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IMCC

A Report to
The United States Agency for International Development
Honduras

FINAL EVALUATION OF THE SMALL FARMERS' ORGANIZATION STRENGTHENING PROJECT

Robert Vogel
Robert Christen
Charles Oberbeck
Onofre Torres

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IMCC, Corporate Offices
30 W. Mashta Drive
Suite 405
Key Biscayne, Florida 33149

IMCC, Washington Operations
2101 Wilson Boulevard
Suite 900
Arlington, Virginia 22201

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ACRONYM GLOSSARY

AHPROCAFE	Asociación Hondureña de Productores de Café
ALGOSUR	Cooperativa Algodonera del Sur
ANACH	Asociación Nacional de Campesinos de Honduras
BANDESA	Banco Nacional de Desarrollo Agrícola
CAR	Cooperativa Agrícola Regional
CAS	Centro de Asistencia y Servicio
COAGROVAL	Cooperativa Agrícola del Valle, Ltda.
COHORSII	Cooperativa de Horticultores de Siguatepeque, Ltda.
COLAC	Confederación Latinoamericana de Cooperativas de Ahorro y Crédito
COMARCA	Cooperativa Marcalina de Caficultores, Ltda.
CORASUR	Consolidación de la Reforma Agraria del Sur
CREHSUL	Cooperativa Regional de Horticultores del Sur, Ltda.
DFI	Development Finance Institutions
DICOMCAFE	División de Comercialización de Café
DIFOCOOP	Dirección de Fomento Cooperativo
DIMAQ	División de Insumos y Maquinaria Agrícola
ESF	Economic Stabilization Funds
FACACH	Federacion de Asociaciones Cooperativas de Ahorro y Crédito de Honduras, Ltda.
FDF	Financial Development Fund
FECORAH	Federación de Cooperativas de Ahorro y Crédito de la Reforma Agraria de Honduras
IHCAFE	Instituto Hondureño de Café
IHMA	Instituto Hondureño de Mercadeo Agrícola
IHDECOOP	Instituto Hondureño de Cooperativas
IMF	International Monetary Fund
PRODAIF	Proyecto de Desarrollo Agrícola Integral de FACACH
PSC	Personal Services Contract

Executive Summary

Introduction

The main purpose of the final evaluation of the Small Farmer Organization Strengthening Project (522-0252) is to draw conclusions about the overall performance of the Project and to identify lessons from the Project that can be applied to possible follow-on work. The evaluation also pays particular attention to the accomplishments of the Project since the interim evaluation. The two most important recommendations from the interim evaluation concern the status and performance of the Financial Development Fund (FDF), which is the main implementing agency for Project activities, and the separation of the component of the Project dealing with rural credit unions from that dealing with agricultural cooperatives. Activities for strengthening rural credit unions are highly distinct from those for agricultural cooperatives, and the Project purpose of delivering inputs to agricultural producers is largely inappropriate for rural credit unions.

In the evaluation report, the performance of the FDF is first analyzed in depth in all its aspects. The components of the Project focused on agricultural cooperatives and rural credit unions are then each evaluated in turn, followed by an analysis of IHDECOOP and the options for supervision of cooperative institutions in the Honduran context. Within the FDF, there has been little overlap between the component of the Project focused on agricultural cooperatives and that focused on credit unions. Personnel have largely been assigned to one component or the other, and the budgetary resources for funding the two components have also been treated largely independently because the absorptive capacity of Honduran institutions participating in the Project -- not budgetary resources -- has almost always been the binding constraint limiting the speed at which the Project has progressed. In fact, as will become apparent, Project leadership deserves a great deal of credit for maintaining the morale of Project staff when, as was often the case, one component of the Project was able to advance much more rapidly than the other.

The team for the evaluation consisted of four individuals:

> Onofre Torres, President of IMCC, -- who was responsible for the institutional evaluation of the FDF;
>
> Charles Oberbeck, PhD. and intermittent employee of IMCC, -- who was responsible for the evaluation of the Project's accomplishments in strengthening agricultural cooperatives and their respective federations;
>
> Robert Christen, manager of PROPESA and employee of IMCC, -- who was responsible for the evaluation of the Project's accomplishments in strengthening rural credit unions and the Honduran federation of credit unions (FACACH); and
>
> Robert Vogel, PhD. and Executive Director of IMCC, -- who was team leader and responsible for the evaluation of the Honduran Government's cooperative support institution (IHDECOOP).

In carrying out its evaluation, the team thoroughly reviewed not only the large number of documents that had been produced by Project staff but also numerous other documents that had been produced by other evaluators and by independent consultants, as well as other documents pertaining to the credit union and agricultural cooperative sectors. The evaluation team also carried out extensive interviews with FDF management and staff, the Project's technical assistance team, management and staff of cooperatives and federations supported by the Project, Honduran Government officials and private sector individuals with interests in the credit union and agricultural cooperative sectors, and USAID officials involved with the Project.

The Financial Development Fund (FDF)

The creation of the FDF as an implementing agency has proven to be an efficient means for developing and implementing the disciplined approach needed to deal with the small farmer organizations. However, full development of the FDF has been inhibited due to the controversy surrounding the "institutionalization" of the FDF. The problems identified in the mid-term evaluation of the Project with regard to the need to define the legal and organizational status of the FDF continue to exist. Even though pressure to define the situation has been diminished as a result of improved relations between the FDF and FACACH, and an agreement on commonality of objectives now exists between the two parties, it continues to be important that the ownership and legal status be defined as USAID moves toward a follow-on project. In spite of this shortcoming, the FDF has managed to develop a strong personality and institutionalized process for dealing with its client organizations.

The legal status of the FDF should nonetheless be resolved. In order to avoid an inappropriate transfer of wealth which may be misused in the future, it is recommended that ownership continue to be vested completely with the Honduran Government. However, in order to prevent politization of the FDF and its resources, and to ensure an acceptable level of internal control, it is recommended that the FDF be established as an independent trust. Given the poor performance of BANADESA in the management of trusts, it is recommended that the trustee be a private institution with a reputation for financial competence and honesty. In all probability the trustee should be a private bank with institutional experience in trust management and with a minimum of conflicts of interest with respect to the cooperative sector of the economy.

The trust document should set forth clearly the mission and goals of the FDF and the responsibilities of the trustee with regard to the performance of the FDF, the monitoring of internal control functions and reporting functions. Typically, a trustee would not be willing to accept responsibility for the recoverability of the FDF loan portfolio. In general terms it would be appropriate for the trustee to provide one or two representatives to the board of the FDF (with voice and veto powers, but with no vote). The trustee would also provide internal control, credit review, financial control and management information system support to the FDF. An RFP-type document should be developed and sent to banking institutions requesting technical and cost proposals for the management of the trust.

Over the past few years, the Project has had to develop a disciplined approach to dealing with small farmer cooperative organizations. This approach was made possible as a result of USAID abandoning the original Project concept of working only through second level organizations and introducing the possibility of dealing directly with cooperatives. Moreover, to the credit of the USAID/FDF Project management team, the disbursement of significant financial and institutional support was effectively withheld from those organizations that did not show a genuine interest in making real, positive changes in their financial and institutional structures. While this may have jeopardized the attainment of some of the quantitative objectives and the timetable of the Project, it has insured that the resources ultimately disbursed have generally been put to effective use as envisaged in the various programs of the Project.

In keeping with current USAID policy, the FDF should begin to use interest rates and fees equivalent to those determined by market forces when preparing financial stabilization plans. While this will necessarily mean that many of the existing small farmer cooperative organizations will not be able to qualify for assistance and will probably fail in the long run, it will insure that those organizations that do qualify for assistance will have an excellent opportunity for long run survival. Moreover, the use of market rates prevents the development of the well known distortions associated with subsidized credit programs.

Management continues to be a prime area for improvement. Establishment of mission statements, objectives and strategic plans should continue to be emphasized both at the cooperative level and at the FDF. Added emphasis on internal and financial control will provide the management information systems needed for management to carry out the decision making process effectively. Management development cannot be overemphasized. This includes teaching managers to delegate authority effectively while retaining responsibility. Continuing emphasis should also be placed on training for both the FDF and its client cooperatives. New areas for the concentration of training activities, in addition to upgrading internal and financial control capabilities and strategic planning, include training in the areas of agricultural technology and product marketing. The FDF's role should become one of identifying and analyzing training and technical assistance needs and subsequently designing a financial plan to pay for the recommended training and technical assistance.

An FDF made up of motivated and committed local staff, combined with technical assistance support from the outside, has made for an effective combination in dealing with FDF clients. While the technical assistance support staff and USAID maintained the focus of the Project on the stated goals and objectives, the locally hired FDF manager and his staff can be credited with maintaining the focus of the Project within the constraints of Honduran reality. As a result, it is doubtful that a Project of this magnitude could have been carried out as effectively without the level of institutionalization of the FDF that currently exists. The current level of institutionalization provides for an effective base of support for continuing work with the cooperatives serving small farmers. Nonetheless, although the technical assistance team coordinates its activities effectively with the FDF, the FDF will never develop fully as an implementing agency until the technical assistance team begins to work under the direction of FDF management, and this has implications for the sustainability of the FDF.

With regard to the existing BANADESA trust, the work required in the Project agreement, calling for the valuation of the current fund and the constitution of a new trust fund, is nearly complete. It is clear that BANADESA does not administer existing trust funds in an appropriate manner and should lose its authority to act as trustee in the future. The Project task of strengthening UNIOCOOP affiliates has been made more difficult by BANADESA's inefficient administration of the lines of credit granted through the trust.

The sustainability of the FDF will depend on the following key elements.

- The continued existence of a market for its services, which requires that the FDF maintain a clear focus on its target clientele, including their needs, solvency and sustainability.

- The degree to which the FDF can maintain its capital base (solvency). This will require that the quality of its assets, largely loans to small farmer cooperative organizations, be maintained. This depends, first of all, on the recovery of financial stabilization loans and other advances made to these small farmer cooperative organizations. In addition, positive real rates of interest must be stipulated on financial stabilization programs as well as on other forms of credit to cooperative clients.

- The FDF's ability to provide services to its clients in a financially self sufficient manner, i.e., the FDF should price its services to its cooperative clients in such a way that all costs, including overhead, can be recovered.

- The continued development of personnel capable of taking over the roles currently played by the foreign technical assistance team.

- Continued progress in institutionalizing the FDF, including improvements in accounting systems, financial controls and management information systems.

It is also evident that improvement is needed in the accounting and data processing area, and there is currently an effort underway to strengthen this area with the help of a local consultant. Because the FDF is essentially a financial institution, software should be developed that is appropriate for financial institutions.

The following recommendations with respect to the FDF are important for any follow-on project.

- Any follow-on project should continue to utilize the FDF as its implementing agency. Project goals and objectives should be communicated clearly to FDF management in such a way that there is no doubt that project goals and FDF goals are the same, and the manager of the FDF should also have clear goals.

- The role of the board of directors of the FDF should be strengthened so that board members are fully responsible for achieving project goals and are held accountable to the Honduran Government, USAID and the client cooperatives for any shortcomings in project execution.

- o The role of the USAID project manager should be modified to one of monitoring the project through participation on the board of directors and providing liaison with and support from USAID. It is now time for USAID to reduce its time consuming role in prior review of the details of each FDF action.

- o The FDF should concentrate on providing financial solutions for the delivery of a wide range of technical assistance on a self-sustaining basis. In order for the FDF to measure itself in terms of its level of sustainability, it must develop an accounting and management information system capable of measuring the revenues and costs of its operations against the opportunity cost of funds in Honduran financial markets. In the event that it is determined that subsidies are required to resuscitate a deserving small farmer cooperative organization, the accounting and management information system of the FDF should clearly identify, in a transparent manner, how the subsidy is being funded.

Agricultural Cooperatives

Relevance. The Project was designed to address the constraint of an ineffective system of delivery of productive inputs (e.g., seeds, fertilizer, technical assistance, management skills and management services) to the agricultural sector, in large part through strengthening the system of agricultural cooperatives. The Pro[illegible] s highly relevant in identifying management as one of the critical constraints to the development of agricultural cooperatives and addresses this constraint through a very thorough system of training and administrative and management reform. However, neither the Project nor USAID's Agricultural Sector Strategy give adequate emphasis to the lack of entrepreneurial ability within the cooperative sector or the Honduran private sector in general. In addition, the Project fails to place enough emphasis on the efficient channeling of resources into the most productive commodity systems through global and industry analyses and strategies.

In the design of any follow-on project, the successful elements of the Project that address the constraints to institutional development, including management, financial stability and investment credit, should be retained. A possible follow-on project should also be brought more into line with the spirit of USAID's Agricultural Sector Strategy through the addition of a capability to analyze commodity systems on a national and international level, to identify constraints and opportunities within these systems, and to design specific programs of institutional assistance that will maximize the returns to project resources by taking these commodity systems into account. In addition, a follow-on project should address the constraint of limited entrepreneurial ability in the Honduran agricultural sector in at least two ways: (1) by including foreign technical advisors with proven business development skills; and (2) by seeking to leverage the entrepreneurial skills that are found within the cooperative sector through the development of business partnerships, joint ventures, contractual arrangements with successful businesses, etc.

Impact and Effectiveness. Implementation with agricultural cooperatives and their second level organizations has been slow due to a normal project learning curve and intransigent management problems of cooperatives, but there has been an acceleration during the last year. Qualitatively, the impact on cooperative organizations has been mixed:

- o fundamental changes in management and business philosophy that are essential have been introduced;

- o operational efficiencies have been introduced, especially in processing and marketing and input supply; and

- o several cooperatives have received financial stabilization funds, and all have adopted capitalization programs that represent significant improvements in their financial operations;

- o however, the Project has only recently provided the bulk of assistance, so that most of the impact on bottom line indicators is yet to be felt, and several UNIOCOOP affiliates supported under the Project continue to experience severe operational and financial difficulties.

The Project has been especially effective in the improvement of administration and management of agricultural cooperatives and their second level organizations, largely because of packaging assistance with conditions that cooperatives adopt specific reforms. The area of greatest weakness has been in the analysis of cooperatives as part of an agri-business system. Nonetheless, the strategy in the coffee sector, including the strategy for working with AHPROCAFE and potential affiliates, has been much better, not only because of the systematic treatment of the coffee industry but also because of the focus on an area (quality improvement) where the cooperative sector can have a comparative advantage. The strategy of developing UNIOCOOP as an agricultural input supplier has achieved some success but is not as focused as the work with the coffee sector. The strategy vis-a-vis FECORAH and ANACH of working with their affiliated cooperatives only when they have defined viable business structures and missions is appropriate to both cases.

In any follow-on project, the primary development strategy for agricultural cooperatives should remain the package approach of technical and financial assistance conditioned on management and financial reforms, with a continuing focus on administrative and operational improvements for agricultural cooperatives. Project effectiveness would be increased by emphasizing the investment component, including: (1) better analysis of business opportunities; (2) more aggressive pursuit of opportunities; and (3) willingness to let unsuccessful cooperatives fail. The strategy of developing UNIOCOOP as a wholesaler of services to its affiliates should be developed more fully and pursued. This will require an analysis of UNIOCOOP's competitive position in the coffee and fertilizer markets, development of a more concrete business plan, and commitment to that plan to attract affiliates as legitimate business partners. In addition, more resources should be dedicated to the coffee sector to capitalize on the initial success. Foreign technical advisors will probably be required for assistance with agri-business and investment analysis. These advisors should have agri-business management and/or investment experience in areas that are identified as priorities, such as coffee, input sales, fruit exports, etc.

<u>Efficiency</u> One of the most important changes that has increased Project efficiency is the strategy to work with affiliate and second level organizations simultaneously. On the other hand, the Project retains too much of the complexity that was necessary during start up but which is inefficient at this stage of implementation, including too many players with policy or decision making roles and some remaining ambiguity as to the roles of UNIOCOOP and the FDF. In any case, the technical assistance team was highly cost effective in working with the agricultural cooperatives during the initial stages of Project implementation and especially in the coffee sector. However, the successful development of the FDF means that long term foreign technical assistance is no longer cost effective in certain areas at this stage of implementation. The type of foreign technical assistance that is now required are technical advisors with agribusiness skills and experience in the analysis and development of business investments, and these advisors should operate more independently of the FDF. Moreover, the organizational structure of the Project should be clarified to reduce and simplify the policy and decision making level, with the FDF being given a clear set of objectives and being permitted to operate within established guidelines to meet those objectives.

<u>Sustainability.</u> One weakness of the Project is that it has not done the type of analysis that would permit a better allocation of resources among cooperatives and their related activities. More attention should be placed on analysis of the competitiveness of the cooperative in its current and potential markets. Moreover, the acid test for the viability of investment alternatives would be to price both financial stabilization funds and credit at market rates of interest. Although virtually every agricultural cooperative that has received assistance under the Project has made fundamental changes in its organization, management and operations to a degree that has never before been achieved in similar projects in Honduras or other Central American countries, many of these cooperatives remain short of assured sustainability. In the coffee sector, the Project's approach of working simultaneously with AHPROCAFE and UNIOCOOP increases the probability that a sustainable coffee export system will emerge from some combination of the two. Nonetheless, the sustainability of UNIOCOOP independent of its role as a recipient and transmitter of Project resources is still in question. To expand outreach, the Project should analyze potentially sustainable cooperatives that are not currently participating and review the selection strategy based on an analysis

of the reasonable probability of achieving self-sufficiency.

Credit Unions

Relevance. The Project has correctly identified the primary development constraints facing credit unions -- poor management skills and inadequate financial policies. Besides addressing management and image deficiencies, the Project's infrastructure investments correctly address another development constraint -- credit unions' traditional reluctance to invest in fixed assets that can be highly productive. The financial stabilization component has improved credit union financial management and situation by offering a conditioned grant once credit unions have demonstrated their willingness to undertake necessary reforms and have done so with the institutional support investments. The major emphasis in the Project on member and staff training in financial management, credit policy and general cooperative principles reinforces the policy changes obtained through the conditionality of the institutional support and financial stabilization components. Nonetheless, the Project lacks the entrepreneurial focus that would help credit unions understand their appropriate role in a wide open and competitive world and, over the long run, ensure their survival.

Any follow-on project should retain the major program components largely unchanged. Some changes in the design of these components to improve their effectiveness are suggested below. In any case, a follow-on project should give greater emphasis to the profitability indicators within the CAMEL financial evaluation system. Without making fundamental change in design, a follow-on project can make a fundamental change in the message it gives to participating credit unions. The basic objective of this Project is not just to make bigger and 'better' credit unions, it is to make more profitable credit unions. Profitability is the key to sustainability.

Impact and Effectiveness. The Project has unquestionably played an important role in producing both the quantifiable and qualitative changes observed during the evaluation. Field visits to credit unions revealed significant improvements in credit union appearance, management, management systems and morale and substantiated the veracity of the improved credit union financial indicators. Moreover, the credit union movement in Honduras has grown considerably during the life of the Project, more than doubling in size. Deep and important reforms have also been made in FACACH over the three year life of the Project. Although the decision to locate the FDF within FACACH was inappropriate, the creation of the FDF, instead of placing a technical assistance team within FACACH, has been a critical element for the Project's success. In addition, most credit unions expressed the opinion that the most important features of the FDF support program were the training and technical assistance activities.

When evaluating credit union financial performance, more emphasis needs to be placed on the profitability indicators mentioned in the interim evaluation but not really utilized in practice by the Project. These include return on assets, return on equity (share capital, reserves and retained earnings), self sufficiency, operating expenses relative to loan portfolios, and operating expenses compared to productive assets. These ratios should all be analyzed after subtracting the income transfers related to the program to monitor credit unions' real progress toward the financial goal of self-sufficiency. Less emphasis should be placed on growth to measure Project impact. Training materials should more explicitly convey the vital message about the business and entrepreneurial nature of credit unions. In addition, any follow-on project should straightforwardly include all open Honduran credit unions. When the FDF works through FACACH it works with all FACACH members, so that no purpose is served by excluding some credit unions because they are not rural.

The FDF prepares high quality analyses of targeted credit unions, and the business plans developed adequately address primary administrative and financial weaknesses. Moreover, the institutional strengthening plans, addressed by the institutional support investment component, respond well to the needs detailed in the business plans. Although the management practices and financial goals sought by the financial stabilization component are fundamentally correct, the accounting practices and adjustments made as part of this program are not. In addition, the area of computerized information systems has shown little progress. It is important to push hard to implement current software within the next few months. If that becomes hung up for technical reasons, the Project should invest in further external technical assistance and change its software development strategy to a locally programmed and supported, step by step approach, building an integrated program, component by component.

The current program of financial stabilization should be closed with great fanfare to make clear that the bailout phase is over once all 42 credit unions have been evaluated for their eventual participation. No credit union should receive more than one financial stabilization agreement. Instead of hope for more stabilization agreements, credit unions should be provided with management technical assistance, training, advice on new business opportunities, infrastructure support, publicity, central liquidity facilities and good external audits. The use and understanding of CAMEL indicators of financial performance should be strengthened among credit union staff, especially those related to profitability. In fact, the relative performance of each credit union measured by CAMEL indicators might be shared with all other credit unions to promote a positive sense of competition. In addition, any follow-on project should be based on transparency in dealings with credit unions and their members. Credit union sustainability will depend not on isolating membership from management but on membership's understanding management problems and becoming part of the solution. Furthermore, the institutional support investment component might be increased and broadened to include conditionality on financial reforms that has in the past been sought by the financial stabilization component. Operating expense subsidies should also be reduced over time, with concentration on infrastructure and one-time expenses.

With respect to FACACH, the FDF has been keenly aware of the fundamental problems from the outset. Moreover, FACACH's current board of directors and management have displayed openness to the FDF and to the financial and management policies that the FDF is recommending as part of the stabilization plan. The financial stabilization plan ultimately settled on for FACACH is realistic and feasible. Nonetheless, no further stabilization agreements should be entered into with FACACH, and the FDF should remain firm on FACACH's adherence to the terms of the current agreement and continue to require quarterly reports on the status of key financial indicators until the agreement has concluded. The Project should provide institutional investment funds to FACACH only on a limited basis to help FACACH develop profitable financial services for its members. Related technical assistance should be provided by external firms to avoid the implicit operating subsidy to FACACH from providing for this activity in-house. In addition, the FDF might wish at some point to provide an operating subsidy for the first few start-up months for some new financial service and should leave that possibility open. The Project may also wish to provide initial supplementary funding in order to recruit a top rate general manager for FACACH with the requisite banking skills -- but only for a short period of time until this manager develops the necessary profitable activities that would cover his salary.

Efficiency. At this point the individual credit unions and FACACH have both made substantial progress toward professional financial management that would have been impossible had the Project kept to the traditional design of working through FACACH to get to the credit unions. The most cost effective component of the entire Project with relation to the credit union movement has been the technical support provided, especially to the credit unions. In any follow-on project, operating support for FACACH should be eliminated, so that FACACH will understand that it must look to its affiliates for its long term survival. The only direct support that might be given to FACACH would be technical assistance in the area of how to provide financial services to its members such as a possible central liquidity facility or insurance schemes. Moreover, such support should be in the form of short-term consultants, not direct operating subsidies. If the FDF seeks to subsidize training and technical assistance activities, it should provide funds to individual credit unions, not to FACACH, to let credit unions seek their own training provider and thereby force FACACH to provide reasonable programs. On the other hand, further support to credit unions should not be tied to renewing their support for FACACH. FACACH must understand that support from its member credit unions, not from international agencies, will determine its future, while credit unions must understand that they, and not the international agencies, own FACACH, so that they must make it serve their needs.

Sustainability. Any follow-on project should make a substantial effort to incorporate profitability criteria in all communications with participating credit unions and FACACH. Technical assistance under such a project should be reoriented toward improving the responsiveness of the credit union movement to business opportunities in a constantly evolving context. This should include market studies, attitudes and preferences of potential credit union members, feasibility studies for new financial services for members, studies on how to improve operating efficiency and studies on how to 'sell' market interest rates to members In addition, training cooperative analysts on methods of ferreting out hidden problems that affect financial performance and taking corrective measures before problems become too serious to handle effectively would be useful. For these purposes, USAID may want to diversify the types of participants in the technical assistance in addition to diversifying the themes. Any follow-on project should also insist on transparency in the interest of improving member awareness of the financial performance of their credit unions. Finally, if sustainability is an important goal, financial stabilization as currently designed cannot be a permanent feature of the credit union support system.

IHDECOOP and the Supervision of Honduran Cooperatives

The replacement of DIFOCOOP by IHDECOOP in 1988 as part of the new Honduran cooperative law was initially a very positive event as the greater autonomy of IHDECOOP and its more secure funding allowed for the development of a more dedicated and capable professional staff than it had had to that point. This development, in the area of auditing in particular, was effectively supported by the Project, especially through support for a strong training program. Examination of past IHDECOOP audits reveals a good level of technical skill that provided cooperatives with useful recommendations for improvements, especially in the area of internal controls, while also providing other interested parties (e.g., creditors) with basic information from which to draw realistic conclusions about the financial situation of the audited cooperatives. However, even at its best, IHDECOOP had adequate resources to audit only a small proportion of the cooperatives under its jurisdiction (about 10 percent each year), and it could not even audit all the cooperatives requesting audits (and willing to pay for them).

Support targeted to IHDECOOP under the Project has been only about $400,000 and, as noted above, this has been mainly for the training of auditors, along with the development of auditing and accounting procedures and manuals, although there has also been some support for the development of a Registry of Cooperatives. Support under the Project for training and for the development of auditing and accounting procedures and manuals is often referred to as a key element in achieving high quality audits carried out by IHDECOOP's auditors. The creation of a Registry of Cooperatives and the related legalization of many cooperatives are seen as other important achievements of IHDECOOP that were effectively supported by the Project. However, as also noted above, budgetary restrictions never permitted IHDECOOP to achieve adequate size to audit more than a small portion of the cooperative sector.

IHDECOOP's situation has deteriorated sharply in the past two years, but it still has a core of well-trained and reasonably dedicated auditors, especially considering the conditions under which they are currently working. IHDECOOP needs to be given budgetary independence and adequate resources to carry out its auditing functions by eliminating its promotional and technical assistance activities not related to auditing (except for legal and registry functions), by entering into major training programs for its auditors, by charging adequate prices to cover auditing costs, and by assuring that income from auditing services is effectively received by IHDECOOP. No other entities are currently available to audit cooperatives, but new private auditing firms with a focus on the cooperative sector might be encouraged to develop, especially if IHDECOOP's monopoly of cooperative audits is ended.

IHDECOOP has adequate legal enforcement powers, but it can never be expected to exercise these powers because of its role as an entity supporting cooperative development. Moreover, it is unlikely that any entity will exist in Honduras in the foreseeable future able to handle the enforcement of recommendations from external audits. Consequently, it will be necessary to rely on enforcement by interested parties (e.g., cooperative members and creditors) who are made adequately aware of problems by high quality external audits that are disseminated to these interested parties.

IHDECOOP should relinquish its monopoly over external audits of cooperatives and should not be expected to provide effective enforcement of its findings and recommendations. IHDECOOP should nonetheless require that external audits of cooperatives, federations, the FDF and IHDECOOP itself be made available in their entirety to all interested parties, including especially members and creditors. IHDECOOP should also publish key indicators on the solvency, liquidity and profitability of the cooperatives and federations that it audits (as well as those that are audited for it by qualified independent external auditors). In addition, as part of its Cooperative Registry, IHDECOOP should indicate the date of the last external audit for each cooperative, the names of cooperative managers and members of boards of directors, and any pending legal actions.

Requirements for guarantees for cooperative managers handling significant amounts of money are not currently enforced, and this is an important aspect of making cooperative management more responsible. Bonding insurance provided by insurers that are sufficiently aware of the risks involved could be an important part of the guarantee system. IHDECOOP should pay greater attention to guarantees for cooperative managers according to the amounts of money handled and to the development of bonding insurance in which the insurer is adequately aware of the risks involved. At a minimum, IHDECOOP should publish the guarantee and bonding status of cooperative managers and members of boards of directors.

In any follow-on project, the FDF should support the strengthening of IHDECOOP by providing training for IHDECOOP's auditors and by providing matching grants to cooperatives to purchase external auditing services. In addition, the FDF and IHDECOOP should collaborate with the relevant cooperative federations in programs: (1) to increase the awareness of cooperative members of their rights and responsibilities with respect to the financial condition of their cooperatives; and (2) to improve the quality of external audits through better accounting manuals for cooperatives and better scopes of work for external audits. Nonetheless, any further support to IHDECOOP under the current Project or any follow-on project should be conditioned on acceptance by the Honduran Government of the majority of the foregoing recommendations, especially those pertaining to the structure and operations of IHDECOOP. In any case, the FDF should not directly undertake external audits but should rather use the audits done by others to be aware of the situation of its borrowers and to enforce strictly the recommendations of external audits for its own protection and as an example for others.

Chapter I

Introduction

The primary purpose of the final evaluation of the Small Farmer Organization Strengthening Project (522-0252) is not only to draw conclusions about the overall performance of the Project but also to identify lessons from the Project that can be applied to the design of a possible follow-on project. Because of issues surrounding the design and implementation of the follow-on project and the estimate that initial funding for the current Project will be exhausted before the end of 1992, this final evaluation is being carried out more than a year and a half before the completion date for the current Project.

According to the scope of work, the final evaluation of the Project is to pay particular attention to the accomplishments of the Project since the interim evaluation that was carried out approximately two years ago, in late 1989, and especially to the extent to which recommendations made at that time have been implemented. Appendix A provides a summary of the recommendations that were made in the interim evaluation and the extent of their implementation at the time of this evaluation. The two most important recommendations from the interim evaluation concern the status and performance of the Financial Development Fund (FDF), which is the main implementing agency for Project activities, and the separation of the components of the Project dealing with rural credit unions from those dealing with agricultural cooperatives of various types. With respect to the second point, the interim evaluation team felt strongly not only that the required activities for strengthening rural credit unions were highly distinct from those for the agricultural cooperatives but also that the Project purpose of delivering inputs to agricultural producers was largely inappropriate for rural credit unions -- which should instead be encouraged to focus on becoming viable financial institutions providing a complete range of financial services to a wide range of different types of clients in rural areas, not just agricultural producers.

The focus of the final evaluation on accomplishments since the interim evaluation, given the major importance of these two over-riding recommendations, is consequently reflected in the organization of the final evaluation report. The performance of the FDF is first evaluated in depth in all its aspects, and then the component of the Project focused on agricultural cooperatives is likewise evaluated, followed by a similar evaluation of the performance of the credit union component. Even within the FDF itself, there has been little overlap between the two components of the Project. Personnel have largely been assigned to one component or the other, and the budgetary resources for funding the two components have also been treated largely independently because the absorptive capacity of the Honduran institutions participating in the Project -- not budgetary resources -- has almost always been the binding constraint that limits the speed at which the Project can progress. In fact, as will become apparent, Project leadership deserves a great deal of credit for maintaining the morale of Project staff when, as was often the case, one component of the Project was able to advance much more rapidly than the other.

The team for the evaluation consisted of four individuals:

> Onofre Torres, President of IMCC, -- who was responsible for the institutional evaluation of the FDF, especially its financial stabilization activities, and for trust fund arrangements under the Project;
>
> Charles Oberbeck, PhD. and intermittent employee of IMCC, -- who was responsible for the evaluation of the Project's accomplishments in strengthening agricultural cooperatives and their respective federations;
>
> Robert Christen, manager of PROPESA and employee of IMCC, -- who was responsible for the evaluation of the Project's accomplishments in strengthening rural credit unions and the Honduran federation of credit unions (FACACH); and

Robert Vogel, PhD. and Executive Director of IMCC, -- who was team leader and responsible for the evaluation of the Honduran Government's cooperative support institution (IHDECOOP) and for issues relating to prudential regulation and supervision of cooperatives and cooperative federations.

In carrying out its evaluation, the team thoroughly reviewed not only the very large number of documents that had been produced by Project staff but also numerous other documents that had been produced by other evaluators and by independent consultants, as well as other documents pertaining to the credit union and agricultural cooperative sectors. These documents are listed in Appendix B of this report. The Project team also carried out extensive interviews with FDF management and staff, the Project's technical assistance team, management and staff of cooperatives and federations supported by the Project, Honduran Government officials and private sector individuals with interests in the credit union and agricultural cooperative sectors, and USAID officials involved with the Project. The individuals interviewed and their affiliations are listed in Appendix C of this report.

The outline for the evaluation report follows closely the scope of work for the evaluation and, in particular, the specific questions raised in the scope of work (which is reproduced as Appendix D). Chapter II evaluates the FDF and its primary activities with respect to relevance, effectiveness, efficiency, impact and sustainability, and for each of these categories findings, conclusions and recommendations are reported. Chapter III evaluates the Project's performance in strengthening agricultural cooperatives and their federations with respect to relevance, effectiveness, efficiency, impact and sustainability, and for each of these categories findings, conclusions and recommendations are reported. Chapter IV evaluates the Project's performance in strengthening rural credit unions and FACACH with respect to relevance, effectiveness, efficiency, impact and sustainability, and for each of these categories findings, conclusions and recommendations are reported. Chapter V evaluates the performance of IHDECOOP and the main options for carrying out prudential regulation and supervision of cooperatives and cooperative federations in Honduras and is likewise organized into findings, conclusions and recommendations. Chapter VI concludes the report with a summary of the lessons that were learned from the Project in the process of carrying out the evaluation.

Chapter II

The Financial Development Fund (FDF)

A. RELEVANCE

FINDINGS

The Project's design correctly identifies many of the development constraints present in the Honduran socio-economic environment. In particular, the problem of the lack of managerial and financial discipline prevalent among the small farmer organizations is compounded by a consistent pattern of conflict of interest and patronage at the upper levels of these organizations. As mentioned in the interim evaluation, one of the main difficulties in bringing about meaningful change within these small farmer organizations is the lack of leverage wielded by the FDF and USAID. While the Project strives to provide financial and institutional support to these organizations, USAID/FDF interaction must take place through the boards of directors and upper management levels of the recipient organizations. More often than not the individuals in the upper levels of the small farmer organizations have had different priorities than those of USAID/FDF and have thus wanted to resist the implementation of meaningful change. In the past, the abundance of donor agencies vying to provide financial and other support to small farmer organizations has permitted upper management of these organizations to postpone effective institutional change prescribed by USAID/FDF by availing their institutions of financial resources provided by these other donor agencies. Moreover, because of the weakness of IHDECOOP as a regulator of small farmer organizations, the implementation of changes by USAID/FDF through sanctions was also difficult.

Consequently, over the past few years, the Project had to develop a disciplined approach to dealing with the small farmer organizations. To the credit of the USAID/FDF Project management team, the disbursement of significant financial and institutional support was effectively withheld from those organizations that did not show a genuine interest in making real positive changes in their financial and institutional structures. While this may have jeopardized the attainment of some of the quantitative objectives and timetables of the Project, it has insured that the resources that have been disbursed have generally been put to effective use as envisaged in the various programs of the Project.

The disciplined approach used by the FDF in working with the small farmer organizations has been compared to the approach used by the IMF in dealing with client countries with which it has little leverage. This approach was made possible as a result of USAID abandoning the original Project concept of working only through the small farmer second level organizations. In fact, significant change in the second level organizations was obstructed by the second level organizations' management until it became clear that the FDF was prepared to work around the second level organizations to provide assistance directly to the small farmer cooperatives. This was a key decision taken by USAID without which the Project would certainly have struggled. To the extent that USAID/FDF is still faced with relatively little leverage to effect major rapid change in small farmer organizations, the current "mini-IMF" approach continues to be appropriate.

Of primary concern currently is the delivery of management skills and marketing services. Most of the effort to date has focused on providing for financial improvement. To the extent that financial stabilization has been accomplished at some of the small farmer organizations assisted, the only assurance that stabilization will be maintained is through upgrading of managerial and technical skills. Thus, the further development of training programs by the FDF, so that skills obtained by some small farmer organizations can be passed on to others, is a logical follow-on to its current investment and credit activities.

Management continues to be a prime area for concentration. Establishment of mission statements, objectives and strategic planning need to be continued to be emphasized at the cooperative level and at the FDF itself. Added emphasis on internal control and financial control will provide the management information systems needed for management to carry out the decision making process effectively. Management development cannot be overemphasized. This includes teaching managers to delegate authority effectively while retaining responsibility.

CONCLUSIONS

1. Project Management has made some key, and appropriate, adjustments in approach needed to achieve the objectives of the Project. Although some of these adjustments may have delayed the Project's timetable, they were necessary, and their timely implementation produced benefits that far outweigh the disadvantage of a slower timetable.

2. Once the contractual aspects of the financial and institutional strengthening programs have been established, and the small farmer organizations are performing under their agreements, emphasis for strengthening should be placed on training. New areas for concentration of training activities, in addition to upgrading internal control capability, financial control and strategic planning, include training in the areas of agricultural technology and product marketing. To the extent that the FDF has developed into what is essentially a financial institution, it may not be appropriate for the FDF to develop an 'in-house' capability for providing technical assistance in areas not directly related to financial control and financial management. As needs develop for new and more heterogeneous types of technical assistance, perhaps the FDF's role should become one of identifying and analyzing technical assistance needs and subsequently designing a financial plan to pay for the technical assistance required. The FDF should monitor the delivery and implementation of services and make payments in accordance with the technical assistance financial plan.

RECOMMENDATIONS

1. The FDF approach of assisting only those small farmer organizations that demonstrate genuine interest in carrying out effective change should be preserved. Moreover, in keeping with current USAID policy, when preparing financial stabilization plans, the FDF should begin to utilize interest rates and fees equivalent to those determined by market forces. While this will necessarily mean that many of the existing small farmer organizations will not be able to qualify for assistance and will probably fail in the long run, it will insure that those organizations that do qualify for assistance will have an excellent opportunity for long run survival. Moreover, the use of market rates prevents the development of the well known distortions associated with subsidized credit programs.

B. EFFECTIVENESS

FINDINGS

It is clear that the FDF has been an effective implementing agency capable of carrying out the task of strengthening the cooperatives and the credit unions. Ample evidence is presented in Chapters III and IV of the successful interventions of the FDF as an implementing agency in fulfilling Project objectives among the small farmer organizations. After a difficult struggle with the boards of directors and upper management of some of the second level organizations and some of the agricultural cooperatives, the FDF was able to establish discipline and demand the respect of its cooperative clientele. The FDF can be credited with developing model contracts and processes for financial rehabilitation and institutional strengthening amid a difficult macro-financial and socio-economic environment.

The FDF has also been able to enter into cooperation with IHDECOOP so that this regulatory agency can assist the FDF in monitoring some of the FDF's stabilization programs and in promoting some of the desired changes among FDF clients. In exchange for training and some financial support it has been possible to upgrade the supervision efforts of IHDECOOP significantly to the extent that audit reports are now far more meaningful than they were during the DIFOCOOP era. To be effective, the staff of IHDECOOP needs to be trained. However, the turnover of qualified staff is rapid among lower paid government employees. To deal with this problem, the skills required of IHDECOOP auditors should be tightly defined, repeatable training modules should be developed, and the training should be carried out on a periodic basis in order to upgrade existing staff and to incorporate new staff effectively. This training challenge illustrates why IHDECOOP should focus its efforts on a few well defined tasks, rather than dissipating its efforts over a wide array of tasks.

It has been observed that an FDF made up of motivated and committed local staff, combined with technical assistance support from the outside, has created an effective combination for dealing with FDF clients. While the technical support staff and USAID have maintained the focus of the Project on the stated goals and objectives, the locally hired FDF manager and his staff can be credited with maintaining the focus of the Project within the constraints of Honduran reality. As a result, it is doubtful that a project of this magnitude could have been carried out as effectively without the level of institutionalization that currently exists in the FDF. The current level of institutionalization provides an effective base of support for continuing work with this sector in the future.

C. EFFICIENCY

FINDINGS

With regard to the implementation strategy of creating an FDF outside USAID for the purpose of carrying out the day to day activities with the small farmer organizations, it is apparent that the current level of institutionalization of the FDF has provided for some economies of scale in managing the Project. It is not likely that the relationship with each individual small farmer organization could have been managed efficiently directly by USAID staff. However, there have been some factors associated with the creation of the FDF that have contributed to duplication of effort and inefficiency in the decision-making process.

Throughout the implementation of the Project, a philosophical struggle has taken place over the convenience of institutionalizing the FDF. On one hand, both Honduran Government officials and USAID have wanted to avoid the creation of yet another government institution destined to bloat government payrolls and eventually depend on the fiscal budget for survival. On the other hand, it has been clear that some sort of institutionalization was necessary to carry out the ambitious goals of the Project without having to depend on internal USAID procedures in order to deal with each of the clients of the Project.

All of the problems identified in the interim evaluation of the Project with regard to the need to define the legal and organizational status of the FDF continue to exist. Even though pressure to define the situation has diminished as a result of improved relations between the FDF and FACACH, and an agreement on commonality of objectives now exists between the two parties, it continues to be important that ownership and legal status be defined as USAID moves toward a follow-on project. In spite of the above, and as mentioned earlier, the FDF has managed to develop a strong personality and an institutionalized process for dealing with its clients.

Top FDF management is currently subject to an unusual level of policy-making input and direction that affects the ability of the institution to establish and focus on broad objectives. The board of directors of the FDF is made up of representatives of the Honduran Government, the client second level organizations and USAID.[1] The USAID Project Manager and a full time assistant are dedicated full time to work on the Project. Inasmuch as their primary responsibilities involve making sure that the Project is carried out effectively, and the principal implementing agency is the FDF, FDF management receives constant input from USAID. The existence of a foreign technical assistance

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[1] USAID has no vote, but in practice carries much weight, especially with regard to policy making and process management.

team that works within the FDF and coordinates activities with FDF management, but generally gets its signals through a chain of command different from that of the Gerentes de Proyecto, further confuses leadership roles within the FDF.

While it may have been appropriate at the early stages of the Project for the top management of the FDF to receive direction from various sources, at this stage of development of the FDF it is probably counterproductive. In order for FDF management to mature, it is necessary that policy and managerial guidance be provided through the board of directors of the FDF in such a way that management is given full responsibility and authority to carry out the broad objectives of the Project. Top management must be held accountable for successes and failures; likewise, management must delegate authority better in order to implement a program of accountability among managerial levels within the FDF. It is important that the goals of the Project be made the goals of the FDF. In order for the FDF to become fully the implementing entity for the Project, the top management at the FDF must be held entirely accountable for Project goals and timetables. At this time, responsibility for achieving Project goals appears to be shared among the USAID Project Officer, the foreign technical assistance team leader and the manager of the FDF.

While USAID policy guidance and monitoring of the Project is essential, it is also important that this process be carried out in a way that will permit the managerial process at the FDF to mature. By the same token, it is important that the technical assistance team members support the activities of the FDF and that their role be modified to one of support to the goal-oriented activities of the Gerentes de Proyecto rather than focusing themselves on achieving the goals of the Project directly. In other words, instead of emphasizing the direct achievement of Project goals by the technical assistance team, the emphasis of the team should be changed to one of supporting the personnel at the FDF in the achievement of Project goals.

Finally, the Agricultural Sector II Project of USAID Honduras placed PL 480 generated funds within a pre-existing BANADESA administered trust fund. Loans were to be made from the trust fund to UNIOCOOP and the cooperatives of the UNIOCOOP system. One of the stipulations of the Project is that pre-existing loan balances of the cooperatives be analyzed, valued at recovery values, and the balance used to constitute a new trust fund to benefit the UNIOCOOP system. The valuation process has been completed by BANADESA and FDF personnel and the buydown of that debt negotiated. With FDF's disbursement of funds for the purchase of Fruta del Sol's debt to the original trust fund, the constitution of the new trust fund can be completed. The FDF and Project management report that the negotiations with BANADESA proved to be a difficult and time consuming task. USAID management believes that the chronic illiquidity of BANADESA may be causing the trust funds to be diverted toward other demands within BANADESA and slowing disbursement to the intended borrowers. USAID Project management and FDF management report that it has been impossible for them, or the Ministry of Finance (the account's trustor), to get accurate, transparent and timely reports on the balances in the trust fund. In addition, the slow and cumbersome nature of BANADESA's credit administration has negatively affected the operations of the cooperatives that the trust fund was created to support. Furthermore, the proposed Agricultural Modernization Law would remove BANADESA's authority to administer trust accounts.

CONCLUSIONS

1. The creation of the FDF as an implementing agency has proven to be an efficient means for developing and implementing the disciplined approach needed to deal with the small farmer organizations.

2. Full development of the FDF has been inhibited due to the controversy surrounding the "institutionalization" of the FDF. This has led to a situation in which top management of the FDF may not clearly identify the timetable and goals of the Project as the timetable and goals of the FDF.

3. Although the technical assistance team coordinates its activities effectively with the FDF, the FDF will never fully develop as an implementing agency until the technical assistance team begins to work under the direction of FDF management. This has implications in terms of the sustainability of the FDF.

4. With regard to the existing BANADESA trust fund, the task in the Project agreement calling for the valuation and constitution of a new trust fund is nearly complete. It is clear that BANADESA does not administer trust funds in an appropriate manner and should lose its authority to act as trustee in the future. The Project task of strengthening UNIOCOOP cooperatives is made more difficult by BANADESA's inefficient administration of the lines of credit granted through the trust fund.

RECOMMENDATIONS

1. The legal status of the FDF should be resolved. In order to avoid an inappropriate transfer of wealth that might be misused in the future, it is recommended that ownership continue to be vested 100 percent with the Honduran Government. In order to prevent politization of the FDF and its resources, and to ensure an acceptable level of internal control, it is recommended that the FDF be established as an independent trust fund. Given the poor performance of BANADESA with respect to management of trust funds, it is recommended that the trustee be a private institution with a reputation for financial competence and honesty. In all probability the trustee should be a private bank with institutional experience in trust fund management and with a minimum of conflicts of interest with respect to the cooperative sector of the economy.

2. The trust document should set forth clearly the mission and goals of the FDF and the responsibilities of the trustee with regard to the performance of the FDF, the monitoring of internal control functions and reporting functions. Typically a trustee would not be willing to accept responsibility for the recoverability of the FDF loan portfolio. In general terms it would be appropriate for the trustee to provide one or two representatives to the board of the FDF (with voice and veto powers, but with no vote). The trustee would provide internal control, credit review, financial control and management information system support to the FDF.

3. It is recommended that an RFP-type of document be developed and sent to banking institutions requesting technical and cost proposals for the management of the trust.

4. With regard to the BANADESA trust fund, the FDF should not disburse the funds for the negotiated price of the Fruta del Sol debt pending the passage of the Agricultural Modernization Law.

D. SUSTAINABILITY

FINDINGS

Sustainability of the FDF will depend on:

- continuing existence of a market for its services;

- the degree to which it can maintain its capital base (solvency);

  This will require that the quality of its assets, largely loans to small farmer organizations, be maintained. This will depend on the recovery of financial stabilization loans and other advances made to the small farmer organizations and to the stipulation of positive real rates of interest for financial stabilization programs as well as for other forms of credit to cooperative clients.

- its ability to provide services to its clients in a financially self sufficient manner;

  The FDF should price its services to its cooperative clients in such a way that all costs, including overhead, can be recovered.

- continuing development of personnel capable of taking over the roles currently played by the foreign technical assistance staff; and

- continuing progress in institutionalizing the FDF, including improvements in its accounting system, financial control and management information systems.

Maintaining a Market for FDF Services

It is apparent that small farmer organizations requiring financial and technical assistance continue to exist in Honduras. While it is not clear how many of these organizations are willing or capable of making the required sacrifices to enter into an FDF program, there does not appear to be a lack of potential clients. It is probable that, as the roles of UNIOCOOP, FACACH and the other second level organizations become more clearly distinct from the role of the FDF, the FDF's target market may shrink somewhat as it focuses more specifically on selected types of interventions and clientele. The FDF will have to make sure that the products and services that it offers to its clientele remain relevant to their needs. As pointed out earlier, it is likely that future efforts by the FDF will require it to provide financing for technology transfer and for the delivery of trade and marketing expertise to small farmer organizations.

Maintaining FDF Solvency

As the FDF institutionalizes, which it must do in order to be sustainable, it is critical that the solvency of the institution be maintained. This requires that management establish credit review procedures in order to monitor carefully the existing credit portfolio. The current management of the FDF appears to understand the importance of maintaining solvency quite well. What FDF management needs to do immediately is to improve its management information system so that it can exert better financial control over its operations.

Financial Self-Sufficiency

The FDF must enter only into financial strengthening agreements that have a high probability of repayment to the FDF and are at market rates of interest. In the event that grant monies are required for the success of a financial strengthening agreement or to fund technical assistance agreements, the FDF should, at the onset, outline an independent financing plan and subsequently identify how it will be funded. When grant monies are required, these should be obtained either from USAID follow-on project funds or presented to other donors interested in supporting a specific activity. In no event should the FDF attempt to finance activities requiring grant monies out of its own capital structure. Thus, in planning for a specific activity, the FDF should budget its costs carefully against the cooperative client's ability to pay for services and to repay advances made by the FDF. In those cases where a financing gap requiring a subsidy is identified, funding for the subsidy must also be identified, a priori, and provided in a clearly transparent manner.

For the FDF to achieve a semblance of self-sustainability in the long run, it must develop the ability to work with other donors to provide funding under financial rehabilitation plans that make sense but require grant funding. If the FDF is to sustain restructuring activities that require grant monies, it must persuade other donors to provide funding for the task. Otherwise, its activities will, necessarily, be limited to providing credit and stabilization resources at market rates.

Upgrading of FDF Personnel and Further Institutionalization

Unless the FDF staff acquire the managerial and technical expertise brought to the Project by the technical assistance staff, achieving self-sustainability of the FDF will be difficult. As mentioned earlier, the work of the technical assistance staff must be brought under the direction of FDF management, and technical assistance staff skills must be acquired by the permanent FDF staff. It is evident that improvement is needed in the accounting and data processing area. There is currently an effort underway to strengthen this area with the help of a local consultant.

Because the FDF is essentially a financial institution, software should be developed that is appropriate for financial institutions. A data base accounting system should be able to provide more flexible reports. A data base system could produce information and more flexible reports that emphasize not only balance sheet and profit and loss information but also data monitoring overall Project and FDF performance with respect to the Project's goals.

CONCLUSIONS

1. The FDF is not self sustainable at this time. It can become self sustainable if it maintains a clear focus on its target market of clientele, maintains the solvency of its portfolio, meets minimum profitability standards in its financing operations and continues to improve human resources, internal control and management methods. Long term sustainability is dependent on the ability of the FDF to increase its value to its cooperative clients so that they are willing to pay for the services provided by the FDF.

RECOMMENDATIONS

1. A strategic planning process should be implemented that incorporate the goals of Project into the FDF's mission and goals. Strategies should be adopted for achieving goals that incorporate maintaining a clear focus on client needs, solvency, self-sustainability of financial operations, upgrading of personnel and improvement of accounting/data-processing/management information systems.

E. FUTURE DIRECTIONS FOR THE FDF

RECOMMENDATIONS

1. The follow-on project should continue to utilize the FDF as its implementing agency. Project goals and objectives should be communicated clearly to FDF management in such a way that there is no doubt that Project goals and FDF goals are the same. The manager of the FDF should have clear goals. A bonus program based on measurable and verifiable accomplishments should be considered. If the manager cannot react positively to added responsibilities and incentives, the board of directors should consider his replacement. In large measure, sustainability depends on good management capable of utilizing the available resources effectively to accomplish realistic goals.

2. The role of the board of directors of the FDF in carrying out the goals of the Project should be strengthened. The role of the trustee for the FDF should be developed so that the trustee can provide broad guidance in the area of financial institution management to the FDF, thereby complementing the role of the other directors.

3. The role of the USAID Project manager should be modified to one of monitoring the Project through participation on the board of directors and providing support and liaison with USAID. It is now time for USAID to reduce its time consuming role in the prior review of details of each FDF action. This activity is not only costly for USAID but is a damper on the development of initiative and responsibility in the FDF. Thus, USAID should revise its approach to monitoring FDF activities from one of prior review of each FDF action to one of approval of an annual FDF operating plan and monitoring of quarterly reports.

4. Over time, the FDF should further develop its role as a financial institution specialized in strengthening and financing potentially viable small farmer organizations. It should concentrate on providing financial solutions for the delivery of a wide range of technical assistance on a self-sustaining basis. Although the FDF is essentially a financial institution, its clientele are small farmer organizations that generally do not have access to banking institutions.

5. In order for the FDF to measure itself in terms of its level of self-sustainability, it must develop an

accounting and management information system capable of measuring the revenues and costs of its operations against the opportunity cost of funds in Honduran financial markets. Once such a system is implemented it will serve as a valuable yardstick to determine the level of subsidy required to rehabilitate or support each small farmer organization client. In the event that it is determined that subsidies are required to resuscitate a deserving small farmer organization, the accounting and management information system of the FDF should clearly identify, in a transparent manner, how the subsidy is being funded. Financial transactions not involving subsidies should be tracked separately and funded against the capital base of the FDF Trust Fund.

Chapter III

Agricultural Cooperatives

The objective of this chapter of the report is to respond to the scope of work as it relates to the agricultural cooperatives assisted under the Project.

A. RELEVANCE

FINDINGS

The Project was designed to address the constraint of an ineffective system of delivery of productive inputs (such as seeds, fertilizer, technical assistance, management skills, and marketing services) to the agricultural sector. The strategy was to strengthen the system of agricultural cooperatives. The principal constraints within this system were originally identified as poor management and administration, financial instability, and lack of production and investment credit.

This design is generally consistent with the USAID Agricultural Sector Strategy of February 1990 which identifies three primary constraints in the sector: price structure/policies, resource base, and limited access. The Project addresses the third constraint. There are two primary areas, however, where the Project and the USAID strategy diverge somewhat and another where neither the Project nor the Agricultural Sector Strategy adequately identify a major development constraint.

While the USAID strategy specifically calls for the development of increased market competition in the private sector through the development of a strong cooperative sector, it also emphasizes the targeting of resources to priority commodities within the sector which demonstrate the greatest potential for aggregate productivity growth. The Project has, de facto, supported the same sectors as identified by the Agricultural Strategy Statement, but the Project design did not include a strategy for identifying technical constraints within these commodity systems. It was, instead, limited to addressing the institutional constraints of the cooperative sector in general.

At the same time, the Project is perhaps more relevant than the USAID Agricultural Sector Strategy in another aspect. The Strategy identifies the resource base as a principal constraint and makes the observation that, as between land and labor, land is the more scarce resource. The Strategy does not fully address, however, a major limitation of the Honduran human resource base. Relative to other countries in Central America, Honduras has an abundance of land and labor, but a scarcity of management and entrepreneurial ability.

The Project is highly relevant in identifying management as one of the most critical constraints to the development of the cooperative sector and addresses this constraint through a very thorough system of training and administrative and management reform. In fact, the greatest single benefit from the years of cooperative development projects might well be the number of managers that have been trained and developed, many of whom have left the cooperative sector and moved into equally or more productive jobs in other parts of the private sector. The Project does not, however, make the same accommodation for the problem of lack of entrepreneurial ability. To the degree that the problems of the cooperatives involve the development of new enterprises or major changes in the way that they operate within the existing enterprise, the absence of entrepreneurial ability can be as fatal as the absence of good management.

CONCLUSIONS

1. The Project design properly identifies several major constraints to the development of a successful cooperative agribusiness system and is especially relevant in the emphasis placed on the development of managers.

2. The Project and the Agricultural Sector Strategy do not give adequate emphasis to the lack of entrepreneurial ability within the cooperative and private sector generally.

3. The Project does not place enough emphasis on the efficient channeling of resources into the most productive commodity systems through global and industry analyses and strategies.

RECOMMENDATIONS

1. In the design of the follow on project, the successful elements of the Project addressing the constraints to institutional development, including management, financial stability and investment credit, should be retained.

2. The follow on project should be brought more into line with the spirit of the Agricultural Sector Strategy through the addition of a capability to analyze commodity systems on a national and international level, to identify constraints and opportunities within these systems, and to design specific programs of institutional assistance that will maximize the returns to project resources by taking these commodity systems into account.

3. The follow on project should address the constraint of limited entrepreneurial ability in the Honduran agricultural sector in at least two ways: (1) by including foreign technical advisors with proven business development skills; and (2) by seeking to leverage the entrepreneurial skills that are found within the cooperative sector through the development of business partnerships, joint ventures, contractual arrangements with successful businesses, etc.

B. EFFECTIVENESS

FINDINGS

1. SUMMARY OF ACCOMPLISHMENTS

The evaluation is being conducted about 22 months prior to the PACD. At this stage of the Project, two primary accomplishments stand out:

- The Project has successfully created an implementing agency (FDF) that is and can continue to be very effective in working with agricultural cooperatives; and

- virtually every agricultural cooperative that has received assistance under the Project has made fundamental changes in its organization, management, and/or operations to a degree that has never before been achieved in similar projects in Honduras or in most other projects in Central America.

At the same time, most of the impact of the Project is just now beginning to be felt at the cooperative level, and it is very early to determine the outcome. Some indicators of the recent progress that the Project has achieved at the affiliate level include:

- major changes in management have taken place within UNIOCOOP and six of the eight participating cooperatives in 1990/91;

- the Gerente de Proyecto position in the FDF (defined in detail below), which is pivotal to much of the assistance at the cooperative level, was just formalized in early 1991; and

- over 90 percent of the credit funds disbursed to affiliates have been disbursed within the last fifteen months and most within the last year.

A summary of performance as measured against the objective indicators is as follows:

a. Creation of an implementing agency capable of carrying out the task of strengthening cooperatives and credit unions --

The FDF has achieved a significant degree of capability to carry out the task of strengthening agricultural cooperatives. The level of effectiveness and efficiency is treated below.

b. Strengthening and stabilizing four second level cooperative organizations --

The Project is strengthening and stabilizing two agricultural second level organizations, UNIOCOOP and AHPROCAFE, and is in the process of developing an assistance plan for a third, FECORAH. It is likely that, by the end of the Project, UNIOCOOP and AHPROCAFE will be significantly strengthened, but it is unlikely that UNIOCOOP will be self sustaining. The development plan for FECORAH will not be in effect soon enough to have a significant impact on that organization by the end of the Project. The Project is also planning to provide assistance to four ANACH member cooperatives, but not significant assistance to ANACH per se by the end of the Project.

c. Fifty-five cooperatives and credit unions affiliated to the second level organizations undergoing restructuring and stabilization --

The status of assistance to the twelve UNIOCOOP affiliates is presented in Table III-1. Observations as to the status of these include:

- nine have qualified for institutional support;
- five have received financial stabilization funds;
- eight have received credit;
- two additional cooperatives are in the process of diagnosis;
- other cooperative will likely be dropped from consideration;
- only one cooperative received any direct financial assistance before mid 1989; and
- after the original credit disbursement in 1988 for fertilizer importation and the subsequent reflow into the Central Bank, virtually all of the credit has been disbursed since mid 1990 and most within the last year.

In addition to these cooperatives, UNIOCOOP is considering affiliating about seven new members, which would bring the total to nineteen affiliates. These include:

COOPERATIVE	LOCATION	PRODUCTS	MEMBERS
CAIS	CHOLUTECA	COFFEE	29
PARISENA	PARAISO	COFFEE	204
COPORCAL	COMAYAGUA	SWINE	31
COVAL	STA BARBARA	DAIRY	30
SANTA ANA	COMAYAGUA	COFFEE	250
TRINITECA	STA BARBARA	COFFEE	274
HELECHOS	STA BARBARA	ORNAMENTALS	74

TABLE III -1
AGRICULTURAL COOPERATIVES
PROJECT STATUS AS OF 11/91

COOPERATIVE	DATE QUALIFIED	INSTITUTIONAL SUPPORT DATE	INSTITUTIONAL SUPPORT AMT	FINANCIAL STABILIZATION DATE	FINANCIAL STABILIZATION AMT	CREDIT DATE	CREDIT AMT
CANDELARIA	1/89	7/89	76,994	10/89	144,000	10/90-8/91	365,000
OLANCHO	1/89	7/89	68,275	10/89	151,893	10/90-11/91	1,121,436
CREESUL	11/88	11/88	180,000	9/90	2,913,700	8/90-7/91	976,100
LAGO DE YOJOA	1/89	6/90	78,610	7/90	1,150,000	6/90-10/91	5,414,380
20 DE MARZO	2/89	7/89	76,000	10/91	1,488,933	12/90-10/91	845,000
TOTAL FINANCIAL STABILIZATION FUNDS				-	5,848,526		
FRUTA DEL SOL	12/88	10/89	112,475	PENDING	600,000	1/90-10/91	956,000
COHORSIL	12/88	7/89	166,814	NONE		7/89-10/91	470,000
MAYA OCCIDENTAL	2/89	7/89	139,455	PENDING	600,000	10/89-10/91	1,277,403
TOTAL CREDIT							11,425,319
ALGOSUR	7/91						
COMARCA	IN PROCESS						
COAGROVAL	IN PROCESS						
COOPAVIL	NO DIAGNOSTIC						

The AIFLD project has been providing assistance to ANACH cooperatives, of which nine are being considered for inclusion under FDF assistance. This assistance would be directly to the cooperative level, much the same as for UNIOCOOP affiliates. The four cooperatives for which diagnostics are completed are:

COOPERATIVE	LOCATION	PRODUCTS
CARCOMAL	COMAYAGUA	RICE
CARPIHL	CORTES	PLANTAINS
CARNOL	OLANCHO	GRAINS
CAROL	BAJO AGUAN	GRAINS

These are large cooperatives (CARCOMAL produces about 60,000 qq of rice) which will significantly increase the FDF's coverage by the end of the Project. Five AHPROCAFE affiliated cooperatives have gone through diagnosis, and three have qualified, including:

COOPERATIVE	LOCATION	PRODUCT
TALANGA	MORAZAN	COFFEE
SAN MARQUENA	CHOLUTECA	COFFEE
SAN LUIS DE COMAYAGUA	COMAYAGUA	COFFEE

AHPROCAFE also has another twelve or so cooperatives that could reasonably be expected to qualify for FDF assistance. By the PACD, it is reasonable to expec' that the Project will be working with eighteen to twenty-five cooperatives.

d. Twenty thousand farmer/members benefitted --

As of the mid-term evaluation, the estimated number of members of the eight UNIOCOOP affiliates receiving assistance under the Project was 2,810. The current number of members on the UNIOCOOP registry is 5,519. The current number of active members, however, is probably less than 2,000 because some cooperatives have lost active membership during the last few years due to operational problems and the need to restrict lending to reliable clients. In 20 de Marzo, for example, of the 578 members in 1989, only about 90 are currently active and receiving credit. In Fruta del Sol only about 35 of the 246 are active. An estimate of the number of farmers receiving assistance is probably somewhere between the number of active members (defined more or less as those receiving credit from the cooperative) and the official registry -- about 4,000. Farmers benefit from the Project at several levels, including through technical assistance and marketing services. The additional UNIOCOOP affiliates would increase the number of farmers receiving assistance by about 1,000. The inclusion of the ANACH and AHPROCAFE cooperatives would bring the number to over 7,500.

e. Two thousand production loans disbursed to farmers --

The number of production loans made to date using Project funds totals 607 and is accelerating as the FDF's credit administration capability improves and the number of qualified cooperatives increases. In addition, the FDF has made 23 investment and operating loans to UNIOCOOP affiliates. The principal source of credit for on-lending to members continues to be the BANADESA trust fund created by the Agricultural Sec - II project. The BANADESA trust fund has suffered from illiquidity as BANADESA is said to use the funds for other purposes and then to respond in an untimely fashion, thereby further increasing the transactions costs. Due to the USAID's desire to reduce the use of directed credit lines, the Project's credit resources were reduced by $2 million to $6.5 million, with the balance being transferred to institutional development and technical assistance. It is Project management's opinion that the objective of 2,000 production loans can be met with current funds.

f. Thirty officials of the various organizations trained in the techniques of institutional support and financial stabilization --

Table III-2 presents a summary of training activities in 1990 and 1991, the period when the FDF has had a full time training coordinator. A total of thirty training events were given during this time, with 411 participants from the staffs of the FDF, FECORAH, UNIOCOOP, AHPROCAFE and FACACH.

2. EFFECTIVENESS OF THE FDF AS AN IMPLEMENTING AGENCY

On balance, the Project has been highly effective in implementing the restructuring and financial stabilization of agricultural cooperatives through the FDF. It has been effective because the FDF is a serious, professional and hard working organization that conveys a message to participating cooperatives that the FDF is to be taken seriously and that the agreements signed are to be complied with. The weaknesses of the FDF in dealing with agricultural cooperatives are, first, its heavy financial orientation, with less strength in the analysis of agricultural operations and businesses and with more of a banker's approach to finance than an investor's and, second, the as yet unproven ability of the FDF to take action with clients without unrelenting pressure from the technical assistance team.

The greatest strength of the FDF in the agricultural area is the Gerente de Proyecto. The need for this type of position was pointed out in the mid-term evaluation, and the position was created early this year. The position is being further strengthened by a basic organizational change that divides the technical support group into two areas -- one for agricultural cooperatives and one for credit unions -- and assigns one Gerente de Proyecto to be coordinator for each.

The Gerentes de Proyecto are the pivotal individuals who deal with the cooperatives on a daily basis, perform most of the analysis, and whose judgement can greatly influence the course of assistance. The individuals in these jobs all seem to have excellent personal and professional skills to carry out the basic analytical and management tasks, are highly dedicated to their jobs, and have a strong sense of the institutional mission of the FDF. While the Gerentes de Proyecto are rapidly developing their skills, their effectiveness has been enhanced by the foreign technical assistance, and up to this point most of the assistance has been on an administrative and simple operational level. The Gerentes de Proyecto's hands-on business experience is limited, and this presents a limitation in their ability to carry out sophisticated restructuring tasks, especially in dealing with more complex financial and operational problems.

The General Manager of the FDF has experience in banking, but this translates more effectively to assistance to credit unions than to agricultural cooperatives. He does not appear to have all of the agribusiness skills needed to visualize and carry out the restructuring of business operations effectively. The ultimate effectiveness of the Project with the agribusiness cooperatives will depend on the General Manager's ability to demonstrate good judgement in the use of technical advice that comes from either his staff or external advisors.

To the degree that the Project increases its emphasis on investment credit or equity type investments, there may also be a limitation in the ability of the FDF to analyze and administer financing, especially for agricultural processing activities. Even the capability of the FDF to administer production credit needs to be strengthened to seek out and respond to investment opportunities. The FDF seems to have the more typical banker's point of view toward finance -- based on collateral and a demonstrated ability to pay. The future needs of agricultural cooperatives might rather require an investor's perspective -- which is to seek out opportunities based upon the firm's demonstrated management ability and the potential for developing a new market or technology, as confirmed by the agribusiness analytical skills of the Gerentes de Proyecto. To the credit of FDF staff, they have adopted the most important strategies of an equity investor -- a certain amount of control over the selection of management personnel. By their own evaluation, they have moved from feeling guilty about suggesting management changes in cooperatives to considering it part of the cold reality of their jobs. This is another indication of their growing effectiveness.

3. EFFECTIVENESS OF TRAINING ACTIVITIES

There have been several different types of training activities supported by the Project during the last two years, including: (1) FDF training (primarily in administration) directed toward FDF, UNIOCOOP, FECORAH and AHPROCAFE employees; (2) UNIOCOOP sponsored training at the cooperative level; (3) the large courses -- coffee quality and fertilizers -- sponsored jointly by several institutions; (4) training funded under institutional support and given by the cooperatives; and (5) extensive on the job training.

A review of the training documents and the comments of cooperative management and members interviewed in the field indicates that the content was of high quality and well tailored to the audiences. The coffee quality series was especially impressive and has reached over 2,300 farmers, with several thousand expected to be reached in each of the next three years. Effectiveness will be enhanced by its combination with the overall program for premiums and discounts based on quality. A review of the Training Manual developed for FECORAH by the FDF training advisor indicates that these courses were also well designed for the client's needs. Table III-2 lists the FDF courses and numbers of participants. These include thirty courses with about 2,900 participants. In addition, approximately 56 courses were coordinated by UNIOCOOP at the cooperative level.

4. IMPACT ON UNIOCOOP

The Project has provided over L1.86 million in institutional strengthening grants since March 1989 and over L22 million of credit, primarily as working capital and foreign exchange for fertilizer and farm supply sales. Project support has assisted in the strengthening of a Development Division and commercial enterprises for wholesale farm supplies and coffee exports. The Project also provided significant management and administrative training and influenced the board of directors to hire a new general manager and develop a more business-like approach.

Within the past year, the organizational and management changes within UNIOCOOP have taken it from being a Project liability to an asset, with significantly improved potential for being a permanent and effective national cooperative umbrella. There are, however, some intransigent problems that need to be addressed by the Project or, more appropriately, by the UNIOCOOP board and management.

Operations --

UNIOCOOP has a dual role as a provider of membership and organizational services to affiliates and as a commercial wholesaler of input supplies and coffee exporting services. UNIOCOOP has made progress in these areas, but there are some essential flaws in these combined operations. UNIOCOOP ran operating surpluses in each of the two years prior to 1991 and handled about 250-280,000 qq of fertilizer and 50,000 qq of coffee. The fertilizer sales were, however, initially based on access to foreign exchange at the official exchange rate at a time when the currency was heavily overvalued. Coffee sales were below the estimated break even volume of about 90,000 qq.

It remains to be seen whether the members are willing to pay for the developmental services as now provided. These services have been subsidized by the Project and have been effective, especially in terms of training and organizing GLAs. However, as Project subsidies are reduced, there is no mechanism in place for continued funding for these services. One alternative would be to fund these services out of surpluses from commercial operations. The basic problem with this approach is that there are no more surpluses as operations are currently set up. More importantly, there does not seem to be a clear direction and strategy for making the fertilizer and coffee operations efficient and profitable.

In a nutshell, the problem seems to be the failure of UNIOCOOP management to come to grips with the need to be competitive in these businesses based on efficiency offered to members. The expressed philosophy of UNIOCOOP management is that these businesses would be profitable if the affiliated cooperatives were obliged to give UNIOCOOP exclusive rights to supply fertilizer and sell coffee. While this may be true, it is not a system that would benefit the affiliates in the long run and is also an invitation to bureaucratic inefficiency. UNIOCOOP needs to develop a business plan in both areas based on the ability to offer its affiliates the best price/quality combination in the market. UNIOCOOP's competitive advantage might come from efficiencies of scale in price negotiation, centralized management or technical skills, processing efficiencies, etc. If UNIOCOOP cannot demonstrate a competitive advantage, its affiliates will and should continue to shop around.

Part of the problem appears to be a failure on the part of UNIOCOOP leadership to take the initiative in developing a viable business plan. UNIOCOOP has excellent relations with its affiliates and a large share of the dollar volume of sales, a position that commercial competitors might envy. Part of the problem also lies with the FDF and the type of assistance that has been provided to UNIOCOOP. FDF has not really conducted a thorough analysis of the fertilizer business, including the national and international markets and potential economies to be realized through blending, etc. It is generally believed that UNIOCOOP is competitive except when BANADESA is selling highly subsidized supplies of fertilizer, but this is not entirely the perception at the affiliate level, and the analysis has not been formalized and made operational. Likewise, UNIOCOOP is concerned about losing its share of affiliates' coffee exports. AHPROCAFE is one of the chief potential competitors. UNIOCOOP would be only a sales agent, while DICOMCAFE handles and processes the coffee. To compete, UNIOCOOP will need to develop a clear advantage in negotiating better prices.

Finances --

Because of these operational problems, UNIOCOOP posted an operating loss of L.283,223 during 1991. Project support has helped maintain UNIOCOOP's balance sheet, but that is a loss equivalent to about 30 percent of net worth.

5. IMPACT ON AHPROCAFE

The Project has been working with AHPROCAFE for over a year, but the primary assistance has come in 1991. The approach is to strengthen the coffee marketing capability of DICOMCAFE, a division of AHPROCAFE dedicated to coffee exports. DICOMCAFE qualified in January 1991 and has received institutional support and training since then. The primary accomplishments have been installation of a computerized accounting and inventory control system and the installation of FASTCAFE, a computerized coffee buying/selling program to control inventories and sales based on quality differentials. The approach of the Project toward AHPROCAFE has been very sound and complements the work with UNIOCOOP affiliated coffee cooperatives, as well as setting the groundwork for an expansion of AHPROCAFE affiliated cooperatives.

The strategy of Project assistance to the coffee sector is to develop a higher quality coffee (through improved processing and grading) and to reduce the discount (or develop a premium) for Honduran coffee on the world market. To be effective, the price mechanism has to transmit the premium back to the producer level. DICOMCAFE has an export program that incorporates quality control and processing to improve the quality offered on the market, negotiation of higher export prices, and direct purchase of coffee from producers in a system of quality differentials.

AHPROCAFE has a strong organizational structure based on service delivery through its commercial subsidiaries DIMAQ and DICOMCAFE. This is an alternative model for cooperative affiliation -- in which commercial viability is placed before cooperative promotion -- that might be very successful. DICOMCAFE has a large facility, including a quality control program with an experienced cup taster. In 1990/91, DICOMCAFE received the second highest average price among the 45 exporters in Honduras (as reported by IHCAFE). DICOMCAFE has good potential as an exporter that provides processing and marketing services with clear price signals according to the quality of coffee delivered. However, the Project is also providing support in the form of advice and business strengthening to two alternative channels.

The alternative channels would be through UNIOCOOP as an export agent, with a large UNIOCOOP affiliate (such as Triniteca) providing processing and handling services, or direct exports from individual cooperatives. The advantages of the latter is that it would be easier to develop a known quality standard for a cooperative or regional exporter, in the way that COMARCA has (the discount it receives is better than the average for the country). The advantage of the UNIOCOOP alternative would be in representing several such quality export cooperatives as a low overhead sales agent.

UNIOCOOP is questioning the strategy of splitting up cooperative exports between itself and AHPROCAFE. However, the strategy is sound. Whichever proves most efficient in the marketplace will provide the highest price to growers and will most effectively market varying qualities of coffee. If the system takes hold, it could result in higher average coffee prices across the country. The specific competitive interests of either UNIOCOOP, on the one hand, or DICOMCAFE, on the other, are narrower than the Project purpose of creating a viable system for providing efficient marketing services to small farmers.

6. IMPACT ON FECORAH

FECORAH is the federation of land reform cooperatives. It is dedicated to agricultural cooperatives, and the organizational strength is top down, i.e., the federation is probably stronger than most of the base level cooperatives. Most of the cooperatives are quite small, from 12 to 30 members, and are not viable as constituted. However, a few are very large, such as the banana cooperatives. The Project has not yet begun assistance to the FECORAH sector but has conducted diagnoses of five cooperatives. Based on these diagnoses, the FDF is considering a change of strategy.

The characteristics of FECORAH cooperatives tends to be:

- small in membership (often the minimum number -- 20);
- old age of members;
- closed membership policy; and
- lack of a sense of ownership due to collective holdings.

The FDF has correctly concluded that assistance at the base level would be wasted but that the FECORAH system as a whole (which includes over 400 cooperatives) represents a potential productive base for the country. The new strategy that the FDF is considering is to look for agribusiness opportunities for those few FECORAH cooperatives, such as the banana cooperatives, that are large enough and well enough structured to be viable (i.e., to have a capital base, sufficient size to be a participant in the market, and solid accounting and administration). The assistance could be coordinated through FECORAH and the regional Centros de Assistencia y Servicio (CAS). This change in strategy is eminently reasonable. How the strategy would be executed has yet to be defined. Potential agribusiness systems include shrimp, bananas, input supplies, potatoes, and non-traditional exports.

7. IMPACT ON ANACH

ANACH is a mirror image of FECORAH, stronger at the bottom and weaker at the top. ANACH itself has several institutional objectives including a political agenda that make it less dedicated to the business of agriculture. The member cooperatives, however, are not all collective and include some potential economic strength. Potential ANACH participant cooperatives are listed above. The one that has advanced the farthest is CARCOMAL. The strategy of the Project is, working through AIFLD, to use CARCOMAL as an example for other ANACH service cooperatives on the process of administrative change and the benefits of making those changes and thereby preparing for qualification by the FDF. The strategy of the follow-on project is based on, first, providing some further support of AIFLD's program of strengthening the ANACH cooperatives, but, second, focussing the FDF's management and financial restructuring of the ANACH service cooperatives on those that have the greatest potential impact on production, foreign exchange generation and employment. The strategy is reasonable and will be confirmed if the goal of four ANACH cooperatives qualified by the FDF by the end of 1992 is achieved.

8. IMPACT ON UNIOCOOP AFFILIATES

The strength of this Project has been in good institutional analysis, a serious and professional organization that has been taken seriously by the participating cooperatives, and delivery of a package of assistance conditioned on organizational and managerial reforms by the cooperatives themselves. This has generated a pervasive impact at the organizational and managerial level of the participating cooperatives. The financial stabilization, or "workout", cases are by nature uncertain of success. The positive impact on these organizations appears to be profound, but it is too early to tell if each of the individual workout plans will be successful, primarily because financial restructuring assistance has arrived only recently.

There are three apparent reasons for the delay in the arrival of financial resources. First, time was spent developing the FDF's capabilities and procedures to carry out strengthening activities with agricultural service cooperatives. Second, there was relatively greater emphasis on the credit unions in the early stages of the Project, as diagnosis and restructuring programs were more replicable than for the agricultural service cooperatives. Third, a good deal of time was required to diagnose the problems of the agricultural service cooperatives and to negotiate the necessary board, management and financial restructuring. As the effects of the individual stabilization programs become evident, there will probably be more rapid acceptance of necessary changes by the cooperatives and greater confidence within the FDF in the efficacy of the changes that the Project proposes.

Effectiveness of Analysis and Planning --

The Project has dedicated a considerable amount of time and resources to the analysis and planning process. The procedure is more or less the same in each case, including the following steps:

- elaboration of a diagnostic study;
- discussion of the diagnostic with the cooperative board;
- elaboration of a qualification document (Dictamen) for the FDF board;
- qualification;
- elaboration of a five year development plan;
- elaboration of an annual operating plan; and
- presentation of a document of approval (Dictamen) to the FDF board for approval for specific resources for the cooperative.

The documentation is longer and more general at the beginning and shorter and more focussed toward the end. The process has been especially effective in two ways:

- there is good participation by the cooperatives; and
- the analysis has been essentially correct in its analysis of the fundamental financial, managerial and operational problems of the agricultural cooperatives.

The participation of the cooperatives in the process is evidenced by the fact that they took the initiative to request the analyses in many cases and by the acceptance of the ultimate recommendations that emerged -- including difficult managerial and operational changes in many cases. The analyses have focussed on fundamental problems and have served as a good basis for the development of assistance packages. The cooperatives are all different, with different types of strengths and weaknesses. The weaknesses accurately diagnosed in the individual cases include:

- weak boards of directors;
- poor management, either incapable or dishonest;
- lack of definition of enterprises and cross-subsidization among them:
- poor accounting and management information;
- poor inventory control;
- bad marketing strategies, either too risky, ineffective in bargaining, or not designed to earn profits;
- poor cost control;
- operational inefficiencies, often from being under capitalized;
- over leveraged; and
- de-capitalized.

The primary weakness of the analysis has been in failing to develop a clear aggregate strategy for the industry and to define the role and competitive position of the cooperative in that industry. The analysis jumps from a general study to a development plan to an operating plan without focussing enough attention on a business plan that would answer the basic questions of why the cooperative should be in the market at all. This is especially evident in the input supply sector and non-traditional exports. There has been no global fertilizer analysis since 1989, for example, to define potential demand and supply and the competitive position of the cooperative in the market. At the same time, the three melon export cooperatives (CREHSUL, COAGROVAL and ALGOSUR) are in the risky export markets for perishable products, and Fruta and COHORSIL are considering entering this market. These export industries involve sophisticated technology, risk in handling and shipping, price fluctuations and market risk, broker accountability, and often low margins on fixed price contracts. The analysis of the FDF needs to consider whether the cooperative can realistically compete, under what circumstances, and what would be the effect on the grower if the cooperative ceased to exist.

To a degree the coffee system is an exception. The analysis of the coffee industry has been good, and the Project has developed a system for marketing coffee based on quality determinants that has entailed Project assistance from the farm to the exporter, with the cooperative in between. Even within the coffee system, however, development has been somewhat ad hoc, relying heavily on the skills of an individual advisor and his principal counterpart, rather than being based on a strong systematic analysis of the sector and the business of marketing coffee.

The overall approach of the Project, however -- to conduct in depth diagnoses of the agricultural service cooperatives and to involve the cooperatives in the process -- has been very effective. The focus on administrative, financial and organizational problems was certainly the appropriate way to begin a program of assistance. The absence of more in depth industry analysis is not a current problem because the cooperatives are still just at the level of reorganizing and revitalizing their basic operations. In the future, however, the analysis of operations will need to be improved through better analysis of the industry and markets.

Effectiveness of Institutional Strengthening --

The Project has been most successful in the area of overall institutional strengthening and has justifiably placed a great deal of emphasis on this area. The core problem of most of the UNIOCOOP cooperatives has been at the level of boards of directors and general managers. Assistance has been provided in three ways: direct institutional strengthening grants; training; and through the conditioning of financial assistance on compliance with administrative and managerial reform. In fact, those are probably listed in reverse order of impact.

The institutional strengthening grants were used primarily to buy computers, pay salaries (controllers, accountants and managers) and to cover costs of member training, promotion and basic operational upgrades. They are very small sums of money, and, in most cases, the cooperative took less than the amount authorized. To this point, there does not seem to be a problem with the cooperative absorbing the costs of the salaries as the FDF reduces its support, and this has been an effective mechanism for the Gerente de Proyecto to exercise some control. The most important tool to effect administrative and management change has been the packaging of the three types of assistance conditioned on self-help and reform. This has brought about the change of several bad managers, the acceptance of responsible audits and accounting, and the adoption of a more business like attitude toward the cooperative. This change is revolutionary in some cases, notably Fruta del Sol.

Specific evidence of Project impacts on the organization and management include:

o improved member selection --

Members are being selected based on productivity and credit history in all the cooperatives visited. Local membership groups known as GLAs have played a key role in attracting, educating and selecting new members. There is strong recognition of the importance of the GLAs in most cases, and the Project has done an excellent job of recognizing this feature and promoting it. UNIOCOOP is especially effective in this area, and the FDF provides institutional support grants for such work with a number of cooperatives. In a visit by the evaluation team to COHORSIL, a model of organization from the ground up, it was observed that the Project had supported the visit to a COHORSIL GLA by several members and directors of other cooperatives.

o replacement of ineffective managers --

Six of the eight cooperatives have hired new managers during 1990/91. Interviews with all of them confirm that the new managers have a considerable degree of seriousness and business acumen and that they work well with FDF personnel. As a result of the restructuring process, Fruta Del Sol, CREHSUL, 20 de Marzo and Lago de Yojoa have all had not one, but two changes of managers and significant board changes during the last three years.

o installation of improved accounting systems --

This includes the hiring of accountants and controllers, installation of computers and a specialized Spanish language accounting system, development of cost accounting and profit centers and conduct of regular audits. This has been a notable strength of the Project. The computer programs were carefully selected, the installation of hardware and software has been accompanied by well developed training, and the computer packages have been accompanied by general training in accounting and the use of the information that the computer systems generate. Both the accountants and general managers were enthusiastic about the technology. In UNIOCOOP, Maya Occidental, COHORSIL and Lago de Yojoa, the systems include inventory control and accounts receivable and payable. Lago de Yojoa has the specialized FASTCAFE system for controlling receipt and sale of coffee based on quality standards. Only 20 de Marzo has not received a computerized accounting system, and that is because electricity has only recently been installed in the town and not yet at the cooperative. One of the primary accounting tools that all of the cooperatives have lacked is the definition of cost or profit centers. Lago de Yojoa now has a system operating with 19 cost centers, and the same system is in process at most of the others. This addresses the most fundamental problem that the cooperatives have had in the past -- the cross subsidization of various enterprises, especially credit with marketing.

o adoption of improved organizational structure and personnel management policies --

In the diagnoses, development plans and institutional support grant contracts, organizational structure and staffing have been emphasized. Two examples include Fruta del Sol, where there has been a weeding out of ineffective employees, and Maya Occidental, where an overly centralized management system has been replaced by a system that delegates more responsibility and accountability to operations people.

Effectiveness in Improving Operational Efficiency --

The Project has increased the operational efficiency of the cooperatives through training, technical assistance and credit. There is considerable evidence that the Project has caused the cooperatives to adopt several fundamental changes in their operations which should increase their operational efficiency and profitability. The changes in operations, however, are generally relatively recent and have occurred simultaneously with management changes. It is not possible, therefore, to determine the degree to which these changes have or will likely change bottom line profits. Evidence of improved operations that can be observed at the cooperative level includes:

o improved credit management --

This includes better selection of credit recipients, tailoring of credit to individual needs, better management and follow up of loans, increased collection efforts, and separation of credit from marketing activities. The latter is of special significance because it has been a custom in many cases to provide production credit and advances at the time of purchase of the commodity (whether coffee, rice, melons, etc.) to be liquidated against sales. This system gave farmers earnings in good years and banks and cooperatives losses in bad years. Some cooperatives, such as CREHSUL, are now out of production lending entirely, while others have eliminated or reduced advances and are limiting credit exposure to what can be reasonably recovered through sale of the commodity. Several cooperatives have selected out bad credit risks from their membership, which has caused lower volumes of sales in some cases, but has also resulted in a stronger credit portfolio. Both Fruta Del Sol and CREHSUL have retained an attorney on a commission basis to collect delinquent loans. Recovery at Fruta has been about L80,000 during the first four months of the current fiscal year -- against an annual target of L62,000.

o improved inventory control --

The Project has put considerable focus on developing the concept of inventory turnover, both in inputs and commodities. The first stage in most cases is developing the capability to account for turnover. In the case of Maya Occidental, finance costs associated with rice processing have been significantly reduced by encouraging the cooperative to sell stores of paddy rice beyond what could be milled and to buy additional supplies as needed. The previous system had been to buy an entire year's stock at the beginning of the year with an annual working capital loan.

o improved coffee processing and drying capability --

Coffee handling and processing have been improved at the farm and cooperative levels through training in wet processing and drying and through investment credit at both levels for machinery and equipment. Effectiveness is enhanced by the fact that the parts are put into place systematically, with 2300 farmers receiving courses in quality control, which are followed up by small investment loans for the purchase of depulpers and small wet processors. The quality message is then reinforced to the small farmer through the cooperative's installation of a system of quality premiums and discounts. A Project financed conversion to wood and coffee husk fired driers has increased processing capacity and lowered fuel costs at Lago de Yojoa, Olancho, Candelaria, Maya Occidental and COHORSIL. The effect is to increase capacity and potential sales volumes, improve product quality and lower fuel costs. Reliance on large centralized wet-processors (beneficios) is minimized in this strategy, and concrete marketing improvements are achieved in a short time.

- improved marketing strategies for coffee --

Honduran coffee receives a discount on the world market of about $8 per cwt, most of which could be technically eliminated. The problem is both in changing the quality of the coffee as delivered (through both processing and selection) and in negotiating a better price in the world market. Physical improvements in coffee marketing are being accompanied by the establishment of a farm to exporter system of quality premiums and discounts. The cooperative is the key player in controlling quality and coordinating payments based on quality. The system is not fully running, but the computer system for controlling purchases and sales is in place in Lago de Yojoa and AHPROCAFE, and several cooperatives are putting in place rudimentary systems of discounts for poor quality based on additional processing costs to bring it up to average. The completion of the system will require the establishment of improved sales at the level of UNIOCOOP or AHPROCAFE to generate the margins that will ultimately pay for the premiums.

Other operational improvements include assistance to CREHSUL in the improvement of melon packing and cooling, assistance to Maya Occidental and 20 de Marzo in rice processing, and assistance to COHORSIL in diversification into garlic production.

While the Project has made excellent progress in improving operational efficiency, there are several qualifications to this success.

- Credit is the strongest tool for addressing raw material supply, but credit administration by the cooperatives has not been addressed in a systematic way by the Project other than the diagnosis of credit portfolios and credit administration in a study by Dorsey and Burgos.

- As shown in Table III-3, approximately 60 percent of credit disbursed has gone to two cooperatives, Lago de Yojoa and Maya Occidental, which is an excessive concentration with just two clients. Of this 60 percent, 46 percent has been to Lago de Yojoa. This may be because Lago de Yojoa did not, and does not, have access to the BANADESA line of credit which the five original affiliates of UNIOCOOP were able to use.

- Lago de Yojoa has had more than L1,000,000 of loans with the FDF that passed the maturity date and were rescheduled. However, the details were not available to the evaluator because there is no concise updated reporting system on the status of individual loans.

- Loans to the cooperatives are for one year or five to eight years at rates of interest of 4 percent for financial stabilization and 12 percent for other credit. Currently, the market interest rate is estimated to be 28 percent. The relatively low rates and favorable terms could be disguising inefficient operations.

- There are a couple of investments that may have been more a case of consumption than productive investments -- a new office for COHORSIL and a consumer goods store for CANDELARIA, for example. To the degree that these led to increased input sales, however, they were contributing to Project objectives.

- Volumes of commodity sales have dropped in some cases due to member shakeups, management changes, tighter credit policies and capitalization margins.

- At least two cooperatives are looking at major new operations: Maya Occidental is considering the purchase or lease of IHMA grain silos; and COHORSIL is considering a freezing plant for export. The Project is not currently set up to analyze these types of new opportunities.

Effectiveness of Financial Stabilization --

The most difficult aspect of the Project to evaluate at this stage is financial stabilization. The long run success

TABLE III - 3
CREDIT USE - UNIOCOOP AFFILIATES
(LEMPIRAS)

COOPERATIVE	WORKING CAPITAL	VEHICLE OR INFRASTRUCTURE	FARM CREDIT	MACH AND EQUIP	COFFEE [illegible]	TOTAL	PERCENT
CREESUL	976000					976000	8
FRUTA DEL SOL	600000		356000			956000	8
20 DE MARZO			215000			215000	2
MAYA OCCIDENTAL	500000	50000	100000	472000	445000	1567000	13
LAGO DE YOJOA	120000	941000	1613000		2740000	5414000	46
OLANCHO	100000	77000	325000	179000	440000	1121000	9
CANDELARIA	75000		342000	75000	600000	1092000	9
COMORSIL	100000	270000		100000		470000	4
TOTAL	2471000	1338000	2951000	826000	4225000		
PERCENT	21	11	25	7	36	11811000	100

depends on the success of the operational changes that will reverse the original cause of financial problems, and it is too early to be certain of this. The evidence of progress is nonetheless strong. All of the cooperatives have instituted capitalization programs, including 100 percent retention of earnings and percentage fees from marketing services or production loans. Delinquent loans are being recovered and capitalized. Most importantly, liabilities are being bought down by the FDF. It appears that the results will be favorable for at least four cooperatives: COHORSIL, Maya Occidental, Candelaria and Olancho. Of these, Olancho and Candelaria received financial stabilization loans, and in both cases they were low interest medium term loans for the purchase of vehicles, coffee machinery and working capital for stocking supply stores. Maya Occidental received a financial stabilization loan of L.600,000 to finance working capital.

There are, however, some qualifications as to the degree of progress with four other cooperatives. Fruta, CREHSUL, Lago de Yojoa and 20 de Marzo were in virtual bankruptcy when assistance began, and all of these have made major management changes within the last year. These four are still in very bad condition. Lago de Yojoa and 20 de Marzo have already had maturity dates extended on FDF loans, Lago de Yojoa on more than L1,000,000. CREHSUL is being managed with close oversight of a committee of creditors, including the FDF, and would not have operational liquidity without massive credit from the CORASUR project. Fruta del Sol is down to about 35 active members.

The following table demonstrates the positive changes in some key balance sheet indicators resulting from the capital injections made under the Project's financial stabilization component in the four most difficult cases.

EFFECTS OF FINANCIAL STABILIZATION
(thousands of Lempiras)

	A	B	C	D	TOTAL
Reduction of Current Assets	951	944	40	718	2655
Reduction in Liabilities	4478	3070	483	1694	9726
Recovery of Net Worth	3526	2125	443	976	7071
Owner Equity (Pre FS)	-2035	-2199	72	-385	-4548
Owner Equity (Post FS)	1490	-74	516	590	2523
Working Capital (Pre FS)	-3049	-150	-236	-1483	-4920
Working Capital (Post FS)	476	2287	679	460	2984
Equity to Assets (Pre FS)	-.38	-.47	-.03	-.08	NA
Equity to Assets (Post FS)	.38	.02	.25	.18	NA

A = FRUTA DEL SOL B = CREHSUL
C = LAGO DE YOJOA D = 20 DE MARZO

The capitalization programs also need to be seen in light of the history of most agricultural cooperatives in Honduras. There is a strong tendency to distribute earnings, which is one of several short run measures that weak managers and directors use to earn favor among members. The decapitalization of most of these cooperatives was not only the result of extraordinary marketing losses but would probably have occurred anyway over time. The success that the Project has had in changing the mindset of the members, management and directors of virtually all of the cooperatives is significant.

The observations with respect to potential problems do not outweigh the potential benefits of the massive financial restructuring that the cooperatives have undertaken. The restructuring programs generally contemplate five to eight year credit terms and several years of assistance. The Project has made significant progress by conditioning the assistance on fundamental changes in management, operations and capitalization strategy, and the cooperatives have responded favorably.

9. EXTERNAL FACTORS AFFECTING PROJECT PERFORMANCE

The Project has been subject to two major sets of external forces: commodity prices and Honduran policies. The principal policies have been monetary policy, control of foreign exchange and regulation of importation of fertilizer and rice. The commodity prices that most effect Project performance have been those for coffee and melons. Because the objectives of the Project are institutional, however, all of these factors have had relatively little impact.

The single greatest impact has been from the overvaluation of the currency and the restriction of foreign exchange. This permitted the Project to provide foreign exchange to UNIOCOOP at the official rate for the purchase of fertilizer. The impact was to subsidize the sale of fertilizer at both the UNIOCOOP and cooperative levels for more than a year and to set up a credit fund based on reflows which is somewhat more easily accessed than initial disbursements. The overall impact of the fertilizer sales, however, was diminished by the failure of UNIOCOOP to capitalize the earnings and develop a sustainable input supply system. This, in turn, has been effected by the Government's policy of permitting BANADESA to operated a subsidized supply business based on foreign donations.

Coffee prices were also relatively low last year and were aggravated by speculation as to the degree of devaluation of the Lempira, that is, some coffee cooperatives assumed a greater devaluation than actually occurred and paid higher than market prices based on such expectations. They lost money when the devaluation was less than expected. Low melon prices also caused a significant loss to CREHSUL last year that has set back its progress, and recent imports of rice have depressed rice prices for Maya Occidental and 20 de Marzo. These effects are only temporary, however, and have not significantly effected the Project's impact.

CONCLUSIONS ON EFFECTIVENESS AND IMPACT ON ORGANIZATIONS

1. The FDF has achieved significant effectiveness as the implementing agency to achieve real change in the cooperative sector.

2. Implementation has been slow due to a normal project learning curve and intransigent management problems of cooperatives, but there has been an acceleration during the last year, and there is a reasonable expectation that the quantitative goals will be met by the PACD.

3. Qualitatively, the impact on cooperative organizations has been mixed:

   - The Project has introduced the fundamental changes in management and business philosophy that are essential for healthy cooperative businesses;

   - operational efficiencies have been introduced, especially in processing and marketing and input supply; and

   - several cooperatives have received financial stabilization funds, and all have adopted capitalization programs that represent significant improvements in their financial operations.

   - However, the Project has provided the bulk of assistance only recently, and most of the impact on bottom line indicators is yet to be felt; and

   - four of the eight UNIOCOOP affiliates, while much improved, are still in severe operational and financial difficulties, making the eventual failure of one or more of them a risk.

4. The Project has been especially effective in the improvement of administration and management, primarily because of the packaging of assistance with conditions that the cooperatives adopt specific reforms.

5. The area of greatest weakness is the analysis of cooperatives as part of an agribusiness system, which requires an analysis of both their competitive position in the market and their opportunities to improve their position or enter new markets or enterprises.

6. The strategy in the coffee sector, including the strategy for working with AHPROCAFE and potential affiliates, has been especially strong because of the systematic treatment of the coffee industry from farm to exporter and because of the focus on an area (quality improvement) in which the cooperative sector can have a competitive advantage.

7. The strategy of developing UNIOCOOP as an agricultural input supplier and coffee marketer has achieved some success in developing the affiliated cooperatives as channels of distribution and in further developing UNIOCOOP's abilities as a wholesaler of inputs, but is less focussed for the coffee marketing activity.

8. The strategy vis-a-vis FECORAH and ANACH of working with the cooperatives only when they have defined viable business structures and missions is appropriate to both cases. These programs are being pursued with appropriate caution given the difficulties inherent in the organizations and member cooperatives.

RECOMMENDATIONS

1. The follow-on project should maintain the FDF as the primary implementing agency.

2. The primary development strategy for agricultural cooperatives should remain the package approach of technical and financial assistance conditioned on management and financial reforms.

3. The emphasis on administrative and fundamental operational improvements should continue to be the basis for dealing with the agricultural cooperatives.

4. Project effectiveness will be increased by emphasizing the investment credit component, including:

   - better analysis of business opportunities;
   - more aggressive pursuit of opportunities; and
   - willingness to let unsuccessful cooperatives fail.

5. The strategy of developing UNIOCOOP as a "wholesaler" of services to its affiliates should be developed more fully and pursued. Further development requires:

   - analysis of UNIOCOOP's competitive position in the coffee and fertilizer markets;
   - development of a more concrete business plan based on demonstrated economies of scale; and
   - commitment to that business plan in a way that will attract affiliates as legitimate business partners rather than locking them into artificial marketing agreements based on other benefits to be derived from the Project.

6. The Project should dedicate more resources to the coffee sector to capitalize on the initial success and a well conceived strategy.

7. It will probably be necessary to contract foreign technical advisors for assistance in the type of agribusiness and investment analysis that should be conducted. These advisors should have agribusiness management and/or investment experience in areas that are identified as priorities, such as coffee, input sales, fruit exports, etc. They should have experience in business start up and development. Advisors might be long term resident advisors or short term specialists brought in at regular intervals over a long enough time period to be effective.

C. EFFICIENCY

FINDINGS

The Project is implemented under a complex and evolving institutional structure. It was set up under dual objectives of creating an effective implementing organization and providing assistance to base level cooperatives through the umbrella federations and was changed to include direct assistance to agricultural cooperatives from the FDF. In the process, the roles of the technical advisors, UNIOCOOP and the FDF have all changed somewhat. What was cost effective at one stage may not be at the next. The Project at present does not appear to be cost effective in several ways:

- there is too great a concentration of manpower at the policy shaping, decision making level;
- the roles of UNIOCOOP and the FDF still overlap;
- the FDF is managed more by process than objective; and
- the technical assistance team is not entirely appropriate or well used for current needs.

The Project has a relatively straightforward objective set vis-a-vis the agricultural cooperatives. There are only eight direct beneficiaries and a potential of about twice that many in the short run. Most of the Project assistance is implemented at the Gerente de Proyecto level. At the policy decision making level of Project implementation, however, there are: the USAID Project Officer, the PSC, the assistant to the PSC, others at USAID in the clearance process, the FDF Board of Directors, the FDF General Manager, the Chief of Party of the Technical Assistance Team, the technical advisors, the boards of second level organizations and the management of second level organizations. All of these have exercised or continue to exercise some level of authority over Project direction or policy. In fact, policies are fairly well set by now, and the decisions that the FDF makes as to whether to qualify a cooperative and what type of assistance to provide should be based on established criteria and precise analysis.

The FDF is well on the way to being an effective and efficient organization, but it needs to make the transition from management by process to management by objectives. There is still a considerable amount of planning by activity, with performance measured by whether the activity was carried out rather than whether an objective was attained.

The interim evaluation recommended the development and use of business performance indicators. This has only been partially done and is not near to being implemented as a central indicator of Project progress. Concise, reliable and updated business indicators for the agricultural cooperatives were not available in a useable form for this evaluation, for example. While it would be relatively simple to maintain a file on each cooperative that gauges its performance progress, the FDF has yet to systematize fully its tracking of even cooperatives' performance in the payment of loans owed to the FDF.

Again, the failings of the FDF at present need to be seen in the context of the changes that have taken place during the Project. The FDF is less than fully efficient partially because it was not forced to be -- with much of the management burden distributed among the players listed above. The FDF has made good progress and demonstrates a serious commitment to its role. Its efficiency will probably increase significantly when the management burden is placed more clearly and squarely on the shoulders of FDF management.

The technical advisory team appears to have been very well suited to the start up needs of the Project and has combined the skills and ability needed to serve as advisors to the FDF and to provide leadership in directly assisting cooperatives. The progress of the Project, especially in the coffee cooperatives, is obviously directly related to the quality of the technical advisors. The Project is at a point, however, where the cost of each foreign advisor is about half of the entire operating expenses of the FDF. The cost effectiveness of having advisors operating in the same field as the FDF Gerentes de Proyecto is obviously low. The current level of technical assistance within the FDF is perhaps even counterproductive to the degree that foreign advisors provide a safety net to FDF management that provides an excuse for not taking full control of Project implementation. Efficiency can be increased by reducing the foreign technical assistance effort directed at fundamental analysis and assistance programs and refocussing it on the problems that require more sophisticated analysis of commodity systems and business alternatives.

The Project has also suffered a considerable level of inefficiency because of the ambiguous relationship between the FDF and UNIOCOOP. UNIOCOOP is an implementing agency that is also a recipient of assistance from the FDF. A technical advisor is assigned to UNIOCOOP as well as a Gerente de Proyecto. The training component, for example, is carried out by the FDF, by UNIOCOOP, and by the recipient cooperatives with FDF and UNIOCOOP assistance. UNIOCOOP would like to provide all technical assistance to the agricultural sector and leave the FDF as a financial institution only.

The same problem does not exist with AHPROCAFE at this time because assistance has been at a very low level. It is less likely to arise in the future, moreover, because AHPROCAFE operates under a more clearly defined system of roles vis-a-vis its commercial divisions and their service programs. The potential for some duplication and inefficiency between the roles of the FDF and AHPROCAFE is there, however, and should be guarded against.

The greatest single improvement in Project efficiency resulted from the issuance of PIL No. 29. This clarified the role of the FDF vis-a-vis the second level organizations and simplified Project implementation. Under PIL No. 29, the FDF was presented three options:

1. work with the second level organization first and then join efforts to work with the affiliates -- this is the fastest and least cumbersome approach and the most supportive of business integration with the affiliates. This approach was used with UNIOCOOP with a bottleneck at the outset and somewhat more success later on. The approach is working now with AHPROCAFE due to its commitment to change.

2. work simultaneously with the second level and affiliates in a three way agreement -- the approach used with UNIOCOOP and FACACH since PIL No. 29.

3. work only at the cooperative level in the event that the second level organization fails to qualify -- this approach has not been used yet but is effective in keeping the second level organizations motivated to perform well.

The strategy of simultaneously strengthening the affiliates and the second level organization increased the Project's efficiency tremendously, as the acceleration of activities and disbursements during the last year demonstrates. The Project could increase efficiency further by clearly defining: temporary Project implementation functions, permanent or sustainable functions of the FDF, and permanent or sustainable functions of UNIOCOOP. The most efficient system would be to house all temporary technical assistance and training functions within the FDF and dedicate resources to developing within UNIOCOOP only those functions that can reasonably be sustainable in the short run.

CONCLUSIONS

1. The Project has improved in efficiency and has greatly accelerated activities as a result.

2. One of the most important changes that increased efficiency was the strategy to work with affiliate and secondary level organizations simultaneously.

3. The Project retains much of the complexity that was necessary during start up, but which is inefficient at this stage of implementation, including:

   - too many players with policy or decision making roles; and

   - some remaining ambiguity as to the roles of UNIOCOOP and the FDF.

4. The technical assistance team has been very cost effective in working with the agricultural cooperatives during the initial stages of Project implementation, especially in the coffee sector.

5. The successful development of the FDF in the areas of basic administrative, operational and financial support means that the foreign long term technical assistance is no longer cost effective in those areas at this stage of implementation.

RECOMMENDATIONS

1. The organizational structure of the Project should be clarified to reduce and simplify the policy and decision making level.

2. The FDF should be given a clear set of objectives in terms of expected performance of the cooperative organizations and should be permitted to operate within clearly established guidelines to achieve those objectives.

3. The type of foreign technical assistance and its relationship to the FDF should be changed:

   - technical advisors with agribusiness skills and experience in the analysis and development of business investments are more needed; and

   - the advisors should operate more independently of the FDF and be responsible for specific output and performance in terms of the agribusiness opportunities that they identify and to help develop.

D. AGGREGATE IMPACT

FINDINGS

The Draft Impact Analysis makes several projections of potential aggregate impacts from the Project. These are done through a process of comparison of base year returns to the agricultural enterprises against future incremental increases in returns and estimating the percent of the incremental increase attributable to the Project. It is well beyond the scope of this report to verify the accuracy or reliability of those estimates. The critical stage in that type of analysis is the logical link between Project activities and incremental increases, that is, what is actually caused by the Project. The Draft Impact Analysis draws that link by estimating a percent of incremental increases.

For the purpose of designing a follow-on project, however, it might be useful to review the conditions that need to apply for any levels of aggregate impact to be obtained. Any aggregate impact will, of course, only be achieved if there is some impact at the base level cooperative that either introduces a cost saving efficiency into the system, increases the average market price of exported goods, or provides a service that would otherwise not be provided and that results in higher levels of production and employment.

Examples from the Project that were applied in the estimate of benefits include: cost savings in fertilizer through more efficient handling and distribution, cost savings in coffee processing through conversion to wood burning driers, increased production through provision of credit or supplies to farmers who would otherwise not receive them, higher average coffee prices achieved by higher quality and better negotiation, and cost savings and/or higher prices in melons due to better cooling and packing facilities. It is difficult to estimate, however, what the degree of impact in each case would be, or how much change is attributable to the Project.

An example of a high degree of impact would probably be the potential increase in coffee prices from the establishment of a system of marketing based on quality differentials. Such a system does not currently exist, and it is unlikely that it would be organized in Honduras without the participation of the cooperative sector (because of the large number of small farms). If the Project is successful in creating the conditions under which Honduran coffee can be traded based on premiums (or smaller discounts) for quality, the impact on direct participants in the form of increased export prices will be entirely attributable to the Project. Moreover, if the system is widespread enough, it could easily be expected to change the entire market for Honduran coffee, and the aggregate impact would be even greater.

The opposite extreme in terms of degree of impact might be the case of Fruta del Sol. The Project will have lent about L1.5 million in financial stabilization funds to Fruta del Sol with the impact of creating a stable cooperative that provides credit, supplies and marketing services to a small number of growers (currently 35) in the Comayagua valley. To determine the aggregate impact in that case, the question needs to be analyzed as to whether the growers would have alternative sources of credit and supplies if the cooperative closed. Given the number of competing supply stores, the answer is that they probably would have access to inputs. Since the policy of the cooperative is to work with the most credit worthy growers, they would also probably have access to some form of production credit. In the case of cucumber production, if they are good growers, they could undoubtedly work with a private company or directly with an exporter.

The best way to ensure that the benefit of financial stabilization is greater than its social cost would have been to make the loan at market rates of interest also assuring, as in the present case, that the value of the collateral is greater than the amount of the loan and that the FDF has a priority security interest in the collateral. The advantage of using market rates is that it makes the above type of analysis unnecessary. If the cooperative grows and prospers, the market place ensures that the social value is greater than the cost.

CONCLUSIONS

One weakness of the Project is that it has not done the type of analysis that would permit a better allocation of resources among cooperatives that would generate very different types and degrees of aggregate impacts.

RECOMMENDATIONS

More attention should be placed on analysis of the competitiveness of the cooperative in its current or potential markets. The more competitive the cooperative system is within the industry, the more likely the aggregate benefits will be greater. The acid test for the viability of investment alternatives would be to price both financial stabilization funds and credit at market rates of interest.

E. SUSTAINABILITY

FINDINGS

The same evidence of progress in improvements in administration, organization, management, operations and finances (cited above) is evidence of a move toward sustainability at the cooperative level. At least four cooperatives will arguably be sustainable without further Project assistance by next year -- Maya Occidental, COHORSIL, Olancho and Candelaria. COHORSIL was sustainable before the Project provided assistance, and the assistance only served to accelerate the development of the cooperative. The sustainability of four other cooperatives -- CREHSUL, Fruta, Lago de Yojoa and 20 de Marzo -- will not be established until more time has elapsed under the financial stabilization agreements.

AHPROCAFE and its subsidiary, DICOMCAFE, are self-sustaining organizations established on the philosophy of providing services that make business sense first and promoting social services as a separate cost activity. The Project has not yet had enough effect on FECORAH and ANACH to influence their sustainability.

UNIOCOOP remains the principal enigma as regards self-sufficiency and sustainability. The same evidence cited above serves to illustrate the situation. UNIOCOOP has developed a good and expanding network of affiliates. These would seem to offer a strong competitive position in the fertilizer and supply markets and a possibly competitive role in coffee marketing. The missing ingredient in achieving sustainability of UNIOCOOP services seems to be the ability and willingness of the new management to take a strong business oriented initiative, to break free of development project mentality, and to compete in those markets at a national level. UNIOCOOP supplies a large percentage of the value of inputs sold by affiliates. There are no cases of UNIOCOOP affiliates that rely solely on UNIOCOOP for supplies, nor would it be reasonable to expect that UNIOCOOP would find it cost effective to supply 100 percent of the needs of the cooperatives. The only sustainable basis for a business relationship between UNIOCOOP and its affiliates is if it makes economic sense for UNIOCOOP to act as a wholesaler of certain products. That decision will only be made by UNIOCOOP's owners and market, the affiliated cooperatives.

CONCLUSIONS

1. The Project's impact on the agricultural cooperatives has taken them a long way, but short of sustainability in several cases.

2. The Project's approach of working with AHPROCAFE and UNIOCOOP simultaneously increases the probability that a sustainable coffee export system will emerge from some combination of the two.

3. The sustainability of UNIOCOOP independent of its role as a recipient and transmitter of Project resources is still in a question, as is the level of dependency of affiliates on UNIOCOOP for their own survival.

RECOMMENDATIONS

The Project should analyze the number of potentially sustainable cooperatives that are not currently participating and review the selection strategy based on an analysis of the reasonable probability of achieving self-sufficiency.

Chapter IV

The Credit Union Sector

This chapter evaluates the support activities related to the credit union portion of the overall Project. It considers the relevance, effectiveness, efficiency, impact and sustainability of the Project results for credit unions, their federation and their members.

A. RELEVANCE

FINDINGS

The Project seeks to increase small farmer incomes through the strengthening of rural cooperative organizations so that they might better provide delivery of productive inputs such as seeds, fertilizer, credit, management skills and marketing services. The Project delivers institutional support investments (conditioned grants), financial stabilization (conditioned grants), and cooperative member and staff training. Cooperative participation in the institutional support and financial stabilization components of the Project is conditioned on the adoption of a series of management and policy reforms designed to improve the financial condition and management of the organization.

Credit unions provide essential financial services in rural Honduras and incorporate substantial numbers of small farmers among their members. Although credit unions do not specialize in production credit, in many communities they represent the only credit institution available to small farmers, so that support to these organizations clearly contributes to USAID's development plan which seeks to further broad-based sustainable growth. In the past, bi- and multi-lateral development agencies have directed production credit to small farmers through cooperatives and credit unions without giving necessary attention to the strengthening of these rural organizations' management systems and capabilities. As a result, many have suffered from high levels of loan delinquency, operating losses and, consequently, deteriorated images in local and financial communities.

The Project has correctly identified the primary development constraints facing credit unions: poor management skills and inadequate financial policies. To the Project's credit, it has provided no resources to credit unions for small farmer loans -- an important break from past program design. An effective savings mobilization program can raise sufficient resources in rural areas to finance productive activities without the need to turn to targeted credit.

To attack these two major development constraints, the Project has designed three components: institutional support investments, financial stabilization agreements, and training. Participation in the first two is conditioned on adopting necessary financial and management practices designed to improve credit union performance. The institutional support program provides grants to improve cooperative infrastructure, including computers, office equipment and furniture, lighted signs, office building remodeling and repair, publicity and some salary support for better management. It conditions these grants on the cooperative's fulfillment of pre-established operational goals such as increases in new members, in savings mobilization, in share capital, in loan portfolios, in equity reserves and in reserves held in FACACH, and decreases in delinquency rates, in addition to formal annual audits and participation in training activities. Besides addressing management and image deficiencies, these infrastructure investments correctly address another development constraint: credit unions' traditional reluctance to invest in fixed assets that can be highly productive.

The financial stabilization component seeks to improve credit union financial management and situations definitively by offering another conditioned grant once credit unions have demonstrated their willingness to undertake necessary reforms and have done so with the institutional support investments. This component is designed to offset accumulated bad loans, operating losses and inadequate equity reserves (reserves not distributed to members) with grants. These financial (accounting) reforms are designed to improve the credit union's financial ratios, allowing it to generate net profits more quickly to cover these losses than it could with normal income from operations.

The major emphasis in the Project on member and staff training in financial management, credit policy and general cooperative principles is to reinforce the policy changes obtained through the conditionality of the institutional support and financial stabilization components. The training is to provide long-term sustainability and continuity for these reforms, given the high level of rotation of different members through key cooperative committees and boards of directors, as well as high staff turnover. Should the training not become institutionalized, normally high turnover could undermine the Project's gains. Sustainability of the Project's results requires the establishment of a permanent, self-financing, training program.

Financial intermediaries that are not profitable do not inspire the confidence of potential clients and do not survive over time. Ultimately, the types of improvements undertaken with institutional support investments will not turn around a credit union's image if the bottom line does not improve. The biggest development constraint still remaining is that few in the Honduran cooperative movement actually view their activities through entrepreneurial eyes. The Project, its technical assistance team and the movement itself is very internally focused -- cleaning up past errors rather then looking aggressively for new 'business' opportunities in the financial sector which is in the process of dynamic and deep change.

Although the FDF team clearly understands that cooperatives must become profitable in order to survive in the long term, the Project emphasis has been fundamentally on 'cleaning house' rather than on improving the underlying business of financial intermediation. Better organization and professional management generate greater confidence in credit unions which is a prerequisite to improving profitability. Better organization and professional management can also generate higher costs (particularly in austere credit unions) and, unless these improvements are accompanied by a fundamental concern for improving credit union profitability, the bottom line may actually worsen. Perhaps this internal focus has been a necessary first step. However, the Project lacks the entrepreneurial focus that would help credit unions to understand their appropriate roles as competitive service providers to ensure their survival over the long run. The Project focus seems to be one of looking for systems that would minimize credit union failure, rather than looking for opportunities for credit unions to grow into a new and broader role within the Honduran financial sector.

CONCLUSIONS

The Project has correctly identified the primary development constraints facing credit unions -- poor management skills and inadequate financial policies.

Besides addressing management and image deficiencies, infrastructure investments correctly address another development constraint -- credit unions' traditional reluctance to invest in fixed assets that can be highly productive.

The financial stabilization component has improved credit union financial management and situation by offering a conditioned grant once credit unions have demonstrated their willingness to undertake necessary reforms and have done so with the institutional support investments.

The major emphasis in the Project on member and staff training in financial management, credit policy and general cooperative principles reinforces the policy changes obtained through the conditionality of the institutional support and financial stabilization components.

The Project lacks the entrepreneurial focus that would help credit unions understand their appropriate role in a wide open and competitive world and, over the long run, ensure their survival.

RECOMMENDATIONS

The Project has correctly identified the primary development constraints affecting small farmer access to credit through the credit union movement and has designed an effective program to reach its primary objective. Thus, any follow-on project should retain the major program components largely unchanged. Some changes in the design of these components to improve their effectiveness will be suggested later.

A follow-on project should give greater emphasis to the profitability indicators within the CAMEL financial evaluation system. Without making fundamental changes in project design, a follow-on project can make a fundamental change in the message it gives to participating credit unions. The basic objective of this Project is not just to make bigger and 'better' credit unions, it is to make more profitable credit unions. Profitability is the key to sustainability, whether this be achieved through net revenue maximization or cost minimization strategies. This message is not present in current Project documentation, support agreements or training materials and should be a key rationale underlying all of the Project's activities.

B. IMPACT

FINDINGS

Strengthening of Credit Unions

Unquestionab.y, the credit union movement in Honduras has grown considerably during the life of the Project, more than doubling n size (see Table IV-1). As a movement, credit unions have increased their share of M2 (cash in the hands of the public and demand deposits, plus time and savings deposits at regulated financial institutions) from 5.6 percent in 1986 to over 8 percent in 1991 (See Impact Analysis: Honduras, SCI, 1991).

Table IV-1

AVERAGE ANNUAL GROWTH RATES OF ALL HONDURAN CREDIT UNIONS
(in percents)

INDICATOR	AVERAGE 1970-86	AVERAGE 1986-88	AVERAGE 1988-91
MEMBERS	3.8	16.4	14.0
SHARE CAPITAL	12.4	23.0	24.9
DEPOSITS	18.2	26.0	28.9
LOANS	12.5	23.3	23.7

Field visits to credit unions revealed significant improvements in credit union appearance, management and management systems and morale, and this substantiated the veracity of the improved credit union financial indicators. If anything, credit unions visited expressed a healthy concern about the risks inherent in their recent growth, and all were seeking further assistance from the FDF for improving management systems, especially computerized information systems, and further management training. All were experiencing fundamental changes in management, boards of directors and key committees. Most were opening branch offices and entering heretofore unexplored markets. Both the subjective and objective evaluations point to a movement that is growing strongly and sustainably, though not without risks (see Table IV-2).

Table IV-2

GROWTH OF CREDIT UNIONS DURING THE LIFE OF THE PROJECT

INDICATOR	DECEMBER 1988	DECEMBER 1991	PERCENT CHANGE
LOANS	5,523	13,087	137
TOTAL ASSETS	6,592	15,602	137
SAVINGS DEPOSITS	1,072	3,077	186
TIME DEPOSITS	454	902	98
DEPOSIT/ASSETS	.21	.25	18
SHARE CAPITAL	4,347	9,683	123
SHARE/ASSETS	.67	.59	-12
CAPITAL RESERVES	195	513	162
RETAINED EARNING	63	356	465
EQUITY	4,606	10,584	130
TOTAL INCOME	794	1,674	111
OPERATING EXPENSES	284	472	66
TOTAL EXPENSE	662	1,320	99
NET INCOME	132	348	163
AT RISK LOANS	26 %	17 %	-36
DELINQUENT PAYMENTS	13 %	8 %	-40
SELF SUFFICIENCY	118 %	133 %	12
RETURN ON ASSETS	1.5 %	2.0 %	35
RETURN ON EQUITY	2.1 %	3.1 %	48

The Project has unquestionably played an important role in producing both the quantifiable and qualitative changes observed during the evaluation. Nonetheless, selectivity bias makes it difficult to measure the precise degree to which the Project has contributed to this success. The start-up date of the Project (Project agreement date) does not necessarily indicate the start-up of effective service delivery. In fact, the Project was rather slow to get started due to the initial discussions about the specific vehicle for transferring funds. For measuring impact, no real control group exists since some features of the program such as generic radio and newspaper advertising benefitted even those credit unions that were not ostensibly participating in the Project. Other vital Project activities such as training were openly offered to all credit unions, whether or not they participated formally with the FDF in the credit union strengthening portion.

The accounting practices used by the Project do not allow the financial support received by credit unions to be backed out of their balance sheets and income statements in order to determine to what extent credit unions have actually improved their performance, measured in profitability and abstracting from the direct accounting effects from the stabilization agreements. This task can be done, but it would require reconstructing the accounting reports for the past four years for each credit union.

The first credit unions chosen to participate in the Project were a substantially weaker group of credit unions than the later participants and the non-participants. Therefore, it is not surprising to find that these credit unions, although they improved their financial performance, did less well than other participants.

Although credit union performance has unquestionably improved, it is not clear that credit union leadership and staff have internalized the management practices necessary to administer this growth effectively. Credit union managers are aware of the financial indicators being monitored by the FDF in their support agreements, but the impression is that they do not yet really understand the utility of these indicators or how to interpret them. Nevertheless, all credit managers interviewed had been tracking these indicators and were clearly taking them seriously as performance measures.

The Project attempted to rescue three or four credit unions that it probably should not have included: Rio Grande, Juticalpa, San Juancito and El Negrito. All four were probably too weak and should have been liquidated or merged with stronger neighboring credit unions. However, the amount of resources devoted to these credit unions (L 156,524) is relatively small within the context of the entire Project. These credit unions are being considered for continuing assistance through the financial stabilization portion of the Project, in part because Project staff feels committed since these credit unions were originally included and appear to have made a sincere effort to improve by implementing the recommended policy changes. The Project should consider providing continued management subsidies before granting financial stabilization funds to these credit unions.

Strengthening of FACACH

Deep and important reforms have been made in FACACH over the three year life of the Project.

FACACH 1987	FACACH 1991
Diverse activities (e.g., finance, insurance, agriculture)	Specialization in financial intermediation
Development strategy based on external funds	Strategy of self reliance through service provision
Dependent on subsidies	Seeking self-sufficiency
Illiquid	Sufficient liquidity

Operating at a loss	Profitable
Bankrupt (share -0.98)	Positive equity (share 0.38)
Bloated staff (96 positions)	Restructured and reduced staff (25 positions)
Negative spread on financial intermediation	Positive spread on financial intermediation
General manager and board out of touch with members	Renewed board and management more responsive to members

The last twenty years have been characterized by piecemeal subsidies from international agencies to FACACH. These subsidies came in the form of below market interest rate loans on the one hand and operational subsidies on the other hand. Often this was done in the interest of efficiently reaching credit unions that would have an effect on certain targeted populations. At their best, these efforts reached the credit unions. At their worst, the efforts led to directed lines of credit that weakened, sometimes fatally, the 'beneficiary' credit unions. In all cases, the results came at the cost of stunting the development of a sound business relationship between the credit unions and their federation, FACACH.

The Project systematically addressed FACACH's problems: governance, strategic focus, operating efficiency, financial weaknesses, and image/confidence, concluding in a one-time bailout, rather than a continuation of past piecemeal efforts that would have further distorted expectations and behavior without addressing the underlying problem of the economic relationship between FACACH and its member credit unions. Originally, the FDF intended to bail out FACACH through direct investments and agreements. Fortunately for the Project, the FDF was not legally allowed to do this and was forced to seek an alternative strategy through FACACH's membership (its owners) for a solution to FACACH's fundamental problems. This is the most fortunate, probably unexpected, outcome of the Project in the credit union sector. Given the breach between FACACH and its membership, FACACH's almost total dependence on external funds for its survival, and its loss of direction epitomized by its forays into the agricultural sector, the best thing that could have happened to FACACH was to have to return to its roots for its survival.

Although the changes seem deep and permanent, many of the staff involved with the Project expressed private doubts about the sincerity of the attitude changes. They are not convinced that FACACH truly believes that its future lies with services it provides to its membership or that it will have to be self sufficient. Nevertheless, all recognize that FACACH has made substantial progress and that no hard evidence of backsliding exists. In any case, the extent that FACACH actually depends on its membership for its survival, and not on the FDF or USAID, reinforces the positive changes already made through the Project.

FACACH must work hard to establish its credibility as a competitive service provider to its members. Currently, many of the credit unions interviewed were critical of FACACH's services. They found the insurance scheme expensive, and two were actively thinking about providing the service themselves directly to their members. Most found FACACH's training and technical assistance of marginal utility, much less satisfactory than the activities offered directly by the FDF. All complained about the low rates of interest paid by FACACH and the time for effecting withdrawals (about three days). Most were willing to withhold judgement on FACACH's ability to offer cost-effective services and expressed willingness to use FACACH's services unless clearly preferable options were available.

Impact on Farmer Members of Credit Unions

A 1991 WOCCU assessment of Project results indicated that about 7 percent of total credit unions loans are used for agricultural purposes, whereas over 40 percent are used for commerce and small industry. Using loan portfolio rotation rates, WOCCU calculates that, between mid 1987 and the end of 1990, 1,100 loans totalling L 6.1 million were made for agricultural purposes and about 6,500 loans totalling L 34.7 million for small industry and commerce. Credit unions do not generally track the proposed end use of the loans they make, so that the Project evaluation team could not come up with a better estimate given the scope of work and the time allotment.

Impact from Training of Credit Union Managers and Members

The FDF has undertaken an important credit union training program both directly and through FACACH. The Project goals were to train 30 officials from cooperatives in the techniques of institutional support and financial stabilization. In fact, the Project has offered training to 3,245 participants in courses that include the staffs of most credit unions in Honduras. The courses covered such subjects as financial analysis, spread sheets, training of trainers, sales, cooperative education, interest rates, credit and collections, internal administrative controls, savings mobilization, basic accounting, information systems, financial planning and other related areas. Most credit unions expressed the opinion that the most important features of the FDF support program were the training and technical assistance activities. They clearly indicated the tremendous relevance of the FDF training activities.

External Factors Impeding or Facilitating Project Performance

The overall liberalization of financial markets in Honduras, the drying up of subsidized credit and the overall climate throughout the world of letting market forces work out even distributional problems have undoubtedly created a favorable environment for the policies addressed in the Project. The poor performance of the formal financial sector in reaching small clients has probably been an important factor in the recent growth of the credit union movement. Recent increases in interest rates throughout the financial sector have undoubtably made more palatable the increases in interest rates in the cooperative movement. Inflation has eroded the value of the credit union assets, but it has also eroded the value of the entire financial sector that has not fully incorporated inflation into its accounting and interest rate policies. Since inflation is apparently being reduced to historical levels, the loss potentially represents a one-time event. Other than the generally favorable policy climate within which the Project operated, no significant external factors were identified that impeded or assisted the Project in important ways.

Actions That Could Have Improved the Project

The evaluation team saw no important actions that should have been taken but were not, with the exception of the decision to locate the FDF within FACACH. That unfortunate decision only served to suggest to FACACH that it could continue to maintain itself on the basis of responding to external donors rather than its membership. This decision ran counter to the sustainability of the Project's results and reinforced the subsidy-seeking behavior that has characterized FACACH virtually from its inception. Even if the Project had to be placed within the FACACH, the Project design should not have reinforced FACACH's dependency. If, in order to accept hosting the Project, FACACH needed to receive substantial subsidies, then the Project should not have been placed in FACACH. This decision was discussed and evaluated amply in the interim evaluation and bears no further discussion here.

Has the Creation of the FDF Been an Effective Strategy?

Certainly the creation of the FDF, instead of placing a technical assistance team within FACACH, has been a critical element for the Project's success. It has placed credit union support above credit union politics. The Project would have failed miserably had it fallen into the hands of prior FACACH management, as have other prior support programs.

One of the key factors in the success of the FDF has been the team it has assembled and the leadership provided by its technical assistance staff. All the Project leadership have strong financial backgrounds. The technical assistance staff are all extremely well qualified and have extensive experience in the field. More important than even qualifications is the high degree of communication and human relations skills present in the FDF, the technical support staff and USAID Project officials. This has made for an excellent working environment where, in frequent meetings, strategies are discussed, revised and evaluated. Although there are policy disagreements within the Project staff, the conflict resolution mechanisms appear to be effective since the Project has maintained its guiding principles since the beginning.

The FDF is as good a cooperative support organization as any yet seen in Latin America. It is highly professional, well organized, motivated and effective. It has an excellent relationship with the credit union movement. The professionals who work in the FDF are well respected by the credit union movement, and their advice is taken seriously. The field visits to the credit unions revealed the esteem with which the FDF is held. Its credibility is certainly higher than that of any of the other cooperative institutions, including IDHECOOP and FACACH. The impression is that the FDF has been responsive to the needs of the credit unions, including training, resources and technical assistance.

CONCLUSIONS

The Project has unquestionably played an important role in producing both the quantifiable and qualitative changes observed during the evaluation.

Field visits to credit unions revealed significant improvements in credit union appearance, management, management systems and morale and substantiated the veracity of the improved credit union financial indicators.

The credit union movement in Honduras has grown considerably during the life of the Project, more than doubling in size.

Most credit unions expressed the opinion that the most important features of the FDF support program were the training and technical assistance activities.

Deep and important reforms have been made in FACACH over the three year life of the Project.

The Project team saw no important actions that should have been taken but were not with the exception of the decision to locate the FDF within FACACH.

The creation of the FDF, instead of placing a technical assistance team within FACACH, has certainly been a critical element for the Project's success.

RECOMMENDATIONS

When evaluating credit union financial performance, more emphasis needs to be placed on the profitability indicators mentioned in the interim evaluation but not really utilized in practice by the Project. These include return on assets, return on equity (share capital, reserves and retained earnings), self sufficiency, operating expenses relative to loan portfolios, and operating expenses compared to productive assets. These ratios should all be analyzed after subtracting the income transfers related to the Project to monitor credit unions' real progress toward the financial goal of self-sufficiency. Less emphasis should be placed on growth to measure Project impact. Training materials should more explicitly convey the vital message about the business and entrepreneurial nature of credit unions and how to understand whether or not credit unions are performing well from a business perspective.

Any follow-on project should straightforwardly include all open Honduran credit unions. The current Project has undoubtedly strengthened even the urban credit unions through its generic advertising, informal technical assistance and training. To the extent that the entire movement's financial performance improves (the urban credit unions are the largest and potentially the most influential), the performance of the rural credit unions will improve. When the FDF works through FACACH, it works with all FACACH members, so that no purpose is served by excluding some credit unions because they are not rural. In number, only four or five of the open credit unions are fundamentally urban, located in the two major metropolitan areas.

C. EFFICIENCY

FINDINGS

Has Simultaneous Strengthening of the First and Second Levels Been More Efficient than Sequential Design?

The willingness of the FDF to work directly with individual credit unions has provided it with credibility with credit unions and leverage with FACACH, thereby avoiding the fatal design flaw of most preceding projects that worked top down through FACACH. FACACH ought to depend on its members for its livelihood. International support agencies have given FACACH a life of its own and have largely been responsible for the fact that FACACH had become divorced from and unresponsive to its members. FACACH can only become truly strong to the degree that its members have confidence in it and support its activities. The Project has conditioned its support to credit unions on their renewed support for FACACH. Given that the FDF has encouraged credit unions to make necessary adjustments in FACACH's board of directors and management, credit unions have been willing to invest in their federation. At this point, both the individual credit unions and FACACH have made substantial progress. The entire credit union movement is ready to take significant strides forward in terms of professional financial management. This progress would have been impossible had the Project kept to the traditional design of working through FACACH to get to the credit unions.

Cost Effectiveness of Technical Assistance to the FDF and to the First and Second Levels

All credit unions interviewed indicated training and technical assistance support features of the Project to be the most helpful, even more than the direct income transfers. The most cost effective component of the entire Project with relation to the credit union movement has probably been the technical support provided to the credit unions, although there is no quick way to determine this with certainty. There is no accurate way to separate out the costs of technical assistance to FACACH as compared to the technical assistance provided to the individual credit unions or to the FDF. The Project has spent approximately $1.2 million on technical assistance to the credit union sector over the five-year life of the Project (see Table IV-3). The $1.2 million investment has probably produced the bulk of the Project's impact, coupled with the somewhat larger direct income transfers. If the basis for calculating the cost-benefit ratio were these two line items, the Project would undoubtably come out very positively. If, however, the cost-benefit analysis were to factor in the opportunity cost for the 'investments' portion of the $38 million set aside for the Project, the outcome would clearly be less favorable.

CONCLUSIONS

At this point both the individual credit unions and FACACH have made substantial progress toward professional financial management which would have been impossible had the Project kept to the traditional design of working through FACACH to get to the credit unions.

The most cost effective component of the entire Project with relation to the credit union movement has been the technical support provided, especially to the credit unions.

RECOMMENDATIONS

In general, operating support for FACACH should be eliminated from any follow-on project. This is the only way that FACACH will understand that it must look to its membership for its long-term survival. The only direct support that should be given to FACACH should be technical assistance in the area of how to provide financial services to its members such as a possible central liquidity facility or insurance schemes. This support should be

Table IV-3

THE FDF'S OPERATING EXPENSES FOR THE CREDIT UNION SECTOR
(Lempiras)

YEAR	TOTAL EXPENSES	PERCENT C.U.'S	ANNUAL C.U.'S	ACCUMULATED C.U. EXPENSES	IN U.S.$
1987	200,408	70	140,286	140,286	70,143
1988	540,001	50	270,001	410,286	135,000
1989	935,250	40	374,100	784,386	187,050
1990	1,437,319	30	431,196	1,215,582	95,821
1991 (NOV)	1,561,719	30	468,516	1,684,098	86,762
TOTAL	4,674,697	36	1,684,098		574,776

ESTIMATED EXPENSES FOR EXTERNAL ASSISTANCE FOR CREDIT UNION SECTOR
MARCH 1987 – DECEMBER 1991
(U.S.$)

Resident Consultant	270,000
Short-Term Consultants	50,000
Training Consultants	100,000
Project Assistance	150,000
TOTAL	570,000

in the form of short-term consultants, not direct operating subsidies.

If the FDF seeks to subsidize training activities, then it should provide funds to individual credit unions and let them seek their own training provider. This would force FACACH to provide a program that would more nearly respond to the credit unions' felt needs. The FDF can control the content and method of the training to ensure overall quality.

Further support to credit unions should not be tied to renewing their support for FACACH. FACACH must realize that it must establish services for member credit unions for which FACACH has a competitive advantage. Up to now, credit unions have been extraordinarily patient with FACACH, but as they grow in size and sophistication they are becoming more demanding consumers and expect more from FACACH. The bulk of the continuing support provided to FACACH in any follow-on project should be to help FACACH become a competitive service provider. Under no conditions should FACACH be financially bailed out a second time.

D. EFFECTIVENESS

FINDINGS

The following section focuses on the relative effectiveness of each of the Project components in strengthening and stabilizing both the credit unions and FACACH. It was impossible to separate the relative impact of each component statistically due to selectivity bias and the mix of services offered by the Project to individual credit unions, so that the evaluation must rest on subjective, qualitative criteria.

Credit Unions

Analysis of Key Issues (Diagnostic)

The FDF prepares a very high quality analysis of targeted credit unions. It is comprehensive and details in an objective way the financial situation of the credit union. It classifies, after a review of each individual loan, the portfolio quality and recommends estimated loan losses to be written off and the amount of provisions to be established for loan losses, the amount of accumulated operating losses, and the amount required to raise capital reserves to the 7 percent targeted level.

Commitment to Business Plan

The business plan developed with the credit union adequately addresses the primary administrative and financial weaknesses. Credit union adherence to the business plans seems very high, particularly since disbursements of institutional support investments and financial stabilization funds would be held up in the event of non-compliance.

Computerization of Information Systems

The area where the Project has encountered most difficulties and delays in achieving its objectives with the credit union system has been computerized information systems. Three years after first addressing the issue, and after the expenditure of considerable financial and human resources, there is no approved computer program for the credit union system. Credit unions continue to administer their growing loan portfolios with manual recording methods that do not allow for timely analysis of late payments. As a result, late payment rates are increasing in some of the credit unions and adequate accounting systems do not exist. The only tool the FDF has provided are a few Lotus spreadsheets that are useful for relatively minor administrative activities. At the startup of the computer activity, the Project encountered a confused situation in FACACH and those credit unions that were already purchasing computer hardware and software. The first purchase was often hardware, followed by a cursory consideration of the software appropriate for user needs.

Project personnel stated that the reasons for the slow startup centered on the following:

- the strategy of having a standard accounting system for all credit unions took time to develop and even more time for the credit unions, FACACH and the FDF to agree on;

- the process of first conducting a needs assessment with credit union and FACACH personnel to assure that the specifications for software were clearly defined took time;

- fulfilling USAID requirements for this type of purchase, including clearance from Washington, took more time;

- software provider selection took time;

- poor initial selection of the management information systems specialist on the WOCCU team caused further delays; and

- testing and rejecting of software packages which later, correctly, were found to be inadequate took excessive time

The evaluation team, while recognizing that substantial effort and resources have been expended on the computerization of credit union management information systems, concluded that excessive emphasis had been placed on process and consensus, rather than on obtaining simple to sell, verifiable and concrete results. While respectful of the difficulty that laymen have in supervising management information systems and their implementation, the Project's strategy seems to have been a case of overkill. The Project needs no real consensus on standard accounting procedures to program a simple cost accounting package. Most packages already commercially available in Honduras would allow the credit unions to program their own accounting systems. All credit unions should manage their portfolios in basically the same fashion. Providing delinquency measures, loan due dates and other loan management tools does not require too extensive a consensus process. Perhaps the availability of a computer program would actually encourage consensus.

Do the Institutional Strengthening Plans Address the Issues Identified?

The institutional strengthening plans addressed by the institutional support investment component respond well to the needs detailed in the business plan. In fact, one of the best components of the entire Project is the investment portion. Credit unions traditionally fail to invest in even basic infrastructure and so, through this relatively straightforward mechanism, credit unions make substantial changes in their service capabilities and images for what amounts to a relatively small disbursement from the Project. The field visits verified that indeed these changes have occurred at the credit union level and certainly can be considered key to the positive image many credit unions have generated in their communities.

Do Financial Stabilization Plans Address Fundamental Financial Weaknesses and Help to Develop Plans for Capitalization Needs?

A financial stabilization fund is essentially a 'business risk' insurance policy. It insures each policy holder against random events that can upset fundamental financial equilibria. Insurance policies are based on the statistical probability that such an event will occur, and premiums are based on the ultimate cost (or coverage purchased) of that event. As the likelihood of occurrence (or the cost of the insured-against event) increases, premiums increase. For the same reason that one would not write a cheap comprehensive health insurance policy to be sold only to terminally ill cancer patients, one cannot design a stabilization fund to be targeted only at basically unhealthy credit unions, unless such a fund were to receive a large, permanent external subsidy and not be premium based. Before a premium-based fund could work, the credit union movement would need to become profitable.

Project documentation and personnel interviewed referred to the Project's stabilization fund as a 'mini IMF' approach. The IMF, or any other stabilization fund, provides low cost, long term financing on either the assets or liabilities side of the balance sheet, which allows temporarily weakened institutions to restructure their obligations, increase their revenues, or otherwise generate the necessary cash flows to solve their specific problems. These stabilization resources are then returned to the fund. In return for access to these resources, the institution agrees to undertake a series of financial policy reforms designed to improve performance. These policy reforms are painful, so that institutions are reluctant to recur to this option.

Although the conditionality of the Project's stabilization fund resembles that of normal funds, its financial mechanisms do not. The fund strengthens qualifying credit unions by providing a direct grant in an amount equal to uncovered bad loans, accumulated operating losses, and necessary reserves to bring total capital reserves up to 7 percent of total assets. Payments are made periodically based on the return on bonds purchased on the credit union's behalf by the FDF and conditioned on continuing to meet the stabilization agreement requirements. These donations are entered directly onto the credit union's balance sheet without passing through its income statement. The Project's stabilization fund as designed is not really a stabilization fund but rather a bailout program through direct income transfers rather than a restructuring of either assets or liabilities. As such (a bailout program through direct transfers), it has been an effective component of the overall credit union support program. Unquestionably, participating credit unions are improving their financial management practices as a result of the carrot and stick approach utilized. This component, as structured and not as named, is potentially one of the most interesting and may have the most long-lasting effect of any of the Project's components.

Nonetheless, there are two fundamental problems with this mechanism as designed. First and most important is the fact that this mechanism rewards past failure, not past success. Although Project officials insist that this bailout opportunity would be offered only on a one-time basis, past development history shows that such intentions are hard to keep in the long run. In general, the credit union managers interviewed understood the one-time nature of the agreements, but nevertheless a few managers viewed the fund as a sort of guarantee fund to which they could charge bad debts. The second fundamental problem with the stabilization fund as designed is its lack of transparency at the credit union level. The bailout is essentially hidden from credit union members through accounting practices that are not within generally accepted norms. In particular, donations are not passed through the profit and loss statement (except for that portion referring to some operating subsidies), nor are the considerable write-offs for bad loans and accumulated operating losses. The stabilization funds are simply registered as balance sheet adjustments. Without access to the underlying daily ledgers, it is not possible to know what the write offs were from the financial information provided by credit unions.

Credit union management and the FDF keep clear accounting records. Fraud is not an issue, nor is there any doubt about the basis for calculating the degree of support, who received the funds, or what was done with them. The Project's effect has been hidden from the general public and potentially from credit union membership. This lack of transparency makes it impossible to determine quickly the real financial performance of credit unions and hides poor management from credit union members. It is a bit ironic that the Project used the transparency issue to force the necessary changes at FACACH and yet, for understandable reasons, is inconsistent with this policy at the credit union level.

Project staff expressed their fears that credit union members would not understand the generally accepted accounting adjustments and that large write offs would cause a crisis of confidence within the membership. On the other hand, the FDF officials and some credit union managers insisted that credit union boards of directors had explained clearly the stabilization fund agreements and accounting adjustments to their credit union general assemblies. To the extent that the Project's accounting practices may have hidden poor prior management from credit union owners themselves, the Project may have missed an opportunity to teach the owners and managers about healthy financial policies. A better strategy might have been to act in the same fashion as with FACACH – to be more forthright with members and to be available to support them as they work through the implications of poor prior performance.

WOCCU proposes that credit union capital reserves be arbitrarily raised to 10 percent of total assets. These capital reserves are not distributed to members, nor are they related to any specific risk. Project advisors justify the creation and increases in these reserves as a means of protecting the value of members' share capital should the credit union suffer a bad year. In principle, reserves should be created to cover specific, measurable and probable types of risks such as exchange rate risk, bad loan provisions, severance pay obligations, etc. Only later could reserves be created to cover general business risk. Current reserve levels in the credit union movement do not adequately cover specific identifiable risks and so, essentially, the Project's 10 percent goal is reasonable. Although commonly accepted practices in the United States and Canada allow for the creation of an undistributed capital reserve, a reserve for general business risk reduces the accountability of credit union management to its member/owners and may thereby hurt long-run financial performance. Many credit union members are university educated (e.g., teachers, professionals, public servants), and they and many other members are perfectly able to understand whether or not their credit union is performing well.

FACACH

Analysis of Key Issues

The FDF has been keenly aware of FACACH's fundamental problems from the outset, although it probably underestimated the key obstacle to change represented by ingrained FACACH management. Nevertheless, the FDF did appropriately identify FACACH's unprofitable agricultural activities, bloated staff, poor service quality, inadequate financial management, dependence on external funding and lack of credibility with its member organizations as the key problem areas.

Commitment to Business Plan

The process of negotiating a satisfactory business plan with FACACH and getting FACACH to commit to it was, by all accounts, a long, arduous and not entirely satisfactory one. Only recently has FDF staff felt reasonably comfortable with FACACH's attitude toward the stabilization program. FACACH's prior experience with donor agencies taught it about donors' agendas and gave it the necessary skills to bargain hard for what it perceived to be in its own best interest, essentially from its perspective as a subsidy seeker. At this point, FACACH's current board of directors and management display a complete openness to the FDF and the financial and management policies recommended as part of the stabilization plan.

Financial stabilization and institutional investment plans address an organization's fundamental financial weaknesses and develop a plan for its capitalization needs. The financial stabilization plan ultimately settled on for FACACH does provide as realistic and feasible a plan as could be designed. By channeling the resources through member credit unions, the FDF has brought the real owners of FACACH back into the management of their federation which, as stated earlier, is probably FACACH's only long-term hope of survival. Tables IV-4 and IV-5 illustrate the key balance sheet accounts for the stabilized FACACH, reflecting the final stabilization agreement worked out this past year and agreed to by FACACH's general assembly. The stabilization program has sought to bring the value of members' share capital up to its original level and to amortize the additional bailout investment by members through the revenue generated by the bonds bought in FACACH's name plus any operating subsidy that may result from FACACH's restructured activities.

Preliminary results from 1991 indicate that FACACH should realize close to a L 600,000 profit. This is far better than expected in the 1991 business plan due to a higher return on investments, strict cost control and a higher then expected return on insurance activities. Although these profits may be reduced by final adjustments to bring certain reserves up to contracted levels, FACACH is clearly on a financially sound path to recovery. The biggest threat to FACACH's long-term financial stability is that FACACH does not understand its essential role as a competitive service provider to members. Should it continue to rely on cooperative loyalty as the key attraction for members to purchase its services, FACACH will not develop the necessary volume and quality of services to be profitable. FACACH ought to be able to identify within the financial sector several services it could develop and market to its members, services for which it has a comparative advantage. In that sense, the financial stabilization program may

Table IV-4

COMBINED FINANCIAL STATEMENT
PRODAIF/FACACH
(IN THOUSANDS OF LEMPIRAS)

ASSETS	6/30/88	DECREASES DEBIT CREDIT	TRIAL BALANCE
CASH AND DEPOSITS	1,100.5		1,100.5
TIME DEPOSITS	1,317.5		1,317.5
ACCOUNTS RECEIVABLE	1,995.6	1,365.9	629.7
NOTES RECEIVABLE	2,286.8	1,503.4	783.4
LOANS OUTSTANDING	6,375.0	3,726.0	2,649.0
INVENTORIES	1,890.5		1,890.5
TOTAL LIQUID ASSETS	14,965.9	6,595.3	8,370.6
FIXED ASSETS (NET)	3,279.0		3,279.0
INVESTMENTS	834.8		834.8
OTHER ASSETS (PRODAIF)	526.7	526.7	
TOTAL NON-LIQUID ASSETS	4,640.5	526.7	4,113.8
TOTAL ASSETS	19,606.4	7,122.0	12,484.4
LIABILITIES			
NOTES PAYABLE	3,428.6		3,428.6
ACCOUNTS PAYABLE	822.5		822.5
TIME DEPOSITS	1,195.4		1,195.4
SAVINGS DEPOSITS	17.2		17.2
OTHER CURR. LIABILITIES	392.5		392.5
TOTAL CURR. LIABILITIES	5,856.2		5,856.2
NOTES PAYABLE	7,853.4		7,853.4
ACCRUED INSURANCE EXP.	1,496.1		1,496.1
OTHER LIABILITIES	339.3		339.3
TOTAL LIABILITIES	15,545.0		15,545.0
CAPITAL			
CAPITAL CONTRIBUTIONS	3,233.1	2,443.5	789.6
CAPITAL RESERVES	66.2	66.2	
DONATIONS	4,588.3	4,588.3	
REVALUATION OF ASSETS	24.0	24.0	
ACCUM. OPERATING LOSSES	(3,850.2)		(3,850.2)
TOTAL CAPITAL	4,061.4	7,122.0	(3,060.6)
TOTAL LIAB. AND CAPITAL	19,606.6	7,122.0	12,484.4

Table IV-5

COMBINED FINANCIAL STATEMENT
PRODAIF/FACACH
(IN THOUSANDS OF LEMPIRAS)

ASSETS	TRIAL BALANCE	INCREASES DEBIT	CREDIT	NEW BALANCE
CASH AND DEPOSITS	1,100.5			1,100.5
TIME DEPOSITS	1,317.5			1,317.5
ACCOUNTS RECEIVABLE	629.7			629.7
NOTES RECEIVABLE	783.4			783.4
LOANS OUTSTANDING	2,649.0	7,122.0	9,771.0	
INVENTORIES	1,890.5			1,890.5
TOTAL LIQUID ASSETS	8,370.6	7,122.0	15,492.6	
FIXED ASSETS (NET)	3,279.0			3,270.0
INVESTMENTS	834.8			834.0
OTHER ASSETS				
TOTAL NON-LIQUID ASSETS	4,113.8			4,113.8
TOTAL ASSETS	12,484.4			19,606.4
LIABILITIES				
NOTES PAYABLE	3,428.6			3,428.6
ACCOUNTS PAYABLE	822.5			822.5
TIME DEPOSITS	1,195.4			1,195.4
SAVINGS DEPOSITS	17.2			17.2
OTHER CURR. LIABILITIES	392.5			392.5
TOTAL CURR. LIABILITIES	5,856.2			5,956.2
NOTES PAYABLE	7,853.4			7,853.4
ACCRUED INSURANCE EXP.	1,496.1			1,496.1
OTHER LIABILITIES	339.3			393.3
TOTAL LIABILITIES	15,545.0			15,545.0
CAPITAL				
CAPITAL CONTRIBUTIONS	789.6			789.6
DONATIONS			7,122.0	7,122.0
ACCUM. OPERATING LOSSES	(3,850.2)			(3,850.2)
TOTAL CAPITAL	(3,060.6)		7,122.0	4,061.4
TOTAL LIAB. AND CAPITAL	12,484.4			19,606.4

actually hinder FACACH's learning process at some point because of the substantial long-term subsidy involved.

CONCLUSIONS

The FDF prepares a high quality analysis of targeted credit unions, and the business plan developed with the credit union adequately addresses the primary administrative and financial weaknesses.

The institutional strengthening plans, addressed by the institutional support investment component, respond well to the needs detailed in the business plans.

The management practices and financial goals sought by the financial stabilization component are fundamentally correct, but the accounting practices and adjustments made as part of this program are not.

Computerized information systems has been the area where the FDF has executed most poorly.

The FDF has been keenly aware of FACACH's fundamental problems from the outset.

FACACH's current board of directors and management have displayed complete openness to the FDF and the financial and management policies the FDF is recommending as part of the stabilization plan.

The financial stabilization plan ultimately settled on for FACACH is realistic and feasible.

RECOMMENDATIONS

Credit Unions

Close the current program of financial stabilization with great fanfare to make clear that the bailout phase is over once all 42 credit unions have been evaluated for their eventual participation. No credit union should receive more than one financial stabilization agreement.

Provide credit unions with management technical assistance, training, advice on new business opportunities, infrastructure support, publicity, central liquidity facilities and good external audits.

Strengthen the use and understanding among credit union staff of CAMEL indicators of financial performance, especially those related to profitability. Relative performance of each credit union measured by CAMEL indicators might be shared with all other credit unions to promote a positive sense of competition.

Base any follow-on project on transparency in dealings with credit unions and their members. Credit union sustainability will depend not on isolating membership from management but on membership's understanding management problems and becoming part of the solution.

Push hard to implement current software within the next few months. If that becomes hung up for technical reasons, the Project should invest in further external technical assistance and change its software development strategy to a locally programmed and supported, step by step approach, building an integrated program, component by component (i.e., first develop a loan management system, then savings account, share capital account, depreciation and salary systems).

Maintain, or even increase, the institutional support investment component and broaden conditionality to include financial reforms sought by the financial stabilization component to be eliminated. Reduce operating expense subsidies over time, and concentrate on infrastructure and one-time expenses.

FACACH

The current stabilization agreement with FACACH runs for ten years. No further stabilization agreements should be entered into. The FDF should remain firm on FACACH's adherence to the terms of the current agreement and continue to require quarterly reports on the status of key financial indicators until the agreement has concluded.

The Project should provide institutional investment funds on a limited basis and only for the types of technical assistance already mentioned -- to help FACACH develop profitable financial services for its members. This technical assistance should be provided by external firms to avoid the implicit operating subsidy of providing for this activity in-house.

At some later date, the FDF may wish to provide a critical operating subsidy for the first few start-up months of a new financial service and should leave that possibility open. This should represent an additional staff position for a new service.

The Project may also wish to provide initial supplementary funding in order to recruit a top rate general manager for FACACH with the requisite banking skills. The Project should finance this position only for a relatively short period of time (less than one year) until this manager develops the necessary profitable activities that would cover his salary.

E. SUSTAINABILITY

FINDINGS

Has the Project Led to More Sustainable Cooperatives and to Lasting Effects After the Project Ends?

The key to sustainability is long-run profitability, although the other four areas of financial performance measured by the CAMEL system are also critical to attaining positive returns. The way the Project's resources are injected into credit union financial statements complicates Project financial evaluation immensely. The evaluator would have to reconstruct the balance sheets and income statements for each credit union for each of the past four years to understand the true financial impact of the Project. That was not possible with the time given.

Little clear business dogma exists in any of the Project documentation, agreements with credit unions or training materials. Profitability indicators have been excluded from the set used to monitor credit union financial performance. Although capital adequacy, asset quality, management and liquidity are all essential financial ingredients, the overall financial objective of any private business is profit maximization for its owners. Cooperative owners may nonetheless choose to maximize their gains through service maximization coupled with cost minimization. Policy changes are not placed within the context of improving a credit union's financial performance but rather in other contexts, such as eliminating inequities in the system (e.g., interest rates that discriminate against savers in favor of borrowers).

A review of the technical assistance received under the Project reveals studies done of aggregate credit union statistics, the stabilization fund, relevant legislation, a central liquidity facility and the cooperative superintendency. However, none addresses the issue of how to make cooperatives more profitable. In fact, were all of the policy indicators accepted by credit unions, their costs would increase substantially without necessarily being compensated by increased income. For example, great emphasis is placed by Project officials on raising interest rates, but not spreads. With current spreads (6 to 9 percent) credit unions may not be profitable if they write off all bad loans, fully depreciate fixed assets and create necessary reserves. These financial results may be complicated by growth. As credit unions grow, they should pay higher average salaries to employees who are expected to handle increasing responsibility and also to cover external audit fees as part of operating expenses.

Credit unions appear to be more profitable now than when the Project started. That may actually be the case. On the other hand, accelerated growth may be covering up fundamental weaknesses in portfolio quality that would lead to another round of bad loan write offs. For example, year-end loan portfolios are always relatively large in credit unions due to the Christmas season. By then most of these loans have not yet had a chance to become delinquent. Therefore, the annual increase in the loan portfolio of 24 percent may be largely responsible for the annual decrease in the 'at-risk' portfolio of 14 percent. Loan delinquency rates may decrease over the short run while loan recovery rates remain the same. In conclusion, the data available do not permit a definitive assessment of the profitability of credit unions, much less establish their sustainability. There are certainly no indications to suggest that credit union profitability has declined, so the probability is that profitability has increased. The question that remains is whether credit unions are sufficiently profitable, under a non-subsidized regime, to be sustainable in the long run if they adhere to normally accepted accounting practices.

Sustainability of the FDF form the Credit Union Perspective

The FDF as an institution is probably not sustainable without external support. Those functions that it would continue to fulfill on behalf of the credit union movement could easily be transferred to a renovated FACACH. There is no real reason to sustain the FDF if it is successful with FACACH. If it is not successful, perhaps the FDF would need to give assistance to the credit unions to form an entirely new federation. In either case, the credit union unit of the FDF should not be sustained as an independent entity beyond 1995. The current FDF staff may not, as a unit, wish to be incorporated into even a renovated FACACH. It would seem to be a step down from their current position. The challenge will be to assure that top quality staff are available and eventually find an attractive role within FACACH. Otherwise, the high quality technical assistance currently available to the credit union movement could be lost.

CONCLUSIONS

The data available do not permit a definitive assessment of the improved profitability of credit unions, much less establish their sustainability.

FDF as an institution is probably not sustainable without external support.

RECOMMENDATIONS

Any follow-on project should make a substantial effort to incorporate profitability criteria in all of its communications with member credit unions and FACACH. It needs to make a cleaner break with the past.

Technical assistance to the Project should be reoriented toward improving the responsiveness of the credit union movement to business opportunities in a constantly evolving context. This should include market studies, attitudes and preferences of potential credit union members, feasibility studies for new financial services (for members), studies on how to improve operating efficiency and studies on how to 'sell' market interest rates to members. For this purpose, USAID may want to diversify the types of participants in the technical assistance component of the Project in addition to diversifying the themes.

Any follow-on project should insist on transparency in the interest of improving member awareness of the financial performance of their credit unions.

The Project should train cooperative analysts on methods of ferreting out hidden problems that affect financial performance and on how to take corrective measures before problems become too serious to handle effectively.

Salary levels at FACACH should be raised over the next years to levels competitive with the private, for-profit sector in order to ensure its ability to attract top quality managers.

Chapter V

The Role of IHDECOOP and Other Entities in the Auditing and Supervision of Honduran Cooperatives

FINDINGS

The replacement of DIFOCOOP by IHDECOOP in 1988 as part of the new Honduran cooperative law was initially a very positive event as the greater autonomy of IHDECOOP and its more secure funding allowed for the development of a more dedicated and capable professional staff than it had to that point. This development, in the area of auditing in particular, was effectively supported by the Project, especially through support for a strong training program. Examination of past audits of cooperatives and interviews with past and present IHDECOOP staff revealed a good level of technical skill that provided cooperatives with useful recommendations for improvements, especially in the area of internal controls, while also providing other interested parties (e.g., creditors) with basic information from which to draw realistic conclusions about the financial situation of the audited cooperatives. However, even at its best, IHDECOOP had adequate resources to audit only a small proportion of the cooperatives under its jurisdiction (about 10 percent each year), and it could not even audit all the cooperatives requesting audits (and willing to pay for them).[2]

Support targeted to IHDECOOP under the Project has been only about $400,000 and, as noted above, this has been mainly for the training of auditors, along with the development of auditing and accounting procedures and manuals, although there has also been some support for the development of a Registry of Cooperatives. The quality of audits carried out by IHDECOOP indicates that the professional skills of IHDECOOP's auditors was more than adequate and that they were dedicated to producing audits of high quality. Moreover, support under the Project for training and for the development of auditing and accounting procedures and manuals is often referred to as a key element in achieving high quality audits carried out by high quality auditors. In addition, the creation of a Registry of Cooperatives and the related legalization of many cooperatives are seen as other important achievements of IHDECOOP that were effectively supported by the Project. However, as also noted above, budgetary restrictions never permitted IHDECOOP to achieve adequate size to audit more than a small portion of the cooperative sector.

A marked deterioration of IHDECOOP began early in 1990 and has continued to the present (early 1992). The original director of IHDECOOP has never been effectively replaced, as the new one named after considerable delay was forced to resign and the current director is serving on an interim basis. This lack of leadership probably reflects the government's view of the importance of the cooperative sector and contributes further to serious budgetary problems, as the government's contribution to IHDECOOP has been reduced in nominal terms (and decimated in real terms) since 1989. Consequently, the salaries of professional staff, including auditors, have fallen drastically in real terms, and support for their activities (e.g., per diems to carry out field audits) has become totally inadequate. In addition, the termination of the highly regarded training program of 1988 and 1989 further reduced the morale of the auditing staff, so that about half of IHDECOOP's auditors have left for positions in the private sector since 1989.

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[2] Even this was a marked improvement over IHDECOOP's predecessor, DIFOCOOP, which never audited even 3 percent of the potential market. Moreover, if the resources following to IHDECOOP had been maintained (see below) it could have been expected to audit more cooperatives each year. The number of audits that IHDECOOP could carry out in its initial years of operation was constrained by the process of developing accounting standards and auditing procedures, the added time that it takes to audit cooperatives that have not been audited for years, and the process of learning-by-doing for IHDECOOP's newly recruited auditors.

In spite of the dramatic negative impact of the lack of adequate funding on IHDECOOP's ability to carry out its auditing functions, a simple infusion of funds would not solve IHDECOOP's basic problems. First of all, IHDECOOP must be given greater autonomy, but simply calling it an autonomous institution will not help much, as the history of "autonomous government institutions" in Honduras and throughout Latin America clearly shows. A board of directors not controlled directly by the government nor by the cooperative sector itself would help (e.g., including individuals from the non-cooperative private sector with expertise in the main sectors in which cooperatives operate), but the main issue is budgetary autonomy. If IHDECOOP's auditing activities can be profitable (and there is at least one feasibility study suggesting that this can be the case), then independent funding based on IHDECOOP's ability to provide efficient auditing services that are deemed worthwhile by the cooperatives potentially demanding them can provide budgetary autonomy.

For IHDECOOP to achieve budgetary autonomy, at least three major issues would need to be dealt with.

> First, it would need to be assured that income from auditing and other services provided by IHDECOOP would actually go directly and entirely to IHDECOOP and not to the Honduran Government or any other entity.
>
> Second, IHDECOOP would need to eliminate other activities (e.g. promotion and general technical assistance) that are neither financially sustainable nor appropriate for an institution that is charged with carrying out audits and enforcing the changes indicated by these audits. Moreover, since the functions of promotion and technical assistance vary significantly according to the type of cooperative involved, these activities could more appropriately be carried out by the various federations of cooperatives. On the other hand, IHDECOOP's other current roles of providing legal services and maintaining a cooperative registry are appropriate for IHDECOOP's basic focus and could also be financially sustainable.
>
> Third, the issue of whether cooperatives have adequate resources to pay for auditing services appropriate to their needs would need to be resolved. Because some of the benefits of having adequate external audits do not accrue directly to those requesting the audits (i.e., the boards of directors, vigilance committees and managers of cooperatives) a sound economic argument can be made for FDF support for external audits. However, for reasons of economic efficiency, such support should not be in the form of direct payments to IHDECOOP but rather grants to cooperatives matching some proportion of their audit expenditures -- and the cooperatives would also need to be free to choose their external auditors. This implies that IHDECOOP would need to give up its monopoly over external audits of cooperatives and instead provide lists of qualified auditors (in addition to those qualified by other appropriate institutions such as the Superintendency of Banks).

Even with an adequate size professional staff with good technical skills and budgetary autonomy as outlined above, it cannot be expected that IHDECOOP would be able politically to enforce its recommendations. Although IHDECOOP has adequate legal powers to deal with serious deficiencies in the cooperatives that it audits, it rarely resorts to legal means because of its role as an institution promoting and providing technical assistance to cooperatives, together with the fact that its audits are requested and paid for by the cooperatives. If its promotional and technical assistance functions were transferred to cooperative federations, IHDECOOP might conceivably be able to adopt a stronger enforcement role, but it would nonetheless be difficult to change IHDECOOP's original orientation as a cooperative support institution, nor would it necessarily be totally desirable to do so given the importance of building accounting skills within cooperatives -- which can best be done in a collaborative atmosphere. In addition, having the cooperatives voluntarily request and pay for IHDECOOP's audits, especially if IHDECOOP's monopoly over cooperative audits is eliminated, is a crucial element in maintaining the quality and efficiency of IHDECOOP's auditing services.

The most interesting sections of IHDECOOP's audits are not the audit findings per se, even with their notes and possible qualifications, but rather the analyses and recommendations with respect to the adequacy of cooperatives' internal controls. It is in these sections that the most useful information can be found, not only for cooperatives that want to improve their internal controls but also for creditors and other interested parties that need to make judgements about the solvency of cooperatives. These sections serve as the basis for in depth discussions between the auditors and cooperative management, including boards of directors and vigilance committees as well as managers themselves. Although cooperative management typically agrees with the auditors' recommendations, changes are not necessarily forthcoming, nor can IHDECOOP's auditors subsequently enforce their recommendations on internal controls. Moreover, the sections of audits on internal controls are not always made available to cooperative membership in general nor to all creditors, thereby depriving these interested parties of potentially the most useful information about the financial condition of cooperatives.

Wide availability of relevant and accurate information for interested parties is perhaps the most important potential contribution of external audits, especially in countries such as Honduras where enforcement by government or cooperative entities is unlikely to be a reliable alternative to enforcement by interested parties. Even the Superintendency of Banks, which is probably the strongest regulatory agency in Honduras, has problems dealing with difficult enforcement issues. Moreover, the Superintendency currently has no involvement with credit unions or other types of cooperatives and has indicated no interest in becoming involved, nor is this an unreasonable position given the Superintendency's current responsibilities and the possibility that pension funds and finance companies may be added to those responsibilities.[3] In addition, cooperative federations such as FACACH have neither the requisite skills nor the necessary power over their affiliated cooperatives to carry out audits and to enforce their recommendations.

The FDF has recently initiated a new division to be responsible for the auditing and inspection of cooperatives involved in the FDF's stabilization program. The main element of this is intensive training for a portion of IHDECOOP's auditors, with some of these auditors then assigned to work with the FDF in its new division. Re-initiating an effective training program could be an excellent contribution by the FDF toward re-establishing, or exceeding, the levels that IHDECOOP had reached by the end of 1989, but removing some of these auditors from IHDECOOP and placing them with the FDF will certainly not strengthen IHDECOOP and may cause serious morale problems, while also diffusing responsibility for the auditing and inspection of cooperatives. The FDF's role, in addition to providing training for IHDECOOP's auditing staff, could better be focused on matching grants to cooperatives for auditing services, as mentioned above. As a creditor to cooperatives under its stabilization program, the FDF has a substantial interest in the quality of external audits as a mean of ascertaining the quality of its loan portfolio, but this does not mean that the FDF should become directly involved in carrying out external audits -- which could easily happen with the creation of the new division in the FDF and the assignment of IHDECOOP auditors to work with it.

The FDF alone or in combination with IHDECOOP (and possibly the relevant cooperative federations when they have been adequately strengthened) could also devote further efforts to the development of accounting manuals and scopes of work for external audits in order to improve the quality of information provided to interested parties and to reduce the costs of providing this information. As a part of developing better information, there is also a role for the FDF and IHDECOOP, as well as for the cooperative federations, in developing educational programs that emphasize the value of financial information for cooperative members, especially as provided by high quality external audits. In addition, once IHDECOOP has lost its monopoly rights to carry out external audits of cooperatives, the FDF might consider some form of (non-financial) support for new auditing firms that focus on the cooperative sector, since it is unlikely that the major established auditing firms will look on the auditing of cooperatives as a profitable activity. In fact, it has been reported that some of the auditors who have left IHDECOOP have considered establishing such firms -- which could demonstrate the potential profitability of cooperative auditing to others.

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[3]To the extent that credit unions take deposits from non-members, credit unions should be treated like other regulated financial institutions and be subject to the supervision of the Superintendency of Banks.

Since neither government entities nor cooperative federations are likely to be able to enforce the recommendations of external audits of cooperatives, it is important that interested parties be aware of their rights and responsibilities. Creditors of cooperatives such as the FDF and commercial banks should be willing and able to take care of their interests (i.e., through writing and enforcing appropriate loan contracts), but the same cannot necessarily be said for cooperative members -- hence the foregoing mention of cooperative educational programs focused on this issue. Another important aspect of this is the guarantees that are required of cooperative managers according to the amounts of money that they are handling. This requirement is often not enforced, and cooperative members should be made aware that they should be able to make the members of boards of directors and vigilance committees personally responsible when management fraud results in losses that are not covered by appropriate guarantees. Since many cooperative managers do not have adequate personal assets for such guarantees, a system of bonding is also important. FACACH offers such bonding insurance, but it is not clear that FACACH itself might not be subject to major losses if it has not adequately verified the character of the individuals bonded.

CONCLUSIONS

- IHDECOOP has never had adequate resources to audit more than a small proportion of the cooperatives under its jurisdiction, and its situation has deteriorated sharply in the past two years. However, it still has a core of well-trained and reasonably dedicated auditors, especially considering the conditions under which they are currently working.

- IHDECOOP has adequate legal enforcement powers, but it can never be expected to exercise these powers because of its role as an entity supporting cooperative development. No other entities are currently available to audit cooperatives, although new private auditing firms with a focus on the cooperative sector might be encouraged to develop, especially if IHDECOOP's monopoly of cooperative audits is ended. Nonetheless, it is unlikely that any entity will exist in Honduras in the foreseeable future able to handle the enforcement of recommendations from external audits. Consequently, it will be necessary to rely on enforcement by interested parties (e.g., cooperative members and creditors) who are made adequately aware of problems by high quality external audits that are disseminated to these interested parties.

- Requirements for guarantees for cooperative managers handling significant amounts of money are not currently enforced, and this is an important aspect of making cooperative management more responsible. Moreover, bonding insurance provided by insurers that are sufficiently aware of the risks involved could be an important part of the guarantee system.

RECOMMENDATIONS

- IHDECOOP should be given budgetary independence and adequate skills and resources by eliminating promotional and technical assistance activities not related to auditing (except for legal and registry functions), by entering into major training programs for its auditors, by charging adequate prices to cover auditing costs, and by assuring that income from auditing services is effectively received by IHDECOOP.

- IHDECOOP should relinquish its monopoly over external audits of cooperatives[4] and should not be expected to provide effective enforcement of its findings and recommendations.

- IHDECOOP should require that external audits of cooperatives, federations, the FDF and IHDECOOP itself be made available in their entirety to all interested parties, including especially members and creditors. IHDECOOP should also publish key indicators on the solvency, liquidity and profitability of

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[4] The FDF might encourage the development of new private auditing firms focused on the cooperative sector with the elimination of IHDECOOP's monopoly.

the cooperatives and federations that it audits (as well as those that are audited for it by qualified independent external auditors). In addition, as part of its Cooperative Registry, IHDECOOP should indicate the date of the last external audit for each cooperative listed, along with the names and bonding status of cooperative managers and members of boards of directors, as well as any pending legal actions.

- The FDF should support the strengthening of IHDECOOP by providing training for IHDECOOP's auditors and by providing matching grants to cooperatives to purchase external auditing services.

- The FDF and IHDECOOP should collaborate with the relevant cooperative federations in programs: (1) to increase the awareness of cooperative members of their rights and responsibilities with respect to the financial condition of their cooperatives; and (2) to improve the quality of external audits through better accounting manuals for cooperatives and better scopes of work for external audits.

- The FDF should not directly undertake external audits but should rather use the audits done by others to be aware of the situation of its borrowers and to enforce strictly the recommendations of external audits for its own protection and as an example for others.

- The FDF and IHDECOOP should pay greater attention to guarantees for cooperative managers according to the amounts of money handled and to the development of bonding insurance in which the insurer is adequately aware of the risks involved.

- Further support to IHDECOOP under the current Project or new projects should be conditioned on acceptance by the Honduran Government of the majority of the foregoing recommendations, especially those pertaining to the structure and operations of IHDECOOP.

Chapter VI

Conclusions – Major Lessons Learned

The creation of an independent implementing agency run by host country personnel was crucial to success. In many cases new development finance institutions are created without justification. In this case, however, it would have been highly conflictive and administratively impossible for USAID to have administered the restructuring process directly with the beneficiaries, and there was no entity in Honduras technically or politically capable of achieving the difficult changes.

The inclusion of the implementing agency, the FDF, within the legal shell of one of the beneficiaries, FACACH, made Project implementation unnecessarily difficult. USAID sought the creation of an independent foundation, but the Honduran Government was opposed to the immediate chartering of a new institution. Both positions were understandable, but the resulting compromise was unsatisfactory. A preferable alternative would have been to have established the FDF as a trust account in a private bank. Had that not been possible, the establishment of a date certain for the establishment of a trust account would have been a second best alternative. The negative effects of placing the FDF within FACACH included: (1) the effect on the expectations of FACACH; (2) the convolutions that were required during implementation to protect Project funds; and (3) the appearance to other beneficiaries and the public at large that FACACH somehow occupied a privileged position.

The inclusion in Project design of several candidates, specifically named, to be beneficiaries of the restructuring process, proved to be advantageous. On one hand, naming the potential beneficiaries created an expectation that they could benefit from the process of management and financial restructuring if certain steps were completed. When the Project agreement was published in Honduras it was intently studied by the potential beneficiaries, so that the required restructuring steps were widely known. This strengthened the hand of the leaders who were seeking to make such changes. On the other hand, the fact that various groups were named made it possible to restrict support to only those groups that were most disposed to make the required restructuring changes. Leaders and managers who were primarily motivated by rent seeking were unable to capture the Project. Had there been only one beneficiary group, such as the FACACH system or the UNIOCOOP system, the Project would have been exposed, through disbursement pressures, to the pitfall of many development projects of making concessions to the intended beneficiaries to meet project milestones. Because this Project was fundamentally concerned with administrative and financial discipline, concessions would have been fatal to achieving the Project's purpose.

A clear set of steps to be completed by all Project participants slowed Project disbursements at the outset as the cooperatives went through the disciplined steps of the Project, but this protected the Project from making commitments to cooperatives before they were committed to making adjustments. Now that the FDF has repeated experiences with credit unions and agricultural cooperatives, the presentation, approval and monitoring process has been clearly documented, thereby documenting policies and procedures for the administration of institutional support and financial stabilization and defining the indicators and analysis needed for loan approval. This should ensure that actions proposed by the gerentes de projecto conform to policies and guidelines and consequently minimize the time required to develop the dictamen, obtain Board approval and transmit the required documentation to USAID. It is therefore appropriate that USAID is moving toward a different disbursement control process. When the FDF has proven itself fully capable of managing credit resources, an imprest account could be considered to speed credit disbursements.

The indicators developed provide an objective information base for cooperative leaders to act on in support of the objectives of the Project. Moreover, delays in the development of precisely defined financial indicators for agricultural cooperatives have been detrimental to Project implementation.

With regard to credit unions, the new view of no directed credit for credit unions was confirmed. Growth rates in savings, loans and reserve creation accelerated even though the Project did not provide external short-term credit to credit unions.

The strategy of involving owners in financial stabilization programs proved to be sound. This approach was key in the acceptance of the program by the management of FACACH.

With regard to the creation of development finance institutions (DFIs), the Project provides an interesting experience. The development of the FDF into a DFI has not yet fully taken place; however, when chartered, its capitalization by the Honduran Government will depend on the amount of cash the owners are willing to invest.

The implementation of a project, even a difficult project such as the present Project, is greatly facilitated if there is forthright and honest support from the host government.

The importance of business planning as a cornerstone of restructuring was confirmed, particularly with respect to the emphasis on business mission statements which clarified some of the more contentious aspects of the restructuring negotiations. In the case of FACACH, this led to a clear understanding by all those involved that the business focus of FACACH is appropriately financial services, which led to the consensus to sell PRODAIF. In the case of UNIOCOOP, it created a consensus that UNIOCOOP's business viability was tied to its development as a wholesaler of inputs and not to its unpaid role in representing affiliated cooperatives. In both cases, the definition of the business mission statement made it clear that most of the opportunities are at the level of the cooperative.

Unless there is a strong business and financial basis for the relationship between cooperatives and their federations, integration will be weak or non-existent. Federations are often the major recipients of external assistance because of their proximity to donors. This leads them, through subsidy seeking behavior, to become more accountable to donor agencies than to their real owners.

The Project confirms that it is possible to deal with both agricultural cooperatives and credit unions through the same project, the same technical assistance consortium and the same implementing agency. However, there may be some costs in terms of having a totally precise focus in doing so. Although there was no evidence of adverse effects on the credit unions, the rate of achievement with the agricultural cooperatives may have suffered. Such areas as defining financial and operating indicators through which to measure performance and develop financial stabilization strategies progressed less rapidly for the agricultural cooperatives than for the credit unions.

For an administrative and financial restructuring project to achieve results with agricultural cooperatives and credit unions, it should have the option of going directly to the local cooperative or credit union, but it is not always necessary to use that option in order for the option to be effective. If the option of dealing directly with credit unions and cooperatives does not exist, the strengthening program can be held hostage to federations which, if they are pursuing subsidy seeking objectives, may not be supportive of the necessary financial discipline.

Appendix A

Implementation of Recommendations from the Interim Evaluation

General Project Management

1. Broaden the Project purpose to cover the broadening and deepening of financial markets in rural areas through supporting the development of the Honduran credit union system to provide financial services for low-income producers.

GOH/AID to issue PIL by February 28, 1990.

To be addressed as part of the extension of the Project.

2. Incorporate new indicators based on the adjusted financial statements that measure the financial health of the cooperatives in the Project covering: net worth; profitability; market development; asset quality (operations in the case of the agricultural cooperatives); and liquidity (indebtedness in the case of the agricultural cooperatives).

The FDF with the support of a WOCCU short term consulting team will develop the revised indicators by April 1990. AID and the GOH will issue a PIL by June 30, 1990, incorporating the indicators into the output indicators listed in the Amplified Description of the Project.

Addressed as indicated.

3. There should be a rapid determination of the FDF's permanent legal structure, with an independent FDF to be preferred. Further analysis will be required to determine what optimum legal framework should be crafted.

The Project Manager, with the support of the WOCCU Chief of Party, will cause this issue to be addressed and definitively resolved by the representatives of the new government and AID by December 31, 1990, to remove the element of uncertainty surrounding this issue.

To be addressed as part of the extension of the Project.

4. In the financial stabilization activities the subsidy in the interest rate to the beneficiary cooperative is an institution building activity, in which case AID and the FDF should clearly recognize that there is a tacit grant component in each financial stabilization loan that is disbursed. Comparative analysis of financial stabilization at 4 percent and 12 percent can identify clearly the amount of the grant component in each stabilization action.

This type of analysis will be completed for financial stabilization actions which place resources at less than 12 percent, initiated from this point forward by the FDF. In the disbursement approval process, Project management will assure that this type of analysis has been included.

To be addressed as part of the new Small Farmer Agribusiness Development Project.

5. The FDF should reorganize its operations such that each beneficiary cooperative has only one contact at the FDF.

FDF management has completed a reorganization plan as part of its 1990 Annual Operating Plan and has included this point. FDF Board approval and implementation is expected by February 1, 1990.

Addressed as indicated.

6. The FDF should assign the collection of all data for monitoring under the three component programs to an administrative unit which will prepare information for management and the relationship manager.

The FDF will define which unit is responsible for the data collection and put the system in practice by June 30, 1990.

Addressed as indicated.

7. AID pressure to disburse should be minimized.

Now that the Project has recovered from the significant delays experienced during the first 18 months, pressures to disburse have diminished.

Addressed as indicated.

8. As a condition for receiving Project support, IHDECOOP would emphasize audit and enforcement with cooperatives which have qualified for Project support, especially in assuring the fulfillment of changes agreed to by the cooperatives in the financial stabilization and institutional support agreements.

AID and the GOH, with FDF input, will develop the conditions for the support of IHDECOOP activities in support of the Project by March 31, 1990.

This was discussed with the FDF and IHDECOOP and was to be put in practice in 1990. However, the inauguration of the Callejas administration led to the expectation that there would be a change in the director of IHDECOOP and an unwillingness on the part of the "lameduck" director to take any actions on his own. In the Operating Plan of 1992, the FDF has hired a person to coordinate with IHDECOOP in the installation of standard accounting systems and in the carrying out of audits and examinations in the cooperatives which participate in the Project. AID intends to address this within the extension of the Project as part of the strengthening of IHDECOOP.

9. For the implementation of the institutional development and financial stabilization activities by the Project beneficiaries, the communication, supervision and feedback procedures between the FDF and the beneficiaries should be improved through more frequent field visits by FDF staff, and the FDF should give authority and responsibility to the assigned account officer to work collaboratively with the beneficiary on a regular basis such as every two weeks.

The 1990 Annual Operating Plan of the FDF is designed in this manner and is expected to be approved and in implementation by February 1, 1990.

Addressed as indicated.

10. A plan of action is needed for strengthening the computer accounting system in these cooperatives.

The process has already begun based on a pilot project and is expected to be completed by March 31, 1990.

Addressed as indicated.

11. The technical assistance team should be extended through September 30, 1991, with the needs through 1993 reexamined at the end of 1990. An additional person is not recommended as long as the personal services contract from AID continues to be part of the Project technical assistance team.

The PIO/T has been drafted and is now in circulation.

Addressed as indicated.

12. To improve coordination between the personal services advisor contracted by AID (Bendana) and the technical assistance team, have the advisor report to the Chief of Party of the technical assistance team.

A memorandum was sent to Dr. Bendana on September 5, 1989, instructing him to report on this basis.

Addressed as indicated.

13. Use of non-monetized forms of disbursement of counterpart funds, such as the use of bonds, can permit strengthened controls on the financial stabilization contracts.

The FDF, the technical assistance team and Project management are using this mechanism on an on-going basis whenever appropriate as it permits an improved security position for Project resources.

Addressed as indicated.

14. AID should continue its policy dialogue with the GOH for basic macroeconomic policy reforms.

This is a part of on-going Mission actions which Project management should take into account.

Addressed as indicated.

15. The time of Project staff devoted to dealing with ESF disbursement ceilings could better be devoted to Project activities.

Since the end of 1988, this has not been a significant issue.

Addressed as indicated.

16. The credit unions, and particularly the agricultural cooperatives, should increase the number of women members and increase the participation of women in management and board of director positions.

The FDF and Project management will, on an on-going basis, oppose discriminatory policies or practices when they are identified.

Addressed as indicated.

17. The Project should provide added resources to the Project to cover needs through 1993. The estimated amount is $19 million ($11 million from DA and $8 million from counterpart). This will cover: FECORAH and ANACH development activities; 8 additional UNIOCOOP affiliates; reorientation of work with FACACH; evaluations and studies which need to be done (i.e., performance indicators, a liquidity management facility for credit unions, and strengthening loan recovery in agricultural cooperatives); and credit for fertilizer purchases if foreign exchange availability on an equitable basis is still a problem.

DP, DF and RD will decide on the appropriate preliminary steps prior to the submission of the Action Plan of February 1, 1990. Project management and other AID staff, as appropriate, will meet with the new representatives of the Honduran Government to begin discussions on February 1, 1990.

To be addressed as part of the new Small Farmer Agribusiness Development Project.

IHDECOOP

1. Expand support for IHDECOOP after an in-depth analysis to determine the types and amounts of support which are required to achieve the Project purpose most effectively.

By January 15, 1990, IHDECOOP will present a plan of activities requesting support for the last nine months of the activities currently underway for the registry, accounting system development and implementation in cooperatives and audit. This request will be reviewed by AID and the GOH with FDF input, with appropriate action taken by February 15, 1990. In the event that IHDECOOP presents a credible proposal for the merger of moribund credit unions with sound credit unions using financial stabilization funds, review will be made and action taken by September 30, 1990.

To be addressed as part of the extension of the Project.

2. IHDECOOP should become a voting member of the Board of the FDF once the FDF become separate legal entity and the powers and responsibilities of IHDECOOP have been defined with respect to the FDF and the cooperatives which are beneficiaries of the Project.

This will be completed by the GOH and AID as part of the determination of the FDF's permanent legal structure by December 31, 1990.

First, the FDF has not yet been chartered. Second, following extensive analysis of institutions in Costa Rica, Puerto Rico and the United States, it was concluded that the best type of institution would be a private-sector institution. Finally, the mood of uncertainty surrounding IHDECOOP mentioned above has made it impossible for the Project and IHDECOOP to define clearly the powers and responsibilities expected of them.

FACACH and Affiliated Credit Unions

1. Refocus credit union support activity on liquidity management, deposit mobilization and diversified credit portfolio management. Required reserves for credit union on deposits should be replaced with approaches to liquidity management that can properly serve FACACH's market.

The FDF will advise and support the credit union system to develop integral financial management (i.e., deposit mobilization, liquidity management and credit administration) as part of an institutional support agreement in 1990.

To be addressed as part of the extension of the Project.

2. Analyze the possibility of an alternative Project for credit unions.

AID will review and take action thereon if appropriate.

To be addressed as part of the extension of the Project.

3. Special care should be taken that a strong, competent individual be hired to fill the position of controller of FACACH, with a direct counterpart relationship between this individual and a member of the FDF technical assistance team.

FACACH has hired an auditor for this position who has a tie to the FDF account officer and the WOCCU credit union advisor.

Addressed as indicated.

4. The "Metas Plan Operativo" should be prioritized and formulated in a manner which connects achievement of the goal with meeting objectives.

The FDF will review the Annual Operating Plan from this perspective by January 1, 1990.

Addressed as indicated.

5. For training in the FACACH system, the following priorities are recommended: the need for continued training in asset/liability management skills; emphasis on techniques for savings mobilization coupled with programs demonstrating methods for managing the funds acquired by such efforts; and installation of and training for the use of computer hardware and software to facilitate implementation of new and relatively technical asset/liability techniques.

By March 31, 1990, the FDF will complete the review of the Annual Operating Plans of FACACH and the credit unions to assure that the above priorities are emphasized.

To be addressed as part of the extension of the Project.

6. COLAC or WOCCU or alternatively individuals or organizations with greater expertise in training related to specific banking skills should be used to develop (possibly through this Project) training materials in Spanish and in a format that would be readily transferable among countries -- perhaps using nothing more complex than desktop publishing software to provide the minimum level of necessary customization. In the short run, however, the FDF or FACACH needs staff to translate materials for specific program needs.

Working with FACACH, the FDF will define the specific program needs in support of the Project by June 30, 1990.

Addressed as indicated.

7. AID should consider a regional program to have an audience beyond the scale available in an individual small country.

Via the evaluation summary, this action, which is beyond the purview of the Mission will be made known to AID/W.

Addressed as indicated.

8. To the extent that deposit guarantee funds and deposit insurance systems protect depositors from possible losses, they also insure that depositors will not be concerned about the condition of the financial intermediary where they make their deposits. Deposit guarantee funds and deposit insurance systems must have the power to impose and enforce penalties on financial intermediaries that fail to meet appropriate standards. In the case of Honduras, it is unclear if credit unions would accept this kind of regulation and supervision and if it could be effectively enforced. An adequate study of deposit insurance for credit unions in Honduras should take the foregoing into account.

Project management, the FDF and the WOCCU Chief of Party believe that a study of deposit insurance is not appropriate for at least a year and should follow significant advances in the stabilization process.

Based on this written recommendation and discussions with the evaluation team, the Project decided not to conduct a feasibility study of a deposit guarantee fund The technical assistance contractor, WOCCU, did complete a study of a financial stabilization fund which would provide less comprehensive coverage than a deposit guarantee fund (and thus sustain much lower levels of risk). AID continues to analyze the most appropriate structure for the financial stabilization fund.

9. An attempt should be made to modify the law to allow volunteers to serve for a total of four to six years to allow for greater continuity on boards and committees.

This recommendation will be made known to IHDECOOP and the GOH by Project management by June 30, 1990.

Addressed as indicated.

10. AID should continue its policy dialogue with the GOH for basic macroeconomic policy reforms. Under the Project the potential problem area is the provision of credit in ways which will reduce the viability of the institutions providing the credit and thereby reduce the availability of financial services over the longer run. The Project should provide greater emphasis to assure that the cooperatives in general are not adversely affected by their credit activities.

The Economic Program Analysis Office of AID/Honduras is continuing the dialogue. The Project is taking into account and will continue to take into account the concern that credit union viability not be adversely affected by an overemphasis on directed credit activities.

Addressed as indicated.

UNIOCOOP and Affiliated Agricultural Cooperatives

1. During 1990 conduct a thorough analysis of the loan recovery performance of UNIOCOOP's affiliates leading to more emphasis on credit administration in the institutional strengthening agreement.

This study is expected to be completed by June 30, 1990. It will be done under the direction of the FDF with the advice of the WOCCU technical assistance team.

Addressed as indicated.

2. Privileged access to foreign exchange should not be given to any group, and AID should deal with this issue through the policy dialogue. If the policy dialogue fails to achieve the appropriate exchange rate adjustment and if UNIOCOOP is unable to obtain foreign exchange at the same rates as other fertilizer importers, then the use of credit resources from the Project for fertilizer imports is recommended.

Project management and the Mission will take this into consideration.

Addressed as indicated.

3. The GOH should shift all fertilizer to the parallel market for foreign exchange for all importers.

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The evaluation findings and recommendations will be made known to the GOH.

Addressed as indicated.

4. Project support for coffee marketing and related training should be strengthened.

The Project, through the FDF, will continue to support those activities and consider the expansion of AHPROCAFE members.

Addressed as indicated.

5. UNIOCOOP should increase the participation by the member cooperatives in leadership and increase rotation of members on its Board.

The FDF will counsel UNIOCOOP in this sense during the review of their 1990 Operating Plan.

Addressed as indicated.

6. UNIOCOOP should increase efforts to develop and implement its annual operating plan and budget.

The FDF is continuing its assistance and advice to UNIOCOOP in this sense.

Addressed as indicated.

7. Coffee cooperatives affiliated with UNIOCOOP should be better integrated into services and governing structures of the UNIOCOOP system. UNIOCOOP has already formed a Coffee Committee.

The FDF is reviewing all actions of UNIOCOOP related to coffee to encourage this outcome.

Addressed as indicated

8. UNIOCOOP should expand its membership base from eight to about twenty cooperatives.

The FDF is considering conditioning operational support on quantifiable growth objectives of UNIOCOOP.

To be addressed as part of the new Small Farmer Agribusiness Development Project.

9. UNIOCOOP should develop a system of cost accounting and pricing of services and then assist the member cooperatives with a similar system.

The Project will include cost accounting development in UNIOCOOP and its affiliates as part of the support of IHDECOOP activities. This will be completed by February 28, 1990. The FDF will condition its support to UNIOCOOP on presentation of a cost accounting system by UNIOCOOP and monthly presentation of financial and cost accounting reports. The FDF and Project management believe that cost accounting in the cooperatives can best be accomplished by IHDECOOP and the FDF rather than by UNIOCOOP itself.

Some progress has been made in this area, but no enough. The action proposed in early 1990 was to carry out the recommendation via IHDECOOP. IHDECOOP's weaknesses due to the change in the government made that impossible. After further reflection, it was determined that there were two aspects to the cost accounting issue: (1) the need to define cost centers clearly within each agricultural cooperative; and (2) the need to account for the costs of activities in each of the cost centers. The status of implementation is in summary that: most of the cooperatives of the UNIOCOOP system have defined cost centers and are tracking the profitability of their different activities in the Tolman computerized accounting program; none of the UNIOCOOP cooperatives has a system that accounts for the costs of each activity, especially the allocation of indirect costs to individual cost centers; in February of 1992, UNIOCOOP began to promote a standard accounting system, based on the model developed by the Project, for its affiliated cooperatives; DICOMCAFE has established a detailed cost accounting system on which to base the pricing of its services to affiliated cooperatives and third parties; and as part of the follow-on project the FDF will continue to include the definition of cost centers and the proper registry of costs to address this recommendation further.

10. UNIOCOOP should work to develop the respect, trust and confidence of the FDF.

The FDF will continue to maintain conditions that have been put in place and expects that UNIOCOOP will meet these conditions which will result in improved relations with the FDF.

The FDF continued to maintain the conditions which had been put in place in agreements with UNIOCOOP. This led to the firing of the manager of UNIOCOOP, followed by substantial turnover in the Board of Directors. Substantial profits in UNIOCOOP (over L1 million), none of which were distributed as dividends, led to its financial strengthening. This reduced, but did not eliminate, the reliance of UNIOCOOP on institutional support and credit from the FDF. The FDF sustained the conditions in the credit and institutional support agreements which, in light of operating losses of over L250,000 in 1991, has led to an expected announcement in early April of the firing of the manager of UNIOCOOP. It is yet to be seen if a sound business relationship based on mutual respect, trust and confidence emerges.

11. An agricultural cooperative needs assessment is recommended to determine specifically what type of training is needed, which institutions should conduct the training, and to design the curriculum and to develop the materials for the training.

This analysis is underway and is expected to be completed by February 28, 1990.

Addressed as indicated.

12. It is estimated that the successful implementation by the agricultural cooperatives of the UNIOCOOP system of their development plans will have an impact on production of $49.8 million, on foreign exchange earnings of $7.28 million, and on employment of 28,100 person years. These results will depend on the following recommendations being carried out:

a. The marketing capabilities of the cooperatives should be strengthened to assure effective participation in international markets, e.g., for coffee and melons. This involves training programs locally and perhaps internationally such as the quality training program already underway in integral coffee marketing and fertilizer marketing.

b. Processing and marketing facilities should be brought up to international standards to produce adequate quality products on a profitable basis.

c. The technical assistance package for cooperative members needs to be defined according to the needs of the cooperative to be sure that it can be implemented.

d. Once qualified, cooperatives should receive resources without delay.

e. Once cooperatives and their members have been determined to be creditworthy, credit should be made available on a timely basis from the FDF to the cooperative and from the cooperative to its members.

f. Sufficient support must be provided to the better cooperative managers to improve management capability.

g. UNIOCOOP's Development Department should carry out a program to affiliate two cooperatives per year.

h. Individual cooperatives should continue to affiliate more members.

The following action will make it possible for the FDF to encourage and facilitate satisfaction by UNIOCOOP and its affiliates of the foregoing recommendations. There has been a reformulation of the organizational and management structure of the FDF on the basis of in-depth analysis and detailed planning which will make it more capable of assisting UNIOCOOP's affiliates in a more frequent, timely and collaborative manner.

To be addressed as part of the new Small Farmer Agribusiness Development Project.

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Appendix B
Documents Consulted

Project Paper

Project Paper Amendment

Project Grant Agreement

Evolución Económica Financiera de FACACH, FDF, 1991

Regulatory Needs Assessment, Credit Union Examination and Supervision, Blaisdell and Chávez, 4/1991.

Estrategia para la Perfección del Sistema de Información de Cooperativas, Rigoberto Flores, 10/91

Estrategia de Desarrollo de Capacitación de las Cooperativas de Ahorro y Crédito de Honduras, Hoyle, 4/89

Financial Statistics of the Credit Union Movement of Honduras, WOCCU, 8/91

Assessment of Honduran Cooperative and Banking Legislation as Related to Credit Unions, Lanza, 3/91

Excerpts from Proposal/Evaluation by Government of Honduras

Honduras Credit Union Environmental Scan, Von der Ohe and Castro, 7/91

Reflexiones sobre el Sistema de Cooperativas de Ahorro y Crédito de Honduras Ahora y en el Ano 2000, Arbuckle, 10/90

Statistical Information of Honduras Officially Registered Cooperatives, IHDECOOP, 1991

Diagnostico Administrativo del Servicio de Seguros de la FACACH, Castilblanco, 5/91

Feasibility Analysis for a Central Liquidity Facility for Credit Unions in Honduras, Von der Ohe, 7/91

Interim Evaluation of the Small Farmer Organization Strengthening Project, IMCC, 10/89

Financial Sector Assessment, Results Achieved and Lessons Learned, Marion and Branch, 4/91

Credit Unions in Honduras: Characteristics of Members and Non-Members and Factors Influencing Membership Decisions, MacKinnon Scott, 1/92

Honduras Credit Union and Agricultural Cooperative Financial Stabilization and Development Strategies, Castro, 10/90

Financial Stabilization, Determining the Viability of a Stabilization Fund for Credit Unions in Honduras, Von der Ohe, 7/91

Convenio de Estabilización Financiera entre FDF y FACACH, 3/87

Convenio para el Establecimiento y Manejo de Fondos Destinados al Fortalecimiento Empresarial del Sistema de Ahorro y Crédito a ser Ejecutado entre el FDF y FACACH, por firmar

Convenio Tripartita de Inversion Institucional, ejemplo

Project Agreement No. 522-0252, 9/85

Credit Union System Stabilization Study, Integrated Assessment of the Honduras Credit Union Movement, Castro and Von der Ohe, 7/91

Sistema de Clasificación 'CAMEL'

Indicadores Claves del Desarrollo de Cooperativas de Ahorro y Crédito con Programa de Estabilización Financiera, 11/90

Financial Statements from All Open Credit Unions in Honduras, 1989-1990.

Internal FDF Project Progress Reports

Semi-Annual Project Reports

Technical Assistance Team Quarterly Reports

Análisis Económico Financiero de FACACH a Junio 1990

Plan de Desarrollo y Plan Financiero de la Cooperativa Chorotega Ltda., FACACH, 12/91 (ejemplo)

Diagnostica de la Cooperativa Sanmarquea Ltda. FACACH, 12/91 (ejemplo)

Relaciones Financieras Cooperativas de Ahorro Y Crédito, Honduras, World Council of Credit Unions, Technical Development Services Department, July 1991

Annexes: Integrated Assessment of the Honduras Credit Union Movement, July 1991

Project Implementation Letter No. 29

SFOS Results Achieved and Lessons Learned, ACDI 4/91

USAID Agricultural Sector Strategy Paper

For all UNIOCOOP Cooperatives:
Diagnostic
Development Plan
Annual Operating Plan
Annual Financial Statements 1987-1991

Appendix C
Individuals Interviewed

Aguilar, Antonio, Cooperativa Maya Occidental

Aguillera, Carlos, FDF

Aguirre, Reynaldo, Fideicomisos, BANADESA

Arbuckle, Lee, USAID/Honduras

Arias, Oscar, Cooperativa Taulabe, Taulabe

Barahona, Manager, COHORSIL

Burgos, Onan, Controller, Fyffes; former Head, Auditing, IHDECOOP

Caballero, Fabio, Manager, COMARCA

Calix, Nahun, FECORAH

Camacho, Gonzalo Erazo, Regional Head, IHDECOOP, Tegucigalpa

Carranza, José Antonio, USAID/Honduras

Canizales, Carlos, General Manager, BANCAFE

Carvajal, Daniel, Manager, FACACH

Cháves, Alba Luz, Head, Inspection Division, FDF

Chávez, Jose Antonio, Cooperativa Choroteg, Choluteca

Chincilla, Herman, Cooperativa Maya Occidental

Coello, Oscar, Cooperativa Guadelupe, Choluteca

Davis, Paul, USAID/Honduras

De Leon-Amilcar, Carlos, FDF

Donaire, Rafael Diaz, Manager, UNIOCOOP-Leticia office

Espinoza, Freedy, DICOMCAFE

Fernandez, Justo, Manager-Fideicomisos, Banco Atlantida

Funes, Marco Tulio, Superintendency of Banks

Gaitan, José Miguel, Vice President of the Central American Bank for Economic Integration and former Superintendent of Banks in Guatemala

García, Rocael, FDF

Guevarra, Juan Benito, CREHSUL

Guzman, Noe Mexa, President, COHORSIL

Hernandez, Danilo, Cooperativa Lago De Yojoa

Hernandez, Herbert, FDF

Jiménez, Francisco, Cooperativa Sagrada Familia, Tegucigalpa

Lemus, Jose A., Melon Manager, ALGOSUR

Maradiaga, Manuel, FDF

Matamonos, Ernesto, Manager, Banco de Honduras

McCluskey, Delbert, USAID Honduras

Molina, Carlos Heriberto, Cooperativa Candelaria

Montes, Jorge, Cooperativa San Pablo, Comayagua

Montes, Margarita, Cooperativa Elga, Tegucigalpa

Nones, Eliodoro, Cooperativa Olancho

Nuñez, Reyna Margarita, Cooperativa Fraternidad Pespirense, Pespire

Ortíz, Rosario, Cooperativa Esfuerzo Langueño, Lanue

Paz, Mario, FDF

Pineda, Hellmen Edas, FDF

Pineda, Mario, FDF

Quesada, Harry, Credit Officer, FACACH

Ramos, Adbdel, Manager, Fruta Del Sol

Rodriguez, Hugo, General Manager, FDF

Sánchez, Antonio, FDF

Sánchez, Raul, FDF

Solano, Maria Lydia, General Manager, Banco de Honduras

Stephens, Melissa, USAID/Honduras

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Suazo, Angel, FDF

Torres, Gustavo, FDF

Varga, Oscar, President, FACACH

Varela, Francisco Bueso, FECORAH

Varela, Frederico, FDF

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