PD ABH-924

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:

Mission or AID/W Office USAID/Honduras
(ES# FY94 - 2)

B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan?

Yes [ ] Slipped [X] Ad Hoc [ ]

Evaluation Plan Submission Date: FY 92 Q 4

C. Evaluation Timing

Interim [ ] Final [X] Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
522-0252	Small Farmer Organization Strengthening Project	1985	9/95	$17,625	$17,625

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
1) The FDF's will be removed from FACACH and it's permanent legal structure will be chartered by December 31, 1992.	Project Design Team	Completed
2) The GOH will remove the Model Cooperative Trust Fund from BANADESA.	Project Officer	Completed
3) The follow-on and SFOS project will price all financial stabilization credits at market rates of interest.	Project Design Team	Completed
4) The USAID Project Manager will change his approach in monitoring this project reducing administrative procedures, as much as possible, related to Mission approval of FDF funding requests by the issuance of a single Implementation Letter for the Annual Operation Plan.	Project Officer	Completed
5) Follow-on activities will:		
a) Retain the major project components largely unchanged	a) Project Officer	Completed
b) Utilize FDF as its implementing agency	b) Project Officer	Completed
c) Give greater emphasis to developing profitability indicators, and address the constraint of limited entrepreneurial ability of the cooperatives.	c) Project Officer	Completed
6) Under SFOS Project a restructuring program that will improve IHDECOOP's operation and administration will be approved and implemented.	Project Officer	June 30, 1994

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Day) (Year)

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Albert Merkel, ARD	René Ardón Matute Ministro de Hacienda	Carmen Pat Zambrana, DP Donald Soules, ODP	
Signature				
Date				

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The Small Farmer Organization Strengthening Project (522-0252) was authorized in September 26, 1985, and substantially modified through Amendment No. 1 in September 16, 1986. Amendment No. 8 changed the termination date to September 26, 1995 and increased the cost estimate and financial plan from $17,125,000 to $17,625,000 in loan and grant funds provided by USAID and from $21,804,000 to $22,465,530 in counterpart funds provided by the Government of Honduras (GOH). The project purpose is to establish a viable system for delivering inputs to growers (credit, technology, market services, management skills) in order to increase agricultural productivity and diversify the production base. To do this, the project is divided into three components: Institutional Development, Financial Stabilization and Credit. The purpose of this final evaluation is to draw conclusions about overall project success and to identify lessons learned which can be applied to the follow-on project. The 8(a) firm, International Management Consulting Corporation (IMCC), reviewed project documents, and documentation from the project implementing agency, the Financial Development Fund (FDF). They supplemented the review with interviews with the FDF's management and staff, selected management and leaders of beneficiary organizations, the technical assistance (TA) team, GOH members of the Board of the FDF, the project manager and assistant project manager and other USAID officials.

Principal findings:

* The problems identified in the midterm evaluation with regard to the need to define the legal and organizational structure of the FDF continue to exist.
* It is now time for USAID to reduce its time-consuming role in prior review of the details of each FDF action.
* Implementation with agricultural cooperatives has been slow due to a normal learning curve and the intransigent management problems of cooperatives, but has been accelerating during the last year. Future TA should emphasize new investment opportunities for agricultural cooperatives. The project should strengthen the efforts to analyze the role of participating agricultural cooperatives as part of a larger agribusiness system.

Lessons Learned:

* Placing the implementing institution within the legal shell of one of the beneficiaries may bring significant negative effects: (1) false expectations from the beneficiary; (2) complicated management of funds; and (3) the appearance to other beneficiaries that the Federation of Credit Union of Honduras (FACACH) occupied a privileged position. Other alternatives should have been considered.
* Involving owners (approval by the General Assembly) in financial stabilization is a sound practice. This is key to the acceptance of the program by the management.
* The approach of selecting participating organizations based on an analysis of potential achievement of self-sufficiency and on the competitiveness of the cooperative in its current and potential market is cost-effective.

COSTS

I. Evaluation Costs

1. Evaluation Team

Name / Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Onofre Torres, President IMCC Robert Vogel, Executive Director IMCC Robert Chirsten, Employee of IMCC Charles Oberbeck, Employee of IMCC	522-0252-00-2001-00	$66,844	Grant Funds Evaluation LVL Item Project 522-0252

2. Mission/Office Professional Staff Person-Days (Estimate) 60 days

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 20 days

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

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

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
USAID/Honduras	December, 1993	Final Evaluation of the Small Farmer Organization Strengthening Projec, May, 1992

PROJECT PURPOSE

The purpose of the project is to establish a viable system for delivering inputs to growers (credit, technology, market services, management skills) in order to increase agricultural productivity and diversify the production base. This objective will be accomplished by stabilizing and strengthening existing small farmer organizations to make them efficient channels of the required services and inputs. The output indicators to measure the achievement of that purpose include the following: creation of an implementing agency, the Financial Development Fund (FDF); institutional strengthening and financial stabilization of 55 cooperatives, and 4 second level farmer organizations restructured institutionally and stabilized financially; approximately 20,000 growers will be directly involved; a minimum of 25 loans by the Special Credit Fund (SCF) to cooperatives to on-lend to farmers; a minimum of 15 loans by the SCF to cooperatives for operating or investment financing; and, training of 30 management people from cooperative organizations.

PURPOSE OF THE EVALUATION AND METHODOLOGY USED

The purpose of this evaluation was to draw conclusions about overall project success and to identify lessons learned which can be applied to the follow-on project. The evaluation assessed project achievements at the purpose level, estimated the sustainability of development accomplishments, made recommendations, and identified lessons learned useful for the design and implementation of the follow-on project. This evaluation was focussed on the period after the midterm evaluation, carried out in late 1989.

The methodology used addressed each question of the statement of work by using the following techniques: a review of principal documentation which includes the Project Paper, the Project Agreement and Amendments, the midterm evaluation, documents on the actions taken in response to the midterm evaluation recommendations, semiannual project management reports, quarterly reports by the TA team, the Lessons Learned Reports of the World Council of Credit Unions (WOCCU), of the Agricultural Cooperative Development International (ACDI), and of Training Resource Group (TRG), and the audit and evaluation of American Institute for Free Labor Development (AIFLD). The team supplemented these reviews with extensive interviews with FDF management and staff, the project's technical assistance team, management and staff of cooperatives and federations assisted by the project, GOH officials and private sector individuals with interests in the credit union and agricultural cooperative sector, and USAID officials involved with the project.

FINDINGS AND CONCLUSIONS

The strength of this project has been good institutional analysis, and the most important tool to affect administrative and management change has been the packaging of technical and financial assistance conditioned on management and financial reforms. 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. The project has caused the cooperatives to adopt several fundamental changes in their operations which should increase their operational efficiency and profitability. The weakness is the lack of analysis of cooperatives as part of an agribusiness system.

Project Design. The design correctly identifies many of the development constraints present in the Honduran socioeconomic environment such as the lack of managerial and financial discipline prevalent among the small farmer organizations, compounded by a consistent pattern of conflict of interest and patronage at the upper levels of the organizations. The purpose of delivering inputs to agricultural producers was largely inappropriate for rural credit unions. For these unions the major focus should be on helping them become viable financial institutions. On the other hand, the design did not include a strategy for identifying technical constraints for those commodity systems with potential for aggregate productivity growth.

Financial Development Fund. 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. The problems identified in the midterm evaluation of the project with regard to the need to define the legal status of the FDF

continue to exist. Abandoning the original concept of working only through the second level organizations, resulted in successful assistance directly to small farmer cooperatives.

The FDF's future activities should be focused on the delivery of management skills and marketing services, and on using interest rates and fees equivalent to those determined by market fees when preparing financial stabilization plans; this means that many of the small farmer cooperative organizations will not be able to qualify for assistance. However, the use of market rates prevents the development of the well known distortions associated with subsidized credit programs. To achieve any semblance of self-sustainability in the long run, FDF must develop the ability to work with other donors.

Top FDF management is subject to an unusual level of policy-making input and direction. This has resulted in duplication of efforts and inefficiency in the decision-making process. There has been confusion of leadership roles within the FDF. Policy and managerial guidance should be provided through the board of directors of FDF, and management should learn to delegate responsibilities. The organizational structure of the project should be clarified to reduce and simplify the policy and decision making level.

Agricultural Cooperatives. The project is highly relevant in identifying critical constraints to the development of agricultural cooperatives and addresses these constraints through a thorough system of training, and administrative and management reforms. However, it is not giving 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 activities.

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. There has been an acceleration during the last year. The project has produced fundamental changes in management, business philosophy, operational efficiencies and capitalization programs; however, the project has only recently provided the bulk of assistance. Therefore, most of the impact on bottom line indicators is yet to be felt, and several Union of Agriculture Services Cooperative (UNIOCOOP) affiliates supported under the project continue to experience severe operational and financial difficulties.

Any follow-on project should retain the package approach of technical and financial assistance conditions on management and financial reforms, with a continuing focus on administrative and operational improvements for agricultural cooperatives. 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 America countries.

Credit Unions. The project has correctly identified the primary development constraints of credit unions as poor management skills and inadequate financial policies. 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 financial stabilization component has improved credit union financial management and has strengthened it by offering a conditional grant once credit unions have demonstrated their willingness to undertake necessary reforms. This component may have the most long-lasting effect of any of the project components. Nonetheless, there are two fundamental problems. First and most important, this mechanism rewards past failure, not past success by providing a direct grant to cover uncovered bad loans and accumulated operating losses. Second, there is a lack of transparency at the credit union level. Donations are not passed through the profit and loss statement, stabilization funds are simply registered as balance sheet adjustments. Therefore, it can be concluded that 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.

The Honduran Institute for Cooperatives (IHDECOOP). Audits carried out by this regulatory institution reveal a good level of technical skills that provided cooperatives with useful recommendations for improvements especially in the areas of internal controls, while also providing other interested parties with base information from which to draw realistic conclusions about the financial situation of the audited cooperatives. Audit reports are now meaningful and useful tools. However, even at its best, IHDECOOP only had adequate resources to audit a small proportion of the cooperatives under its jurisdiction (about 10% each year). When project support for strengthening of IHDECOOP's auditing and registry capabilities was finished IHDECOOP's situation has deteriorated sharply in the last two years due to reduced GOH funding. There has been a lack of leadership contributing to serious budgetary problems. Even so, IHDECOOP still has a core of well qualified and reasonably dedicated auditors.

PRINCIPAL RECOMMENDATIONS

1. A rapid determination of the FDF's permanent legal structure is required and the FDF should be removed from FACACH and its own legal status defined.
2. The FDF should begin to use interest rates and fees equivalent to those determined by market forces when preparing financial stabilization plans.
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 liaison with and support from USAID/Honduras.
4. Any follow-on project should:
   - continue to utilize FDF as its implementing agency
   - retain the major project components largely unchanged
   - address the constraint of limited entrepreneurial ability in the Honduran agricultural sector by including foreign technical advisors with proven business development skills
   - give greater emphasis to the profitability indicators
   - insist on transparency of credit union financial reports to improve member awareness of the financial performance of their credit unions
   - support the strengthening of IHDECOOP to carry out its auditing functions by eliminating its promotional and technical assistance activities
5. The project should concentrate on providing financial solutions through the delivery of a wide range of technical assistance on a self-sustaining basis.
6. IHDECOOP should publish key indicators reflecting the solvency, liquidity and profitability of the cooperatives and federations that it audits.

Please refer to Attachment "C" for a complete list of recommendations and corresponding Mission response.

LESSONS LEARNED

1. Placing the implementing institution within the legal shell of one of the beneficiaries may bring significant negative effects: (1) false expectations from the beneficiary; (2) complicated management of funds; and (3) the appearance to other beneficiaries that FACACH occupied a privileged position. Other alternatives should have been considered.
2. Involving owners (approval by the General Assembly) in financial stabilization is a sound practice. This is key to the acceptance of the program by the management.
3. Working with affiliates and second level organizations simultaneously increases project efficiency.
4. The approach of selecting participating organizations based on an analysis of potential achievement of self-sufficiency and on the competitiveness of the cooperative in its current and potential market is cost-effective.
5. The FDF should clearly identify any subsidy to the cooperatives. Identifying subsidies promotes transparency of accounting operations, and avoids incentives for subsidy-seeking behavior.
6. If sustainability is an important goal, financial stabilization, as designed, should only be given once to a Credit Union.

ATTACHMENTS

K. **Attachments** (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

1. Attachment A. Outline of Basic Project Identification Data.
2. Attachment B. Final Evaluation of the Small Farmer Organization strengthening Project
3. Attachment C. Recomendations of the Evaluation Identified by page and the Actions to be taken with estimated completion date.

Note: This Evaluation Report was submitted to AID/Washington on July 6, 1992.

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

COMMENTS ON THE EVALUATION

* The "final" evaluation was carried out 18 months before the PACD of the project in order to provide input into the design of the follow-on project. The evaluation's findings did cause the Mission to extend the PACD of the SFOS project for two years to finish its work with the credit union system, the legal chartering of the FDF, and the strengthening of IHDECOOP. A final impact evaluation of these activities will be scheduled in late 1995.

* The full scope of the evaluation and the complexity of the SFOS project artificially restricted the depth of analysis in certain key topics, such as: 1) the need for and nature of, prudential regulation, 2) the use of the financial stabilization mechanisms in restructuring agricultural cooperatives, 3) the technically optimal definition of key financial indicators to measure operating efficiency and institutional reserves, and 4) the computing activity that is being implemented in the credit unions. To overcome the limited analysis of the project's computing activity, the Mission contracted a separate study by AI/FA/IRM/CLS in November 1992.

* For purposes of the Small Farmer Agribusiness Development (SFAD) project design, the Mission was most interested in evaluating the SFOS Project in terms of 1) the strengthening of agricultural cooperatives, and 2) the effectiveness of the FDF in carrying out the managerial and financial restructuring activities.

* FDF and USAID have reviewed the evaluation results, and determined that the conclusions and recommendations are appropriate, and discussed and approved a plan for implementing the recommendations.

ATTACHMENT A

OUTLINE OF BASIC PROJECT IDENTIFICATION DATA

1. Country: Honduras

2. Project Title: Small Farmer Organization Strengthening

3. Project Number: AID-522-0252

4. Project Dates:

   a. First Project Agreement: September 26, 1985
   b. Final Obligation Date: FY--1992
   c. Most recent Project Assistance Completion Date (PACD) : September 30, 1995

5. Project Funding: (amounts obligated to date in dollars or dollar equivalents from the following sources)

a.	AID Bilateral Funding	US$ 17,625,000
b.	Other Major Donors	US$
c.	Host Country Counterpart Funds	US$ 22,465,530
	TOTAL	US$ 40,090,530

6. Mode of implementation: Implementing Agencies: Financial Development Fund (FDF), World Council of Credit Unions (WOCCU), National Cooperative Business Association, (NCBA), Agricultural Development International (ACDI) and Latin American Confederation of Credit Unions (COLAC).

7. Project Designers: World Council of Credit Unions (WOCCU), Ministry of Economy and USAID/Honduras.

8. Responsible Mission Officials: (for the full life of the Project).

   a) Mission Director (s): Anthony Cauterucci (1982-11/86)
      John Sanbrailo (11/23/86-8/20/91)
      Marshall Brown (8/17/91-to present)

   b) Project Officer (s): Barry Lennon (9/85-9/86)
      Lee Arbuckle (9/86-to present)

9. Previous Evaluation (s): October 1989

Attachment "C"

Recommendations of the Evaluation identified by page and the Actions to be taken with the estimated completion date.

I. AREA OF GENERAL PROJECT MANAGEMENT.

A. **Issues related to the Financial Development Fund.**

1. P. ii and P.7. It is recommended that the FDF/Financing Cooperation for Agricultural Cooperatives (FINACOOP) be established as an independent trust. The trustee should be a private bank institution with a reputation for financial competence and honesty. 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 should initially be vested completely with the Honduran Government.

   COMPLETED. The follow-on project, the Small Farmer Agribusiness Development (SFAD) Project, included a stipulation that the FDF/FINACOOP be legally chartered by December 31, 1992 obviating the intermediary step of setting up a trust. The Confederation of Honduran Cooperatives (CHC) gave its approval to charter the FDF/FINACOOP as an independent institution and FDF/FINACOOP was chartered on December 29, 1992 as FINACOOP. (Action No. 1 on face-sheet)

2. P. ii, The trust document [that defines the legal status of the FDF/FINACOOP] should set forth clearly the mission and goals, and the responsibilities of the trustee with regard to the performance of the FDF/FINACOOP, and the monitoring of internal control and reporting functions.

   COMPLETED. A task force assembled by the CHC, with technical participation of AID, has developed the mission, goals and responsibilities of the FDF/FINACOOP and procedures for monitoring the internal control and reporting functions as part of the policies and procedures of the newly chartered FDF/FINACOOP. The task force formally presented the regulations to the GOH and AID on December 15, 1992.

3. P. 7 An RFP-type of document should be developed and sent to banking institutions requesting technical and cost proposals for the management of the trust.

COMPLETED. The GOH created a Technical Group to study alternative legal structures being considered. This group recommended structuring FINACOOP as an auxiliary cooperative organism, as described in the Honduran cooperative law. (Action No. 1 on face-sheet)

4. P. 7 With regard to the BANADESA trust fund for UNIOCOOP affiliates, the FDF/FINACOOP should not disburse the funds for the negotiated price of the Fruta del Sol debt pending the passage of the Agricultural Modernization Law.

   ONGOING. This recommendation was not followed because the stabilization program of Fruta del Sol couldn't be delayed. The SFAD Project agreement addressed the recommendation by establishing a special covenant requiring that GOH remove the model cooperative trust fund from BANADESA and place the funds in a new trust fund within a period not to exceed 90 calendar days from the date of the creation of FINACOOP. (Action No. 2 on face-sheet)

5. P. ii, Establishment of mission statements, objectives and strategic plans should continue to be emphasized both at the cooperative level and at the FDF/FINACOOP. Emphasis on internal and financial controls will provide the management information systems needed for management to carry out the decision-making process effectively.

   ONGOING. Project management has emphasized internal and financial controls in the administrative analysis conducted by Morales Palao. The goal is that FINACOOP respond to all of the recommendations of Morales Palao by February 28, 1994.

   The SFAD project enables the FDF/FINACOOP, in part through the Technical Assistance Contractor, to further train FDF/FINACOOP and cooperative employees in strategic planning, agricultural technology, and product marketing.

6. P. iii, also P. 9 and 26, Any follow-on project should continue to utilize the FDF/FINACOOP as its implementing agency.

   COMPLETED. The management and financial restructuring activities of the SFAD project will be implemented by FDF/FINACOOP. (Action No. 5.b on face-sheet)

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7. P. iii, The goals and objectives of the [SFAD] project should be communicated to FDF/FINACOOP in such a way that there is no doubt that project goals and FDF/FINACOOP goals are the same, and the manager of the FDF/FINACOOP should also have clear goals.

COMPLETED. The SFAD amplified project description was reviewed in detail with the new manager and staff of the FDF/FINACOOP.

8. P. iii and P. 9, The role of the Board of Directors of the FDF/FINACOOP should be strengthened [so that the Board] is fully responsible for achieving project goals and is held accountable to the Honduran Government, USAID, and the client cooperatives for any shortcomings in project execution.

COMPLETED. During 1992, the process of Mission approval for FDF/FINACOOP actions was simplified to strengthen approval authority of the FDF/FINACOOP board and to emphasize FDF/FINACOOP management accountability for results. Quarterly reviews of results versus plan will be required of the FDF/FINACOOP by project management.

Having followed this process the board dismissed the General Manager, advertised for and selected a new manager to begin work as of November 1, 1992.

9. P. iv, The role of the USAID Project Manager should be to monitor the project through participation on Board of Directors of FDF/FINACOOP and to provide 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/FINACOOP action.

COMPLETED. Project management applied this approach beginning in 1992. The principal focus of the project manager is now the FDF/FINACOOP's quarterly report of results compared to plan. This includes corrective adjustments in response to the administrative review of Morales Palao. (Action No. 4 on face-sheet).

10. P. iv and also P. 9, The FDF/FINACOOP should concentrate on providing financial solutions through the delivery of a wide range of technical assistance on a self-sustaining basis. In order for the FDF/FINACOOP to measure itself in terms of its level of sustainability, it must develop accounting and management information systems 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 deserving small farmer cooperative

organizations, the accounting and management information systems of the FDF/FINACOOP should clearly identify, in a transparent manner, how the subsidy is being funded.

ONGOING. With guidance from project management and Price Waterhouse, by February 28, 1994 FDF/FINACOOP will revise its accounting and management information systems in order to report more clearly on placements and balances of institutional support, financial stabilization, and credit funds.

The GOH and FINACOOP signed an agreement to manage the project's funds on June 26, 1993. All financial restructuring funds are now priced at market rates.

B. Issues Related to Agricultural Cooperatives

1. P. 12, In the design of the SFAD Project, the successful elements of the Project addressing the constraints to institutional development, including management, financial stabilization and investment credit, should be retained.

   COMPLETED. The restructuring component of the SFAD Project contemplates the continued use of management restructuring actions (planning, accounting, administrative procedures and internal controls, computerization, and business policies). SFAD also contemplates financial restructuring actions including formal workout agreements with the restructuring of existing liabilities, member capitalization programs and other covenants which lead to greater solvency of the farmer owned businesses.

2. P. 12, 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.

   COMPLETED. The Mission addressed this in part by insisting the SFAD project only work with agricultural cooperatives thereby making possible a much stronger emphasis on the agricultural commodity system.

   The SFAD project design objectives have evolved from the institutional objectives of the SFOS project to a focus on objectives stated in terms of

production, operating and financial efficiency, and foreign exchange generation. For the implementation of the growth component of the SFAD project to be successful, investment opportunities will need to be analyzed in the context of agricultural commodity systems.

3. P. 12, The follow-on project should address the constraint of limited entrepreneurial ability by providing foreign technical advisors with proven business development skills capable of advising on leveraging of available entrepreneurial skills through developing business partnerships, joint ventures, contractual arrangements with successful business, etc.

   COMPPLETED. In evaluating proposals for the Technical Assistance contract for the SFAD Project, the experience of the proposing firms and their principal advisors in operating successful agricultural enterprises was considered. Those candidates with proven business development skills were contracted by USAID.

4. P. 31, The FDF/FINACOOP should develop a system for selecting cooperatives to participate in the project's activities based on an analysis of the reasonable probability of achieving self-sufficiency.

   COMPLETED. The SFAD Project design includes profitability criteria for selecting the cooperatives that will participate in the project's activities. (Action No. 5.C on face-sheet).

5. P. 26, The Project should dedicate more resources to the coffee sector to capitalize on the initial success and a well conceived strategy.

   ONGOING. By March 30, 1994 the TA Team will develop a strategy to be implemented by the agricultural cooperatives of the coffee sector.

6. P. 27, It is necessary to contract foreign technical advisors for assistance in the type of agribusiness and investment analysis that should be conducted.

   COMPLETED. The SFAD Technical Assistance Team includes a Financial Management Specialist and three Agribusiness Technicians.

C. Issues Related to Credit Unions

1. P. 34, P. 46, The follow-on project should retain the major program components largely unchanged and should give greater emphasis to the profitability indicators in all of its communication with member credit

unions and FACACH.

COMPLETED. The SFOS Project extension signed in June, 1992 maintains the program components. These components are being implemented by the Financial Services Unit (FSU) created in May 1992.

The FSU, defined profitability indicators to evaluate the Credit Unions. (Action No.5 C on face-sheet).

2. P. 38, 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.

ONGOING. The Manager of the FSU, with the support of the Credit Union Advisor, defined the vital business entrepreneurial messages which should be included in training materials by April 30, 1994.

The training specialist of the FSU will have reviewed the FSU's training materials to identify where and how the vital messages should be included by February 28, 1994.

The training materials will have been revised to include those changes by May 30, 1994.

3. P. 40, If FDF/FINACOOP seeks to subsidize training activities, then it should provide funds to individual credit unions and let them seek their own training provider to force FACACH to provide a program that would more nearly respond to the credit union's needs.

COMPLETED. The Credit Union Advisor developed a business plan for a sustainable long-term training program based on fee income from the sale of course material and the offering of courses.

4. P. 38, The Project extension should straightforwardly include all open Honduran credit unions.

COMPLETED. Mission decision was to permit the participation of open bond urban credit unions of which there are six. This decision was formalized through Amendment No. 8.

5. P. 39, P. 45, Operating support for FACACH should be eliminated from any follow-on project; only short term TA in the area of financial services to its members and insurance schemes should be provided in the formal

short-term technical assistance.

COMPLETED. Project support to FACACH ended with the 1992 budget. FACACH is self-sufficient.

Technical assistance to FACACH funded by the SFOS extension will be limited to short-term consultancies in the areas of financial services and insurance schemes.

6. P. 45, The FDF/FINACOOP should continue to require quarterly reports from FACACH on the status of key financial indicators until the ten year stabilization agreement has terminated.

   COMPLETED. The project manager required the FDF/FINACOOP manager to carry out this action, including the commitment to inform the affiliated credit unions.

7. P. 46, Technical assistance to the FACACH system should be oriented toward improving the responsiveness of the credit union movement to business opportunities in a constantly evolving context. This should include market studies, feasibility studies for new financial services for members, and studies on operating efficiencies and market interest rates.

   ONGOING. The SFOS project extension includes resources to finance short-term consultants and studies required by these activities in 1993-94.

8. P. 46, Any follow-own project should insist on transparency in the interest of improving member awareness of the financial performance of their credit unions.

   ONGOING. By June 30, 1994 the Credit Union Advisor will develop a new mechanism to register all the project support based on transparency.

9. P. 46, The Project should train a cooperative analyst on methods of ferreting out hidden problems that affect financial performance and how to take corrective measures before problems become too serious to handle effectively.

   COMPLETED. The implementing unit, the FSU, established a training program given not only to cooperative analysts, but also to the board of directors and administrative staff, because key financial indicators are the underlying reason to monitor the performance of Credit Unions. In addition, the FSU developed and distributed a technical bulletin defining a complete set of indicators with illustrative examples.

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II. AREA OF THE FDF MANAGEMENT

A. **Issues related to FDF** (Now FINACOOP)

1. P. 4, The FDF/FINACOOP should begin to use interest rates and fees equivalent to those determined by market forces, when preparing financial stabilization plans.

   COMPLETED. FDF/FINACOOP is using interest rates determined by market forces in credit operations. The follow-on project requests that all financial restructuring operations be carried out using rates of interest periodically adjusted to market rates (Action No. 3 on face-sheet).

2. P. 4, The FDF/FINACOOP's approach of assisting only those Small Farmer Organizations that demonstrate genuine interest in carrying out effective changes should be preserved.

   COMPLETED. This approach continues to be applied.

3. P. ii, Emphasis on internal and financial controls is necessary to provide information needed for management to carry out the decision making process effectively.

   ONGOING. Two steps have been taken: 1) FDF/FINACOOP contracted an information specialist to set up an information system with improved internal and financial controls and improved reports. 2) USAID contracted Morales Palao to conduct an evaluation of the administrative capability of the FDF/FINACOOP. All the recommendations will be closed by March 30, 1994, as 30 of 36 recommendations have already been completed.

4. P. iii, Because the FDF/FINACOOP is essentially a financial institution, the software to register its accounting operations should be appropriate for financial institutions.

   ONGOING. The studies conducted by the information specialist and Morales Palao have addressed this issue. All the recommendations have been implemented.

5. P. iv, The accounting and management information systems of the FDF/FINACOOP should clearly identify, in a transparent manner, how the subsidy to the cooperatives is being funded.

COMPLETED. The study conducted by the information specialist recommends actions needed to develop an accounting system which records all resources provided to the cooperatives. Only institutional support, a grant, will be provided at below market rates. Beginning in 1993 quarterly reports note the disbursement of any funds at below market rates.

6. P. iii, The FDF/FINACOOP should continue developing its personnel to take over the roles currently played by the foreign technical assistance team.

   ONGOING. By March 31, 1994 the FINACOOP will present a training program to continue developing its personnel so that by the PACD of the project they will be able to take over the roles played by the foreign technical assistance team.

B. Issues related to Agricultural Cooperatives

1. P. ii The FDF/FINACOOP'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 [from external sources].

   COMPLETED. Mission feels that these activities should be coordinated between FDF/FINACOOP and TA Team. The SFAD Project assessed potential technical assistance contracts to provide resident and short-term technical assistance and some training needed by the agricultural cooperatives and by the FDF/FINACOOP to achieve the project objectives. FDF/FINACOOP is responsible for ensuring that training take place.

2. P. 26 The area of greatest weakness is the analysis of cooperatives as part of an agribusiness system.

   COMPLETED. The SFAD project assessed potential technical assistance contractors on their ability to analyze the role of agricultural cooperatives as part of a larger agribusiness system.

3. P. 26, Project effectiveness should be increased for agricultural cooperatives by emphasizing the investment credit component including better analysis of business opportunities, more aggressive pursuit of opportunities, and willingness to let unsuccessful cooperatives fail.

COMPLETED. FINACOOP created a financial department to manage all credit funds including financial stabilization funds. The TA team of the SFAD project will address analysis of business opportunities by the Agribusiness Implementing Unit (AIU). The Project will not work with unsuccessful cooperatives.

4. P. 26, The Project and FDF/FINACOOP should more fully develop and pursue the strategy of developing UNIOCOOP as a wholesaler of products and services to its affiliates. UNIOCOOP needs to analyze its competitive position in the coffee and fertilizer markets, develop a better business plan, and attract affiliates as legitimate business partners.

   ONGOING. Short-term Technical Assistance was contracted to advise UNIOCOOP on the development of a strategic plan in October, 1992, which defined UNIOCOOP's business mission as a wholesaler of products and services. The plan is now being implemented and results will be assesed by the end of 1994.

III. AREA OF THE MANAGEMENT OF THE FINANCIAL SERVICES UNIT

A. Issues related to credit unions

1. P. 34, The Project should give greater emphasis to the profitability indicators within the CAMEL financial evaluation system. Profitability indicators should be based on adjusted income statements to measure real self-sufficiency, operating expenses relative to loan portfolios, and operating expenses compared to productive assets.

   COMPLETED. The Credit Union advisor prepared an analysis and made recommendations for improved profitability indicators for the use of credit unions and FSU technical personnel.

2. P. 38, Less emphasis should be placed on growth to measure the project's impact.

   ONGOING. To date the project has emphasized both growth and reserves. Added emphasis will be placed on the CAMEL indicator "reserves as a percent of total assets". Since October of 1993 a set of profitability indicators started to be implemented by the FSU.

3. P. 44, No credit union should receive more than one financial stabilization agreement.

COMPLETED. This has been the project's practice and is the intention for the future.

4. P. 44, The Project should provide credit unions with Technical Assistance to management training, advice on new business opportunities, infrastructure support, publicity, central liquidity facilities and good external audits.

ONGOING. The strategy and approach of the FSU includes all these elements. The design and implementation of the central liquidity facility will result from dialogue of the FDF/FINACOOP and credit unions. The external audits are expected to be done by IHDECOOP in the restructuring strategy to be developed by March 30, 1994.

5. P. 44, Strengthen the use and understanding among credit unions staff of CAMEL indicators of financial performance, especially those related to profitability. The relative performance of each credit union measured by these indicators might be shared with other credit unions to promote a positive sense of competition.

COMPLETED. All credit unions with stabilization agreements are required to develop objectives expressed in terms of the indicators to measure their progress toward financial stabilization. Beginning in November 1993, the FSU with the support of the technical advisor will carry out a semiannual review of the performance of each credit union's indicators.

6. P. 44, The Project should provide technical assistance support to implement the software programs for credit unions.

COMPLETED. AID/W/IRM was asked in December 1992 to review the results of the pilot test of credit union software installed in 2 credit unions in May, 1992. A detailed implementation plan for the installation of hardware and software was completed on August 20, 1992. Implementation of the plan began in January, 1993.

7. P. 44, The Project should maintain, or even increase, the institutional support investment and broaden conditionalities to include financial reforms sought by the financial stabilization component.

ONGOING. The resident advisor reviewed all the financial stabilization

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agreements to reduce their length and to more clearly define the financial benchmark to be achieved.

8. P. 44, Base any follow-on project on transparency in dealings with the credit unions and their members.

   ONGOING. The SFOS Project will analyze how to best define and report on: 1) the risk adjusted net value of member shares, and 2) the earnings of the credit unions as a per cent of assets. This action is expected to be completed by June 30, 1994.

10. P. 46, 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.

    ONGOING. A study of credit union compensation practices was completed on October, 1992 and communicated to the credit unions and FACACH.

    The FSU will advise FACACH on the development of a model personnel policy for credit unions by March, 1994.

    FACACH itself will be advised to consider the issue of personnel recruitment and compensation when FACACH updates its strategic plan in June 1994.

B. Issues related to FACACH

1. P. 39 Operating support for FACACH should be eliminated from any follow-on project; only short-term TA in the area of financial services and insurance schemes should be provided in the formal short-term technical assistance.

   COMPLETED. Project support to FACACH ended with the 1992 budget. FACACH is self-sufficient.

   Technical assistance to FACACH funded by the SFOS extension will be limited to short-term consultancies in the areas of financial services and insurance schemes.

2. P. 40 The bulk of continuing support provided to FACACH should be to help FACACH become a competitive service provider.

ONGOING. The scope of work of any consultancy will be focused on improving FACACH's efficiency as a provider of services to credit unions.

3. P. 45 The project may provide initial supplementary funding in order to recruit a top rate general manager for FACACH with the requisite banking skills, until this manager develops the necessary profitable activities that will cover his/her salary.

   ONGOING. When FACACH completes its new strategic plan by the end of 1993 the above recommendation will be analyzed and if the manager is changed the recommendation will be acted upon.

IV. AREA OF IHDECOOP

1. P. 50, 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.

   ONGOING. The project has provided technical support to GOH and IHDECOOP in developing a restructuring plan which incorporates all of the above points. It is expected that the restructuring will be completed by June 30, 1994. (Action No. 6 on face-sheet).

2. P. 50, IHDECOOP should relinquish its monopoly over external audits of cooperatives and should not be expected to provide effective enforcement of its findings and recommendations.

   COMPLETED. GOH has been advised that IHDECOOP's authority should extend only to setting the standards for external audits and not in having exclusive authority to carry them out.

   Enforcement of audit findings and recommendations will only be a function of IHDECOOP if a permanent financial stabilization fund for credit unions is placed within IHDECOOP. The independence of enforcement actions will be deliberated upon in 1994 when the creation of a financial stabilization fund is considered.

3. P. 50, IHDECOOP should require that external audits of cooperatives, federations, the FDF/FINACOOP, 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 listed, along with the names and bonding status of cooperative managers and members of boards of directors, as well as any pending legal actions.

ONGOING. These recommendations have been made to the GOH and IHDECOOP in the restructuring of IHDECOOP to be completed by June 30, 1994.

4. P. 51, The FDF/FINACOOP 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.

   COMPLETED. The training has already taken place. On November 30, 1992 project management recommended to the FSU that matching grants for IHDECOOP audits be included as part of institutional support grants.

5. P. 51, The FDF/FINACOOP 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 conditions 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.

   ONGOING. Once IHDECOOP'S restructuring plan is being implemented, the first recommendation will be responded to by making financial stabilization indicators, rights and responsibilities known to membership. The second recommendation has been responded to by standardized accounting manuals for credit unions and agricultural cooperatives.

6. P. 51, The FDF/FINACOOP 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.

   COMPLETED. This is the established practice.

7. P. 51, The FDF/FINACOOP 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

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is adequately aware of the risks involved.

COMPLETED. This recommendation was made known to the new manager of the FDF/FINACOOP, and the new agreements request that all managers present bonding insurance.

8. P. 51, Further support to IHDECOOP under the current Project or new projects should be conditioned on acceptance by the GOH of the majority of the foregoing recommendations, especially those pertaining to the structure and operations of IHDECOOP.

ONGOING. A PIL has been drafted to approve project support, using counterpart funds, for the restructuring of IHDECOOP as a fee supported entity responsible for the registry of cooperatives and setting of accounting and audit standards. According to the proposal presented IHDECOOP will have the authority to conduct audits as well. Project funds to finance these activities will only be disbursed if IHDECOOP fulfills a detailed set of conditions. (Action No. 6 on face sheet).