices that have arisen from the stabilization agreements are, for the moment, more significant than the pure financial impacts and have far-reaching potential in four specific areas: improved capitalization strategies, interest rate policies, creation of permanent institutional capital and domestic savings mobilization. Finally, the implementation of the stabilization program over a five-year period with annual compliance reviews has increased the liklihood that the process will be internalized. Participating organizations have the time to learn how to manage credit programs under rigid operating standards while the Project retains considerable leverage over the participants during this process.

In summary, implementation of the Project has been characterized by immaginative interventions, an effective methodological approach to institutional development and financial stabilization, and a strong technical and performance capability in the FENACOAC Project Management Office. The immediate Project objective of bringing about fundamental change in the administration and management of participating federations and cooperatives is being achieved, and the foundation has been established for further institutional growth and eventual sustainability.

Principal Recommendations: The Evaluation recommended a series of modifications to the original design to increase effective Project impact, ensure a greater transfer of technology and practical skills, and address the critical economic issues facing the long-term viability of the participating organizations:

* The Project must shift from the current emphasis on the federations to a more aggressive strategy of working directly with base-level cooperatives.
* It must offer a broader range of technical services to more comprehensively address the needs of non-credit union organizations by identifying and strengthening commercial, income-generating activities for the agricultural cooperatives.
* Further efforts should be taken to integrate the technical personnel of the Project Management Office into the participating organizations to ensure skills transfer and continued development after the LOP.
* The Project should be less rigid in qualifying organizations for credit access; and, additional resources are needed to finance a variety of cooperative and farmer investments in production, infrastructure, land and on-farm improvements.
* The financial stabilization component should be increased to complete the stabilization of the current Project participants; alternative investment strategies should be persued to permit a greater impact of the resources on cooperative production and investment; and the disposition of the stabilization capital should be determined prior to the PACD.
* The PACD and the external technical assistance contract should be extended through the end of the first five-year stabilization cycle (mid-1994) at a minimum.

Principal Issues: Several issues identified in the Evaluation are linked to the original design and the time required to ensure that sustainable institutional development occurs:

* On the design side, the Evaluation concluded that the EOP conditions and progress indicators were inadequate; initial projections of the implementation schedule were overly optimistic; and the time frame and resource levels were insufficient to meet the spirit of the Project objectives.

* On the implementation side, the evaluators felt that the original design did not adequately address the fundamental economic issue facing non-financial cooperatives (i.e., existing business volumes are too low to generate the income required to sustain effective cooperative services). Although the Project is succeeding in overcoming many of the initial obstacles to effective implementation of the institutional development program, the design did not include the resources nor the need to address the production, marketing and processing problems of the small farmer clients and their cooperatives.

* Finally, the Evaluation expressed concern that the participating organizations were overly dependent on the FENACOAC Project Management Office and not fully internalizing the goals, policies and strategies being promoted by the Project. Although this unit has demonstrated a very effective performance capability and the participating organizations have adopted a series of significant policy and operational changes, the evaluation recommended a more intensive training effort to ensure follow-on after the LOP.

The recommendations included in the Evaluation will be addressed in the planned FY90 Amendment to the Project. This Amendment will likely extend the PACD; increase Project funding; and expand the institutional development program to include more emphasis on the base-level federation affiliates, as well as the provision of assistance to independent, non-federated cooperatives. Independent cooperatives are not currently eligible for assistance through the Project. In addition, the Amendment will increase the Project's capability to lend for medium and long-term investment; provide additional resources to complete the financial stabilization program; finance increased training for cooperative managers and leaders; and, support expanded activities to address the production, processing and marketing problems facing small farmers.

In closing, the mid-point Evaluation of the Cooperative Strengthening Project has confirmed the Mission's belief that the policy framework for effective and sustainable cooperative development is well developed. Phase II of the Project must now address the complex issues which surround the low profitability of small farmer agriculture and the long-term capability of Guatemalan cooperatives to work within this difficult environment.

Lessons Learned:
* Cooperative access to external financial assistance should be linked to demonstrated administrative and policy reforms to avoid wasting resources.
* Tying disbursements of financial resources to operational performance helps ensure that changes are being internalized;
* Cooperative institutional development programs must address the economic issues facing rural cooperatives (i.e., limited earnings potential) by developing profitable member service programs if the long-term sustainability of cooperative operations is to be assurred.

ATTACHMENTS

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

520-0286 Midterm Evaluation of the Cooperative Strengthening Project in Guatemala

by Development Alternatives, Inc.
(Contract # PDC-5315-I-27-8101-00)
November 1989

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

The DAI evaluation fully met the terms of the Scope of Work included in the IQC Work Order. The Mission reviewed the Evaluation Report in December, 1989, and again on January 24, 1990, to review the issues related to the future direction of the Project and to guide preparation for an Amendment in mid-1990.

As a result, the Mission has adopted a strategy for expanding the Project to: (1) include non-federated organizations; (2) place more emphasis on the development of the base-level cooperative affiliates; (3) provide more assistance to attack the production, marketing and processing problems of farmers; (4) increase the stabilization funding; and (5) seek a GOG counterpart for the credit component. The evaluation has reaffirmed the Mission's decision to merge the Agri-business cooperatives into the Cooperative Strengthening Project, and to place much more emphasis on the issues surrounding the long-term economic viability of the non-financial cooperatives.

Finally, the Grantee organization (FENACOAC) has reviewed the Evaluation and concurs with the findings. The FENACOAC Manager has decided to reorganize the Project Management Office to enable it to provide more assistance to the base-level cooperatives, and additional steps are planned to improve the transfer of technical skills to the participating organizations.

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(Attachment to PES#________)

EVALUATION COST DATA

USAID/Guatemala ________________ or Bureau/Officer ________________

Form completed by Barry Lennon (Typed Name) ORD (Office) 2/7/90 (Date)

1. No. and Title of Project/Activity: Cooperative Strengthening Project 520-0286
   (or Title of Evaluation Report) Mid-term Evaluation

2. Date of Evaluation Report: November, 1989
   Date of PES (if different): February, 1990

3. Mission Staff Person Days involved in this Evaluation (estimated):
   - Professional Staff 20 Person Days
   - Support Staff ______ Person Days

4. AID/W Direct-Hire or IPA TDY support funded by Mission (or office) for this evaluation:

Name	Period of TDY (Person-Days)	Dollar Cost: (Travel, Per Diem, etc)	Source of Funds*
N/A			

5. Contractor Support, if any, for this evaluation:**

Name of Contractor	Contract #	Dollar Amount of Contract	Source of Funds*
Development Alternatives Inc. (DAI)	PDC-5315-I-00-8101-00	56,179	DA Grant (Project funds)

*Indicate Project Budget, PD&S, Mission O.E. or Central/Regional Bureau funds

**IQC, RSSA, PASA, PSC, Purchase Order, Institutional Contract, Cooperative Agreement, etc.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

AGENCIA PARA EL DESARROLLO INTERNACIONAL (E.U.A.)

Office of Rural Development
Report No. 39

Cooperative Strengthening Project
(520-0286)

Mid-term Evaluation

November 1989

USAID / GUATEMALA

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Office of Rural Development
Report No. 39

Cooperative Strengthening Project
(520-0286)

Mid-term Evaluation

November 1989

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5. Assess the potential for expanding the project to include non-federated cooperatives and a new land market financial component (including an estimate of the additional financial and technical resources required to implement these activities).

The evaluation team consisted of John H. Magill, Team Leader; Eric G. Nelson, Financial Analyst; and Miguel Angel Rivarola, Cooperative Institutions Specialist. Field work for the evaluation was carried out between September 5 and October 17, 1989. During that time the team visited all participating federations, a sample of participating cooperatives, a number of non-participating federations and cooperatives, representatives of both federated and non-federated cooperative organizations, and Guatemalan government agencies responsible for cooperative development and regulation. The evaluation team also conducted interviews with representatives of the cooperative development organizations (CDOs) making up the project consortium, and with staff and officials of other USAID/Guatemala rural development and cooperative projects. In addition, the team conducted a thorough review of project documentation, including statistics compiled on the various cooperative organizations participating in the project.

The team wishes to acknowledge the help and support of the CDOs, Guatemalan cooperative federations and cooperatives, USAID/Guatemala staff, and the staff of the Project Management Office of the Cooperative Strengthening Project. Their frank and open appraisal of the project was indispensable for gaining an adequate perspective on the project and its accomplishments. The conclusions and recommendations contained in the report, however, are the sole responsibility of the authors, and do not necessarily reflect the opinions of any of these organizations or individuals.

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EVALUATION SUMMARY:

MAJOR FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The Cooperative Strengthening Project represents a significantly different approach to cooperative development. Its focus on improving administrative and financial management -- first at the federation level and later in the individual cooperatives -- is in sharp contrast to traditional AID-sponsored cooperative development activities that focus on either (a) organization and promotion or (b) production, processing, and marketing technologies. Although the project design includes credit funds to support cooperative business activities, these have not been used to date. The stabilization program uses an innovative approach that does not directly grant resources to the cooperatives, but forces them to "earn" those resources through a five-year implementation period. Finally, although a consortium of cooperative development organizations (CDOs) was contracted to provide technical assistance for the project, few of the technicians have had either cooperative or cooperative development experience.

A. Major Positive Findings

1. The project's general focus on administration and financial management and its specific efforts to address these areas are appropriate and essential:

   - The hard-nosed focus on administration and financial management is both appropriate and valuable, given the current status of the various cooperative groups in Guatemala (poorly managed and fiscally troubled). The project has correctly identified and addresses two major constraints to the long-term viability of cooperative enterprises that have been traditionally overlooked and are frequently the cause of failure in cooperative development efforts. It was essential to implement the administrative and financial reforms before engaging in other program activities: without fundamental reforms in these areas, a traditional cooperative development approach would have been wasted.

   - The stabilization program is well conceived and designed, and is beginning to show results. Implementing a stabilization program over a five-year period with annual compliance reviews appears to increase the likelihood that the process will be internalized. Stretching out the stabilization process over several years gives each participating federation and cooperative the time to learn how to manage credit programs under rigid operating standards. The current

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approach to stabilization provides the project with considerable leverage over the participants, and insures the existence of the fund at the end of the project.

- The focus of the project on institutional development is essential and appropriate. Tying disbursements of financial resources to performance in this area helps insure that changes are being internalized. However, activities to institutionalize project values, norms, and approaches -- such as training, organizational development, team-building, and strategic planning -- should become more intensive.

2. The project appears to be achieving its immediate objectives of bringing about fundamental changes in the administration and financial management of participating federations and cooperatives:

   - Several federations and cooperatives have initiated significant changes in policies, interest rates, pricing, capitalization, and delinquency-control procedures. The initiative for those changes can be traced to project initiatives and activities.

   - There is substantial evidence that the project is having a positive and sustainable impact on individual attitudes and practices related to administration and financial management at both the federation level and among member cooperatives. The participants are receptive, interested, and even eager to make the changes identified through the project.

   - The project has had noticeable success in developing and reinforcing an entrepreneurial attitude and orientation in several of the participating institutions.

3. The implementation of the project has been distinguished by imaginative interventions, a methodological approach that has been successful in the short run, and an especially competent project team:

   - The technical interventions of the project (such as the work of the soil agronomist in FECOAR and the agronomist assigned to FEDECOVERA), even though not contemplated in the original project design, are proving to be a valuable addition to the project.

   - Although the style of the project (a "blue-print" model involving externally imposed analysis, planning, and implementation) flouts conventional wisdom on the effectiveness of development assistance (local participation in problem identification, goal setting, and implementation is essential for sustainability), this approach appears to be both suited to and working in this situation -- at least in the short run, and at least as far as achieving immediate project objectives.

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- There is a strong technical and performance capability in the Project Management Office (PMO) team, among both Guatemalan and expatriate staff.

B. Major Issues or Concerns

1. The project has endured poorly defined objectives, delays in implementation and results that have been slow to materialize:

   - The absence of a Project Paper means that objectives -- especially goals, targets, EOPS conditions, and the logical relationship between inputs, outputs, and achieving the conditions expected at the end of project -- are poorly defined. The "Design Document" is not an adequate substitute for a project paper. The lack of a Project Paper has left project implementation without AID's position on important issues and without an adequate set of monitoring indicators.

   - Initial projections of the implementation schedule were overly optimistic, given the magnitude of the changes required of the participating cooperative groups and the number of organizations with which the project had to work. Completion of the initial federation diagnoses and the development of approved implementation plans was about nine months behind original projections.

   - Strict procedures adopted by the project -- including the time spent in preparing documents, diagnoses, contracts, and work plans -- delayed the start of assistance efforts to both the federations and cooperatives. Stabilization and credit activities were postponed until progress had been demonstrated in institutional reforms. Implementation of the stabilization program has been delayed accordingly, with the result that only two of the six participating federations and 15 cooperatives have received stabilization assistance. No credit funds have yet been disbursed.

2. While the project is succeeding in introducing significant changes, three key weaknesses in the current project effort require further consideration and action:

   a. **Insufficient Time and Resources.** The time frame and resource level of the project are inadequate to meet the spirit of the project objectives. By the scheduled end-of-project, only a subset of the project's objectives will have been reached and insufficient time will remain to ensure the sustainability of results in the beneficiary organizations.

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- Developing a viable and effective cooperative movement requires a long-term effort and commitment, while this is a short-term project. The types of changes contemplated by the project will require an extended period of time to adopt, adapt, and internalize.

- The project has not adequately defined the level of resources required to accomplish its major objectives, including (a) the amount needed for stabilization, (b) the amount needed for computerization, (c) the amount of credit required. Stabilization funds are inadequate to cover existing non-recoverable loans.

- The project team is spread too thin due to the large number of institutions being supported. Impact at the primary cooperative level is limited since the project has only just begun to work with individual cooperatives. It will not have worked with enough base-level cooperatives by the end of project to provide a solid foundation for the continued growth and expansion of the federated movements.

b. **Limited Scope.** The project as it is currently designed does not adequately address the fundamental economic issue facing non-financial cooperatives -- existing business volumes are so low that revenues cannot be expected to sustain effective organizations. The project also fails to address adequately the policy and regulatory environment affecting cooperatives.

- The project design did not include resources to address production, processing, and marketing problems, and did not include sufficient resources to help the federations and cooperatives identify and develop business opportunities. These are essential if the administrative and financial reforms enacted in several sectors (particularly FEDECOVERA, FEDECOAG and FECOAR) are to be meaningful.

- The project fails to address some of the fundamental policy and regulatory issues that are having a negative impact on cooperative growth and development. The role and deficiencies of INACOP and INGECOP have not been addressed, even though the project design recognized the importance of improving the government's cooperative regulatory environment and provided limited resources for that purpose. Reforming the regulatory environment will become even more important in the future, as cooperative groups are encouraged by the project to engage in commercial-oriented activities that are not permitted under current legislation.

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c. **Sustainability.** The project is not paying sufficient attention to the issue of developing a capacity within the cooperative institutions to sustain project activities and benefits beyond the life of the project.

- Project implementers -- the CDOs, PMO, and USAID/Guatemala project management -- are not paying sufficient attention to the long-term implications of the project's approach and style. The project tends to have a top-down approach. Proposed changes are introduced from outside instead of being generated with the active participation of the institution. These and other characteristics of project implementation -- such as the isolation of the PMO and its staff from the organizations they support; the tendency of PMO staff to do things themselves; and the absence of sufficient training and organizational development resources to transfer the concepts, methods, and skills to the recipient organizations -- mitigate against the internalization of project norms and methodologies.

- As a consequence, the evaluation team is concerned that the results are not being sufficiently internalized to ensure continued implementation of the new programs following the end of the project. The beneficiary organizations tend to view the project as another program that is being given to them rather than as a resource that is helping them to define and implement their own program.

C. Major Conclusions

The major conclusions of the evaluation can be summarized as follows:

1. The project is significantly different from traditional cooperative development programs financed by AID.

2. What the project is attempting to accomplish is both significant and valuable.

3. The project is successfully accomplishing its immediate objectives, and has succeeded in introdu... significant changes in policies, attitudes, management practices, and financial management.

4. The project will not, however, accomplish the implied project purpose and other objectives within the currently approved time frame and resource level:

   a. Will have accomplished only part of the work plan in the federations;

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b. Will have worked with only a limited number of cooperatives; and

c. Will not have worked with them long enough to ensure sustainability of results.

5. The project does not adequately address some of the major issues impeding the growth and development of the cooperative organizations.

6. There are some internal problems with the project that, if resolved, would improve performance.

7. Expanding the project to include the cooperatives portion of the agribusiness project and a land sale component will significantly increase the level of effort required by project staff. The feasibility of incorporating these components is a function of administrative capacity and resources.

D. Major Recommendations

The following recommendations are divided into four groups: (1) the two major recommendations for improving project implementation and impact, (2) recommendations relating to improving the impact of the project as it is currently designed, (3) recommendations related to expanding the scope and purpose of the project, and (4) other recommendations.

1. General Recommendations

Focus on Institutionalizing Project Benefits. The project needs to be more concerned with building the capacity of the federations to replicate and continue project activities -- that is, the transfer of technology and practical skills to the federations and the institutionalization of project norms, methods, and procedures. This should encompass three separate activities: first, a long-term plan to retain PMO local professionals in the cooperative movement once the project terminates; second, greater emphasis on building institutional capacity in the federations to carry out project activities; and third, utilization of a more participatory approach to designing and providing technical assistance to the cooperatives. If possible the project should disperse direct technical assistance functions into the federations.

Increase Focus on Primary Level Cooperatives. The project needs to shift the emphasis of its activities from support of the federations to support of base-level cooperatives. In doing so, USAID/Guatemala should eliminate the restriction on working with only federated cooperatives to permit the project to provide assistance to independent cooperatives that are interested in undertaking serious internal reforms and that have a high potential for success.

2. Recommendations for Strengthening the Current Project

Clarify Project Design. USAID/Guatemala needs to engage in a major design clarification. It needs to develop a project paper that clearly describes goal-level and purpose level objectives, and that articulates the major elements of the "developmental hypothesis." In particular, the project purpose and end-of-project-status conditions need to be revised and made more specific. The redesign should also focus increased attention on developing business capacity and volumes in the federations and their affiliated cooperatives.

Extend the Life of Project. The project activity completion date (PACD) should be extended through at least the end of the first five-year stabilization cycle for the cooperatives in the program -- 1994. External technical assistance and the life of the PMO should also be extended through that date.

Increase Emphasis on Training and Organizational Development. There should be a greater emphasis on training, strategic planning, and organizational development, and other transfer-of-technology techniques to reinforce and institutionalize the changes that have been introduced by the project. In particular, the project needs to place a greater emphasis on using training as a means to generate initial consensus and understanding within the institutions, develop trained personnel to continue the new tasks, and develop managerial skills. Strategic planning and business-opportunity identification and planning are two other aspects that need to be stressed to insure the long-term sustainability of project-induced changes.

Develop a Training Plan. The project needs to have an overall training plan that coordinates a variety of human resource development activities -- including planning, technical training, managerial development, and problem analysis -- for all of the participating federations. Resources to carry out the training can come from a variety of sources -- the CDOs, U.S. and third-country participant training, and the use of local training institutions and programs.

Increase Stabilization Component. Funds allocated to stabilization have been exhausted, yet the stabilization problems of the participating organizations have not been resolved. An estimated addition of $3 million is required to complete stabilization activities. Although the stabilization component should be increased, the increase should not be at the expense of the credit component. Credit is the only component in the current project that directly addresses the issue of increasing business volumes in the agricultural cooperatives, and is essential for operating viable supply and marketing operations in those cooperatives.

Disburse Credit Funds. The project needs to begin to disburse credit funds to selected federations and cooperatives. In keeping with the general philosophy of the project, such disbursements should be contingent upon progressive fulfillment of administrative and financial obligations. Limited credit programs are especially needed for FECOAR and FEDECOVERA. FENACOAC should not participate in the credit component of the project.

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3. Recommendations for an Expanded Project Effort

Expand Range of Services. The project needs to offer a broader range of technical services that address more comprehensively the problems and needs of non-credit union institutions. Although the current focus on administrative and financial management improvement is necessary to ensure proper application and maintenance of resources, this does not sufficiently address the long-term issues facing many of the organizations. Current activities in this area should enter a maintenance and reinforcement phase in the second half of the project.

Focus on Generating Sustainable Business Activities. The project should focus increasingly on generating sustainable business activities in the federations and their member cooperatives. The non-financial federations and cooperatives are plagued by low business volumes, which are the result of a variety of production, processing, and marketing constraints. Addressing these constraints requires additional resources in the areas of agricultural technical assistance (which may be met through the employment of local extensionists), processing, and marketing.

Restructure the PMO. The PMO should be restructured to better manage the increased workload and the change in focus on developing the business activities of the agricultural cooperatives.[1] The PMO needs to have an administrative assistant, a section to manage financial resources (credit and stabilization), a section to manage the current institutional development activities, and a technical division to support agricultural business development. The core staff of the PMO should, therefore, contain technical specialists that coordinate technical assistance and other resources for all of the participating cooperative groups. At the same time, the PMO should have another group of technicians that are assigned to work with specific federations; if possible, these technicians should be assigned to work in the federations rather than in the PMO office.

Increase Short-Term Technical Assistance Resources. The project design needs to include short-term consultancies in specialized fields such as central finance; share insurance; and various production, marketing, and processing activities related to the business side of agricultural cooperatives. This short-term assistance should be provided by the participating CDOs.

4. Other Recommendations

Define the Future of the Stabilization Fund. USAID/Guatemala and the PMO need to define the future of the stabilization and credit funds. This needs to be decided well in advance of the PACD to avoid in-fighting among the

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[1]This is especially true if the new components discussed in the following chapter are added to the project.

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cooperative organizations and to assure that the mechanisms for handling the funds are in place before the funds are distributed.

Make Better Use of Stabilization Funds. The project needs to explore alternative placements and uses for the stabilization funds. At present these funds are unleveraged and are invested in non-development related activities. The project should consider lending these funds to qualified cooperatives, or using the funds as a guarantee to leverage additional stabilization monies from local currency sources. On the other hand, the project might also want to consider investing these in dollar-denominated instruments to protect against probable future devaluations.

Establish More Ambitious Performance Targets. More demanding targets and standards, especially in terms of growth and expansion of business activities, should be exacted from the participating federations. FENACOAC, in particular, should be encouraged to establish aggressive marketing and expansion goals -- it has been in a non-growth "consolidation" phase for the past 15 years. The other federations need to be encouraged to expand their market horizons.

Improve Performance Monitoring. Project reporting, monitoring, and performance evaluation processes should be revised to focue on accomplishments rather than activities performed. Staff should be held accountable for achieving objectives -- not just doing work. The project's work plans should not be used as rigid documents; they should be flexible enough to accept changes and reprogramming during the year.

Define Parameters of the Computer Program. The parameters of the computer program are unclear at this time. There is no clear-cut statement of how many units are to be installed, how they are to be paid for, or the budget needed to implement the project. These need to be articulated. Procurement and installation need to be accelerated.

Improve Project Coordination. Current relations among the CDOs and among the expatriate staff members of the PMO are disruptive and need to be improved. A team-building approach may be useful in improving the effectiveness of the PMO staff. The CDOs themselves need to develop a more workable relationship for supporting the project.

Improve Project Linkages with Other Programs. The project should attempt to utilize other available resources, such as Peace Corps volunteers for direct work in the cooperatives, the PROEXAG project to resolve issues related to international marketing, CENDEC for local training, and VOCA as a source of short-term specialized technical assistance.

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PART ONE

INTRODUCTION

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I. PROJECT SETTING

A. Background

1. Origins of the Cooperative Movement in Guatemala

Cooperatives have been a legally recognized form of enterprise in Guatemala for more than 80 years, as the first cooperative law was promulgated in 1903. However, it primarily created tax and other advantages for individual private enterprises instead of providing a basis for viable cooperative institutions.

TABLE I-1

ACTIVE COOPERATIVES IN 1953 BY SECTOR

Consumer	25
Credit Union	19
Academic	7
Artisans & Others	6
Agriculture	5
Total	62

The popularly elected governments of Arévalo and Guzmán (1944 to 1954) were more supportive of cooperative organizations. A Cooperative Promotion Department was created, and by 1953 a total of 62 cooperatives were active in the country.[1] The governments that followed, however, were generally neutral, if not antagonistic, toward cooperatives.

The Alliance for Progress, the Catholic Church, other international missions, and U.S.-based cooperative development organizations (CDOs) directed significant resources toward creating and strengthening cooperatives during the 1960s. Most of this development effort focused on rural areas, as cooperatives were viewed as a means of channeling essential services and stimulating rural income growth. Access to sources of credit became a prime factor in stimulating local participation in the newly founded cooperative organizations.

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[1] CONFECOOP, "Visualización del Movimiento Cooperativo: Antecedentes y Perspectivas," June 1989.

2. USAID/Guatemala and CDO Support

USAID/Guatemala began to support cooperative development in the mid-1960s. The Mission provided substantial support to the nascent credit union movement through a technical assistance contract with the Credit Union National Association (CUNA).[2] These activities led to a consolidation of independent credit unions and the establishment of a national credit union federation, FENACOAC. A Mission-funded project with Agricultural Cooperative Development International (ACDI) led to the establishment of six regional agricultural cooperatives that comprised the Federation of Regional Agricultural Cooperatives, or FECOAR.

The Mission continued to support cooperative development during the 1970s and 1980s. Both the Small Farmer Development Project and the Small Farmer Marketing Project, for example, focused on cooperatives as mechanisms for channeling assistance to the rural poor. The rural cooperatives were also used as a mechanism for distributing reconstruction assistance in the aftermath of the 1976 earthquake. The Mission supported an attempt by two of the cooperative federations to create a joint cooperative marketing association.

Several recent projects -- notably the Agribusiness, Dairy and Cooperative Strengthening projects -- highlight the Mission's continued interest in, and commitment to, developing cooperative organizations as a means of improving the income and socio-economic status of Guatemala's rural poor.

B. The Present Situation

Guatemala has the fourth highest population growth rate in Latin America. Sixty-one percent of Guatemalans live in rural areas, and fifty-eight percent of the labor force is directly employed in the agriculture sector. However, the agricultural sector generates only 25 percent of the gross domestic product (GDP), reflecting the low productivity of labor in agriculture compared to other sectors.[3] The gross level of employment has remained relatively constant since 1980, which means that unemployment and underemployment rates have risen during the period. Real GDP per capita peaked in 1980, and dropped 20 percent before levelling off in 1986. The current level is equivalent to the GDP per capita of 1972. Savings as a

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[2]CUNA transferred responsibility for its international credit union development contracts to the World Council of Credit Unions (WOCCU) in the early 1980s.

[3]Randy Stringer, "The Structure of Land Markets and Land Use by FECOAR Household Members", Land Tenure Center, University of Wisconsin-Madison, September, 1989.

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percentage of GDP has been cut nearly in half since 1980, averaging between seven and eight percent in 1988.[4]

The Quetzal was devalued 150 percent from its fixed par value with the U.S. dollar in 1985. Exchange rates have fluctuated between 2.50 and 3.00 Quetzales to the U.S. dollar since 1985. Inflation has averaged 20 percent per annum from 1985 to 1988, according to National Institute of Statistics' data. Between 1981 and 1985, inflation was 5 percent per annum on the average.[5] USAID/Guatemala estimates that inflation will be 3.5 percent in 1989.

Land distribution in Guatemala is highly skewed; less than 3 percent of the farms account for 65 percent of the farmland. The Guatemalan highlands, which is the most densely populated region in the nation, also has the highest concentration of cooperatives. Less than 35 percent of the highland farms are large enough[6] to feed and employ the average highland family. At the same time, the number of landless rural dwellers (currently estimated to exceed 400,000) is increasing.

The land situation in the highlands is clearly deteriorating. Between 1964 and 1979, for example, the number of plots that were inadequate to support a peasant family increased from 47 to 66 percent of all farms. In 1964 the average "microfarm" had approximately 1 acre. By 1979, as a result of rapid population growth and a lack of access to land markets, the average micro-farm size decreased to 0.75 acres. Nevertheless, these highland microfarms produce most of Guatemala's vegetable crops.[7]

1. Structure and Composition of the Cooperative Movement

The most recent statistics on the Guatemalan cooperative movement were released by the Confederation of Federated Cooperatives (CONFECOOP), in coordination with the government's National Cooperative Institute (INACOP), in late 1988. This report lists 1,008 cooperatives in the country, with the highest concentration in the highland departments of Chimaltenango, Quiché, Sololá, Quezaltenango, Huehuetenango and San Marcos.[8] According to

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[4] Victor Suárez, "Analiza Economía del País," El Gráfico, September 6, 1989.

[5] Instituto de Investigaciones Económicas y Sociales, Boletín Económica al Día, USAC (University of San Carlos), Guatemala, August, 1989.

[6] Two or more manzanas (about 3.5 acres) are considered to be the minimum amount of land necessary to support an average family.

[7] Stringer, op.cit.

[8] No recent census has been conducted of the cooperative sector. Many of the registered cooperatives, therefore, may not be viable or functioning entities, and the statistics include inactive members.

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CONFECOOP, 360 of these 1008 cooperatives are inactive. At least 10 percent of the total reported membership of 218,595 is also considered inactive.[9]

TABLE I-2

CURRENT DISTRIBUTION OF COOPERATIVES IN GUATEMALA

Cooperative Sector	Number of Cooperatives	Number of Members
Credit Union	204	128,970
Agriculture	485	52,483
Consumer	137	24,145
Housing	73	8,778
Production	72	2,186
Transport and Special Services	37	2,033
Totals	1,008	218,595

Source: INACOP/CONFECOOP, 1988

The Guatemalan cooperative movement is predominantly rural. As can be seen in Table I-2, the largest number of registered cooperatives (485) is engaged in agriculture. Even though most members belong to credit unions, these are also primarily rural institutions. Only three credit unions are located in Guatemala City, and most serve a predominantly rural membership base.

Approximately 300 of the active cooperatives in the country are affiliated with one of 10 cooperative federations: FENACOAC (credit unions), FECOAR (agriculture), ARTEXCO (artisan cooperatives), FEDECCON (consumer cooperatives), FEDECOAG (agriculture), FEDECOVERA (agriculture), FEDEPESCA (fisheries), FENACOVI (housing), FECOMERQ (agriculture) and FEDECOCAGUA (agriculture). Although this represents only 30 percent of the total number of registered cooperatives, these tend to be the larger and stronger cooperatives.[10] As a result, the federated cooperatives represent nearly 50 percent of the active cooperatives, and 72 percent of the total cooperative membership in the country. Most of the 360 inactive cooperatives (88 percent), and most of the reportedly inactive cooperative members (85 percent), are found in the non-federated cooperatives.

Table I-3 presents basic statistics for the federated cooperative sector. As in the case of the overall movement, however, these statistics are

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[9] Eddie Perdomo, "Estudio Económico para la Creación de una Empresa Aseguradora", Cooperative Strengthening Project, June 1989.

[10] Some of the most successful cooperatives, however, such as Cuatro Pinos and Inmaculada Concepción, are not affiliated with one of the national federations.

somewhat questionable: the number of viable cooperatives and active members is considerably lower.

TABLE I-3

CHARACTERISTICS OF FEDERATED COOPERATIVE SYSTEMS

Federation	Year Founded	Principal Activity	Number of Coops	Number of Members	Percent of Total Members
FENACOAC	1963	Credit Unions	68	104,061	47.6
FECOAR	1973	Agriculture	6	10,456	4.8
FECOMERQ	1965	Agriculture	12	9,152	4.2
FEDECOCAGUA	1969	Coffee	67	7,837	3.6
FEDECOAG	1968	Agriculture	46	7,697	3.5
FEDECCON	1972	Consumer	34	7,208	3.3
FEDECOVERA	1976	Coffee	28	5,617	2.6
FENACOVI	1977	Housing	20	3,213	1.5
ARTEXCO	1976	Artisans	22	1,725	0.8
FEDEPESCA	1977	Fishing	3	76	-
Total			306	157,042	71.8

Source: INACOP/CONFECOOP (1988), and Project Management Office.

These federations, in turn, are allied under the aegis of the Confederation of Federated Cooperatives (CONFECOOP), which was founded in 1977. CONFECOOP's principal roles have been to serve as a forum for integrating the federated cooperative system and for representing the interests of the federated cooperative movement before the Guatemalan government.

Another recently formed organization, the Grand Union of Non-Federated Cooperatives (GUCONOFE), claims to represent the non-federated cooperative movement. Independent cooperatives account for only a small minority of all cooperative members, however, and the stronger independent cooperatives (such as Cuatro Pinos and Inmaculada Concepción) have no affiliation with GUCONOFE. GUCONOFE has been active in lobbying the government during recent considerations of a proposed new cooperative law that would, among other things, legally recognize GUCONOFE as an organization parallel to CONFECOOP.

Two public-sector institutions regulate and supervise the cooperative sector. One, the National Institute of Cooperatives (INACOP), was created in 1979 to centralize all non-financial public programs related to cooperatives. INACOP is responsible for promoting and registering cooperatives, and for providing advisory assistance and education. The second -- the

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Inspector General of Cooperatives (INGECOP) -- was created as an independent agency in 1988.[11] It is responsible for auditing cooperative organizations. During 1988, INGECOP reported having audited more than half of the registered cooperative organizations. Both INACOP and INGECOP are financially and technically weak.

2. Recent Historical Problems

Three recent historical events have had significant impacts on cooperatives in Guatemala: the reconstruction efforts following the 1976 earthquake, the widespread social and political violence of the late 1970s and early 1980s, and recent public policies design at winning political support.

Following the devastating earthquake of 1976, cooperatives reduced normal operations and concentrated on emergency relief. Both the government and international donor agencies used the cooperative movement as a channel for distributing funda and materials for relief and reconstruction to the rural sector. In many cases the cooperatives failed to recognize that as loan rather than grant assistance. In other cases they failed to disburse the loans carefully or to charge adequately for the services. As a result, operating losses and delinquencies increased, and many of the cooperatives suffered significant decapitalization. Between 50 and 75 percent of the outstanding bad debt of the federated cooperatives can be traced directly to the reconstruction effort.

The political violence in rural Guatemala during the late 1970s and early 1980s seriously damaged the cooperative movement. Countless numbers of top and middle level managers, as well as members, were killed or forced to flee the country. Economic activity declined precipitously in the countryside. Membership declines caused increased operating losses as the volume of operations fell. Delinquency and irrecoverable loans increased as a result of the death or migration of members. Social programs initiated to support widows and orphans of this epoch were an added drain on limited financial resources. By the mid-1980s the cooperative movement was in a state of disarray -- its economic base destroyed and its leadership psychologically and physically intimidated.

The recent public policy environment has also created problems for the cooperative movement. The public sector agricultural development bank, BANDESA, a primary source of credit to cooperatives and rural producers, has contributed to cooperatives' problems through its inconsistent lending and erratic collection. This problem is exacerbated by the government's tendency to channel politically expedient, poorly conceived and poorly administered BANDESA loans through the cooperatives. Often considered by the cooperatives and their members to be gifts rather than loans, cooperatives are typically in default on these loans, and cooperative members in turn are highly delinquent on repaying the same funds. In response to the high delinquency in its cooperative loan portfolio, BANDESA has denied

[11] Prior to 1988 INGECOP functioned as a section of INACOP.

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further credit to cooperatives that are in arrears on previous loans, and has begun to initiate collection efforts.

3. Current Situation

When the Cooperative Strengthening Project was designed in 1985, therefore, the cooperative movement in Guatemala was weak and disorganized. Many cooperatives had ceased to function as effective institutions. Leadership was weak, the capital base of the movements had been seriously eroded, membership was stagnant or declining, and there was a serious doubt as to whether the movements could regain their role in providing services to the rural population.

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II. PROJECT DESCRIPTION

Cooperatives have traditionally been important as mechanisms for channeling credit and services to farmers and rural communities in Guatemala. In many communities, cooperatives represent the only institutions offering high-risk, low-profit services to the rural poor; private enterprises and government institutions have had only a limited outreach in much of rural Guatemala.

By the mid-1980s, when the Cooperative Strengthening Project was designed, the Guatemalan cooperative movement had suffered a serious decline. A decade of national political violence and high levels of inflation, coupled with outdated cooperative philosophies and inappropriate management policies, had left the movements financially weak and relatively ineffective. The movement had lost much of its leadership, and was characterized by large financial and membership losses, operating losses, high loan delinquency and decapitalization. With declining external donations and increasingly scarce concessionary credit, services to members had been sharply curtailed.

The Cooperative Strengthening Project[12] was initiated in 1986 to help revitalize several rural-oriented cooperative movements. Past successes in Mission-funded cooperative development projects -- notably the FENACOAC and FECOAR development programs of the 1960s and 1970s, the Small Farmer Development Project and the Small Farmer Marketing Projects, and the cooperative components of the Agribusiness project -- and the ever-continuing difficulty of developing effective service delivery mechanisms through public sector programs, supported a belief that cooperatives represented a potentially viable and effective way to complement inconsistent government programs and channel resources to the rural population. USAID/Guatemala viewed the project as a relatively high-risk effort, but one that was essential to reestablishing effective service delivery to marginal rural populations.

A. Target Institutions

The Cooperative Strengthening Project works with the "federated" cooperative movement of Guatemala; preservation and improvement of the federated structure is a key aspect of the project's strategy. This focus was selected because the federations represent vertically integrated structures, economies of scale, representational strength, a relative degree of institutional development, and the ability to achieve a multiplier effect beyond the life of the project.

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[12] Known in Spanish as the Proyecto Fortalecimiento Cooperativo (PFC).

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Support of base-level cooperatives is undertaken in cooperation with the federations, emphasizing the involvement of the federations in activities with their affiliates. The desired result is that the strengthened federations will be able to better assist and strengthen member cooperatives on an ongoing basis. Individual, non-federated cooperatives are not supported through the project.

As initially planned, the project was to work with only the three strongest federations: FENACOAC, FECOAR, and FEDECOCAGUA.[13] As implementation of the project began, however, CONFECOOP insisted that the project had to be available to all its member federations. Only FENACOVI, the housing cooperative federation, and FEDEPESCA, which was inactive, were excluded. FEDECOCAGUA later declined to participate after receiving a large donation from the Konrad Adenaur Foundation. Seven federations -- FENACOAC, FECOAR, ARTEXCO, FEDECOVERA, FEDECOAG, FEDECCON and FECOMERQ -- entered into the project, although FECOMERQ later withdrew when it was unable (or unwilling) to comply with project standards.

B. General Objectives

The general objective of the project is to strengthen the service delivery and management capabilities of participating cooperative organizations, based on the assumption that the cooperative movement offers the best mechanism for channeling services and resources to marginal segments of the rural population in Guatemala. Access to improved and expanded services through the cooperatives is considered to be essential for achieving one of USAID/Guatemala's broader objectives, which are to increase rural family incomes and productivity.

The scope and focus of the project were established in two separate studies of the cooperative federations -- one, a study of the needs of the credit union federation (FENACOAC) that was carried out in 1985; the second, a parallel study of the problems and needs of other cooperative federations. These studies indicated a common set of problems throughout the various cooperative sectors:

- High loan delinquency and weak credit administration;
- Low profitability and poor operational and pricing policies;
- Decapitalization due to asset losses, inadequate reserving and earnings retention policies, member withdrawals and debt amortization;

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[13] USAID/Guatemala had earlier been instrumental in establishing and strengthening both FENACOAC and FECOAR.

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- High levels of risk in the system due to insufficient levels of retained earnings and reserves relative to member shares and liabilities to third parties;

- Poorly paid and trained staff and leadership, frequently employing only the most rudimentary techniques of financial and operational management; and

- Inadequate external regulation of cooperatives and credit unions, often combined with a lack of effective internal controls and financial discipline.

Based on these analyses, USAID/Guatemala approved a project to address three of the primary weaknesses of the cooperative system -- poor and inappropriate management policies and practices, poor internal capitalization, and a lack of liquidity. To accomplish this the project provides a combination of technical assistance, training and policy guidance, along with investment credit and recapitalization funds.

C. Goals and Objectives

There is no approved Project Paper for the Cooperative Strengthening Project. As a result, there is no single, consistent and official description of the project or its objectives. Statements of the project's Goals, Purposes and Outputs appear in several different documents.[14] Unfortunately, these descriptions vary in structure and degree of specificity, and do not provide a consistent description of the project.

The following statements of the goals and objectives of the Cooperative Strengthening Project are reconstructed from the various documents, organized to fit into a "Logical Framework."[15]

1. Project Goal

The goal of the project is to increase rural incomes and productivity. The PID tentatively identified several goal-level indicators, including:

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[14] Relevant project documents include the "Project Identification Document," (PID) dated November 15, 1985; the "Cooperative Strengthening Project: Design Documentation, Volume I" prepared by WOCCU in June 1986; and the Cooperative Agreement between USAID/Guatemala and FENACOAC, dated August 1986.

[15] The "Logical Framework" is a planning methodology developed by A.I.D. in the late 1960s and early 1970s. Properly used it is a powerful tool for assessing the internal logic, feasibility and potential impact of a development project.

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- Increased equity holdings in the cooperatives;
- Enhanced security for savings and capital shares;
- Improved access to farm inputs, marketing opportunities and useful information related to production decisions; and
- More defined, orderly and reliable sources of credit for productive purposes.

With the possible exception of the first item in the list, however, these are not appropriate indicators of increased income or productivity. If anything, they more appropriately indicate improvements in the cooperative institutions themselves -- financial stability, improved services and expanded credit operations -- than an impact on member income and productivity growth.

Indicators of goal achievement in other project documents are limited to "farm income" and "farm production," and the means for verifying these are equally vague and non-implementable.

2. Project Purpose and End-of-Project Status

The purpose of the project is to develop a viable, efficient and effective Guatemalan cooperative movement (including federations and their affiliated cooperatives) that is providing effective and needed services to rural communities and small farmers.[16] This is to be accomplished through strengthening the managerial and service capabilities, and the business performance, of selected cooperative federations and their affiliated cooperatives. "Viable," "efficient," and "effective" are thus defined as well-managed, financially sound and economically profitable organizations that are providing high-quality, needed services to their members (cooperatives in the case of the federations and individuals in the case of the cooperatives).

In the Logical Framework system, the "Conditions Expected at End of Project," or the "End of Project Status" (EOPS), are the conditions that indicate that the project purpose has been successfully achieved. Because the project purpose is to create well-managed, financially sound and economically profitable organizations that are providing high-quality, needed services to their members, the EOPS should contain a listing of conditions that indicate good management, financial soundness, economic profitability and quality service provision. Furthermore, indicator targets should specify a planned progression toward accomplishing those conditions, from the original deficient to the final targeted condition, over the life of the project. Unfortunately, none of the project documentation -- neither the planning and obligating documents nor the current work plans -- contain an adequate description of the conditions that signify a successful project.

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[16] Although listed as a "subgoal" in the PID, this is actually a rewording of the project purpose statement in the same document. "Project Identification Document," p. 9.

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In the PID, indicators of EOPS conditions included:[17]

- A general increase in management efficiency;
- New and better trained managers hired; present managers with improved skills in accounting, managerial finance, marketing, personnel, organization; well-trained staff, with a professional attitude, managing loan portfolios and capable of reviewing and processing loan requests on their financial merit;
- Overall improvements in financial performance (improved financial profitability, fewer delinquent debts, realizable accrued interest receivable, increased and improved asset earning base, increased earnings and higher reserves);
- Improved policies on interest paid on savings, interest charged on loans, guarantee requirements and collection procedures;
- Improved federation and cooperative financial operations, including better loan placement and collection techniques, resulting in more secure loans and lessened delinquency;
- Credit management, loan placement and collection, auditing, employee benefit and promotion, and other policies strengthened;
- An effective savings mobilization mechanism in place; and
- A definite change in external government policies.

The project design document tends to list non-financial end-of-project indicators in terms of project outputs and inputs ("growth and diversification areas identified" and "pilot/other efforts underway to exploit identified opportunities," for example, instead of "increase in non-traditional income as a percentage of total income" as indicators of income diversification). The confusion over purpose-, output- and input-level indicators in the design documentation obfuscates rather than clarifies the project's logic and rationale.

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[17] Ibid., p. 14.

3. The Developmental Hypothesis

The key "developmental hypotheses"[18] seem to be:

a. If cooperative organizations are delivering high-quality, fairly-priced, needed services to their members, then the members will be able to lower unit costs of production, have higher levels of production and productivity, and be able to market their products at a fairer price. If this is the case, then rural productivity and income will increase.

b. Strengthening the managerial, financial and service capacities of the national federations is both essential to, and the most efficient way of, improving the management, financial stability and quality of services provided by the cooperatives.

The first hypothesis justifies the use of cooperatives as a mechanism for improving rural productivity and income. The second justifies the rationale for the project's working through the national federations.

4. Project Inputs

The project was initially designed as a five-year effort, with a Project Activity Completion Date (PACD) of June 1991. The technical assistance component was programmed as a three-year effort that began in June 1987 and is scheduled to terminate in May 1990.[19] Figure 1 shows the distribution of project resources by major funding category.

Approximately 58 percent ($6,395.0 million) of the total budget is for "program-related" expenses.[20] This includes $2.5 million for stabilization, $2.8 million for credit, and $1.0 million for institutional development. Institutional development covered training, capital improvements, subsidies and local technical assistance.

"Project" expenses, required to implement the project, included technical assistance, USAID project management services, and Project Management Office expenses. The international technical assistance portion covered the costs of both the technicians and home office support and overhead.

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[18]In terms of the A.I.D.'s Logical Framework System, the "developmental hypothesis" is the major assumption that tests whether or not achieving the project purpose will, in fact, have an impact on the stated goals.

[19]In the original project design technical assistance was also scheduled for five years. The time period and budgeted amount were reduced during contract negotiations.

[20]Defined here as funds spent within the beneficiary organizations.

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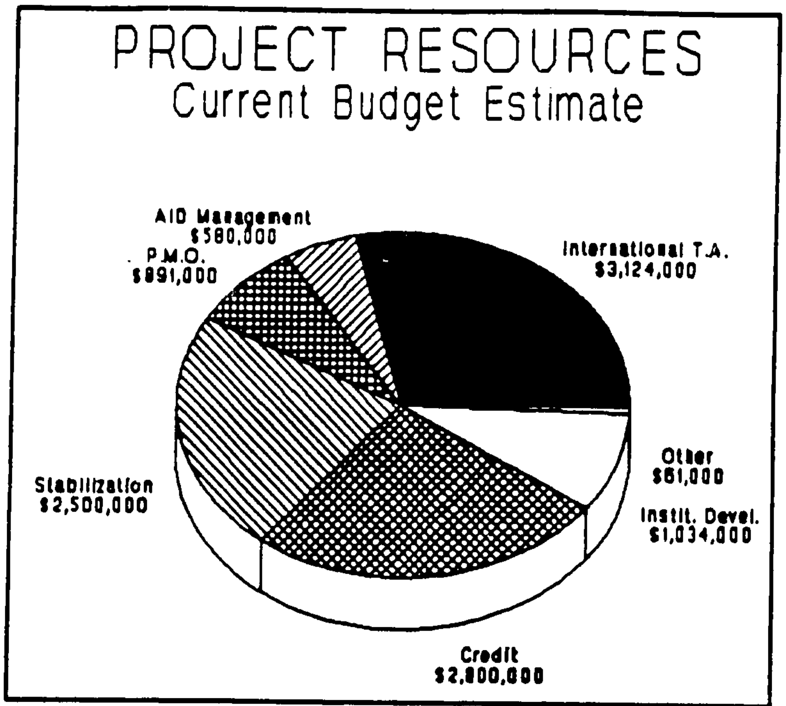

Figure 1

USAID/Guatemala contracted the services of a resident project manager for the life of the project at a total cost, including support, of $580,000. Funds to operate the Project Management Office represent 8.1 percent of the total budget.

"Other" items in the budget include $50,000 programmed to support the Confederation of Federated Cooperatives (CONFECOOP), and $11,000 for INACOP, the government regulatory agency for cooperatives.

5. Summary

The absence of adequate and well-defined project documentation led to some initial problems in organizing the project and determining the scope of its involvement with the various movements. The project has, over time, developed a coherent implementation strategy that attacks the fundamental weakness of the federated cooperative system. Inadequate documentation still, however, hinders understanding of the project (its objectives, strategies and pace of execution) and has complicated effective monitoring and reporting.

D. Summary Project Description

The Cooperative Strengthening Project is administered by the National Federation of Savings and Credit Cooperatives (FENACOAC) through a Cooperative Agreement with USAID/Guatemala that was signed on August 26, 1986. A consortium of cooperative development organizations, led by the World Council of Credit Unions (WOCCU)[21], was contracted in June 1987 to provide advisory and project implementation assistance to the Guatemalan cooperative movements. This contract, which was for only three years of the five-year project, is scheduled to expire in May 1990.

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[21]Other members of the consortium include Agricultural Cooperative Development International (ACDI), National Cooperative Business Association (NCBA), and the Latin American Confederation of Credit Unions (COLAC).

Day-to-day project implementation is carried out by a Project Management Office (PMO) that was organized by FENACOAC and is staffed by local and expatriate technical personnel. The technical assistance contract provides four long-term expatriate advisors to the PMO. In addition, FENACOAC, with funding provided by the project, contracted six Guatemalan technicians to staff the PMO. The PMO technical personnel work with the federations and their participating affiliates to (a) diagnose key problem areas, (b) prepare appropriate development and financial stabilization plans, and (c) help the institutions in implementing the work plans.

The project has three primary components: institutional development, financial stabilization/recapitalization, and credit. The institutional development component focuses on strengthening the participating institutions through training, technical assistance, policy analysis and reform, and enhancement of income-generating service programs (such as input supply, credit, and marketing of services). The financial stabilization and credit components of the project complement, and are tied to, satisfactory performance in the institutional development program. Financial stabilization addresses the movements' capitalization and refinancing needs. The credit component helps restore economic activity by providing federations and their member cooperatives with needed operating capital.

1. Institutional Development

The degree of institutional development varies among the participating cooperative federations. The participating institutions face different problems and opportunities and differ in their membership bases, geographic location, goods and services offered, and modes of operation. This requires that the institutional strengthening program be tailored to fit the needs and opportunities of each cooperative system. The scope of the interventions and the covenants agreed to by each Project participant are specified in formal Participation Agreements signed with FENACOAC, monitored and evaluated by the Project Management Office, and renegotiated on an annual basis.

Diagnostic studies identifying the potential viability and key problems of the participating institutions are prepared by the PMO technicians with the cooperation of the staff of participating federations. The analysis focuses on administration, finance, marketing and past performance as an economic enterprise. The diagnostic is the required first step of participation. Diagnostics of the federations were performed by PMO staff, while diagnostics of the cooperatives are generally performed by federation staff. A draft of the diagnoses are presented to management before being presented to the board of directors for approval.

Based on the findings of the diagnostic, an annual work plan is developed and submitted to the institutions' Boards of Directors for approval. The strategy of the institutional development plan is to improve cooperative operations by enhancing efficiency and establishing patterns, policies and attitudes that would improve profitability, capitalization, administrative discipline, quality of staff and services, credit management and member relations. Institutional development activities have targeted credit policy and delinquency control, pricing policies, reserve creation policies, human resource capabilities, strategic planning and organizational development, accounting and computer systems, and extension services. The objective of the project is to replace complacent and disillusioned attitudes with an entrepreneurial mentality oriented toward growth and improvement of the organization.

2. Financial Stabilization

The recapitalization/stabilization component focuses on rebuilding the net worth lost during the last ten years of political violence, economic disruption, natural calamities, and poor decision-making. Innovative approaches to generating paid-in and retained capital and building up reserves are developed to strengthen cooperative balance sheets. The stabilization agreements include specific mandates to modify policies, to cooperate with and participate actively in the project, and to invest resources in strengthening the capital of the institution. Compliance is reviewed yearly. Specific objectives for participating institutions include:

- Expanding the economically beneficial operations of cooperatives;
- Mobilizing savings deposits and member share capital contributions;
- Strengthening balance sheets and earnings;
- Restoring member and lender/public confidence in the financial soundness of cooperative institutions;
- Establishing and maintaining sound operating standards and controls; and
- Forestalling and/or preventing possible intervention or liquidation of delinquent cooperatives and credit unions by creditors.

Participation is restricted to the more viable institutions who have implemented PMO-approved plans to resolve their particular economic and financial difficulties. Stabilization resources are disbursed as "tied capital contributions": recipients are required to adopt sound financial policies that contribute to the recapitalization process and further stimulate the creation of reserves through retained income.

Use of the recapitalization assistance is strictly controlled through legally binding contracts that specify the covenants and terms of the investment. The funds are invested in high-yielding financial instruments (bonds and certificates of deposit) offered by local finance companies. Interest earned on these investments is assigned to loan loss reserves and

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permanent undivided reserves accounts to strengthen the capital structure and credit-worthiness of the institution.

3. Credit

The credit component is the final stage in the implementation of the Cooperative Strengthening Project. By providing federations and cooperatives with an adequate supply of funds for both short and medium-term lending, the project hopes to reactivate their service capability and restore economic activity in rural areas of Guatemala. Although no credit disbursements have been made, many of the federations and their member cooperatives are seeking access to the credit component. Credit financing is limited to rural oriented income-generating projects and to participants who are actively participating in the Institutional Development component, are in compliance with project audit requirements, and are using operating and financial policies that contribute to the economic viability of the institution. Federations or cooperatives who have demonstrated compliance with these general criteria must also be deemed creditworthy by the PMO, taking into account current financial condition, net earnings, repayment and cash flow capacity, available guarantees, current loan status, credit, delinquency, and capitalization policies and procedures, and quality of the professional staff.

E. Comparison with Traditional Cooperative Development Projects

This project differs from traditional A.I.D.-financed cooperative development projects in a number of significant ways.

First, the Cooperative Strengthening Project focuses exclusively (with a couple of minor exceptions) on two aspects of cooperative development that are largely ignored in traditional cooperative development approaches: administrative and financial management. Most cooperative development projects have focused on (a) the social/democratic basis for the cooperative, or (b) the technical aspects of the cooperative's activities (promotion, organization, member education, production techniques, processing, input sales and marketing). Management and finance are usually neglected, with the result that poorly managed credit programs and non-economic board and management decisions cause later problems with high delinquency rates, non-profitable business ventures that undermine the financial viability of the organizations, an inability to respond to changing conditions, undercapitalization, poor expense/income ratios, and dependency on continued or renewed donor support. This is, in fact, precisely the situation facing the cooperative federations covered by this project -- all are weak financially, plagued by delinquencies, stifled by inappropriate management policies, and essentially stagnant institutions.

Second, the project team is not staffed by cooperative experts. Only two of the nine technical staff members have had any prior experience with design-

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ing and implementing cooperative development projects. The use of professionals trained in private sector and banking operations means that the team is bringing a "fresh" approach to cooperatives as business organizations, and reinforces the entrepreneurial focus of the project.

Third, the project has adopted a "hard-nosed" approach, insisting on effective policy and management reforms before disbursing financial and technical resources, and making the continued flow of those resources dependent on sustained performance. In fact, the project has been quite stingy with its disbursement of financial resources.

Fourth, the stabilization mechanism -- spreading writeoffs over a period of five years -- has the benefit of developing a habit of analyzing, classifying and writing off delinquent loans. Furthermore, the write-offs are financed by earnings rather than donated capital, so that the habit of generating earnings to cover bad debts is reinforced. Thus, the project has a greater chance of institutionalizing this process than a project that merely covered delinquent loans with a single disbursement.

PART TWO

CURRENT STATUS OF THE PROJECT:

IMPACTS, ACCOMPLISHMENTS AND PROSPECTS FOR SUSTAINABILITY

4. Salary Incentives

Salary incentive programs have been planned to help cooperatives retain trained personnel. Low salary levels were making it difficult for the federations and cooperatives to attract and retain personnel.

5. Support to Hire Additional Staff

The project has funded staff positions in several of the federations. An extensionist was hired to assist with the demonstration plots and soil sample testing for FECOAR. The project covers the salary of an accountant and supermarket manager for FEDECCON. Project funds support the agronomist and credit supervisor for FEDECOVERA. At the cooperative level the project funded an accountant to improve the accounts of the ARTEXCO cooperative, "Ixchel".

C. Major Changes in the Cooperative Institutions

The evaluation team was able to find visible and substantial indications that the project is having a positive and sustainable impact on attitudes and practices regarding administration and financial management within both the federations and the base-level cooperatives. The participants appear to be receptive, interested, and even eager to make the changes identified in the project.

The major impacts observed during interviews conducted with managers and staff of the various institutions included:

ARTEXCO

- There has been a dramatic, positive change in the manager's style and approach, with a new focus on production and marketing instead of politics;
- The federation is now committed to strengthening the affiliated cooperatives instead of working with individual producers;
- Project-provided motorcycles allow the federation to communicate with cooperatives and supervise quality;
- A project-provided telecopier is allowing the federation to maintain better contact with its clients -- improving client service, creating access to new orders, and allowing better follow-up on orders;

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- Project-financed renovations and improvements have allowed the federation (and its member cooperatives) to improve the quality and consistency of its final products by producing high-quality dyed yarns that do not bleed or fade;

- Individual artisan-weavers not affiliated to the federation have now been organized into a cooperative (Ixchel);

- An accountant provided by the project has brought Coop Ixchel's accounting records up to date;

- Because of its new entrepreneurial orientation, the federation is exercising much more stringent quality control, which should translate into greater marketability for the members' products.

FECOAR

- FECOAR has adopted new delinquency controls and has purged delinquent members from its membership rosters;

- FECOAR has, with project assistance, developed and presented a debt restructuring plan to BANDESA (in the past the federation had been content to earn the spread between its low-cost delinquent loan from BANDESA and its credit operations with its member cooperatives);

- Because of high delinquency rates, the federation is committed to stimulating cash sales instead of providing fertilizer on credit to its cooperatives -- FECOAR understands that it needs to be a fertilizer vendor rather than a financier of fertilizer sales;

- Because of recent field trials on new fertilizer blends, FECOAR now appears to be committed to selling new fertilizer blends -- something it opposed in the past;

- The federation has changed its pricing policy, and is now capitalizing five percent of credit sales to provide reserves for bad debts;

- FECOAR now pays 10 percent on share capital, compared to the 2 percent it previously paid; and

- Through the project FECOAR has initiated agricultural extension services and fertilizer demonstration plots in an effort to help members reduce farm input costs and increase yields -- a service that has produced dramatic positive results in FECOAR's member cooperatives.

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III. PROJECT IMPACTS: INSTITUTIONAL DEVELOPMENT

A. Introduction

The objectives of the institutional development component of the project are to improve cooperative operations and to replace complacent and disillusioned attitudes with an entrepreneurial mentality oriented toward growth and improvement of the organization. In operational terms, this means enhancing efficiency and establishing patterns, policies and attitudes that improve profitability, capitalization, administrative discipline, quality of staff and services, credit management and member relations. Institutional development activities have targeted credit policy and delinquency control, pricing policies, reserve creation policies, human resource capabilities, strategic planning and organizational development, accounting and computer systems, and extension services.

B. Summary of Project Activities

Institutional development involves a series of activities, including diagnostic studies, the development of work plans, technical assistance, training, support for special technical staff positions and salary incentives.

1. Diagnostic Studies

The first step in the institutional development process involved the elaboration of detailed diagnostics on each of the federations. Based on the diagnoses the project prepared a workplan and contractual agreement for assisting each federation.

There is a general impression that these activities were significantly delayed, but that does not appear to be the case. According to the original cooperative agreement between USAID/Guatemala and FENACOAC, the technical assistance team was supposed to have been contracted within 180 days of the signing of the agreement; diagnostic work and annual work plans were to have been completed for each cooperative federation within 360 days of the signing of the technical assistance contract. That would have put the estimated completion date for these activities at February 1988. Although contracting the technical assistance was, in fact, delayed three months, the diagnostic studies were completed within the original projections.[22] A

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[22]This appears to be a flaw in the initial project planning, as this schedule meant that implementation could not begin until nearly 2 years into the 5-year project.

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delay was experienced, however, when working agreements with the federations were finally completed in July 1988, approximately 5 months later than originally planned.

TABLE III-1

DIAGNOSES COMPLETED

Federation	Number of Affiliated Coops	Number of Coops Diagnosed
ARTEXCO	22	10
FECOAR	6	6
FEDECCON	34	-
FEDECOAG	46	6
FEDECOVERA	28	28
FENACOAC	68	16
Total	204	66

Diagnostic work at the cooperative level was carried out by a combination of federation and PMO staff. Diagnoses have been completed for 66 of the 204 affiliated cooperatives, as can be seen in Table III-1.

2. Technical Assistance

The project provides extensive technical assistance to participating federations and cooperatives. Each technician in the PMO is assigned to work in a specific federation, and is required to spend a substantial portion of his time with federation personnel. Most of this assistance is related to the identification and resolution of problems in areas of management and finance. The PMO does not provide agricultural production, marketing or processing assistance.

In a departure from the original design, the project has supported agricultural technical assistance for two of the federations -- FEDECOVERA and FECOAR. An agronomist is supervising fertilizer demonstration plots for the FECOAR cooperatives, supported by an extensionist funded by the project. An agronomist hired for FEDECOVERA is helping to improve production technologies in 4 of the 28 FEDECOVERA cooperatives.

3. Training

Three basic types of training are sponsored by the project: (a) PMO-sponsored seminars and conferences; (b) international and domestic visitation trips; and (c) on-the-job training provided by project technicians working with the federations. As of September 1989, the project had offered 40 seminars: six general seminars, six for both FEDECOVERA and FEDECOAG, sixteen for FENACOAC, four for FECOAR, and 1 each for ARTEXCO and FECOMERQ.

FEDECOAG

- FEDECOAG's board has approved a significant change in orientation from one of intermediating social-oriented donor assistance to one of a business-like, profit-making relationship with its member cooperatives;

- It has redefined the focus of its service strategy toward providing agricultural services rather than just credit;

- It has reduced staff more than 50 percent to control operating costs -- overhead personnel decreased from 26 to 8, while extensionists decreased from 9 to 8, indicating the priority given to services;

- FEDECOAG has adopted a policy of increasing interest rates in gradual increments;

- With project assistance, FEDECOAG has developed and presented a debt rescheduling plan to BANDESA; and

- FEDECOAG set a goal of establishing at least one income-earning activity -- this year, with contributions from SOCODEVI, it established an agricultural inputs store in the highlands.

FEDECOVERA

- The federation is more responsive to its members -- they feel they have a better access to the federation and that the federation is more interested in their problems;

- With project assistance the federation has developed and presented a repayment plan to BANDESA;

- There is a new commitment to using budgeting as a financial control tool, changing the federation's style from one of dishing out credit with no controls to a strict budget control; budgets have been developed for all member cooperatives;

- The new budget system has allowed the federation to reduce significantly advances to the cooperatives prior to harvest -- this should remedy the problem of extending more advances than the product was worth;

- The federation has adopted a new credit policy and instituted a credit committee, which should have a significant impact on reducing delinquency;

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- The federation has initiated experimental coffee renovation plots on a pilot basis in four of its member cooperatives.

FENACOAC

- FENACOAC has taken major policy decisions in the areas of restructuring capitalization, paying higher interest on savings, reducing dependency on external capital, mobilizing internal savings, and raising interest rates on loans.
- FENACOAC's decision to reclassify loans annually, purge accounts and write off bad debt is a significant step forward, given its past reluctance to take these steps;
- FENACOAC has approved a policy of approaching market interest rates for both savings and loans;
- It has adopted a policy of developing a permanent capital base for credit unions and the federation;
- It has accepted a new method of calculating loan delinquency based on sound banking procedures;
- It is committed to engaging in a major savings mobilization effort; and
- FENACOAC is now promoting a concept of basing loan limits on ability-to-pay rather than on the amount of shares-on-deposit.

D. Impacts Related to General Project Objectives

Another way of looking at these accomplishments is in terms of the general objectives of the institutional development program -- to generate major changes in policies, procedures and attitudes in the cooperative institutions.

1. Policies and Procedures

As the listing of each federation's specific changes makes apparent, the cooperative movements in Guatemala have adopted some major changes in internal policies and operating procedures. Among these are:

- Policy decisions to generate reserves as a source of permanent institutional capital;
- Policies to raise interest rates to at least near-market levels for share capital, savings and credits extended by the federations and cooperatives;

- New, stringent credit policies to reduce delinquency and loan losses;

- Adoption of new criteria for measuring delinquency; and

- Revision of pricing policies to cover costs of operations and risk.

2. Business-Oriented Approach to Cooperatives

Most of the cooperative groups have begun to accept the idea that social programs must be secondary to the main purpose of operating the cooperative as a viable business entity. Some of the examples of changes to a modern, business-oriented approach include:

- FEDECOAG's board approved a significant change in orientation from one of intermediating social-oriented donor assistance to one of a business-like, profit-making relationship with its member cooperatives;

- There has been a dramatic, positive change in the ARTEXCO manager's style and approach, with a new focus on production and marketing instead of politics -- the federation is exercising much more stringent quality control which should translate into greater marketability for the members' products;

- FENACOAC's decision to reclassify loans annually, purge accounts and write off bad debt is a significant step forward, given its past reluctance to take these steps;

- There is a new commitment in FEDECOVERA to using budgeting as a financial control tool, changing the federation's style from one of dishing out credit with no controls to a strict budget control; budgets have been developed for all member cooperatives.

3. Cost Control

All of the federations have adopted cost-control measures to bring expenses in line with income. FEDECOAG, for example, reduced staff more than 50 percent to control operating costs.

4. Attitudes

The project has begun to awaken an awareness among cooperative leaders that (a) cooperatives are not isolated and that they are influenced by national and regional policies, (b) cooperatives need to attract and hold qualified

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personnel, (c) salary levels are influenced by inflation, competition and the earnings power of the cooperative, and (d) in order to survive, the cooperative will have to provide quality services that its members need and are willing to pay for. Cooperatives are also beginning to place greater demands on their federations.

5. Summary

These changes are, indeed, significant. Equally important, many are more apparent in the cooperatives than in the federations. This may be because the cooperatives are in direct contact with the members, or because the federations are more entrenched in their ways of operating and providing services and are therefore slower to change.

E. Incentive Systems

The salary incentive program was first implemented in FECOAR to address problems with salary demands and staff turnover. Under the plan the project agreed to provide $11,000 for 1989 as FECOAR approved a 20 to 30 percent general salary increase. FECOAR's administrative controllers were not included in the salary incentive program until after the distribution was made and FECOAR found there were unallocated funds still available.

The incentive program establishes that cooperatives will create reserves from current year surpluses to cover salary incentives for the following year. The project funds salary incentives during at least the first year, but there is no definite time commitment. This policy has two major shortcomings. First, incentives are not incorporated into the cost structure of the cooperative and, hence, are not generated in the sale of services. Second, the participating cooperatives, and those preparing to enter the program, perceive the salary incentives as something that is being given to them by the project rather than an internal program the project is helping to implement.

The three FECOAR administrative controllers interviewed expressed satisfaction with the program. Table III-2 shows present salaries, salaries with incentives, and the managers' perception of competitive salaries in his region for three cooperatives visited. It is important to note that salaries vary according to the location of the cooperative; accountants are paid less in the more rural, less prosperous areas.

TABLE III-2

EFFECT OF SALARY INCENTIVE PROGRAM ON SELECTED FECOAR COOPERATIVES

(Amounts in Quetzales)

COOPERATIVE	Original Salary	Salary with Incentive	Estimate of Competitive Salary
<u>Manager</u>			
Rey Quiche	550	700	850
Flor Chimaltenango	725	875	900
12 de Octubre	900	1,050	1,050
<u>Controller</u>			
Rey Quiche	250	350	450
Flor Chimaltenango	330	430	500
12 de Octubre	500	-	800
<u>Accountant</u>			
Rey Quiche	230	250	400
Flor Chimaltenango	320	400	400
12 de Octubre	450	-	550

Source: Cooperative Payrolls and interviews with Administrative Controllers

It is also important to note that managers have consistently estimated that even higher salary levels were required to remain competitive and keep valuable employees satisfied. Even though some of this "subjective" estimate may be biased, it is interesting to see that all three managers interviewed considered their employees underpaid.

The project is now working on a personnel policy and salary schedule that will take into account market values for similar positions and requirements. It will be discussed in the following months. It is important that this policy takes into account the weakness discussed above. Equally important, the program should shift the emphasis in salary incentives from a project-donated activity to an internal policy.

F. Training

The project is making substantial progress toward its goal of training 1500 cooperative personnel. As of September 1989, the project had offered 40 seminars: 6 general seminars, 6 for both FEDECOVERA and FEDECOAG, 16 for FENACOAC, four for FECOAR, and 1 each for ARTEXCO and FECOMERQ. Project reports indicate that more than 700 people had received training in these seminars during the first two years of the technical assistance effort. The project statistics may be misleading, however, because they measure persons trained in terms of "person-courses"; that is, a person who has attended more than one seminar is counted more than once.

TABLE III-3

TRAINING OF FEDERATION PERSONNEL
(person-courses)

Federation	Managers	Staff	Directors	Total
ARTEXCO	6	3	1	10
FECOAR	9	2	3	14
FEDECCON	5	0	0	5
FEDECOAG	9	59	29	97
FEDECOVERA	5	17	5	27
FENACOAC	26	71	20	117
Total	60	152	58	270

Tables III-3 and III-4 summarize PMO training statistics.[23] Most of the participants in the training programs have come from the cooperative level. Training at the federation level has concentrated mostly on staff members, while more than half of the cooperative participants have been volunteers (members of the boards of directors and supervisory committees). The effort to include directors of the cooperatives in the training is important for achieving broad support for project-initiated changes within the membership.

FECOAR and ARTEXCO have benefitted from a more intensive, longer-term type of training. Both have project-funded counterparts to expatriate technical advisors: ARTEXCO in the area of international marketing and FECOAR in the area of soil agronomy. The six FECOAR agricultural extensionists and the two FEDECOVERA technicians hired and funded by the project also provide continuous on-site training to members.

[23]This data is quantitative only; the qualitative aspect of the length and intensity of training is not reflected.

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TABLE III-4

TRAINING OF COOPERATIVE PERSONNEL
(person-courses)

Federation, and Number of Coops	Managers	Staff	Directors	Total
ARTEXCO (6)	0	1	27	28
FECOAR (6)	18	43	6	67
FEDECCON (8)	0	0	0	0
FEDECOAG (15)	13	1	39	53
FEDECOVERA (30)	0	9	141	150
FENACOAC (33)	66	64	20	150
Total (98)	97	118	233	448

Although technical assistance has a training aspect to it, training expenditures represent only a small part of the total project budget. Since training is, however, important for transferring concepts and technology to the beneficiary organizations, increased emphasis should be placed on training-related activities during the remaining life of the project.

IV. MAJOR IMPACTS: THE FINANCIAL COMPONENTS

The financial components of the project (financial stabilization and credit) are complementary to the institutional development program. They are designed to strengthen cooperative system operations by addressing the movement's capitalization and refinancing needs, and helping to restore economic activity by providing federations and their member cooperatives with an adequate supply of funds for both short-term (production) and long-term (investment) loans.

A. Stabilization

The goal of the recapitalization/stabilization component is to rebuild the net worth lost during the last ten years of political violence, economic disruption, natural calamities, and poor decision-making. The purpose is to develop innovative approaches to local generation of both paid-in and retained capital while stabilizing and strengthening cooperative balance sheets.

During the design of the Cooperative Strengthening Project, preliminary financial and institutional analyses of seven federations and a sample of their affiliated cooperatives were prepared to determine the financial situation of the federated cooperative movement. In general, these studies indicated that a significant sector of the movement suffers from:

- High loan delinquency and weak credit administration;
- Low profitability and poor operational and pricing policies;
- Decapitalization due to asset losses, inadequate reserving and earnings retention policies, member withdrawals and debt amortization;
- High levels of risk in the system due to insufficient levels of retained earnings and reserves relative to member shares and liabilities to third parties;
- Declines in membership and market size;
- Poorly paid and trained staff and leadership, frequently employing only the most rudimentary techniques of financial and operational management; and
- Inadequate external regulation of cooperatives and credit unions often combined with a lack of effective internal controls and financial discipline.

The Financial Stabilization Component of the project is designed to address financial problems through policy modification, training and investment of project resources to rebuild net worth. Specific objectives for those institutions participating in this component include:

- Expansion of the economically beneficial operations of cooperatives (such as lending, input supply, marketing and distribution of members' output, and other financial, commercial and production-oriented services);

- Increasing the volume of available resources in the cooperative system for lending and investment purposes through mobilization of personal savings and share purchases by cooperative members;

- Strengthening the cooperative system's financial condition by strengthening balance sheets and earnings;

- Restoring member depositor/shareholder confidence in the financial soundness of their cooperatives and credit unions;

- Restoring lender/public confidence in the credit-worthiness of the cooperative system;

- Establishing and maintaining compliance with minimum operating standards and conditions that contribute to the safety and soundness of cooperative and credit union operations; and

- Forestalling and/or preventing possible intervention or liquidation of delinquent cooperatives and credit unions by INACOP, BANDESA or other creditors while appropriate stabilization programs are implemented.

1. Scope and Status of Financial Stabilization Efforts

At the time of the evaluation, the project was providing stabilization assistance to two of the six federations and fifteen of the 306 affiliated cooperatives. Stabilization funds totalling $2.3 million had been disbursed to two federations (FENACOAC and FECOAR), all six FECOAR cooperatives, and nine of the 68 credit unions affiliated with FENACOAC. None of the other federations have satisfied participation criteria. Funds allocated for stabilization in the project have now been exhausted; without additional funds or a reprogramming effort the project will be unable to extend stabilization assistance to either the remaining federations or additional cooperatives.

As can be seen in Table IV-1, the first disbursement of stabilization funds was made in September 1988, a little more than one year after the PMO was established. The total obligation of $2.5 million for this component has been nearly exhausted, with $1.26 million has been disbursed to FECOAR and its affiliates, and $1.1 million to FENACOAC and nine of its affiliates.

The objectives of the financial stabilization agreements signed between the recipients and the PMO have focused on:

TABLE IV-1

DISBURSEMENTS OF FINANCIAL STABILIZATION FUNDS

Recipient	Date Disbursed	Amount ($000)
FENACOAC	Sept. 88	$ 370
FECOAR	March 89	370
6 FECOAR Coops	June 89	889
6 FENACOAC Coops	June 89	350
FENACOAC	July 89	185
3 FENACOAC Coops	Sept. 89	167
Total		$2,331

- Creating mechanisms to increase reserves against irrecoverable loans;

- Redefining the procedures for classifying loans as delinquent and calculating the reserves necessary;

- Recognizing as losses and writing-off as assets those loans considered irrecoverable by applying reserves and share deposits of the debtor. Subsequent collections of written-off loans are then recognized as extraordinary gains and assigned to reserves for non-recoverable loans;

- Creating mechanisms to strengthen the permanent capital of the institution, for example by not distributing surpluses to affiliates; and

- Increasing interest rates on loans, deposits and shares to be more competitive with prevailing market rates, in order to mobilize share and savings deposits.

Specific targets in each of these general areas vary from recipient to recipient, reflecting the specific conditions and needs of each institution.

Although the stabilization program is relatively new, significant changes in the institutions are already apparent. The changes in administrative practices that have arisen from the stabilization agreements are, for the moment, more significant than the pure financial changes and have far-ranging impacts. The fact that disbursement of stabilization funds is tied to administrative and policy reforms enhances the impact of the project.

2. Impact on the Participating Cooperative Organizations

a. Impact on FENACOAC as a Federation

The impact of the stabilization program on FENACOAC can be seen in four specific areas: changes in capitalization policies, changes in interest rate policies, creation of permanent institutional capital, and savings mobilization strategies.

Capitalization Policy

The most significant change to date as a result of the stabilization agreements has been a change in FENACOAC's capitalization policy. Affiliates were previously required to deposit 5 percent of their own member share deposits in the federation. These capitalization balances earned a minimal 3 percent interest. As of September 1, 1989, however, the federation has reduced the required capitalization deposits to 1 percent of the credit union's net assets. The federation also abandoned its policy of limiting loans to credit unions to a fixed multiple of the credit union's share balances and in the future will base the loan amount on ability to pay and guarantees offered by the affiliate. Since loans to affiliates were directly tied to share deposits balances, and since the credit unions depended on FENACOAC for significant amounts of external capital, all credit unions have share deposits in excess of the 1 percent target. The excess funds were used first to write down the balance of affiliate loans; any amount in excess of the loan balance was deposited in 1-year certificates of deposit, earning more than 11 percent interest.

As an immediate result of the implementation of this policy change, share deposits (which represented 8.7 percent of FENACOAC's assets in August, 1989) declined 72 percent to 2.6 percent of assets. The application of excess funds to delinquent affiliate loans has decreased these loans from 31 percent of assets to 26 percent of assets, while FENACOAC has "regained" the reserves it had set aside against questionable loans.[24] With these changes FENACOAC has begun to substitute "institutional capital," in the form of undivided reserves derived from earnings, for the rather artificial dependency on captive member shares.

Since shares are generally considered sacred and have traditionally served as a captive source of inexpensive capital for credit union federations, FENACOAC's decision to implement these reforms is an especially significant accomplishment. It is a major change in capitalization procedures not only for Guatemala but also among most Latin American federations. It will force FENACOAC to pay competitive rates of interest for affiliates' funds, which will stimulate savings and capital available to the institution. Since in the future, the major source of working capital will be savings generated within the system, the federation will have to move from a rather passive and compulsory method of raising funds, to being aggressive, efficient and competitive in the financial market.

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[24]The impacts on the credit unions from these changes have been (a) a decreased liability position vis-a-vis the federation, (b) increased future liquidity as share deposits are liberated, and (c) increased income from a potentially secure and safe investment in the federation.

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Interest Rate Revisions

Another important policy change resulting from the stabilization program was FENACOAC's decision to increase interest rates on loans to its affiliates from 9 percent to 11 percent in 1989, with a commitment to review interest rates annually and raise rates in accordance with its cost of capital. These changes are significant because they signify a shift away from dependency on cheap, subsidized credit as a source of operating capital. FENACOAC's major source of subsidized credit -- a local-currency BID/COLAC loan with a 6 percent interest rate -- will be amortized during the next two years. For the project to have won the agreement of FENACOAC to increase its margin over the concessionary loans currently holds is indication that the project has succeeded in accelerating and providing impetus for continued changes.

Creation of Permanent Institutional Capital

Within FENACOAC, the direct impact of the stabilization funds comes from the specific assignment of earnings to the permanent capital reserves account of the federation.[25] The stabilization funds assigned to the federation have an indirect effect of writing down loans; that is, as part of the stabilization agreement, FENACOAC revised its capitalization policy to free $498,000 in share deposits and concurrently reduce delinquent credit union loan balances. FENACOAC, in turn, will receive $550,000 in interest from the stabilization funds during the next five years to build its permanent reserves. The stabilization funds dedicated to the federation thus have the double effect of stabilizing both the federation and the credit unions.

FENACOAC has also committed to increasing institutional capital through (a) increasing net income, (b) not distributing dividends, and (c) reducing operating costs.

Savings Mobilization

Although not directly related to the stabilization program, another major objective of the project has been to decrease dependency on external loans by increasing internal savings. FENACOAC would become a "liquidity manager" for the affiliated credit union movement rather than a conduit for cheap external credit.

As part of this program, credit unions participating in stabilization programs have agreed to deposit excess liquidity in FENACOAC. The development of deposit instruments bearing competitive interest rates thus became an essential component of this effort. FENACOAC had raised savings deposit rates from 4 percent to 8 percent in 1985 (prior to initiating this

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[25]This differs from use of stabilization funds in the individual credit unions and FECOAR, where earnings are assigned to creating reserves to enable the writing off of bad loans.

project), resulting in a 380 percent increase in savings deposits in one year. FENACOAC interest rates on savings -- ranging from 11.75 percent to a maximum of 13.5 percent -- have been competitive with the market since 1986.

b. Impact on FENACOAC Credit Unions

The stabilization program has seven major objectives within the credit unions:

- Improve delinquency control
- Increase volume of productive loans
- Increase interest rates
- Decrease operating costs
- Increase reserves
- Improve salaries
- Instill habit of annual balance sheet purges

Since stabilization funds were only recently disbursed to the nine participating credit unions (6 received funds in June 1989, while 3 did not receive stabilization funds until September 1989) the program has not had time to produce measurable impacts on participants' balance sheets. Nevertheless, significant progress has occurred in the area of policy reforms. In the one to four months that the nine credit unions have been participating in the financial stabilization program, three have reached the goals for reduction in delinquency. The average level of delinquency is down to 18.7 percent, compared to the goal of 15 percent. At least two credit unions have already reached the goal for mobilization of savings, and five have raised their interest rates on loans to the level required in the stabilization agreements (a procedure which, in most cases, required an amendment of the by-laws).[26] At least one non-participating credit union has also raised its interest rates, breaking the traditional 12 percent per annum "barrier" on loan rates. While the project cannot claim responsibility for all changes taking place -- the seeds of such new ideas existed in some of the institutions before the project began operating -- the fact that project initiatives have encouraged and facilitated these advances cannot be disputed.

Non-Recoverable Loan Write-Offs

The major focus of the first year of stabilization activities is on reducing the high level of loan delinquency prevalent in the credit unions. Credit unions have examined their loan portfolios to determine which loans should be considered non-recoverable. Existing reserves against bad debts, as well as savings and shares of the delinquent members, were deducted from the outstanding loan amounts and the difference assigned to a new account for later liquidation. Financial stabilization funds authorized by the project

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26 "Metas de Mejoramiento Institucional Contenidas en los Contratos y Avances a Agosto de 1989." Sincrito N. Cifuentes, FENACOAC.

are equivalent to the amount awaiting liquidation. The funds are provided to the credit union as a non-interest bearing loan, which is invested in a certificate of deposit in the name of the project. Earnings from the certificate of deposit are made available to the cooperative over a five-year period to allow the gradual removal of these accounts from the books. Any collections made on loans already written-off are used to create further reserves against bad debt, thus directly increasing the credit union's capital reserves. At the end of this exercise, the credit union will have replaced its non-recoverable loans with an equivalent amount of stabilization funds.

Although it is too early to measure the impact of these procedures, some noticeable changes have taken place. Perhaps the most important is the very decision to classify and write down unrecoverable loans. There has been traditional resistance within the federation and affiliates against writing-down non-recoverable loans, with the result that balance sheets list non-viable assets and thus do not accurately reflect the financial position of the institutions. Managers have feared that writing off bad loans would set a precedent that would encourage other members to default on their loans.[27] The availability of stabilization funds was cited by participants as a key incentive for implementing such a radical policy reform. It is also worth noting that at least one credit union that is not participating in the project is applying the same system.

At the same time, however, correct application of loan write-off procedures should have resulted in a reduction in membership. Given the magnitude of the write-offs, that reduction should have been quite large. FENACOAC has been reluctant to purge membership, because of image and internal political considerations, and no reductions in membership have been reported. Since increases in credit union membership have accounted for nearly all increase in membership reported as a success indicator for the program[28], the global project indicators do not give an accurate picture of the project's impact.

Delinquency

A second important policy change that has been introduced by the project is a new, more fiscally conservative method of calculating delinquency. Credit unions in Guatemala, and in Latin America in general, have traditionally calculated delinquency to be only the payments past due. The new method counts the entire balance of the loan as being delinquent when any payment is overdue. This introduces the concept that the entire amount is at risk and encourages the creation of reserves to guard against the potential loss.

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[27] One of the participating credit unions, however, reported a dramatic increase in recovery of delinquent loans from members who suddenly felt compelled to correct their delinquency in the first months following the reclassification.

[28] WOCCU, Informe Tercer Trimestre, 1989.

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Delinquency control will also be encouraged by purging non-recoverable loan accounts. The recognition that these are losses instead of viable assets encourages the institution to improve management of its credit portfolio. Accompanying this are improved credit policies that will further reduce the risk of loan losses by screening candidates based on their history and ability to pay.

According to project reports, delinquency in the sixteen participating credit unions has declined 69 percent since the initial baseline study, and 30 percent since the project began.[29] These figures are puzzling; the adoption of a new, more stringent definition of delinquency should have resulted in an increase, not decrease, of reported delinquency. Equally important, at year-end 1988, the most recent period for which data on the individual credit unions are available, 10 of the 16 participating credit unions had actually experienced increases in delinquency rates since the beginning of the project.[30]

Savings Mobilization

The increase in FENACOAC loan interest rates will encourage the credit unions to increasingly fund their loan portfolios through internal savings mobilization. Interest paid to savers should now be relatively lower than the cost of capital borrowed from the federation. Although several of the credit unions had, in fact, increased interest rates on savings prior to the start of the project, participants have cited the importance of the project's support and encouragement in facilitating and encouraging such advances.

Although several of the credit unions participating in the program have been capturing substantial increases in savings deposits in the past few years, others have been unsuccessful in mobilizing savings despite offering increased interest rates. A marketing study of credit unions, undertaken recently by the project, has revealed that interest rates alone are not sufficient inducement to capture savings and new members, as some credit unions have discovered. The PMO needs to help FENACOAC and its affiliated credit unions develop an effective savings mobilization strategy during the remaining period of the project.

c. Impact on FECOAR as a Federation

Financial stabilization is one component of an overall development strategy for FECOAR that includes increasing sales volumes, increasing interest rates, creating incentives for cash sales, creating reserves for bad debts, writing off bad loans, and increasing productivity.

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[29] Ibid.

[30] WOCCU, First Quarter Report, 1989.

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The financial stabilization program focuses on recovering losses resulting from high loan delinquencies and operating losses during the political disruptions of the late 1970s and early 1980s. Stabilization funds are available to FECOAR and its member cooperatives only after member shares have been applied to cover losses. As shown in Table IV-2, FECOAR's losses derive from several sources, including bad debts, inventory losses, interest receivable, other assets losses and accumulated operating losses.

TABLE IV-2

CONSOLIDATION OF FECOAR'S ACCUMULATED LOSSES
(IN $ 000)

Type of Loss	San Andres Semetabaj	Cuna del Sol	Rey Quiche	Justino Rufino Barrios	Flor Chimaltecs	12 de Octubre	TOTALS
INVENTORY	0.1	-	-	1.9	-	1.0	3.0
FERTILIZER LOANS	76.7	21.2	130.8	93.5	97.5	17.8	437.5
MOBILE LOANS	-	-	20.4	-	-	-	20.4
RECONSTRUCTION LOANS	90.7	-	64.9	-	110.4	-	266.0
INTEREST RECEIVABLES	73.2	5.4	96.9	104.8	131.8	19.7	431.7
LOSS OTHER CURR.ASSTS	0.2	-	47.1	-	11.1	9.0	67.5
LOSS EXTRAORD.ASSETS	19.6	-	-	-	-	-	19.6
ACCUM.OPERAT.LOSSES	-	-	116.9	9.3	9.4	-	135.6
SUB-TOTAL, LOSSES	260.5	26.6	477.0	209.4	360.3	47.5	1,381.4
LESS SHARES	12.4	10.8	30.2	23.1	38.1	7.5	122.1
AMOUNT OF STABILIZATION FUNDS NEEDED TO COVER LOSSES	248.1	15.8	446.9	186.3	322.2	40.0	1,259.3
STABILIZATION FUNDS DISTRIBUTED	73.0	4.7	131.4	54.8	94.8	11.8	370.4
UNCOVERED BALANCE	175.1	11.2	315.4	131.5	227.5	28.2	888.9
STABILIZATION FUNDS DISTRIBUTED AS PERCENT OF TOTAL	19.70	1.26	35.49	14.79	25.59	3.17	100.00

Source: Portfolio inventory and other un-collectible losses at each cooperative.
Lic. Oswaldo Oliva - PFC.

Although the stabilization funds were only disbursed three months ago, progress toward stabilizing FECOAR is clearly evident. Interest from the $1.2 million disbursed to stabilize the cooperatives of FECOAR has generated $51,300 in reserves to cover loan losses, while the new five percent risk premium charged on credit sales has generated $43,400. Collection of loans already written off as uncollectible has contributed another $8,600 to FECOAR's reserves.

d. Impact on FECOAR Cooperatives

Capitalization

The stabilization program is helping FECOAR's cooperatives increase capitalization in three different ways:

- Credit Risk Premium -- a fixed five percent premium is now charged on sales made on credit. This practice was introduced by the project to reflect credit risks. Proceeds from this price differential are held as reserves against loan losses. This policy has already generated $43,400 in reserves for the cooperatives in just six months.

- Retained Operating Surpluses -- the cooperatives have agreed not to distribute any operating surpluses until all accumulated losses have been paid. Operating surpluses will be retained to recover operating losses from previous years.

- Recovery of Delinquent Loans -- collections on loans previously classified as non-recoverable are used to create reserves against future non-recoverable loans.

The basic objective is to increase institutional capital, which consists of reserves and retained surpluses. This capital does not belong to members and cannot be withdrawn. Since shares do not represent a permanent source of capital, depending on them increases the vulnerability of the cooperative. Building its own institutional capital strengthens the cooperative, and allows it to make financial and business decisions from a strong position.

Table IV-3, on the following page, shows increases and decreases in shares and in institutional capital since the project started to provide assistance to FECOAR's cooperatives. The total increase in eight months of operation has been minimal. When the new administrative and financial policies have had more time to take root, the impact will be clearer.

The only account that increased significantly during this period was reserves, due to the impact of the stabilization program. A net increase of $46,000 is a small amount against the total amount of the losses identified under the stabilization program. Nevertheless, it is a positive sign that the five-year program will actually produce the expected results.

The decrease in shares is expected as cooperatives apply share deposits against corresponding non-recoverable loan balances. Retained earnings show a net decrease of $26,500. Since most cooperatives close their books at the end of December each year, this decrease has not yet been applied. At that time they will have to request authorization from the general assembly to apply surpluses to institutional capital.

TABLE IV-3

FECOAR'S COOPERATIVES
INSTITUTIONAL CAPITALIZATION
($ 000)

COOPERATIVE	SHARES	RESERVES	CAPITAL	RETAINED EARNINGS	TOTAL
SAN ANDRES					
DEC. 1988	87.2	44.0	24.0	4.7	159.9
AUG. 1989	84.5	62.7	22.2	0.4	169.8
	(2.7)	18.8	(1.8)	(4.4)	9.9
FLOR CHIMALTECA					
DEC. 1988	116.8	6.0	35.0	(9.1)	148.7
AUG. 1989	93.6	6.4	35.0	-	135.0
	(23.2)	0.3	-	9.1	(13.8)
JUSTO R. BARRIOS					
DEC. 1988	99.7	4.3	18.1	4.9	127.0
AUG. 1989	86.8	7.4	18.2	-	112.3
	(12.9)	3.1	0.1	(4.9)	(14.7)
REY QUICHE					
DEC. 1988	120.7	2.7	25.3	-	148.7
AUG. 1989	103.8	6.2	25.3	-	135.3
	(16.9)	3.5	-	-	(13.3)
CUNA DEL SOL					
DEC. 1988	244.5	20.7	26.8	14.8	306.8
AUG. 1989	268.7	38.5	26.8	-	334.1
	24.2	17.8	-	(14.8)	27.2
12 DE OCTUBRE					
DEC. 1988	87.1	50.7	21.6	12.5	171.9
AUG. 1989	104.4	53.2	21.6	1.0	180.1
	17.2	2.5	-	(11.5)	8.2
TOTAL NET INCREMENT	(14.2)	46.0	(1.7)	(26.5)	3.6

Source: Cooperative Balance Sheets. Osvaldo Oliva, PFC.

Delinquency and Membership Policies

FECOAR cooperatives have improved delinquency control during the past few years. The norm has become for cooperatives to close the year with zero or minimal delinquency on their "current" loans, those which were issued that year. Significant changes in administrative practices date to 1984, when the federation placed its own administrative controllers in each cooperative to improve management.

FECOAR and its affiliated cooperatives have experimented with a variety of techniques to improve recovery of "non-recoverable" loans. One technique was to offer a moratorium on interest payments for delinquent loans. FECOAR reimbursed its cooperatives for half of the interest due on any principal collected during the moratorium. Another technique involves the organization of members into small borrower groups.[31] Loans are only made to individuals who belong to groups that are current in their payments. If one member is delinquent on a loan, the members of his group also become ineligible for new loans. Peer pressure within the group encourages earlier cancellation of delinquencies and, in some cases, groups have decided to assist delinquent members by paying off the loan and restoring the group to good-standing. As a result, the cooperatives have kept delinquency under much better control. According to PMO statistics, delinquency in the FECOAR system had declined from 82.234 percent in 1986 to 55.74 percent in 1989.[32]

While many of these key changes pre-date the PFC, the financial stabilization component of the project has provided a positive mechanism for handling historical losses.

3. **Summary**

The stabilization program represents an innovative approach to helping cooperatives cope with the problems of unrecoverable loans and weak capitalization. By combining a program that generates earnings to cover losses with a disciplined approach to controlling current delinquency, conducting an annual appraisal of the loan portfolio, systematically writing off unrecoverable loans and building reserves to cover loan losses, the stabilization program should have a long-term, positive impact on participating cooperative organizations.

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[31] This technique is also used to control the quality of the membership base by requiring that new members be accepted by an established group. This incorporates an ability-to-pay test at the grass-roots level, since the aspiring member's peers will not accept him if it appears he will not have the capacity to service his debt.

[32] WOCCU, Informe Tercer Trimestre, 1989.

B. Credit Component

Credit serves as the third and final stage in the cooperative strengthening process. Participating federations and cooperatives can access credit funds when they have successfully complied with institutional development and stabilization conditions. Disbursement of credit funds is based on sound business justification, at competitive market interest rates. The credit program is not intended to be concessionary.

No credit funds have been disbursed under the project. Strict credit policies, as defined in the Cooperative Agreement and policy guidelines, and poor financial and administrative conditions in the federations and cooperatives have delayed credit disbursements under the project. FEDECOAG, FEDECOVERA, and FEDECCON have not been able to meet eligibility criteria. ARTEXCO and FENACOAC do not have an immediate need for credit funds.

The only credit disbursement planned to date has been a $1.0 million loan to FECOAR to import fertilizer. These plans did not materialize for a variety of reasons, including:

- FECOAR could not price fertilizer competitively because the Guatemalan government is engaged in a major politically-motivated subsidy program that has been financed by the Italian government;

- FECOAR cannot compete effectively with a large private fertilizer vendor (DISAGRO) that controls 60 percent of the local fertilizer market; and

- AID requirements that commodities must be of U.S. origin and carried in U.S.-registered ships would raise the price of FECOAR fertilizer to non-competitive levels.

During 1989 for example, the Guatemalan government sold fertilizer at 20 to 25 percent below market prices. FECOAR's sales declined 50 percent, leaving an unsold inventory of approximately 7,500 tons.[33]

Even though the credit component has not been used to date, it should be retained as an important element of project strategy. As the agricultural cooperatives progress with their institutional development and stabilization programs, they will need financing to provide new or expanded services to

[33] The project is funding fertilizer tests in FECOAR cooperatives to demonstrate the advantages of less expensive, higher-yielding fertilizer mixtures. Successful efforts in this area should identify a potential market niche for FECOAR in specialized blends, as well as increase yields for participating farmers.

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their members.[34] The credit component is the only mechanism available to the project to address production, processing and marketing issues, and the only resource available through the project to help the federations generate income. Utilization of the credit component also helps achieve other project goals -- such as compelling cooperatives to pay market rates for funds, promoting rational financial analysis and improving economic performance.

[34]Credit unions, on the other hand, should be able to meet increased capital needs through internal savings mobilization.

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V. THE LONG-TERM IMPACT: PROSPECTS FOR ACHIEVING SUSTAINABLE RESULTS

The previous two chapters presented the accomplishments of the Cooperative Strengthening Project in terms of the three major components: institutional development, financial stabilization and credit. This chapter discusses the project's potential long-term developmental impacts, particularly in terms of achieving the project purpose and in assuring the sustainability of project results.

To place the discussion in perspective, the evaluation team believes that the Cooperative Strengthening Project has correctly identified two key problems underlying the weakness of the cooperative movement in Guatemala: a weak financial base and inadequate management. Moreover, the project is effectively addressing those problems -- the changes introduced in the Guatemalan cooperative system through the project have been both significant and important. At the same time, however, the evaluation team observed three weaknesses in the current project effort that deserve further consideration and action:

1. The project's approved time frame and resource level are insufficient to accomplish the project's stated objectives;

2. The project as it is currently designed does not adequately address the business volume problems of the non-financial cooperatives, yet these are also significant impediments to developing a viable and effective cooperative movement; and

3. The project is not paying sufficient attention to the issue of developing a capacity within the cooperative institutions to sustain project activities and benefits beyond the life of the project.

This chapter focuses on these three issues. The discussion is particularly relevant for two reasons. First, the issues have implications for planning the remainder of the present project effort. The project is about 60 percent completed, and modifications introduced at this time can improve its long-term impact. Second, USAID/Guatemala is considering an extension and expansion of the project. Understanding the limitations of the present effort can lead to an improved design for the follow-on phase.

A. Prospects for Achieving Project Purpose and EOPS Conditions

The purpose of the Cooperative Strengthening Project is to develop a viable and effective cooperative movement that is providing high-quality services to the rural sector. It is to do this by strengthening a selected group of cooperative federations and primary cooperatives. The project has made a significant contribution to achieving that purpose. The federations and cooperatives have instituted important changes in policies, procedures, management, capitalization and financial administration. Without these, the purpose could not be achieved.

At the same time, two important constraints -- the time remaining in the project and the amount of resources for financial stabilization -- could cause the project's impact to fall short of expectations.

1. Life-of-Project Constraints

The project is considerably behind schedule. At the time of this evaluation (September-October, 1989), only six months remained in the technical assistance contract and eighteen months until the scheduled project activity completion date. Yet, the project has worked with only a limited subset of the federated cooperative movement, and has only recently begun to work with the primary-level cooperatives.

The project has fallen behind schedule for a variety of reasons. The initial expectations were undoubtedly optimistic. Contracting and initiating the technical assistance took longer than anticipated in the initial projections. Also, project resources were spread over a wider number of organizations than originally contemplated, with the result that more time had to be devoted to carrying out the diagnoses of the various institutions.

As a result, the project has not yet been able to integrate all aspects of the cooperative strengthening program in all federations. Although all federations have signed institutional development agreements, and are receiving on-going assistance in this area, only two are participating in the stabilization program. The other federations have not met the project's criteria -- operating standards and tied capital contributions -- for participation in the stabilization program. No federations are, as of this time, benefitting from the credit program.

In addition, the project has only recently begun to work with the primary level cooperatives, and then only with a few cooperatives in only three of the six federations. Almost all activities through at least June 1989 had been focused on the federations. Twenty-nine cooperatives are receiving assistance through the institutional development activities of the project, and only 9 credit unions and the 6 FECOAR cooperatives are participating in the stabilization program.[35]

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[35] One of the problems, of course, is that the project purpose does not (in either the PID or the Project Design Document) establish any targets on the number of cooperatives the project should work with. Thus, there is no standard against which to judge project performance.

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TABLE V-1

IMPLEMENTATION AT COOPERATIVE LEVEL

Federation	Number of Affiliated Coops	Number of Coops Diagnosed	Number Participating: Institution Development	Number Participating: Financial Stabilization
ARTEXCO	22	10	5	-
FECOAR	6	6	6	6
FEDECCON	34	-	-	-
FEDECOAG	46	6	-	-
FEDECOVERA	28	28	4	-
FENACOAC	68	16	14	9
Total	204	66	29	15

Little time remains in the project to initiate work with a broader number of primary level cooperatives. Even less time remains to successfully introduce the rather massive changes required by the project, or to solidify and reinforce any changes that might be introduced. External technical assistance is scheduled to end in 6 months. As the Chief of Party observed, "By 1990, we will not have been able to reach all of the cooperatives we should have, and we will not have been with them long enough to prevent backsliding. There hasn't been enough time to internalize the values."[36]

2. Resource Constraints

The project also does not have enough financial resources to complete the financial stabilization program. All of the originally scheduled financial stabilization resources have been committed, yet the program is only working with two of the six federations and only 15 primary level cooperatives. Even if all credit component funds were shifted to stabilization, the project would fall about $1.2 million short of the estimated need for stabilization funds. With a total estimated need of approximately $6.5 million, just among cooperatives that have been analyzed, it is obvious that the amount of resources available is insufficient to accomplish the project's objectives, at least as they are currently applied.

[36]Interview on September 22.

TABLE V-2

ESTIMATES OF TOTAL NEEDS FOR STABILIZATION FUNDS
($ 000)

	Estimated Need for Stabilization Funds		
Federation	Federations	Cooperatives	Total
ARTEXCO	-	36	36
FECOAR	370	889	1,259
FEDECCON	-	-	-
FEDECOAG	790	n.a.	790
FEDECOVERA	720	540	1,260
FENACOAC	900	2,250	3,150
Total	$2,780	$3,715	$6,495

Note: Totals for FEDECOAG cooperatives have not been estimated.

3. Summary

The original project design provided for a five-year technical assistance effort to match the five-year life of project. That was reduced to three years in the process of negotiating and contracting the technical assistance. The original project design also underestimated the amount of stabilization funds needed to address the problems of the participating cooperative organizations. These two shortcomings threaten to reduce the beneficial impact of the project.

USAID/Guatemala should, at a minimum, consider (a) extending external technical assistance services to the project through at least the schedule project activity completion date (June 1991), and (b) increasing the amount of funds available for stabilization. These extensions should be predicated on refined output and purpose-level targets that specify working with a larger number of primary level societies.

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B. Additional Support for Non-Financial Cooperatives

As designed and, for the most part, implemented, the Cooperative Strengthening Project has three components: institutional development, financial stabilization and credit. The project was designed to address a specific set of managerial and financial problems, and did not contemplate agricultural or other business--oriented technical assistance.

In fact, the production, processing and marketing problems in at least two of the federations (FEDECOAG and FEDECOVERA) are so critical that they would seem to undermine any positive benefits that can be achieved in the areas of management and finance. The project has produced noticeable changes in both of these federations, and both have expressed a commitment to sustaining project-initiated activities. The economic base of both federations is so weak, however, that it does not appear they will be able to sustain the changes. ARTEXCO and FECOAR face similar, though less severe, production and marketing problems that are not being adequately addressed by the project.

In at least two cases (FECOAR and FEDECOVERA) the project has expanded beyond the constraints of the original project design to offer agricultural technical assistance. An agronomist is directing fertilizer field trials in FECOAR cooperatives in the hopes of encouraging farmers to shift to more effective and less costly fertilizer blends. The project has also hired an agronomist to work with the FEDECOVERA coffee cooperatives in an attempt to rehabilitate coffee fields and increase productivity. In both cases the new service has been popular and considered a success.

The Cooperative Strengthening Project was designed to address a specific set of problems; these did not include improving production, processing, marketing or other technical aspects of the cooperatives' business. In fact, basic business viability is assumed to be a precondition of project assistance. In several cases this assumption is flawed.[37] In FEDECOVERA, for example, the cooperatives are producing an average of less than 300 pounds of dried coffee bean per manzana (approximately 1.7 acres) compared to a national average of more than 3,000 pounds per manzana. Unless this problem is addressed, the federation and its cooperatives will never have sufficient earning power to become effective rural service agents. FEDECOVERA also needs access to credit to finance the harvest and build member confidence. Finally, the federation needs to consider and develop other business activities to serve and help its cooperatives.

Likewise, FEDECOAG lacks a solid business relationship with its member cooperatives. It has traditionally functioned as a conduit for external

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[37] It is important to note that the less viable organizations were added to the project during negotiations, and were not really included in the initial design. The project team originally wanted to work only with the strongest of the cooperatives in each federation, in order to build a critical base of viable cooperative supporting each federation.

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donations. Its member cooperatives were, in the establishment of the federations, exempted from paying any entrance fees or annual dues. The value of any services it might be able to provide is not immediately apparent. Unless it is able to generate business income, the other changes introduced by the project will be difficult to sustain.

At least two of the other federations -- FECOAR and ARTEXCO -- need assistance that cannot be adequately provided through the present project. ARTEXCO needs help in marketing -- identifying new markets, establishing new contacts, how to handle export orders and get paid. It should be tied in with the GREMIAL, or other similar export-oriented organizations, and receiving assistance from a project or service similar to PROEXAG. FECOAR needs additional assistance in long-term strategic planning and business planning, as well as continued assistance in agricultural production and marketing.

In summary, while the Cooperative Strengthening Project addresses a significant set of problems for all of the cooperative groups, it is not designed (and was not intended) to address some of the major problems facing the non-financial cooperatives. This is not an integrated rural development project and, perhaps, should not try to be. The project's present focus on strengthening financial and administrative management is both appropriate and important, and needs to be continued. However, the business viability issues facing at least two of the federations are so overwhelming that providing further project assistance in financial and administrative management would probably be wasted. USAID/Guatemala should explore ways to address the broader business needs of the cooperative institutions assisted by the project -- either through adding agricultural technical assistance resources to this project or through other projects or sources.[38]

C. Prospects for Sustainability

The issue of sustainability is necessarily a major concern for development projects. Seldom are the immediate results of a project sufficient to justify the activity; "development" has occurred only if the project has created an on-going capacity to continue and even expand on the initiatives generated by the project. A.I.D.'s concern with sustainability stems from the reality of its own past experiences -- sustainability has proved to be particularly elusive and difficult to attain, even in otherwise successful projects.

A discussion of sustainability is necessarily subjective, and therefore controversial. It is a projection of what is likely to be, based less on the merits of the particular project than on the accumulated experience of the development community. That experience consistently emphasizes the need to be concerned with the issue of sustainability: sustainable results tend

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[38] These could be A.I.D.-funded projects, such as PROEXAG or the new coffee project, or non-A.I.D. activities, such as Peace Corps or the IDB.

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to be the exception rather than the rule in development efforts -- especially institution-building efforts. That experience also provides a relatively broad and well-studied body of knowledge about the problems of sustainability that can be used to analyze current project efforts.

It is important to keep in mind that sustainability is a matter of degree rather than simple "yes" or "no." In any project there are some initiatives that will be sustained and others that will not be. To raise questions of sustainability, therefore, is not condemn a project, but to identify potential weaknesses that, if addressed by those implementing it, can increase the project's potential long-term benefits.

The issue of sustainability in the case of the Cooperative Strengthening Project is particularly complex. The project is ambitious in its objectives of initiating profoundly significant changes in the Guatemalan cooperative movement in a relatively short period of time. The evaluation team looked for indicators of sustainability in terms of:

- Understanding and commitment to implementing the specific changes introduced by the project;
- Commitment and ability to absorb recurrent costs into the organization's operating budget;
- Internalization of the project's activities in on-going federation programs; and
- Indications that federation and cooperative managers are, in fact, adopting an entrepreneurial approach to their operations.

1. Commitment to Sustaining Specific Changes

The changes that have been initiated by the participating federations and their member cooperatives are, indeed, major changes. Moreover, many are irreversible. Once a credit union abandons interest-free share capital as its major source of funds and begins to pay interest on deposits, for example, it is almost impossible to reverse that decision.

The federations and cooperatives studied for this evaluation seem to be genuinely committed to the reforms they are implementing. They appear to understand the logic of the reforms, recognize the benefits, and are likely to continue to implement most of them after the project has ended. Perhaps the strongest "evidence" of this commitment could be found in interview responses: the fact that managers and staff frequently stated that the changes were something they had already identified as necessary, but had not had the resources to implement, indicates a positive identification with program objectives and methods.

At the same time, there are some unresolved issues of sustainability that are of sufficient concern to warrant continued monitoring and attention by both USAID/Guatemala and the project team. For example, FEDECOAG and FEDECOVERA, for all their good intentions, appear unlikely to be able to sustain the activities without a fundamental strengthening of their financial position -- they simply do not have the resources to implement the changes effectively, regardless of their interest in doing so.

2. Commitment to Absorb Recurrent Costs

At least two of the activities of the project have long-term budget implications for the participating federations and cooperatives. The salary incentive program is intended to increase salary levels to help the organizations retain staff, while the program to provide salaries for specific positions is intended to help the organizations hire needed staff. The sustainability of these programs depends on both a commitment on the part of the organization and the resources to fund them.

It was clear from the evaluation interviews that the federations and cooperatives view these two programs as donations from the outside, not as a program that they are being helped to develop for themselves. Managers and board members interviewed in the various organizations recognized the value and need for both the increased staff and the higher salaries. They did not, however, refer to these two programs as their own initiatives, which the project was assisting, but as initiatives of the Cooperative Strengthening Project. As one of the federation managers said, "When project funding ends we would try to get some other donor to support the positions. If we couldn't find funding we would probably not be able to keep them." At least two of the federations lack a sufficient resource base to sustain salary increases or additional positions. When project funds end, therefore, there is a strong possibility that these two initiatives will also end.

An alternative to the current salary incentive plan would have been to provide technical assistance to help the federations and cooperatives develop and adopt official salary incentive plans. The project could then assist in implementing those plans by providing a limited subsidy over a defined period of time, with a definite plan and schedule for phasing the new salary levels into the regular operations of the federation or cooperative.[39] Also, the procedure for institutionalizing the incentive program -- building reserves this year to pay a bonus next year -- does not seem to be as effective a solution as planning a performance bonus to be paid from this year's profit margins.

The funding of specific technicians or staff positions within the federations does not seem to be planned in the context of sustainability. There

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[39] An even better approach is not to subsidize salaries program, but to tie some other form of assistance to implementation of a salary incentive program by the organization. Thus, credit funds -- which could generate the income needed to pay for the salary increases -- could be released upon adoption of increased salaries by the board.

are, at best, only vague plans as to whether or not, or how, the cooperatives and federations are to continue employing these persons after project funds end. While some of these may not need to be long-term positions -- they are only needed to get something done or set something in place -- it does not appear that those criteria were used to set up the program. Project plans do not indicate an optimal staffing pattern for each organization, and do not contain a strategy for reaching and financing those staffing levels. An alternative would have been to have the federation or cooperative create the position officially, and develop a plan for diminishing subsidies that would assure the continuation of the position after EOPS.

3. Internalization of the Program

It is difficult to assess the degree to which project concepts have been internalized by the project beneficiaries. To several of the PMO staff members it is apparent that the federations are participating in the project primarily because of the potential for funding -- stabilization funds, credit and limited commodities. They have accepted the reforms as necessary conditions for obtaining funding, but it is not clear that they really believe in those reforms. As one observed, "The changes that the project has attempted to initiate are not comfortable to them. These require changes and a style of action different from what they wanted."[40]

In both the first and second quarters of 1989 the PMO reported continued resistance to some of the concepts:

> The PMO continues to suffer from the reluctance of federation management and administration to accept concepts presented . . . [due to the] heavy emphasis placed on politically satisfying all parties involved in the decision-making process, thus avoiding conflict or having to make a difficult decision, regardless of the benefit the change will bring to the institution.[41]

Interviews with federation managers and staff gave, in many cases, an impression that they tend to view the project as something being done "for" them rather than an effort to help them implement their own programs.

Developing sustainability and local capacity is probably the most difficult challenge facing any development project. To a great extent, the concerns voiced here about sustainability are a reflection of the limited time-frame of the project. Given the short time-frame (at least the technical assistance component), the project will not have worked with either the federations or the cooperatives long enough to have reinforced the concepts and techniques of implementing the changes.

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[40] Staff interviews, September 17-22.

[41] Proyecto Fortalecimiento Cooperativo, Reporte de Actividades del Primer Trimestre de 1989, p. 9.

The Cooperative Strengthening Project has had to focus on achieving results in a relatively short time frame. In the remaining period of the project, and in the event of an extension, the project focus should shift increasingly toward internalizing concepts and building a local capacity to ensure the sustainability of project-initiated changes. Some actions and activities may, indeed, be short-term, required only during the life of the project itself. Others, however, appear to be long term. Project documentation and work plans do not clearly distinguish between them, giving the uneasy impression that continuance is hoped for rather than planned.

At the same time, there are (as will be discussed in Part Three of this report) issues concerning the approach and style of the project that have direct implications for the long-term sustainability of project-initiated activities.

4. Impact on Orientation and Commitment of the Participating Institutions

Although the project has succeeded in bringing about major changes in the federations and participating cooperatives in terms of policy reform, management practices, financial controls and basic attitudes, there is still a problem in instilling a modern, entrepreneurial approach to cooperative management. They have accepted and are implementing the changes recommended by the project, but there does not seem to be a fundamental commitment to overall growth and improvement beyond the parameters of the project; they appear satisfied with current levels of membership, current operations, current practices and current volumes. As examples:

- FENACOAC has been in a "consolidation" phase during the past 15 years. During that time the movement has stagnated: no new credit unions have been formed, and membership has declined relative to the population. Yet there is no indication that the federation is becoming more committed to promoting the growth and development of the credit union system.

- FECOAR has had six member cooperatives since it was formed; it has grown neither in scope or number of members. The manager only works part-time for the federation. It offers only one service, and has shown little interest in exploring new product lines or services. Federation management has said it would be willing to promote a new cooperative, if some donor would finance it.

- FECOAR's management has recently instructed its administrative controllers to stop selling fertilizer this year. The federation still has about 150,000 sacks of fertilizer in its warehouses. Rather than sell the fertilizer this year, FECOAR has decided to suspend sales so it will have enough fertilizer to meet next year's demand without importing new quantities of fertilizer. Quality considerations aside, it would seem in the best economic and financial interest of the

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federation and its cooperatives to keep on selling as much as they can and buy whatever is needed on the local market next year.

- FEDECOVERA has indicated it will only keep project-paid personnel on staff if they can get some "outside donor" to donate funds once project funding ends.

- FEDECOVERA has not made any attempt to introduce new services that would meet a wider range of their members' needs.

- FENACOAC has not used the stabilization program to encourage participating credit unions to purge inactive members from the membership rosters.

- FENACOAC has also expressed a reservation about supporting the savings mobilization program because it "might not be able to manage the excess liquidity."

These isolated examples indicate that much still needs to be accomplished to develop a modern, entrepreneurial oriented leadership in the cooperative federations. These are changes that can only be accomplished over an extended period of time.

VI. SUMMARY

The project appears likely to achieve its basic objective of bringing about the fundamental internal policy and management changes essential to the operation of successful cooperative business enterprises. Participating federation and cooperative leaders have accepted the basic changes recommended by the project, and are implementing them. Among the major policy and management decisions that have been adopted are:

- Adoption of market rate interest rates on loans;
- Adoption of building reserves as a means of capitalizing the institutions;
- Adoption of new, stringent credit policies and delinquency controls;
- Adoption of essential business-oriented approaches to managing and operating the institutions;
- Decision to write off uncollectible loans and purge membership rosters; and
- A commitment within the credit union movement to promote savings mobilization at competitive interest rates, with a corresponding reduction in dependency on low-cost external capital.

These are significant changes in the context of traditional cooperative operations in Guatemala. Many, if not most, of these changes are unidirectional: once the basic decisions to adopt the changes are made it is difficult or impossible to reverse them.

In addition to the changes witnessed in the specific cooperative organizations, there is a much more reliable and standardized set of information now about the federated cooperatives -- their condition, problems, strengths and weaknesses -- than existed before the project. Partially as a result of the improved data, cooperative leaders now have a better understanding of the nature and magnitude of the problems facing them. There is a willingness to adopt tough corrective actions that would not have existed without the project.

At the same time, however, within the remaining time-frame and resources of the project it appears unlikely that the project will achieve the project purpose of restoring a "viable, efficient and effective Guatemalan cooperative movement." In particular, the project appears likely to fall short in that:

- It will have worked with only a limited subset of the individual cooperatives -- few of the affiliated cooperatives in the participating federations will have received institutional development assistance, and even fewer will have participated in stabilization efforts;

- The project will not have had the time to sufficiently institutionalize the changes that have been introduced;

- The project does not sufficiently address the fundamental economic weakness of the non-financial cooperative movements -- specifically a weak economic base and low agricultural production levels -- that must be addressed if the institutions are to become economically viable entities; and

- It is not clear that the project is effectively transferring to the federations the skills, technology and understanding necessary to sustain the activities and reforms that have been initiated.

The project needs to place an increased emphasis on ensuring the sustainability of project benefits during the remaining life of the project.

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PART THREE

ISSUES AFFECTING PROJECT SUCCESS AND IMPACT

PART THREE

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The reason for conducting a mid-term evaluation is to improve the impact and benefits of a project intervention. Such evaluations often appear overly negative because, by design, they must focus on identifying issues and potential problems.

Part Three of this report discusses a number of issues that appear to affect the impact and sustainability of the Cooperative Strengthening Project. Some of these are major; some minor. They are presented to help project management develop strategies to improve the project's impact during the remaining life of project. These are grouped into three major categories: (a) design issues, (b) institutional and structural issues, and (c) implementation issues.

VII. PROJECT DESIGN ISSUES

A. Project Design and Focus

Understanding the origins and evolution of the project are important for assessing the adequacy of the project design. The Cooperative Strengthening Project was originally proposed as a credit union development project. As early as 1982 FENACOAC approached USAID/Guatemala about the possibility of developing a project to support the revitalization of the credit union movement. In early 1985 the Mission funded an analysis of FENACOAC and the credit union system. Based on this analysis, WOCCU presented a preliminary proposal for a credit-union strengthening project.

Because USAID/Guatemala was interested in supporting both agricultural cooperatives and credit unions, and did not wish to manage two separate projects, the project design contained both elements. As a result, the Mission funded a second pre-design study, conducted by NCBA, that covered the non-financial cooperative sectors. WOCCU was selected to lead the team that actually developed the project design document. Three of the four members of that design team were either associated with the credit union movement or had previous credit union experience. Only one team member had worked previously with agricultural cooperatives.

The initial project design limited, at least initially, the scope of the Cooperative Strengthening Project to working with only two or three federations -- FENACOAC (credit unions), FECOAR (regional agricultural cooperatives) and FEDECOCAGUA (a federation of coffee cooperatives). When the project was initiated, however, members of the Confederation of Federated Cooperatives (CONFECOOP) insisted that all member federations should be able to participate. The scope of the project was subsequently expanded to include a wide range of other cooperative groups, including artisan, fishing and consumer cooperatives, as well as additional agricultural cooperative groups. Equally important, CONFECOOP insisted that all federations had to be able to participate from the beginning -- the project could not begin working with just one or two federations with the intention of expanding services to the others at a later date.

The project design process had a number of implications for the current scope and nature of the project:

- Throughout the design process, the basic approach of the initial credit union analysis and proposal (focusing on management, policies and finance) did not change -- this is still essentially a credit union project being applied to a variety of non-financial cooperatives;

- Seven of the nine members of the technical team have experience in finance or administration -- only one has direct prior experience with agricultural cooperatives;

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- While a focus on management and finance addresses the major issuss facing credit unions, it does not address some of the major issues facing other types of cooperatives; and

- The indicators used to plan the project and monitor progress are primarily related to credit union performance -- those few that are not give a distinct impression of having been grafted on.

The project design process did, in the opinion of the evaluation team, correctly identify basic management and financial problems as the core constraints that had to be resolved before any other form of intervention could be effective, evsn among the non-financial cooperatives. As a result, the project does address a significant developmental problem impeding the development of cooperatives as effective organizations serving the rural population of Guatemala. The design did not, however, contemplate the importance of other constraints -- especially the low business volumes and weak economic base of the agricultural cooperatives -- and did not provide a framework for including resources to address those issues.

The project has recognized this limitation. In one instance it funded agricultural research, soils testing, field demonstration plots and extension agents to help FECOAR. In another it funded an agronomist to help a limited group of FEDECOVERA cooperatives rehabilitate coffee plantings and improve production methods. A more comprehensive effort to include agricultural technical services -- either within the parameters of the project itself or through ties to other assistance efforts and sources -- needs to be incorporated in the project.

B. Project Purpose and Logical Framework

The design process did not culminate in the creation of a Project Paper. This means that objectives -- especially goals, targets, EOPS conditions and the logical relationship between inputs, outputs and achieving conditions expected at the end of the project -- are poorly defined. The project is being implemented, therefore, without an explicit statement of USAID/Guatemala's position on important issues.

Equally important, there is no approved logical framework. The logical framework provided in the Project Identification Document (PID) is sparse, while the design document ignored the structure of the logical framework in favor of an unstructured listing that intermingles goal, purpose, output and activity descriptions. The problem is more than cosmetic. The haphazard listing of "indicators" obfuscates the logic of the project design, and focuses attention on individual outputs and activities instead of on goals and targets.

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As a result, the project seems to lack a long-term vision -- a clear statement of what each federation is supposed to "look like"[42] when the project is successfully concluded. Current statements of project purpose and end of project status do not contain a clear description of a successfully completed project, and it is not possible to measure when the purpose has been achieved.

The Project Purpose should be revised to state something like:

> Create a viable, dynamic and effective rural cooperative movement in Guatemala, consisting of:
>
> a. Five financially sound, well-managed and adequately capitalized cooperative federations (ARTEXCO, FECOAR, FEDECOAG, FEDECOVERA and FENACOAC), with a sufficient income from business operations to cover operating expenses, pay adequate salaries and provide a full range of high-quality services to their member cooperatives.
>
> b. A core group of well-managed, financially sound and adequately capitalized cooperatives, consisting of all 6 FECOAR cooperatives, 26 of the 59 registered credit unions, 15 of the 28 FEDECOVERA cooperatives, etc.
>
> c. A well-defined plan, sufficient resources, capability and commitment within each of the federations to continue stabilization, institutional development and technical assistance efforts in support of its member cooperatives.

Such a project purpose statement clearly articulates the three main objectives of the program: (a) to develop the federations as effective service institutions, (b) to develop a core group of well-functioning cooperatives to demonstrate the benefits of the proposed changes and to provide a solid economic and financial basis for the federations, and (c) to create an ongoing, sustainable capacity within the federations to continue the efforts initiated under the project.

Specific indicators designed to define, measure and show progress toward the achievement of these conditions would need to be developed for each participating federation and cooperative. These should contain descriptions of the specific services each organization should be providing, optimal staff levels, optimal expenditure levels, and approximate income levels that would signify a successful intervention. Furthermore, they should specify intermediate targets that could be used to measure progress toward achievement in each instance.

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[42] In terms of size, budget, levels of business volumes, income, level of performance, services, staffing, operating ratios, performance ratios, and other indicators that describe the desired end product of a successful project intervention in each organization.

C. Rationale of Federation Approach

A key aspect of the Cooperative Strengthening Project is its focus on strengthening cooperative federations as necessary intermediaries for strengthening local cooperatives. Activities supporting individual cooperatives are undertaken by agreement with the respective federation. Contact and communication between the cooperative and the project pass through the federation.

The rationale for such an approach is based on the fact that (a) the federated system represents nearly 75 percent of cooperative members in the country, (b) it is possible to reach a larger proportion of the cooperative system with limited project resources, and (c) the federations represent vertically integrated structures that have on-going relationships with the individual cooperatives. Changes instituted at the federation level, therefore, have the potential of reaching a significant portion of the cooperative system and, if integrated into the federations' on-going programs, will continue to benefit the cooperative movement beyond the scheduled end of the project. The latter is important, because it means that a successful project has a chance of being replicated, and the benefits extending beyond the confines of the limited number of organizations helped directly by the project.

The Cooperative Strengthening Project has, in fact, gained important economies of scale by working through the extension and monitoring services of the federations. A total of 66 cooperatives have been diagnosed for assistance through the project, either by the federations or by the project team working with federation personnel. The project is currently providing institutional support assistance to 6 federations and 29 of their affiliated cooperatives; a subset of 15 of those cooperatives has also entered into financial stabilization agreements. It is highly unlikely that the project could have reached such a large number of cooperatives in such a short period of time with its current level of resources if it had been working with individual cooperatives.

The major shortcoming of the federation approach appears to be precisely in the assumption that the federated system provides a mechanism for continuing project-initiatives beyond the end of the project. In the first place, the project is not well positioned to transfer its technology and skills to the federations, something that must occur to justify the rationale of working through the federations. The project has created a highly skilled group of professionals well acquainted with the problems facing the cooperative movement -- the Guatemalan members of the PMO. There has not been a comparable creation of capabilities within the federations, however, and the project is not, in the opinion of the evaluation team, devoting sufficient attention to the issue of transferring these skills to the federations. The thrust of the PMO has been to "get the work accomplished": developing and supporting a capability in the federations to carry out many of the project activities has not been the course of action because to do so would cause unacceptable delays in project implementation.

Related to this, it is important to consider the implications of the origins of the Guatemalan cooperative federations. Several of the federations participating in the project were formed by the government -- independent of their member cooperatives, or with the idea of a membership base as an afterthought. Other federations were sponsored by international donor agencies as a mechanism for supporting the development of independent cooperatives. In no case was a federation formed in response to a spontaneous demand for services from base-level cooperative organizations.[43]

As a result, the federations tend to have a life of their own, independent of their members. Most rely on external donations to cover operating expenses. Some function primarily as funnels to solicit and distribute donations or political favors. Only a few had, prior to this project, defined their role to be one of providing a broad range of development-oriented services to their affiliated cooperatives. The idea of business-oriented cooperatives collaborating and pooling resources to provide services through a secondary service organization is not even allowed under Guatemalan law. It is not surprising, therefore, that these organizations have for years failed to function in an assertive and entrepreneurial fashion, striving to meet the needs of their constituents and attract new members by offering improved and competitive services.

In trying to address these deficiencies the project is faced with the challenge of re-creating the federations as significantly different entities. The objective is to create organizations that are efficiently offering business services to their constituents, and thereby strengthening them. The project has had significant success instilling this novel concept of "entrepreneurialism" within some of the federations and has faced resistance within others.

The magnitude of this problem can be seen in what seems to be almost insurmountable inertia and complacency on the part of the management in several of the federations. Few have generated any new ventures, initiated new services, or promoted new cooperatives in the ten to twenty years their managers have been in power. FENACOAC has not spawned a new credit union, despite opportunities, in some 15 years, while FECOAR, is still providing the same single service it offered 15 years ago. People who have been doing something the same way for 20 years and still "getting by" (and in the case of FECOAR, having to manage only a few hours a week), will be resistant to change even with the best of incentives. In order to encourage self-generated change within the institutions, the project must create a sense of "dissatisfaction" with the status quo, a sense that things should be better, or instill an accountability into the system that progress is essential to maintaining one's employment. This is a massive undertaking.

There is always a tendency in a project such as this to by-pass the local institution -- in this case the federations -- and work directly with the base-level cooperatives. Frustration over the slow pace of progress and the

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[43]Even FENACOAC, the credit union federation was stimulated more by outside influences than by autonomous member interest.

seemingly unchangeable bureaucracy and the need to produce visible results support this approach.

In this case the argument can be made that working with individual cooperatives that are most committed to change and growth would produce a larger number of well-managed and progressive cooperatives that would someday demand and extract from the federations those reforms and effective services the project is attempting to engender. This would challenge the federations' sense of complacency by recognizing that viable and prosperous cooperatives can flourish without being federated and by explicitly underscoring the fact that the federations are operating in a competitive environment. In addition, by working with individual cooperatives -- some of which are non-federated -- the project would be able to choose to work with the most viable institutions where the greatest impact in reaching rural producers can be achieved.

Such an approach, however, would only be able to reach a limited number of cooperative organizations within the budget and time constraints of the project, and would not succeed in creating an on-going process that would result in expanded benefits to a wider number of cooperatives than those that can be directly reached by the project.

In summary, working through the federations appears to offer the best prospects for reaching the largest number of cooperatives with available project resources and for institutionalizing a process of change that will continue after the project is terminated. The changes that must occur in the federations, however, are profound. It is unreasonable to expect that they will occur quickly, or easily. As will be described in subsequent chapters, both additional resources and a revised project focus are necessary to assure that the changes occur.

D. Time Horizon of the Proje

The time horizon of the project is unrealistic. Institution-building requires a long-term effort, certainly longer than the three years of technical assistance and five-year life of project. This project design exemplifies A.I.D.'s tendency to underestimate the time needed to create sustainable institutions.[44]

Due to a delayed start and inadequate resources, only a subset of the Project's objectives will have been reached by the scheduled end-of-project. In addition, there will have been insufficient time to insure the sustainability of results in the beneficiary organizations.

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[44]John H. Magill, Cooperatives in Development: a Review Based on the Experiences of U.S. Cooperative Development Organizations, pp. 38-39.

The stabilization program is a five year endeavor that was initiated only a year ago. There will be little time to insure the correct management of the funds and appreciate its full impact. Credit has not yet been disbursed. Financial and administrative policies and practices have not been thoroughly internalized.

The Cooperative Strengthening Project, as it is now designed and implemented, should be viewed as a first phase in a longer-term commitment to strengthening the cooperative movement in Guatemala. The PACD should be extended until 1994 to at least allow for the first round of stabilization funds to be re-cycled. Additional technical and financial resources should be added to the project to ensure achievement of project goal and purpose.

E. The Role of Government

Cooperatives operate within the context of local laws and regulations. According to the PMO, there are several major problems that, unless corrected, " . . . will destabilize the entire system."[45] These include:

- Poor External Supervision. The regulatory fiscal agency of the Government (INGECOP) is extremely weak and inconsistent in the quality and frequency of its fiscal audits of the cooperatives. In addition, adequate measures of performance for determining the acceptability of institutional policies and practices do not exist.

- Lack of Legal Authority to Force Compliance. Due to an inadequate cooperative law, INGECOP is currently powerless to force compliance with audit findings. This absence of legal authority has perpetuated the existence of inept, inefficient and, in many cases, bankrupt cooperative institutions.

Cooperative "theory" guiding the Guatemalan government's policy toward cooperatives is based on a bizarre mixture of communist rhetoric, Catholic welfarism and ignorance of successful cooperative experiences. The result has been a government orientation toward cooperatives that discourages their growth as economic entities. Among the policies that openly discourage such development are:

- INACOP believes that positive net margins achieved in one cooperative should be taken away from it and given to cooperatives that had negative margins, and has attempted to do so in the past;

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[45]Proyecto Fortalecimiento Cooperativo (PFC), "Documento Entregado a los Representantes de WOCCU durante su Visita al Proyecto," June 27, 1989, p. 4.

- FEDECOVERA was informed by INGECOP inspectors that it could not charge more than it had paid for supplies it was selling to its member cooperatives;
- Cooperatives are not allowed to own or operate business ventures, or to engage in joint business ventures with other cooperatives or private enterprises;
- Both INGECOP and INACOP have opposed increasing interest rates to match local market rates; and
- INACOP openly advocates that cooperatives should be social entities first and business entities second.

Although the original project design allocated $11,000 for assistance to INACOP and INGECOP, these funds have not been utilized. If government policy toward cooperatives is so important to the long-term success of this project, failure to include resources and activities to influence government policy is a short-coming in the project -- especially now that the government is undertaking a major revision of the cooperative law. While it is difficult for a foreign institution (as the PMO would be clearly perceived) to influence local legislation and regulation, other A.I.D.-financed cooperative development projects have attempted to deal with the issue of developing an awareness among policy makers of the need for and characteristics of effective cooperative legislation and regulation. Sponsoring a limited number of study trips, conferences, seminars and specific skill training for INACOP and INGECOP personnel during the remaining life of the project could be a non-threatening means of educating appropriate government officials about the effective role of government institutions in supervising cooperative organizations and for developing a commitment to appropriate reform of government policies.

F. Summary

The project design process led to a project that focused on improving administrative and financial management in the cooperative organizations. This was both appropriate and necessary; the participating cooperative institutions all had serious problems in these areas. Strengthening federations as an approach to developing the cooperatives also appears to be an appropriate strategy, as it enables the project to reach a larger number of cooperatives with limited resources and offers prospects for continuing project activities after the end of project.

Project design did not, however, adequately contemplate the business and economic problems facing the non-financial cooperatives. These need to be addressed, either through this project or through complementary efforts. Likewise, project design did not adequately address the legal and regulatory environment facing the Guatemalan cooperative movement. If this is, in fact, an important constraint to the success and growth of cooperative

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business institutions, some attempt should be made to improve that environment.

The time horizon of the project is too short. Institution-building is a long-term effort.

Finally, the project design does not provide an adequate description of the project purpose and end-of-project status conditions. As a result, there is not an adequate basis for judging the significance of project objectives or success in achieving those objectives.

VIII. INSTITUTIONAL AND STRUCTURAL ISSUES

A. The Project Management Office

The Cooperative Strengthening Project is implemented by a Project Management Office (PMO). This is a temporary organization, designed to exist only for the life of the project.[46] Ten professionals -- four expatriates and six Guatemalans -- staff the organization, with an additional five Guatemalan support staff. Although ostensibly a dependency of FENACOAC, the PMO operates as an independent organization, with FENACOAC acting as a pass-through for USAID/Guatemala financing and management.

Original project design planned for the establishment of two separate bodies -- the PMO and a separate Funds Management Unit (FMU). The PMO was to provide technical assistance and training to the beneficiary organizations, while the FMU was to manage stabilization and credit funds through a trust arrangement. This was considered unwieldy and impractical, leading to a decision early in the project to merge the two functions under the PMO.

The PMO is a common form of project implementation structure for A.I.D. projects. As Honadle and VanSant point out, a PMO is recognized as a" . . . task-oriented organizational mechanism with a high potential for getting jobs done." Furthermore, it represents a temporary organization that can be used to stimulate change without imposing a new permanent bureaucratic burden on the beneficiaries -- when the project is finished the PMO is dismantled. As a result, the PMO has become the dominant mechanism for implementing rural development projects in A.I.D.[47]

Because of this extensive experience, there is a substantial body of evaluative literature about the effectiveness of implementing projects through project management units. It is important to understand the general conclusions of the development literature to understand the implications of the present structure for the project's long-term impact.[48]

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[46] It is not clear if, in this case, "life-of-project" means through the PACD (1991) or only through the life of the external technical assistance contract (1990).

[47] These observations were drawn from a comprehensive review of the experiences of 241 A.I.D.-financed integrated rural development projects in Asia, Africa, Latin America and the Caribbean conducted by Development Alternatives, Inc., and Research Triangle Institute between 1978 and 1984. George Honadle and Jerry VanSant, Implementation for Sustainability: Lessons from Integrated Rural Development, pp.12-13.

[48] These points are developed in greater detail in the Honadle and VanSant study. Ibid. pp. 12-15 and 24.

There are numerous benefits to a PMO approach; this approach:

- reduces political interference and bureaucratic red tape;
- offers more attractive salary schedules, so that it can attract higher quality personnel;
- is not a threat to career interest of institutional personnel;
- is able to bypass onerous financial management systems;
- provides the donor institution with greater financial control; and
- is effective in delivering goods and services.

But, if there are numerous advantages to implementing a project through a PMO, there are equally important disadvantages. The PMO approach to project implementation generally:[49]

- is unable to pick up recurrent costs, and is therefore unable to develop a sustainable activity;
- does not build capacity in permanent local institutions; and
- competes with permanent institutions for scarce staff resources by offering highly paid temporary non-career positions.

The PMO is an implementation approach that has proved to be highly effective for generating immediate results, but seldom succeeds in building local capacity to carry on. As Honadle and VanSant observed:[50]

> . . . counterparts are recruited away from a permanent organization, placed in a temporary and vulnerable one, and then expected to digest knowledge from the TA experts. By the time this knowledge transfer has taken place, however, the PMU [Project Management Unit] is planning to disband and the counterparts are set adrift. Thus, permanent institutions have been drained and local technicians or managers have been abandoned. . . . [there is] limited capacity building . . . [and the approach] inhibits sustained service delivery and limits the potential impact of the project.

In retrospect, the decision to develop a separate PMO was probably unavoidable. The project planning group examined the possibility of working with various governmental and parastatal organizations (particularly BANDESA,

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[49] _Ibid._

[50] _Ibid._, p. 40.

INACOP, INGECOP and the Ministry of Agriculture) and found each of these wanting. The Confederation of Federated Cooperatives (CONFECOOP) might have been a logical place to "locate" the project team, but is prevented by law and regulation from engaging in technical assistance or other service activities.[51] The decision of CONFECOOP members to authorize FENACOAC as the project administrator was accompanied by a reservation about having one of the beneficiaries decide resource allocations for the others. Thus, the present PMO location as an entity sponsored by, but independent of FENACOAC control, was probably necessary.

At the same time, this independence is the principal cause of the concerns voiced elsewhere in this report that:

- the project team is doing too much of the work itself rather than acting as advisors to help the federations plan, develop and implement project activities;
- project methods, norms, and activities are not being institutionalized sufficiently in the various federations; and
- there is a real danger that the major skilled resource developed by the project -- the Guatemalan professional staff working in the PMO -- will be lost to the cooperative movement at the end of the project.

The project needs to be aware of these potential problems, and to counteract these tendencies through the adoption of implementation techniques that stress the development of a capacity -- including the necessary skills and technologies -- within the participating federations.

B. Organisational Structure of the PMO

The PMO was originally organized to provide a team approach to providing assistance to the cooperative movement. The expatriate team was selected to represent functionally distinct skills -- training and institutional development, agricultural cooperative development, finance and credit unions -- with the idea that all would work with each participating federation. A Guatemalan counterpart was assigned to work with each of the four expatriate advisors.

This arrangement proved difficult to implement. The federations were confused about the role of the advisors; it was difficult to coordinate work with the federations as no individual had a lead role; and the need to work with an expanding number of federations spread the team too thin. As a result, the PMO was reorganized to assign one technician primary responsibility for each federation. This benefitted both the federations, which

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[51]Interview with Rodolfo Orozco Velázquez, general manager of CONFECOOP.

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could report directly to just one technician, and the project, where responsibility for contact and progress at each federation was now more clearly defined.

The new structure has, however, greatly increased the span of authority and administrative burden on the Chief of Party as director of the program. The organization now has only two levels, with 10 professionals reporting directly to the director (see Figure 2). As a result, the director's time is increasingly occupied with administrative and supervisory duties to the detriment of his technical assistance activities. While this is manageable in a small program, any plans to increase the scope or activities of the Cooperative Strengthening Project will have to resolve this problem.

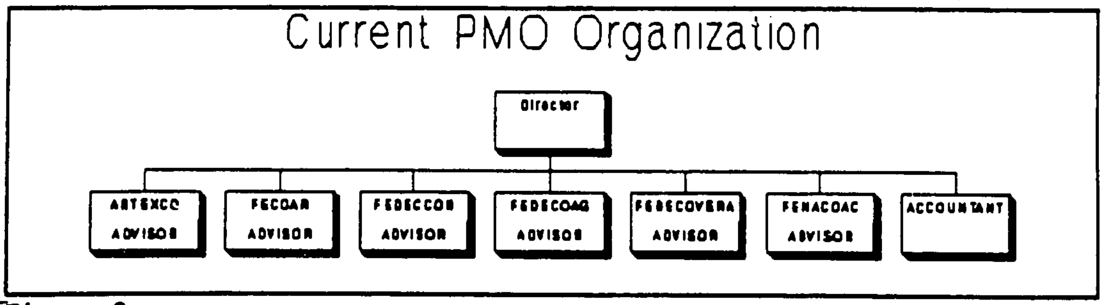

Figure 2

Assigning individual technicians to each federation has had another consequence. As originally designed, the team approach would have brought a variety of skills and approaches to address the problems of each federation. Segmentation tended to limit the range of services available to each federation. For example, the Staff Development Specialist is assigned to FEDECOAG, and thus spends virtually all of his time with that one federation. This technician's proven strengths are in the areas of training and facilitation of group processes. The result is that FEDECOAG has apparently received high quality assistance in the areas of organizational restructuring, strategic planning and policy reform, but has received less attention in the areas of finance, marketing and business development. Although there may be a need for effective personnel training and motivation in the other federations and cooperatives, the division of labor within the PMO and the fact that only one of the staff members has previous experience in this field limits the amount of training assistance available to the other organizations.

Any expansion of the Cooperative Strengthening Project will require some form of reorganization of the office itself -- mainly to resolve the span of control problem. Although it was undoubtedly necessary to adopt the current organizational structure, the concept of a team approach that could address a broad spectrum of issues relating to each federation was an innovative and positive objective. To the extent possible, the project should consider reestablishing at least some aspects of the team approach.

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C. FENACOAC's Role as Grantee/Beneficiary

Under the terms of the Cooperative Agreement signed between USAID/Guatemala and FENACOAC, FENACOAC acts as administrator and temporary grantee of Cooperative Strengthening Project financial resources. FENACOAC receives a fee for its administrative support, which consists of "accounting, operating and financial record-keeping and reporting, internal control, security of funds management, and occasional technical orientation."[52]

FENACOAC acts as a disbursing agent for the project's grants and as credit agent for the project's debt financing. All legal documentation (such as stabilization contracts, loan contracts, contracting and firing of technical personnel, issuance of project checks, reports) is signed by FENACOAC's manager, who acts as administrator for the project. FENACOAC manages the trust fund and is also one of the beneficiaries of the fund and the project. Major policy and administrative decisions are generally taken by a troika consisting of the AID project manager, the contractor chief of party and the project administrator.

FENACOAC is not, however, involved in day-to-day operations, as these are delegated to the PMO. The PMO manages project resources in accordance with the Cooperative Agreement guidelines, performs loan monitoring and debt collection in collaboration with FENACOAC, and relates to FENACOAC as both project administrator and as one of the participant federations.

There is a potential conflict of interest with FENACOAC acting as both beneficiary and administrator. It is not feasible for FENACOAC's manager to effectively and entirely segregate functions. Sensitive project information available to the administrator is also available to FENACOAC, the participant. FENACOAC's manager had expressed complaints that FENACOAC had received a smaller amount of stabilization funds than FECOAR. Access to the information supporting this claim was available to the administrator; other federations do not have access to such information. In general, other federations are uncomfortable with FENACOAC's role as depository of project funds.

This poetential conflict of interest could be eliminated completely by removing FENACOAC from the project as beneficiary, or by identifying another administrator/grantee of project resources. An intermediate solution would be to clearly separate the functions and responsibilities of FENACOAC's manager from those of the project administrator.

While the potential for additional complications exists, there have apparently been no unresolved issues or real problems to date. FENACOAC is treating its role as project administrator as a pass-through arrangement. While this may not be the ideal arrangement, it may be the best possible solution under the circumstances.

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[52] AID/FENACOAC Cooperative Agreement No. 520-0286-A-00-6329-00, Attachment 2, page 7.

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D. Management Structure

Management of the Cooperative Strengthening Project is divided among FENACOAC (the grantee), the CDO consortium (as contractor) and USAID/Guatemala. FENACOAC administers the project on behalf of the Guatemalan cooperative movement. In theory this means it reviews and approves plans, budgets and expenditures under the grant project, and administers the technical assistance contract. In practice, FENACOAC exercises little programming control or authority over the project.

The consortium -- consisting of WOCCU, ACDI, NCBA and COLAC -- is responsible for implementing the project, in accordance with the terms of reference of the approved contract. WOCCU is the prime contractor in the consortium, and theoretically has direct project management responsibility and authority. It is represented in Guatemala by the Chief of Party of the technical assistance team. Because of funding and other limitations, however, neither WOCCU nor the consortium is actively engaged in managing the project. Only WOCCU has funding approved for project backstopping. Disagreements between the USAID/Guatemala project manager and WOCCU backstopping officer over the approach to project implementation have led to a reduction in WOCCU's direct management responsibility.

For all practical purposes, project management is exerted by the USAID/Guatemala project manager, who takes an active role in reviewing progress, planning strategies, and overseeing the operations of the project.

The complex management situation -- especially the disagreements between USAID and WOCCU -- places the project director in a difficult position. He is hired by and must report to WOCCU, but is managed on a daily basis by the USAID/Guatemala project manager, who does not concur with WOCCU program directions. This is a problem that needs to be resolved, or at least minimized.

IX. IMPLEMENTATION ISSUES

A. Project Approach and Style

To assess the implications of the approach and style of the Cooperative Strengthening Project for building an on-going capacity to implement project reforms, it is useful to have a perspective on different approaches to technical assistance. Honadle and VanSant described a typology of four different project approaches used commonly to implement A.I.D.-financed development project -- the "performer," "substitute," "teacher," and "mobilizer" models. Of particular relevance to the current project are the "performer," "teacher" and "mobilizer" models.

The "performer" model is described as a project in which:[53]

> . . . a temporary team or individual performs a specified set of technical tasks and then leaves. . . . the emphasis is on a product resulting from the activity . . . on correct diagnosis and technically sound recommendations . . . [and] on time, cost and adherence to design specifications. . . . a high priority on technical competence.

This can be contrasted with the "teacher" approach -- in which the technician is an advisor rather than an implementer, and success is defined in terms of the transfer of skills to a local counterpart. The "mobilizer" model, like the "teacher model," is intended primarily to help an organization increase its capacity to perform needed functions.[54] In the mobilizer approach priority is given to the process of enhancing local skills and capabilities and motivating others to act. In the "teacher" and "mobilizer" models, success is measured as much by the ability of the counterpart organizations to carry out the work as by the actual completion of the work itself. As the authors point out, "Most long-term TA personnel claim to follow [these] models, but few do."[55]

The Cooperative Strengthening project strongly tends toward the "performer" end of the spectrum, in which the technical assistance team performs the work, and building a local institutional capability to sustain activities is only a secondary consideration. The focus of the Cooperative Strengthening Project is strictly on completing the work -- carrying out the diagnoses, making good recommendations, securing policy and other changes, and disbursing funds. PMO staff carried out the diagnoses of the federations, analyzed the results, and drafted the action plans. PMO activities have also tended to by-pass the federations in developing action plans and strategies for

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[53] *Op. cit.*, pp. 36 and 38.

[54] *Ibid.*, pp. 37-39

[55] *Ibid.*, p. 38.

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supporting the primary level cooperatives. Partially because of A.I.D. pressures, the project places a high emphasis on meeting deadlines and demonstrating progress.

Neither project documentation nor project reporting place a high priority on expanding the capability of the local federations, or on the transfer of activities to the federations and their member cooperatives. In fact, a common complaint is that "If we had to wait for the federations to get around to doing this the project would be even more behind schedule than it is." As Honadle and VanSant point out, however, a performer-oriented project tends to " . . . block local capacity building and perpetuates dependency."[56]

B. Local Participation in Decision-making

Participation has long been recognized as important to project success. Projects in which the beneficiaries have participated actively in identifying the problems and developing solutions have been uniform , more successful over the long run than those in which beneficiaries play a passive role.

Project implementation has been decidedly non-participatory. During the initial implementation stages, USAID/Guatemala and the project team established and dictated the terms and conditions of participation in the program. The diagnosis methodology was designed by the PMO and implemented by project technical personnel. Federations and cooperatives provided information to the analysis teams, and were later given the opportunity to review conclusions and proposed action plans. This does not, however, constitute effective participation in the problem analysis and planning processes.

During the project planning period potential participants had little room for maneuvering or dissent, and several organizations (notably FEDECOCAGUA and FECOMERQ) are not participating because they could not agree with PMO-determined practices and policies. Even today there is a strong tendency in the PMO to tell the federations what they need to do rather than help the federations work through the problems and arrive at their own decisions. Such an approach is obviously more time consuming and risky, but A.I.D. experience has generally found this approach to be more effective.

The PMO is not paying sufficient attention to the long term negative implications of this approach. Interviews with managers and boards of the various federations suggested that there is a tendency to view the project as something external to the organization. The absence of direct participation in project analysis, planning and decision-making has produced a pronounced "we-they" perception among the institutions. Project personnel need to be aware of this, because it adversely impacts prospects for sustainability. The project should be more concerned with transferring skills and technologies to the participants so that results would be sufficiently

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[56] *Ibid.*, p. 38.

internalized to ensure continuation of activities and the new mentality following the end of the project.

C. Linear Implementation Schedule

The project is being implemented in a straight linear fashion: the diagnoses must be completed before institutional development assistance will be provided; institutional development assistance must have produced the required impact before stabilization funds will be provided; and the stabilization program must have succeeded before the cooperative is eligible to receive credit funds. The process has slowed down implementation of the project, with the result that no cooperatives have yet received credit funds.

The PMO argues that this process is essential to assuring the proper and effective use of credit resources, and to reduce the risk of bad debt losses. While this is undoubtedly true, it is not clear that the developmental intent of the Cooperative Strengthening Project is best served by such a conservative approach to the use of project resources. The evaluation team recommends that the project adopt a more flexible approach to implementation; it is preferable to accept some risk and bring all of the elements of the project into action than to concentrate solely on avoiding any losses.

D. Consortium Approach - Role and Use of CDOs

The consortium arrangement -- consisting of a team comprised of four cooperative development organizations -- proposed to bring together a wide range of knowledge and skills in credit unions and cooperatives. In theory, this approach was expected to provide a complementary pool of resources that could support project implementation. Individual technicians would receive backstopping from institutions with a variety of cooperative experiences.

In practice, this arrangement has not contributed positively to project implementation. Widespread dissatisfaction and infighting among consortium members has had a negative impact on the project team and on project implementation. The CDOs, with the exception of WOCCU, have not provided project management, technical backstopping or short-term technical assistance to the project.

Part of the problem is due to funding decisions reached during contract negotiations. A.I.D.'s contracting officer reduced the level of funding available for project backstopping. Only WOCCU retained project support funds; the other CDOs received only limited overhead funds. Without funds, the CDOs could undertake project support activities only at their own expense.

Neither did the project provide for short-term technical assistance that could be used to support the long-term technicians with specialized assistance. The limited short-term resources have been used to conduct a study of insurance, provide assistance on capitalization and savings mobilization, and conduct a limited number of seminars. Short-term technical assistance would have been especially valuable for training, marketing, strategic planning, and specialized agricultural activities.

Perhaps even more important, with strong USAID management of the project, there was little opportunity or need for home office backstopping, at least from the USAID's perspective. Most of the project management functions -- including oversight of plans and implementation -- have been assumed by the USAID/Guatemala project manager. The role relegated to the CDOs in this arrangement has been less one of managing the project and more one of providing a project team.

As a consequence of these three factors, the CDOs, with the exception of WOCCU, have had little role in project design, planning and implementation. This has led to considerable frustration, which has had a negative impact on project performance. The CDOs are theoretically accountable for project performance, but have little voice in major decisions affecting the strategies or implementation of the project.

E. Effectiveness of PMO Staff

Two characteristics of the PMO staff mark the non-traditional approach of this project: (a) only one has prior experience in implementing a development assistance project, and (b) only two had ever worked for a cooperative organization before. This project has assembled a group of technicians who are oriented toward private-sector business operations. This approach is consistent with the major intent of the project to help cooperatives evolve from social-oriented institutions into viable business entities.

In general, the project staff has proven itself to be very competent and has been well received within the cooperative institutions. With only a few exceptions, the beneficiary organizations rated the quality of technical assistance highly. The technical and practical skills of the Guatemalan members of the team were rated especially highly by both recipient organization personnel and other members of the PMO.

Personal and professional conflicts among the expatriate professional staff -- reflecting strong individual personalities and different approaches to cooperative development -- have prevented the PMO staff from functioning effectively as a team. Communication among the expatriate staff is minimal, and the resulting division has had a negative impact on the local staff as well. This situation needs to be resolved.

F. Resource and Timing Issues

The amount, allocation and adequacy of resources is frequently a major constraint to project success. In the case of the Cooperative Strengthening Project, project resources have been a major constraint in terms of (a) the stabilization program (b) the time-horizon of the project, and (c) the fact that the project has not made use of available credit resources.

1. Amount and Allocation of Resources

The project has been characterized by a slow rate of disbursement of funds and a large pipeline, that was reduced in 1989 with the disbursement of the stabilization funds. Project expenditures, as well as total amounts committed, are summarized in Table IX-1.

TABLE IX-1

PROJECT EXPENDITURES THROUGH 9/30/89
(in US $ 000)

Budget Category	Total Budget*	Expenses to Date
International T. A.	3,124	1,492
A.I.D. Project Management	580	442
Project Management Office	891	308
Program Expenses		
Stabilization	2,500	2,336
Credit	2,800	-
CONFECOOP Support	50	5
INACOP Support	11	-
Inst. Development	1,034	167
Subtotal, Program	6,395	2,508
GRAND TOTAL	$10,990	$4,750

* With the exception of $812,000 for international technical assistance, all budgeted funds have been obligated.

While more than 60 percent of the project's life has elapsed, less than half of the committed funds have been spent to date. More than 85 percent of these expenditures have been for the international technical assistance team, the USAID (PASA) project manager, and the stabilization funds. Expenditures in other areas have been relatively low. Expenditures for the support of the PMO represent only one-third of the total committed amount, although the unit has completed more than half of its currently scheduled life. Expenditures in the area of institutional development have been moving even more slowly. Only 16 percent of the total amount obligated and committed for support of the cooperative institutions has been spent.

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Table IX-2 summarizes the distribution of project resources among the current participants. With the exception of FENACOAC and FEDECCON, technical assistance days in 1989 were evenly divided among the cooperative groups. FENACOAC had two technicians assigned to it, while FEDECCON failed to comply with pre-conditions for project assistance. FECOAR and FENACOAC roughly share 65 percent of the institutional development funds spent to date.

TABLE IX-2

ACTUAL DISTRIBUTION OF PROJECT RESOURCES
(as of 9/30/89)

	FEDERATION						
Project Resources	ARTEXCO	FECOAR	FEDECCON	FEDECOAG	FEDECOVERA	FENACOAC	Total
			Technical Assistance Days				
Person-days (1989 only)	144	244	29	177	252	437	1,283
Percent of Total	11	19	2	14	20	34	100
			Funding (US $ 000)				
Institutional Development							
Technical Assistance	-	35.5	-	6.1	.4	12.4	54.4
Training	.4	1.4	-	4.0	.7	39.1	45.7
Op. & Salary Subsidies	13.7	7.1	3.4	-	8.1	.2	32.4
Capital Improvements	10.5	10.4	-	-	10.8	-	31.8
Subtotal	24.6	54.4	3.4	10.1	20.0	51.7	164.2
Stabilization Funds	-	1,259.3	-	-	-	1,072.0	2,331.3
Total Funding	24,6	1,313.6	3.4	10.1	20.0	1,123.7	2,495,5

Similarly, ARTEXCO, FECOAR, FEDECOAG and FEDECOVERA have received a proportionately larger share of institutional development support during the life of the project (see Figure 4).

Technical assistance represents the largest item of institutional development expenditures (33 percent), while training represents 28 percent, subsidies 20 percent, and capital improvements 17 percent. Stabilization funds have been disbursed only to FECOAR and FENACOAC, with FECOAR receiving 54 percent of the total. FENACOAC alone received 86 percent of the training expenditures, due largely to the fact that it benefitted from several project-funded study excursions to Puerto Rico and the U.S. Overall, FECOAR has received 53 percent of project funds disbursed and FENACOAC 45 percent; the remaining 2 percent is shared by 4 federations.

Although FENACOAC and FECOAR have received most of the project's resources, the smaller movements have benefitted at least proportionately to their size. In particular, the project has dedicated a proportionately larger share of its time and institutional development resources to the smaller cooperative movements. If total membership is taken as the base, for example, ARTEXCO, FECOAR, FEDECOAG and FEDECOVERA have received a disproportionately larger share of technical assistance. FENACOAC, with nearly 80 percent of the affiliated cooperative members, has received less than 40 percent of the available technical assistance. (See Figure 3.)

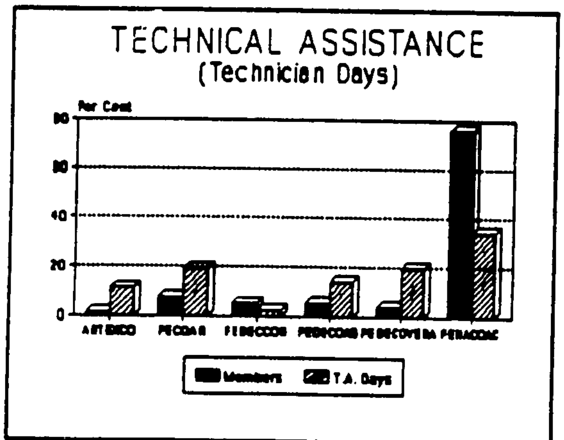

Figure 3

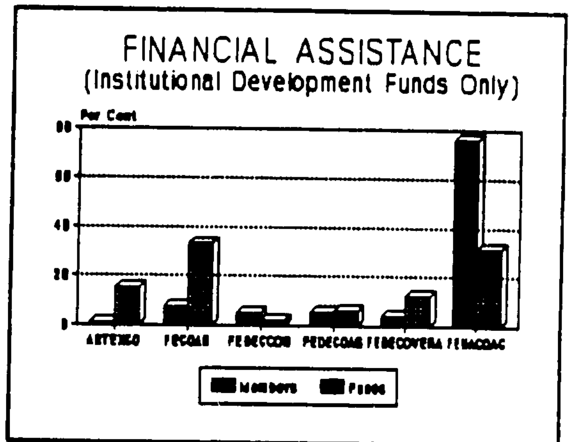

Figure 4

2. Length of Project

The other major resource shortage in the project is the length of time for the international technical assistance. Although originally planned as a five-year technical assistance program, the level of effort was reduced to three years in contract negotiations. This is inadequate to accomplish the

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project purpose. As a result, the current project should be viewed as the first phase in a longer-term commitment to strengthening the cooperative movement in Guatemala.

3. Adequacy of Resources

The question of the adequacy of project resources involves two separate issues: the amount of resources available and the length of time resources are available.

The amount of stabilization funds is inadequate to achieve the objectives of the project, at least as presently programmed and used. Funds originally programmed have already been exhausted, yet the program has only begun to address the needs of FENACOAC and FECOAR (see Table IX-3). Stabilization funds were recently increased $1.0 million by shifting funds from the credit program. Even this will not be sufficient to stabilize all six participating federations and their member cooperatives. The PMO estimates that it will take $6.5 million to stabilize the federations and their affiliates (without considering the stabilization needs of the FEDECOAG cooperatives, or of the smaller 42 credit unions that comprise only 20 percent of the capital of the FENACOAC system). This assumes however that the project would and should provide all of the stabilization funds required by the remaining federations.

TABLE IX-3

PMO ESTIMATES OF TOTAL NEEDS FOR STABILIZATION FUNDS
($000s)

	Federation Level		Cooperative Level			
Federation	Estimated Needs	Amount Disbursed	Estimated Needs	Amount Disbursed	Total Need	Total Disbursed
ARTEXCO	-	-	36	-	36	-
FECOAR	370	370	889	889	1,259	1,259
FEDECCON	-	-	-	-	-	-
FEDECOAG	790	-	n.a.	n.a.	790	-
FEDECOVERA	720	-	540	-	1,260	-
FENACOAC	900	555	2,250	517	3,150	1,072
Total	$2,780	$ 925	$3,715	$1,406	$6,495	$2,331

There are several alternatives for increasing the scope of the stabilization program. One alternative, at least in theory, would be to provide the federations and cooperatives with greater income earning-capacity by investing time and resources in production and marketing needs. As income grows, the institution would be able to retire its bad debts with funds of its own, perhaps in a matching arrangement with project stabilization funds.

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Another alternative would be to establish an annuity fund, with the capital exhausted over the life of the investment. This could increase the coverage of the available funds more than 40 percent.

Finally, the PMO should consider other alternatives, such as providing matching funds for cooperatives that are collecting debt that has previously been classified as unrecoverable. This would both increase the potential coverage of existing stabilization funds and encourage the cooperatives to engage in more effective collection practices.

G. Possibilities for Merging the Credit and Stabilization Funds

Because stabilization funds were exhausted in 1989, it has been proposed that the credit and stabilization funds be merged to increase the amount of stabilization funds available. The credit component, with its stringent policies, generally serves as the third step in the project for participants who have successfully participated in the stabilization and institutional development components. The implicit assumption in merging the two funds is that credit will not be needed to the extent project designers anticipated, and that funds for the "pre-requisite" stabilization component would take priority. Already, $1.0 million has been reprogrammed from credit to stabilization.

Credit is the only mechanism available under the project that is specifically well-suited to addressing the production, processing and marketing needs of agricultural and artisan cooperatives. For those organizations that will not be using stabilization support, credit will remain a strong incentive to participate in the project and introduce the much needed financial and administrative changes. Credit will be an important source of capital to assist the federations in launching new services, and is needed to increase the business volumes of the non-financial cooperatives. The PMO should begin to make loan funds available to credit-worthy cooperatives.

Another alternative the PMO should consider would be to use stabilization funds to finance cooperative business activities instead of limiting the use of those funds to purchasing "safe" certificates of deposit in local finance companies. While this would undoubtedly increase risk and reduce overall yield, investing these funds in loans to the cooperative movement provides resources to support the growth of the movement.

H. Future of the Stabilization Funds

The fact that the stabilization funds will remain intact at the end of the project is an issue the project needs to address. At the present time there is no plan for the application or disbursement of these funds. This could create potential problems or conflicts; expectations have been raised among the participants that this money will be shared among them. At the same time, there is concern that the funds would be turned over to FENACOAC.

The possibility of creating a permanent stabilization fund for the cooperative movement at the end of the project has also been discussed. Such a

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fund would sustain itself by charging cooperatives insurance premiums to cover administration costs and potential losses. Three factors would be required for such a fund to survive: economic viability of the cooperatives; adequate internal controls and discipline; and effective supervision. As mentioned earlier in this evaluation, the Cooperative Strengthening Project has addressed the second requirement -- creating internal controls and discipline. The other two have not been addressed, and are still problems. A feasibility study should be conducted prior to any decision to create a permanent stabilization fund.

The project should, however, make a definite decision on the future of the funds far in advance of the project activities completion date.

I. Relevancy of Performance Indicators

The indicators used to monitor and report project performance do not convey an adequate description of project impact. Reporting focuses primarily on activities carried out, not on the impact of these activities on the accomplishment of the project purpose or goal targets. The global indicators currently used are misdirected and misleading. The poor quality of the indicators is demonstrated by the fact that the project does not even report on 6 of the 11 global indicators. Among the major problems in the use of project indicators are:

- Using average 1983-1985 data as the baseline is misleading. The project team was not in place until 1987, and project assistance to the federations did not begin until the diagnostic studies were completed in 1988. Using 1983-85 data as the base exaggerates project accomplishments. For example, savings have grown 3,245 percent since the 1983-1985 period, but only 123 percent since the diagnostic studies were completed. Most growth took place before the project began.

- Reporting average data is also misleading. For example, growth in savings and capital are reported as overall growth rates, which are heavily skewed by FENACOAC's performance, instead of as a percent of participants reaching the specified goal of 50 percent increases. Although the reports indicate the goal has been achieved, very few of the organizations have met those targets. Likewise, average delinquency rate declines appeared to meet or exceed targets, but 10 of the 16 participating credit unions had actually experienced increases in delinquency during the project.

- Other indicators are unrelated to project impact, although they are being reported as if they were. Membership goals were exceeded even before the project began to work with primary-level cooperatives. The growth obviously could not be attributed to the project.

Some of the performance indicators appear to be logically incomplete or inconsistent. For example, the project established targets of reducing operating costs and reducing costs as a percentage of total assets for most of the federations. This appears to be an incomplete measure because federations can have large amounts of assets with little income, and small asset levels with much income. It also appears inconsistent with basic project objectives. There should be an underlying commitment to increasing expenses, not necessarily decreasing them -- the cooperative groups need to employ more qualified professionals and provide more services, both of which imply increasing costs. It seems that several different measures are needed to get at what this single indicator is supposed to measure:

1. Self-sufficiency	expense/income
2. Efficiency	expense/assets
3. Productivity	income/assets
4. Improvement	increases in both income and expenses

The basic indicators used to measure and report on project success need to be reviewed and revised.

J. Reducing the Scope of the Project

At the present time the resources of the PMO are overextended. Stabilization funds are completely obligated. The staff is beginning to have difficulty in meetings its workplan objectives. Many activities of the project are behind schedule.

While it is tempting to recommend limiting the scope of the project, that does not seem to be a practical solution under the circumstances. Once project activities are initiated with a federation, termination of project support must be considered a serious problem.

There is, however, ample justification to exclude FEDECCON from further project activities. Federation management has little ambition to expand the movement. The federation has little, if any, contact with its "members." The major consumer cooperatives are located in urban areas and are dedicated primarily to importing consumer goods. The rural cooperatives are small and ineffectual and, even if successful, would have an insignificant impact on either rural income or production.

FENACOAC, FECOAR, FEDECOAG and FEDECOVERA should definitely be retained in the project. Of the agricultural federations FEDECOAG has demonstrated the greatest interest in the program, even though it has severe internal problems and would require considerable help. FEDECOVERA has a significant potential to raise income among its members, if the right mix of technical and financial assistance is provided. FENACOAC should be also be retained in the program although assistance should be focused on the primary-level credit unions. In particular, FENACOAC should not participate in the credit component of the project, as it has the capability of generating sufficient internal resources to meet credit demand. FECOAR also has a strong rural base and a relatively complacent federation management. Again, assistance should be focused primarily on the base-level cooperatives.

ARTEXCO represents a more complicated situation. The PMO, with its focus on finance and administration, has little to offer ARTEXCO. The project's rural focus on agricultural cooperatives does not really match ARTEXCO's needs for expert technical assistance in export marketing of artisan handicrafts. Assistance to ARTEXCO should be limited to the central components of the project -- management and financial assistance, but the project should look for other sources of assistance for ARTEXCO to meet its marketing needs.

While the program should eventually consider working with FECOMERQ and FEDECOCAGUA, in the short run resources should be focused on the participating federations.

X. APPROPRIATENESS OF THE POLICY GUIDANCE FRAMEWORK

A policy document delineating all project policies, consistent with the project description in Attachment 2 of the Cooperative Agreement between AID and FENACOAC, was prepared by the PMO. While any comment on the adequacy of the policy framework is necessarily subjective, these appear to provide a solid basis for implementing the project. They reflect a stringent, hard-nosed approach to cooperative development and, for the most part, are thorough, well-organized and comprehensively presented. They appear to be somewhat more restrictive than those described in the PID and in the Design Documentation of the Cooperative Strengthening Project prepared by the WOCCU, especially in the use of stabilization and credit funds.

General Policies

The General Policies (which are, in fact, also procedures) state that all the activities carried out under the project will be oriented towards a series of outputs that are compatible with project philosophy. The emphasis is on financial and administrative improvement; economic development and business potential are addressed in only two of eleven areas of improvement.

Institutional Development Policies

This group of policies are especially well conceived and presented, and form a comprehensive, understandable set of policies that are consistent with the project's goals and purpose. Four minor issues should be reviewed and addressed, however. First, it would probably be preferable to fund salary subsidies out of current operating income rather than creating reserves in one year to fund benefits in the following. Second, although the personnel hired with project funds are ostensibly federation employees, it was not clear in the evaluation interviews that the federations were, in fact, committed to retaining them once project funding terminated. One manager, for example, indicated that the persons would be retained "if Konrad Adenaur or some other donor would provide funding to continue their salaries." Third, the policies also require an evaluation of trainees and of the ways in which they are applying their newly acquired skills in their respective organizations; PMO and cooperative personnel could not recall any such evaluations. Finally, although providing equipment and goods on consignment is a good concept, it may be a difficult one to apply in practice. In cases of non-compliance, withdrawal of equipment and goods may become especially difficult, as it would cause relations between the project and the federation to deteriorate.

Financial Stabilization Policies

The financial stabilization policies are detailed and thorough, although they also tend to mix policies and procedures. The policies provide an

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adequate description of the purpose, use and limitations of the stabilization program, and clearly focus the emphasis of the program on a financial relationship between the program and the participating federation or cooperative.

One notable weakness is that financial stabilization efforts are to reinstate financial viability "if and when participating cooperatives demonstrate economic potential." Since the institutional diagnoses do not address the issue of economic potential sufficiently, the project has little information on this area. In fact in several cases, financial projections were prepared, interest rates raised, and margins increased without determining whether member cooperatives, their individual members or the market would be able to absorb or tolerate such increases.

Finally, as finance is quantifiable, financial policies that are non-quantifiable are difficult to understand and apply. Terms such as "effective," "adequate," "minimal," and "continuous" are difficult to apply, and expressions such as "entrepreneurial administration" require further definition. It is difficult to understand how "liquidations" will be used as complementary instruments to achieve financial stabilization.

These limitations are relatively minor, and the stabilization policies appear to provide an adequate framework for the project.

Credit Policies

The credit policies also mix policies with procedures and use ambiguous words such as "actively," "satisfactory," "prudent" and "periodically." We found it difficult to understand the criteria for successful fulfillment of the policy guidelines:

- What, exactly, would the project review to develop a cooperative credit profile?
- When, how, and by what means would a profile satisfy project requirements?
- What quality and value of guarantees would satisfy project requirements?
- How does a cooperative deal with subsidized market rates available from other sources?
- How is the cost of capital (actual or implied) factored into the analysis of rate variations?
- There is little reference to delinquency control, reporting and statistics.

These are relatively minor issues, but the PMO should at least review the credit policies to see if they need to be made more specific.

Summary

In summary, the policy framework appears to provide a sound basis for implementing the project. We recommend that "policies" be separated from "procedures" in the document; the basic policy section should be short and concise, while the procedures section can retain the specificity required to administer the program. The project should also consider revising the manual to explain ambiguous terms such as "adequate," "effective," "minimal," and "continuously."

PART FOUR

THE FUTURE OF THE PROJECT:

MAJOR CONCLUSIONS AND RECOMMENDATIONS

II. THE FUTURE OF THE PROJECT

The Cooperative Strengthening Project was initiated in August, 1986. Technical assistance for the project began almost a year later, in July 1987. At the time of this evaluation (September - October, 1989), three years of the five-year implementation period and 27 of the 36 months of technical assistance scheduled for the project had elapsed. The project, therefore, was between 60 and 75 percent completed at the time of the evaluation.

The purpose of the evaluation was to assess progress toward achieving the project's major objectives and to recommend ways to improve its impact, both for the period remaining in the current authorized project and for a contemplated revision or extension.

A. Summary of Major Findings and Conclusions

The evaluation has concluded that:

1. The project has correctly identified a major set of problems facing the federated cooperative system in Guatemala at the present time: (a) inappropriate management policies and practices, and (b) weak financial stability. Without addressing these two fundamental problems, any effort to revitalize the cooperative movement would probably not succeed. What the project is designed to accomplish, therefore, is both significant and valuable.

2. The project is showing significant progress toward accomplishing those objectives. The changes initiated by the participating federations and cooperatives have been profound, major and, in most cases, irreversible. The major decisions adopted by all of the participating federations and cooperatives -- to restructure the capitalization of the federations and cooperatives, to adopt firm credit and delinquency control procedures, to engage in market-oriented economically self-sustaining activities, to operate as private sector business enterprises instead of social welfare agencies, and (in the case of credit unions) to mobilize local savings instead of depending on external capital -- are perhaps the most significant changes that have occurred in the Guatemalan cooperative movement in the past 20 years. Moreover, there is sufficient reason to believe that these changes are institutionalized and will be sustained beyond the scheduled end of the project. Thus, the project appears to be making a significant, positive contributions to the strengthening of the cooperative movement in the country.

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3. As presently designed[57], however, the project will fall short of accomplishing the implied project purpose of establishing a viable, effective and efficient cooperative system:

   a. it will have worked with only a small number of primary-level cooperatives;

   b. it will not have worked with these institutions for a long enough period of time to ensure sustainability; and

   c. it is not designed to address several problems (particularly production, marketing and expansion of business opportunities) that limit prospects for achieving "effectiveness, efficiency and viability in several of the participating institutions.

4. In addition, the evaluation team is concerned that the project is not paying sufficient attention to developing a capacity within the federations to extend the concepts of the project to their remaining members (those not directly assisted through project resources) or to address those problems that are not within the scope of the present project.

5. Finally, there are some problems -- resource levels and timing, project coordination, focus and style -- that need to be addressed to improve performance and impact.

In summary, the evaluation concludes that the project has been successful in addressing two major issues limiting the growth and development of the federated cooperative system in Guatemala. Although actual impact will be limited by the fact that the remaining time and resources in the project are insufficient to reach a larger number of primary-level cooperatives, the project will have made a significant, and positive contribution to developing a modern, business-oriented cooperative movement in the country. Even if no further resources were to be provided to the project, therefore, it is the evaluation team's conclusion that the existing project will be a success. It will have established an essential foundation, without which major advancement in the rural cooperative sector could not take place.

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[57] In terms of the scheduled life-of-project, scheduled completion of technical assistance activities, and other resources.

B. Options for the Future

In considering the future of the Cooperative Strengthening Project, the Mission needs to resolve two basic questions:

- Should the current project be adjusted -- in terms of resources, focus or implementation style -- to better meet project objectives?
- Should the project be expanded to cover other activities -- such as land sales through cooperatives and assistance to non-federated cooperatives?

While there are no definitive answers to these questions, the decision should be made on the basis of the intended purpose of the project and its relationship to the Mission's long-term goals in the rural sector. The achievements of the current project are significant, and are justifiable in and of themselves. If the Mission wishes to merely solidify these gains and extend the scope of the project to incorporate a larger number of primary-level cooperatives, the achievements and impact would be no less significant.

In the opinion of the evaluation team, however, the Cooperative Strengthening Project, as it is currently designed and implemented, should best be viewed as establishing a foundation for a more sustained and comprehensive cooperative development program. It represents a necessary basis for that development, but is not, in-and-of-itself, sufficient.

C. Options to Modify the Existing Project

The current project needs to be modified to meet its stated purpose of institutionalizing basic managerial and financial reforms in the federated cooperative system, and of developing a "viable, effective, and efficient" cooperative system. There appear to be two major alternatives to modifying the existing Cooperative Strengthening Project. At a minimum, the resource level and implementation period should be increased to allow the project to complete work with an acceptable segment of the federated cooperative movement. This would complete the present effort of initiating basic management and financial changes in the participating federations and a core group of cooperatives, and permit sufficient time to reinforce the institutionalization of the changes in those institutions. The second is to expand the scope of the project to deal with development issues that are not addressed by the current project. This would allow the project to continue the present effort at instituting managerial and financial improvements, but would add an emphasis on helping several of the federations -- notably FEDECOVERA, FEDECOAG and FECOAR -- develop a sound economic base that can sustain the organizations.

1. **Option to Complete Current Activities**

If the Mission wishes to complete the focus of the current project effort -- that is, bring about specific management and financial changes in a core group of cooperative federations and individual cooperatives -- then the project should not be redesigned. Instead:

- The Project Purpose (and End of Project Status) need to be revised to specify more clearly the scope of the project -- that is, the number of institutions that are to be affected and the precise changes expected in each during the course of the project;

- Resources should be increased to extend the technical assistance team through the end of project and to provide sufficient stabilization funds to meet the needs of the selected core groups of cooperatives (part of the increase in stabilization funds should come from a reprogramming of funds currently earmarked for the credit component, as credit is not really needed to achieve the current objectives);

- The implementation "style" of the project should be modified, from the current role of the PMO as project executor to a more participatory style with the PMO acting primarily in an advisory capacity; and

- Finally, USAID/Guatemala would need to provide for an on-going monitoring function (probably in the Mission itself) to assure appropriate use of the stabilization funds after the end of the project.

Such an approach would permit the project to reinforce the internalization of the basic changes introduced in the federations and to initiate changes in a core group of individual cooperatives.

While this would satisfy the current objectives of the project, it would not, in the opinion of the evaluation team, constitute a "successful" project. In particular, while financial stabilization and improved management procedures represent a necessary precondition to developing cooperatives as effective rural service organizations, they are not a sufficient response to the problems facing several of the cooperative groups. More is needed. Moreover, the evaluation team is concerned about the ability of several of the federations to (a) sustain the improvements initiated by the project, and (b) extend the project to a larger subset of their member cooperatives.

2. Option to Expand the Scope and Purpose of the Project

If the Mission is interested in developing a "viable, effective, and efficient" cooperative movement in Guatemala -- one that is providing effective service delivery to rural peasants -- then the current scope and objectives of the project are insufficient. To meet these objectives, the project should be redesigned to place a greater emphasis on institutionalizing the processes initiated by the project team and on addressing the underlying business development needs of the non-credit union cooperatives. This implies an increased emphasis on production, processing, marketing, input supplies and other income-generating service activities, as well as an extended time frame.

In particular, the Mission should:

- Revise the Project Purpose to clearly include viability and sustainability as major objectivee;

- Extend the planned PACD through at least the end of the first five-year stabilization cycle for the cooperatives in the program in 1994;

- Extend external technical assistance through the new PACD;

- Plan funding for the PMO through the new PACD;

- Increase the level of international technical assistance to include services in production, marketing, processing; and

- Modify the implementation "style" of the project, from the current role of the PMO as project executor to a more participatory style with the PMO acting primarily in an advisory capacity.

Such an expansion of the basic purpose of the project would significantly enhance the sustainability of project benefits. The extended time-frame and technical assistance effort would permit the project to work with a larger number of cooperatives and would provide an adequate base for reinforcing and institutionalizing the changes introduced by the project. In addition, at least two of the federations -- FEDECOVERA and FEDECOAG -- are unlikely to be able to sustain project-initiated changes due to the lack of an adequate economic base; regardless of how committed the institutions are to the changes, they lack resources to implement them. FECOAR also needs assistance in developing a rational business strategy to complement improvements in administration and financial management.

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3. Summary

Potential modifications of the current project involve extensions of time, additional resources, and an added technical assistance component to cover agricultural production, processing, marketing and business development activities. The implications of these alternatives are presented in Table XI-1, below.

TABLE XI-1

IMPLICATIONS OF DECISIONS ON EXTENDING PROJECT OR EXPANDING SCOPE OF SERVICES

		EXTENDED LIFE OF PROJECT	EXPAND SCOPE AND RESOURCES OF THE PROJECT
		No	Yes
Extended Life of Project	No	Stabilization will not have been carried out in all of the federations. Limited penetration in terms of number of cooperative participating. Would not have addressed major business volume and revenue problems of the non-credit union cooperatives; Questionable sustainability of results.	Would allow extension of stabilization program to remaining federations. Would permit initiating activities to address major business volume and revenue constraints of non-credit union cooperatives Would not permit sufficient time to implement new business initiatives Limited penetration in terms of number of cooperative participating. Questionable sustainability of results.
	Yes	Would give present initiatives a chance to become institutionalized. Would allow extension of institutional development and stabilization services to a "core" group of cooperatives in each federation. Would improve probability of achieving sustainable results for existing activities. Would not have addressed major business volume and revenue problems of the non-credit union cooperatives.	Would reach a "core" group of cooperatives in each federation. Would improve chances for achieving sustainable results. Would allow the project to have an impact on the major business and revenue problems of the non-agricultural cooperatives. Is required if agribusiness cooperatives are to be supported by the project. Is required if land markets component is to be added to the project.

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D. Adding Additional Components

USAID/Guatemala is currently assessing the feasibility of incorporating two additional activities in the Cooperative Strengthening Project. One of these is the provision of technical and financial support services to a limited number of independent cooperatives that are currently receiving assistance through the Mission's Agribusiness project, which is scheduled to end during the first quarter of 1990. The second is a program to finance land sales for members of participating cooperatives.

1. Working with Non-Federated Cooperatives

The major arguments in favor of including work with non-federated cooperatives in this project are that (a) those particular cooperatives need continued assistance in production, processing and marketing after the planned conclusion of the present Agribusiness project, and (b) the cooperatives especially need assistance in terms of administrative and financial management reforms. These assumptions will be reviewed in detail during a separate evaluation of the cooperative portion of the Mission's Agribusiness project that will be carried out in November 1989.

The major arguments against including this in the Cooperative Strengthening Project are:

- At the present time the staff and financial resources of the Cooperative Strengthening Project are overextended, so that the addition of other cooperatives would further dilute the efforts of the project; and

- The Cooperative Strengthening Project, as it is currently designed, is not able to provide technical assistance in areas of primary concern to the particular cooperatives -- that is, agricultural production and marketing.

It is too early to make a concrete recommendation about whether or not to provide assistance to the non-federated cooperatives through this project; the forthcoming evaluation of the agribusiness project will focus specifically on that question. It would not be feasible to incorporate assistance to the independent cooperatives, however, without adding resources to the project.

2. Land Component

As pointed out in the "1988 Land Market Concept Paper," access to and ownership of cultivable land is highly skewed in Guatemala, and is a " . . . cause of rural poverty, a constraint to agricultural production and development, and a source of social friction." Although previous attempts at land reform have been " . . . ineffective in alleviating the problems and have resulted in violence and social polarization," USAID/Guatemala is being encouraged to expand several recent initiatives that have shown promise.

In particular, USAID/Guatemala is interested in implementing a portion of an expanded Land Markets strategy through the Cooperative Strengthening Project. Cooperatives in Guatemala have a broad geographical base and are virtually the only formal-sector institutions accessible to most small farmers and land-poor campesinos.

The feasibility of incorporating a Land Sale credit component in the Cooperative Strengthening Project hinges more on administrative capacity (resources/capacity) than on technical feasibility.

Feasibility

Several things indicate that it would be feasible to finance at least modest amounts of private land purchases through the cooperative system. First, there is a high demand for land purchase among members of several of the cooperative federations -- particularly the credit unions and the agricultural cooperatives affiliated to FECOAR and FEDECOAG. Second, private land sale transactions are occurring, some of which involve members of rural cooperatives. The evaluation team found numerous examples of groups that had actually purchased land in private sales, and others that were aware of private land sale opportunities and were interested in obtaining financing to pursue the purchase. Third, a substantial portion of current rural "production" loans is apparently used by cooperative members to finance rental payments on lands used for farming, although the exact figures are unknown because loan purposes are not detailed. Fourth, the rural cooperatives have had experience in making and recovering loans; even though the past record is somewhat spotty, the current project is focused on correcting past deficiencies in delinquency control. Finally, the poor credit record of the cooperatives notwithstanding, there is a wide body of experience that indicates poor farmers will pay off loans for land.

Implementing a land sale program through the rural cooperatives would have one advantage over USAID/Guatemala's current effort through the Penny Foundation. Although it is widely argued that rural peasants will sacrifice to make land payments, the Penny Foundation is experiencing a problem with delinquencies because farmers lack production credit and other assistance that allow them to earn enough to amortize the loans. Members of federated rural cooperatives already are involved in a structure that supports production credit, technical assistance and marketing structures that could, if judiciously applied, decrease the default risk inherent in such programs.

Finally, there are a few very strong cooperatives that could manage such a program, and it would provide them a powerful service to offer to their members. A land sale program would also give the Project additional leverage over the cooperatives -- if they perform well in terms of controlling delinquency, adjusting and applying credit policies and taking strong measures to recapitalize the institutions, the project could advance monies for land purchase.

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Issues

Several issues need to be addressed in determining the form of land sale program that should be implemented through the cooperative system.

First, the PMO is already overextended. It is falling behind on its current obligations for lack of personnel and other resources. Furthermore, this evaluation is recommending that its current program be expanded to include technical and other services. It would not be able to undertake a land sale activity without increasing resources -- staff and logistical. Adding the land effort would further dilute management focus on the cooperative strengthening program.

Second, implementing a land purchase credit program would require a major shift from relatively small, short-term, production-oriented credit to larger, long-term loans. Such a shift greatly increases the degree of risk (liquidity, portfolio and asset) associated with the portfolio.

Third, any land program would need to have assessors, a fund managers/disbursement officer, and maybe some extensionists. It is not obvious where these persons should be located. The PMO is a temporary office, whereas land purchases is a long-term process. The individual cooperatives could not shoulder the financial costs of the personnel. At any rate, placing a staff complement in individual cooperative offices would probably not be an efficient use of resources. Even placing the technicians in the federations would tend to duplicate personnel and might not be efficient if the lines of credit are relatively small. The focus of any effort must be to keep the program small and non-bureaucratic.

Fourth, any amounts that could be channeled through the system would solve only a small part of the problem. As the "1988 Land Market Concept Paper" pointed out, the effect of $10.0 million invested to date in the Penny Foundation Project on ". . .land distribution, environmental degradation and social polarization is minimal." Preliminary estimates indicate that the amount of funds that might be channeled through the cooperatives would be much smaller, resulting in a relatively minor impact affecting only a small segment of the membership of the organizations.

Resource Implications

Although detailed studies of land demand and availability have not been conducted, preliminary results from two separate studies appear to indicate that potential demand greatly exceeds any level of resources that might be provided through the project. The number of staff and amount of other resources required are dependent on the size of the project to be financed.

An alternative might be for A.I.D. to fund a central land sale office that provides the technical support services, with the program administering only a loan portfolio.

Summary

While there is obviously a strong demand for land purchase among members of the various cooperative groups, there are a number of issues that need to be resolved before such a program could be successful. At the same time it must be recognized that the current project is overextended, and unlikely to achieve its major objectives in the absence of a major increase in program activities. Initiating a land sale component would appear to dilute the focus of the project and further reduce the chance of achieving the project purpose.

If the land sale component is added to the project:

- It should be developed gradually. The Mission should complete reviews of the Penny Foundation project and study the Costa Rica experience with a land bank program before embarking on any major activity through this project.

- The project should discourage cooperatives from getting involved in land "development" schemes. It should support only private individual or group purchases.

- Any major land sale program should have some form of guaranty or stabilization mechanism to protect the cooperatives from excessive risk.

- Any major land sale program should have a rediscount mechanism to protect participating cooperatives from liquidity problems.

- One way to initiate activities might be to have several very strong credit unions come up with a list of the names of, say, ten people who want to buy land and could be counted on to repay a long-term loan for land. Initial loans would be limited to that group.

- The PMO does not have the resources to handle the land valuation, surveying, legal aspects of land transactions, rural development and project management functions[58] associated with a land sale program. Any program that would be implemented through the federations would probably have to depend on another entity for these services.

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[58] 1988 Land Markets Concept Paper., p. 22.

3. Summary

The major drive to incorporate the "Agribusiness" cooperatives and a land sale component appears to result from A.I.D.'s traditional tendencies to: (a) abandon project efforts before they have time to be successful; (b) add components to existing projects because it is easier to get a project amendment than it is to get a new project designed and approved; and (c) attempt to reduce the management burden by expanding the number of activities under a single project. While there are undeniable pressures supporting these tendencies, they do not necessarily lead to good project design, effective project implementation, or success.

The PMO is overcommitted at this time. Its first priority should be to expand the project to address more comprehensively the business activities necessary to strengthen the viability of the participating federations and cooperatives. Only if this can be assured should the program expand to other areas. Additional resources would be required to implement either activity.

E. Future Structure of the PMO

As mentioned in Chapter VIII, the current structure of the PMO was dictated by the need to work from the beginning of the project with a large number of cooperative organizations. In addition, there was a coordination problem in that there was no single contact with each of the federations. The "team" approach, with all technicians working in specialized areas with each federation, had to be replaced with individual assignments to specific federations. Even though these assignments have been somewhat flexible, and have changed over time, there are two major draw-backs to this approach:

- The technical assistance team was selected to represent a wide range of skills -- assigning individual team members to work with specific federations means that the full range of skills represented by the team is not available to all federations; and

- The span of control for the project director is too great for effective management.

The evaluation team believes that the concept of a team approach -- bringing a variety of skills to each federation -- is a valuable one that should not be lost. The problems of coordinating contacts within the federations can be resolved by effective team management techniques. Finally, if the project is to be expanded, to incorporate either a new element dealing with technical services to the non-financial cooperatives or new activities involving non-federated cooperatives and land sales, the issue of effective span of control must be resolved.

We recommend a new structure for the PMO, based at least in concept on a matrix management approach. The PMO would have one set of technicians who were technical specialists -- in finance, training, institutional development (including strategic business planning), and technical agricultural services. These technicians would be available to work with all of the federations. Another set of technicians would be assigned to work directly with specific federations. If at all possible they should be located, at least for a major portion of their time, in the federation offices.

The federation-specific technicians would have a dual role in the federations. On the one hand, they would be responsible for monitoring federation compliance with the institutional development and stabilization agreements. On the other, they would be responsible for helping the federations develop and implement annual action plans. The technician would be responsible for coordinating and scheduling all PMO support to the federation, which would include planning for training, strategic planning, technical and financial assistance.

The function-specific technicians would serve as a general resource to the federations. They would be responsible for assisting the federation-specific technicians in developing those sections of the annual work plans that relate to their functional specialty. They would either provide specialized assistance directly to the federations, or would be responsible for identifying and coordinating short-term resources to meet plan objectives.

The federation-specific technicians would report to the function-specific technicians in a matrix relationship; that is, each would have multiple supervisors and equal access to each functional specialist. This relationship can be seen in Figure 5 on the preceding page. The purpose of such a structure is to ensure that each federation receives a full range of services according to its needs, while maintaining a specific contact relationship with the PMO. The matrix relationship provides the flexibility and dynamism necessary within the organization which a traditional linear heirarchy could not. It also serves to reduce the director's span of control, with function-specific technicians reporting to him on participants' progress in their specific field.

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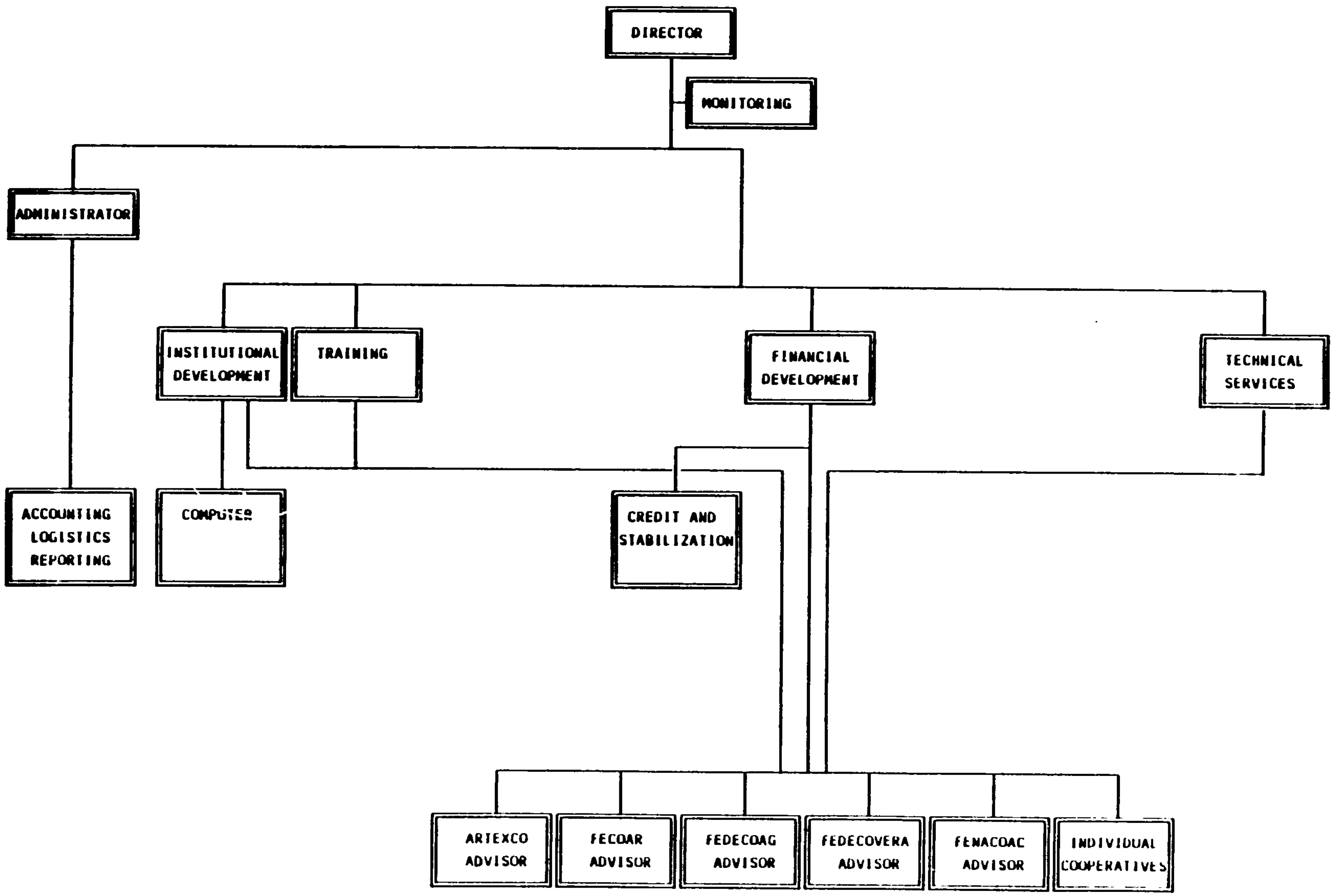
FIGURE 5

DRAFT ORGANIZATIONAL CHART FOR AN EXPANDED PMO



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APPENDICES

APPENDIX A

SUMMARY DESCRIPTION OF THE COOPERATIVE STRENGTHENING PROJECT[1]

I. Background

The Cooperative Strengthening Project is a complex institutional development effort that targets the federated cooperative movement of Guatemala. The purpose is to strengthen the service delivery and management capabilities of participating cooperative organizations through a combination of technical assistance, training, policy guidance, and the investment of financial resources (credit and recapitalization funds). The goal is to increase rural family incomes and productivity by providing cooperative members with access to improved and expanded services through their organizations. The Project has three primary components: institutional development, financial stabilization and recapitalization, and credit.

The Project is administered by the National Federation of Savings and Loan Cooperatives (FENACOAC) through a Cooperative Agreement with USAID Guatemala signed on August 26, 1986. FENACOAC provides overall policy guidance, manages the Project's financial resources, provides general administrative support, contracts and procures local services and commodities, monitors participant compliance with the terms of the Agreement, and submits regular financial and progress reports to the USAID Mission.

Day-to-day implementation of Project activities with each of the six participating cooperative federations (such as technical assistance, feasibility analyses, and training) is effected through a Project Management Office (PMO) organized by the FENACOAC and staffed by local and expatriate technical personnel.

In June, 1987, USAID/G contracted a consortium of cooperative development organizations led by the World Council of Credit Unions (WOCCU) to provide FENACOAC with advisory assistance in Project development. Four expatriate advisors are currently attached to the PMO under this technical assistance contract. In addition, four Guatemalan technicians are working with the PMO in providing technical support to the participating cooperative federations.

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[1]Information extracted from USAID/Guatemala documents.

II. The Institutional Development Component

The institutional development component is an ongoing activity that includes a series of events and activities designed to strengthen the participating institutions through training, technical assistance, policy analysis and reform, and enhancement of income-generating service programs (such as input supply, credit and marketing of services). The scope of the interventions and the covenants agreed to by each Project participant are specified in formal Participation Agreements signed with FENACOAC, monitored and evaluated by the Project Management Office, and renegotiated on an annual basis.

The degree of institutional development varies among the participating cooperative federations. Their problems and opportunities are different, as are the nature of their businesses, membership, geographic location, goods, services and interpretations of the cooperative technique. This has both complicated the work and required that the institutional strengthening program be tailored to fit the needs and opportunities of each cooperative system.

A. Institutional Assessment

The initial activity with any cooperative or federation is an assessment of the actual or potential viability of the participating cooperatives to identify the markets in which they operate. The initial assessment estimates the potential for growth and expansion and develops parameters of profitability needed to establish the potential for sustainability of the enterprise from its own operations and as part of a federated system.

These diagnostic studies are prepared jointly by the PMO technicians and the staff of interested federations and their affiliates. The potential viability of the enterprise is closely examined and attempts are made to identify key problems and areas of opportunity, including suggestions for priority actions. Completion of this process comprises the first step of project participation

B. Problem Identification

The second step of the institutional development process is to identify and develop a plan to resolve the principal problems or constraints that inhibit the cooperatives from realizing their potential and satisfying the service needs of their member-owners.

Once the diagnostic process is complete, concurrence between the federations and the PMO is sought on the major problems, issues, and remedial measures that must be taken. Boards of Directors must ratify or approve an outline of the development program, and agreements on cost-sharing and authority for actions are negotiated and obtained prior to initiation of activities.

C. Development Strategy

The development strategy is designed to improve cooperative operations through efficiency and the establishment of patterns, policies and attitudes directed at such survival characteristics as profitability, capitalization, administrative discipline, staff improvement and member relations. Preference is given to cooperative services that produce regular income, and which neither compete directly with the government nor depend heavily on public or other subsidies. Although not all-inclusive, services supporting agriculture, artisanry, cottage and small enterprise, commerce, trades and professions are preferred.

D. Promotion and Training

The major purposes of promotion and training activities carried out by the PMO are to instill a growth mentality and eliminate attitudes of disillusionment, fatalism, withdrawal and defeatism that have characterized rural Guatemalan cooperatives in recent years. The objective is to change or modify these attitudes; promote ideas such as growth, expansion, diversification and promotion of membership; and train the leadership and management staff in the operation of cooperatives as business enterprises.

E. Federated System Development

Preservation and improvement of the federated cooperative movement has been an important element of the Project implementation strategy. The Project only works the with base-level cooperatives through the federated structure, to ensure the widest impact and support of the institutional development program. All actions with base-level cooperatives are undertaken by agreement with their parent federations, and programs that include activities with both federations and their affiliates are emphasized.

III. The Financial Components

The financial components of the Project (financial stabilization and credit) are complementary to the institutional development program. They are designed to strengthen cooperative system operations by addressing the movement's capitalization and refinancing needs, and helping to restore economic activity by providing federations and their member cooperatives with an adequate supply of funds for both short-term (production) and long-term (investment) loans.

A. Recapitalization and Financial Stabilization

The goal of the recapitalization/stabilization component is to rebuild the net worth lost during the last ten years of political violence, economic disruption, natural calamities, and poor decision-making. The purpose is to develop innovative approaches to local generation of both paid-in and retained, capital while stabilizing and strengthening cooperative balance sheets.

During the design of the Cooperative Strengthening Project, preliminary financial and institutional analyses of seven national cooperative and credit union federations and a sample of their affiliates were prepared to determine the financial situation of the federated cooperative movement. In general, these studies indicated that a significant sector of the movement suffers from:

- High loan delinquency and weak credit administration;
- Low profitability and poor operational and pricing policies;
- Decapitalization due to asset losses, inadequate reserving and earnings retention policies, member withdrawals and debt amortization;
- High levels of risk in the system due to insufficient levels of retained earnings and reserves relative to member shares and liabilities to third parties;
- Declines in membership and market size;
- Poorly paid and trained staff and leadership, frequently employing only the most rudimentary techniques of financial and operational management; and
- Inadequate external regulation of cooperatives and credit unions often combined with a lack of effective internal controls and financial discipline.

The Recapitalization/Financial Stabilization Component is designed to address the financial problems through policy modification, training and the investment of project resources to rebuild net worth. The specific objectives for those institutions participating in the component include:

- Expansion of the economically beneficial operations of cooperatives (such as lending, input supply, marketing and distribution of members' output, and other financial, commercial and production-oriented services);
- Increasing the volume of available resources in the cooperative system for lending and investment purposes through mobilization of personal savings and share purchases by cooperative members;

- Strengthening the cooperative system's financial condition by strengthening balance sheets and earnings;

- Restoring member depositor/shareholder confidence in the financial soundness of their cooperatives and credit unions;

- Restoring lender/public confidence in the credit-worthiness of the cooperative system;

- Establishing and maintaining compliance with minimum operating standards and conditions that contribute to the safety and soundness of cooperative and credit union operations; and

- Forestalling and/or preventing possible intervention or liquidation of delinquent cooperatives and credit unions by INACOP, BANDESA or other creditors while appropriate stabilization programs are being implemented.

Participation in the Recapitalization/Financial Stabilization component of the project is to be open to all cooperatives, credit unions and federations that agree to meet specific eligibility criteria and to implement operational policies appropriate to resolving their particular economic and financial difficulties. Eligibility criteria include:

- Demonstrated economic potential and financial viability during initial diagnostic study;

- PMO-approved stabilization and recovery plan (including, but not limited to, annual operating plans and budgets and reserve formation and surplus distribution plans);

- Acceptable delinquency control system and collections procedures;

- Approved management;

- Acceptance of external audit, inspection, supervision and reporting requirements established by the Project Management Office to verify both compliance with the stabilization plan and general performance;

- Implementation of realistic pricing policies designed to cover all operating, reserve formation and capital costs;

- Fidelity bonding;

- Implementation of sound investment, credit and asset/liability management policies and procedures;

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- Participation in on-going federation services (insurance, bonding, accounting systems, print shop, supplies, fertilizer sales, marketing, etc.);
- Participation in all PMO and federation supported institutional development programs (management training, specialized courses, adoption of recommended management practices, etc.) in accordance with the specific development needs identified in the diagnostic study;
- Actively seek growth, development and expansion opportunities;
- Enter into agreements with other credit institutions to monitor and, if necessary, prevent multiple loans to members which might negatively affect their repayment capacity;
- Enter into non-disturbance agreements with creditors to restructure external debt and prevent foreclosure and liquidation actions; and
- Implement an appropriate capitalization system and reserve discipline to assure adequate capital growth in balance with asset and liability growth.

PMO technical personnel work closely with each federation and its interested affiliates to undertake a financial and institutional analysis of their operations, diagnose key problem areas, and prepare an appropriate development and financial stabilization plan. Although the PMO has the final authority in determining compliance with the development plan, the commitment of participating institutions to resolving their own operating problems, applying appropriate financial disciplines and generating local capital is key to the component's success.

Once an organization has qualified for stabilization assistance, financial resources are disbursed as "tied capital contributions." Use of the recapitalization assistance is strictly controlled through legally binding contracts that specify the covenants and terms of the investment. Recipients of this assistance are required to invest the resources in high-yielding financial instruments (such as bonds and certificates of deposit) offered by local finance companies. The interest earned on these investments is then channeled to the permanent reserve accounts of the participants, thus generating new capital to restore the par value of membership shares and the depleted reserves. Simultaneously with the injection of the Project's financial resources, the recipients are required to adopt sound financial policies that contribute to the recapitalization process and that further stimulate the creation of reserves through retained income.

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B. Credit

The credit component is the final stage in the implementation of the Cooperative Strengthening Project. The objective is to restore economic activity in rural areas of Guatemala by providing federations and their member cooperatives with an adequate supply of funds for both short and medium-term lending. The purpose is to reactivate the service capability of federations and member cooperatives while assuring the use of effective credit analysis and loan administration procedures.

The restoration of economic activity in the rural areas of Guatemala by reactivating the service capability of federations and member cooperatives is closely linked to their ability to effectively mobilize, invest and recover financial resources. The PMO is providing guidance to participating organizations in all aspects of credit policy design, financial statement analysis, budget and cash flow preparation, and repayment capacity analysis as the means of improving their financial management skills and eventual credit-worthiness. This has been a slow process, but progress is being made. Although no credit disbursements have been made, many of the federations and their member cooperatives are seeking access to the credit component. Qualification for such access is determined by compliance with the following criteria:

- Federation affiliation (if a cooperative borrower);
- Rural membership orientation (outside Guatemala City);
- Uniform application of membership dues and capitalization requirements;
- Credit financing limited to income-generating projects such as agricultural production, marketing, small enterprise, artisanry, etc.;
- Existence of bonding programs for all types of contingencies;
- Possession of PMO-approved internal and external audit programs;
- Adoption and use of operating and financial policies that contribute to the economic viability of the institution; and,
- Active participation in the Institutional Development component of the project as determined necessary by the initial diagnostic assessment.

When a federation or cooperative affiliate has demonstrated compliance with these general criteria, a more in-depth review of the institution's strengths and weaknesses is conducted by the PMO technical personnel to determine the credit-worthiness of the applicant for receiving new funds. The key areas analyzed include:

- Current financial condition;
- Net earnings and repayment capacity;
- Cash flow capacity;
- Collateral guarantees available, such as mortgages, chattels, and personal signature guarantees;
- Current loan programs, terms and conditions;
- Current credit-oriented policies and procedures;
- Capitalization policies;
- Delinquency control policies and procedures associated with the reporting, monitoring, and resolution of problems;
- Current status of loans in foreclosure and/or liquidation and estimated loan losses; and
- Quality and preparation of the professional staff.

APPENDIX B

SCHEDULE OF WORK

Cooperative Strengthening Project Evaluation

September 4-16	• First team member arrived • Team leader arrived • Clarification of project objectives • Review of background documentation • Preliminary development of study methodology and plan
September 18-22	• Completion of study design • Interviews with USAID/G Staff • Interviews with PMO staff • Interviews with FENACOAC in its role as grantee and project administrator • Courtesy visits to Federations to explain purpose, specify data request, schedule visits and appointments
September 23	• Team review of progress, summary of findings to date, modification of design and survey instruments.
September 25-29	• Third team member arrived • Interviews conducted in federations located in Guatemala City • Visits and appointments with select cooperatives arranged
September 30	• Team review of progress to date, summary of findings, and needed modifications to design and data collection instruments
October 2-6	• Interviews conducted in individual cooperatives • Interviews conducted in federations located outside of Guatemala City • Interviews conducted in non-participating cooperatives and federations • Federation and cooperative data compiled
October 7	• Team review of findings and conclusions • Specification of writing assignments
October 9-12	• Outstanding data collection and analysis completed • Draft preliminary report prepared
October 13	• Debriefing with PMO in the morning • Debriefing with Mission in the afternoon

October 14-17	• Preliminary report finalized and printed • Evaluation team departed Guatemala
October 25	• Mission/PMO comments on preliminary report submitted
November 15	• Final Report produced and copies delivered to USAID/Guatemala.

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APPENDIX C

PERSONS CONTACTED AND/OR INTERVIEWED

USAID/Guatemala
Anthony Cauterucci
Stephen Wingert
Gordon Straub
Brian Rudert
Barry Lennon
Tully Cornick
Ramiro Eduardo

Cooperative Development Organizations (CDOs)
Peter Marion, WOCCU
Peter Bittner, NCBA
Karen Schwartz, NCBA
Paul Prentis, NCBA
Robert Flick, ACDI
Ramiro Valderrama, COLAC

Project Management Office (PMO)
David Richardson
David Fledderjohn
Oscar de León
Jaime A. Mendoza
Gerardo Morales
John Murdock
Oswaldo Oliva
Miguel Angel Siguenza
Carlos Villatoro

ARTEXCO
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Ermes Trinidad Flores Soto
Edwin Enrique Sajquim Xicara
Salvador Godinez
Noé Racancoj García
Gabino Miguel Iztez Chag
Rolando Augusto Sac Cojulom
Julio Sapón
Julio César Palacios
Alma Andino de los Andes
José Santos
Florencio Estrada
Nazario Tach Chamorro

ARTEXCO (cont.)
Juan Zanabria Santiso
Bernardo Samuel De León
José María Sicaján Pérez

FECOAR
Donaldo Mejía Espinoza
Julio Roberto Contreras Giorgis
Francisco Yazon Zapeta
Augusto Enrique Estrada M.
Jaime Recinos
Leonel Barrios

FEDECOAG
Efraín Ambrocio Solís
Rosalío Alejandro Tiú Tumax
Adolfo Gabriel Celásquez
Fernando López Ríos
Eduardo Tepeu
Julio César Recinos Salas
Aura Elvira Cabrera Arrida
Pedro Roberto Hoffman
Edgar Chavez
Hector Daniel Paz
Hector Fuillermo
Noemi de Paz
Hector David Solórzano
Rosalio Alejandro Piu Tumax
Esteban Tumax Juarez
Julio Fax Sic
Venancio Perez Garcia
Gregorio Miguel Cotuc

FEDECOVERA
Job Ramiro García y Garcia
Roberto Chen
Erick Rolando Barrientos
Carlos Antonio Wellman
Leonardo Otoniel Delgado Mendez
Pedro Soría
Olivero Villalobos
Victor Hugo Toc Chocoog

FENACOAC
Francisco Pérez
Síncrito N. Cifuentes
Roberto Quevedo
Antonio Ronquillo
Raul Sosa
Victor Manuel Garnica Casteñeda
P.C. Luis Antonio Salazar
Jose Luis Samayoa
Hugo David Garcia Alvarez
Carlos César Vasquez Herrera
Ovidio Fajardo Roca
Gregorio Rumualdo Pisabaj Flores
Vicente Soc Soc
Elmer Trinidad Flores Soto
Roberto Chaclán Solís
Jesús García Yax
Camilo García Say
Marcelino Gutierrez
Moises Gutierrez
Luis Rolando Ixpanel Cruz
Francisco Lainez Mayén

Non-Federated Cooperatives
Bonifacio Castillo Rivas
Areadio Alva Cano
Octavio Roberto Herrera Sosa
Rafael Enrique Lopez
Norma Felipa Calderón Palacios
Gamaliel Cano Herrera

GUCONOFE
Dimitri Benítez
Napoleon Medina
Elmen Mérita

CONFECOOP
Rodolfo Orozco Velásquez

FECOMERQ
Luis Eduardo Cortez Salvatierra
Atilano Villegas
José Maria Tuch
Jorge Son Catú
Carlos Xaquic
Rigoberto Hernández
Martin Tzian

FEDECCON
Rolando Baquiax Gomez

FEDECOCAGUA
José Eleázar Barrios

INACOP
Juan Francisco Arrazola Ponciano

INGECOP
Elmer E. Pinzón R.

Others
John Sandbach, NCBA
Luis Fernando Ochoa, Union de
Cuatro Pinos

ANNEX D

GLOSSARY

ACDI	-- Agricultural Cooperative Development International
A.I.D.	-- U.S. Agency for International Development
ARTEXCO	-- Federacion de Cooperativas de Produccion Artesanal (Federation of Artisan Cooperatives)
BANDESA	-- Banco de Desarrollo Agricola (National Agricultural Development Bank)
BANVI	-- Banco de la Vivienda (National Housing Bank)
CDO	-- Cooperative Development Organization
CENDEC	-- Central de Estudios Cooperativos
COLAC	-- Confederacion Lationamericana de Cooperativas de Ahorro y Credito (Latin American Credit Union Confederation)
CONFECOOP	-- Confederacion de Federaciones de Cooperativas Confederation of Cooperative Federations)
CU	-- Credit Union
CUNA	-- Credit Union National Association (of the U.S.A.)
EOPS	-- "End of Project Status": the conditions that signal that the purpose of a project has been achieved
FECOAR	-- Federacion de Cooperativas Agricolas Regionales (Federation of Regional Agricultural Cooperatives)
FECOMERQ	-- Federacion de Cooperativas para Mercadeo y Servicios Varios "El Quetzal" (Federation of Agricultural Marketing and Service Cooperatives)
FEDECCON	-- Federacion Guatemalteca de Cooperativas de Consumo (Federation of Consumer Cooperatives of Guatemala)
FEDECOAG	-- Federacion de Cooperativas Agricolas de Guatemala (Federation of Agricultural Cooperatives of Guatemala)
FEDECOCAGUA	-- Federacion de Cooperativas de Cafe de Guatemala (Coffee Cooperatives Federation of Guatemala)

FEDECOVERA	--	Federacion de Cooperativas de las Verapaces (Federation of Cooperatives of the Verapaz Region)
FEDEPESCA	--	Federacion de Cooperativas de Pesqueras del Pacifico (Federation of Fishing Cooperatives)
FENACOAC	--	Federacion Nacional de Cooperativas de Ahorro y Credito, (National Credit Union Federation of Guatemala)
FENACOVI	--	Federacion Nacional de Cooperativas de Vivienda y Servicios Varios (National Federation of Housing Cooperatives)
FIASA	--	Financiera Industrial y Agricola, S.A. (a local, private finance company)
FMU	--	Funds Management Unit
INACOP	--	Instituto Nacional de Cooperativas (National Cooperative Institute)
INGECOP	--	Inspector General de Cooperativas (Government regulatory agency for cooperatives)
INTA	--	Instituto Nacional de Transformación Agraria
NCBA	--	National Cooperative Business Association (formerly the Cooperative League of the USA, CLUSA)
PFC	--	Proyecto Fortalecimiento Cooperativo (Cooperative Strengthening Project)
PID	--	Project Identification Document (an internal A.I.D. document)
PMO	--	Project Management Office
PP	--	Project Paper (an internal A.I.D. document)
PVO	--	Private Voluntary Agency
SOCODEVI	--	Sociedad de Cooperacion para el Desarrollo Internacional (a Canadian development agency)
USAID	--	Country-level office of the U.S. Agency for International Development; also called a Mission
WOCCU	--	World Council of Credit Unions