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Quarterly Report

First Quarter 1994

Honduras

Agribusiness Development for Small Farmers

Project Nº 522-0383-C-00-3266

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USAID/Honduras

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Agribusiness Development for Small Farmers
Project 522-0383-C-00-3266

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AGRIBUSINESS INVESTMENT UNIT
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Difficulties encountered and solutions proposed

Planning

1. The planning process at *FINACOOP* took up the first two months of the quarter leaving only three weeks in March for implementation of the *plan*.

2. The *plan* adopted by *FINACOOP* emphasized a series of short-term steps covering, say, the second and third quarters of 1994. By the end of this period,
   - its clientèle might consist of a smaller number of nonetheless more viable *businesses*;
   - through the intensive delivery of professional services, *FINACOOP* might revive certain *businesses* that are today experiencing serious difficulties;
   - it might be able to consolidate at least one of the system "anchors": *UNIOCOOP* or *DICOMCAFÉ*;
   - it might be able to recover part of the problem loan portfolio for the benefit of viable *businesses*; and
   - it might be able to benefit from a centralized data base.

3. However, the *plan* has a specifically short-term focus and does not respond to the medium-term proposals presented in the *Unit's work plans*.

4. Furthermore, *FINACOOP* proposes recruiting a new general manager by June or July of 1994.

☐ Therefore the *Unit* will concentrate on supporting *FINACOOP* in the implementation of the *strengthening component* of the *project* until the third, and probably the fourth quarter of 1994. Simultaneously it will be ready to discuss with *FINACOOP* its medium-term proposals when the moment is right.

Growth Component

5. *FINACOOP'S* plan speaks only of "consolidating" *COHORSIL*, the only *business* whose management performance has complied with *project* requirements. During the fourth quarter, the *Unit* analyzed *COHORSIL'S* situation and, based on quantitative measures, requested the general manager of *FINACOOP* either to certify the *business's* "graduation" or inform it clearly what it had to do in order to "graduate". Up to this time, *FINACOOP* has not prioritized its first "graduation".

- ☐ The *Unit* will continue taking the initiative in pressing for *COHORSIL'S* graduation.

Project Performance Measures

6. *FINACOOP'S plan* included the installation of a data base as a task for the Computer Department. Notwithstanding the latter's role as coordinator of this project, bringing it about needs the collaboration of *FINACOOP'S* main divisions, especially Agribusiness and Auditing.

- ☐ During the second quarter of 1994, the *Unit* will take the initiative with the objective of having *FINACOOP* prioritize this task with the goal of preparing key performance measures during the third quarter of 1994.

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I—Management Counsel to *FINACOOP* for the Improvement in the Execution of *Farmer-owned Business* Strengthening and Restructuring

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Prioritizing Service to *FINACOOP'S* Owners	Graduate *COHORSH* during the second quarter.	Preliminary meetings to explain the *growth component* and sound out the *business's* intentions.	The management group is aware of the graduation procedure and the objectives of *growth*.	Disseminate the **key factors** in the *business's* success to others.
	Formalize *COMARCA'S* management.	Risk management: talk on the theme emphasizing coffee trading by agribusiness cooperatives.	The *business* fixed the price and basis for almost all its 1993-1994 crop coffee.	New emphasis on *options* in order to guarantee a floor price with upside potential if market rises.
		Design of the format for a standard budget, and counsel to the management group in the procedure for preparing it.	Format designed—pending managerial participation to confirm the assumptions and parameters.	Complete the counseling on budget preparation. Training in break-even point analysis.

Version: April 17, 1994

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Prioritizing Service to *FINACOOP'S* Owners	Formalize *COMARCA'S* management.	Design of format for *market position* to report on the *business's long and short position*.	Formats presented to management group.	Counsel in the preparation and interpretation of the reports.
	Formalize *COMARCA'S* management—through information management.	Counsel on the installation of *TOLMAN, FUTURESOURCE* and *FASTCAFÉ* emphasizing their use in *risk management*.	By incorporating the management information tools into its management, the *business* begins maintain equilibrium between trading in physicals and futures.	Continue the slow and progressive process of increasing the awareness of the value of information in management.
		Counsel to the *oficial de proyecto* on the distribution and use of the network work stations.	The *business* is aware of the environmental requirements for installing computer equipment.	Collaboration during the task of environmental upgrading and computer installation.
	Formalize *COMARCA'S* management.	Interviews with field personnel on the profitability of coffee farms and the system for approving crop and other loans to members.	Filed personnel prepared for follow-up work.	Analysis of crop and other loan portfolio. Training of field personnel on the use of analytical instruments at the farm level.

Version: April 17, 1994

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Analyze the Economic and Financial Competitive-ness of 5 *Businesses* and Restructure Those That Are Competitive	Separation of *UNIOCOOP* into guild and business activities.	Building a consensus around the need to prioritize the repositioning of *UNIOCOOP*.	Advisors prepared for campaign during second quarter.	Sequential program: • preparation of proposal to separate guild/business activities, and • preparation of strategy for fertilizer importer.
	Establish competitiveness of *FRUTA DEL SOL*.	None	—	Counsel the *oficial de proyecto ad hoc* following his investigation of the *business*.
	Establish the competitiveness of *MAYA OCCIDENTAL*	Investigation of the *business's* situation and outlook.	The *business* is very weak: membership and sales down, assets concentrated in grains, high indebtedness.	Analysis of the potential of the input stores; scrutiny of loan portfolio with a view to selling off rice assets.
	Establish the competitiveness of *CANDELARIA*.	Analysis of financial situation and main causes thereof. Presentation to management group proposing they analyze the possibility of resolving the causes as a prerequisite for further analysis.	The management group is analyzing the proposal made by the *FINACOOP work group*.	Continue the analysis dependent on response of management group.

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Analyze the Economic and Financial Competitive -ness of 5 *Businesses*	Monitor *DICOMCAFÉ*.	Prepare a proposal for a strategy to restructure the *business's* finances.	Proposal to management group.	Continue monitoring and searching for a solution to the finance problem.
Identify and Select New organiza-tions	*COOPAVIHL*	Counsel in the preparation of a business analysis of the *business*.	Draft of analysis prepared.	Continue counseling on management restructuring of the *business*.
	COAVAL	Analysis of the *Business's* needs, including those related to dairy products and fruit juices. Offer re management control system not accepted by *business*.	The *business* awaits a proposal from *FINACOOP* advising which services it will offer.	Counsel *FINACOOP* re proposals of: • management information, • a processing technician, • merchandising.
	ECARACI	Presentation of a management control system.	Project completed.	Consideration of request for counsel on land valuation and merchandising fruit through *Standard Fruit*.

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Identify and Select New organiza-tions	*TRINITECA*	None.	—	Counsel the *oficial de proyecto* as he investigates the *business*.
	SAN JUAN DE INTIBUCÁ	None.	—	
Recover Problem Loans	Establish an effective and legal procedure.	Preparation of a draft memorandum outlining proposed procedures for problem loan recovery program.	Memorandum submitted to *mission*, awaiting response.	• Meet with Honduran legal counsel. • Prepare proposal of detailed procedures for submission to *ARCA* Committee. • With *ARCA* Committee approval, begin loan recovery.
Regulations for *ARCA* and Investment Committees	• Design policy. • Analysis and recommendations on composition, goals and responsibilities of Investment Committee	Prepared memorandum with suggestions regarding make-up of *ARCA* Committee as well as outline of credit and financial restructuring approval procedures.	Memorandum submitted to *mission*, awaiting response.	Counsel *project manager* in the preparation of the draft of board resolution approving the creation, composition, authority and responsibilities of *ARCA* Committee.

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Improve *FINACOOP'S* Service Delivery System	Design appropriate procedures and train committed personnel in their use.	• Preparation and transmission to *FINACOOP* personnel on the form *Analysis of Environmental Conditions and Information Volume* in *businesses* in which equipment is to be installed. • Training head of computer group during visits to 6 *businesses*.	• The form was used during visits to *COMARCA*, *COOPAVIHL*, *ECARACI*, *COAVAL*, *SANMARQUENA* and *CANDELARIA*. • The current version is rigid but should be adaptable to the particular businesses of the *firm*.	• Counsel information group on: • revising the standard format of the form, and • quantifying technical assistance that the *businesses* will receive depending on the size of the installation of equipment and programs.
Design and Implement a Management Control System	Install a data base that can assist the *businesses* served by the *project*.	Initial conversations with the head of the Agribusiness Division to define data elements to be included int he base. Establish contact with *SecPlan*, Central Bank, *ADAI* and *Proexag*.	Preparation of a document that organizes and relates the information necessary to monitor the *businesses* according to *project* requirements. Agreement with *SecPlan* to receive an electronic copy of export statistics.	Initiate planning and implementation of the program for monitoring the *businesses*. Publication of concrete results from the different data bases.

Objective	Goal Set for Quarter	Action	Achievements during Quarter	Actions Planned for Next Quarter
Observa-tional Trips	Familiarize *businesses* with similars in U.S.A. and Latin America.	Accompany personnel from *COOPAVIHI.* to the *Southeast Poultry Show and cooperative suppliers of feed ingredients.*	Trip carried out.	---

AGRIBUSINESS INVESTMENT UNIT				
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2—Implementation of *Growth Component*				
Objective	**Goal Set for Quarter**	**Action**	**Achievements During Quarter**	**Actions Planned for Next Quarter**
Begin Delivery of Professional Services to "Graduate" *Businesses*	Establish a service policy for clientèle.	Analyze *project* documents and prepare a general business policy.	Present the *growth component* to *COHORSIL*.	Prepare a preliminary document on *growth*.
	Prepare an analysis of the produce system.	Literature search and collection of statistics on produce and preparation of multiple presentations.	Transfer to the *Unit* of *SecPlan's* export data base.	Analysis of the produce system for presentation to *COHORSIL*.
	Synchronize the tasks of the *Unit* with the planning cycle of future graduates.	Synchronize the *Unit's* tasks with those of the *businesses* and of *FINACOOP*.	The *oficial de proyecto* of *FINACOOP* and the *Unit* made the first contacts with *COHORSIL*.	Coordination of the tasks of *strengthening* with those of *growth*.

Coffee Price Differentials

The following section reports on the differential between the *delivered New York* price and the *FOB Puerto Cortés* price paid to date to cooperative Honduran exporters, advised by *FINACOOP*, for 1993-1994 crop coffee. The data concerns *COMARCA* only since *DICOMCAFÉ* has been virtually inoperative.

The data shown represent the **intrinsic quality differential** that reflects the altitude, soils and climate where the coffee is grown. *COMARCA'S* growers, for the most part, produce *strictly high grown* coffee that is prepared to the *European standard* and sold principally to German importers. This quality is almost comparable to Guatemalan and Costa Rican *strictly hard bean* coffee that typically trades at a premium to Honduran coffee. **One goal of the *project* is to reduce to thirty percent of its value at the start of the *project* the difference between the Guatemalan/Costa Rican differential and the differential for Honduran cooperative exporters.**

Differentials: New York — FOB Puerto Cortés
(U.S.$ per short cwt)

Month	GUATEMALA *strictly hard bean*	COSTA RICA *strictly hard bean*	Average GUATEMALA & COSTA RICA	HONDURAS *strictly high grown*	HONDURAS difference	*COMARCA* differential	*COMARCA* difference
December 1993	+4/+5	+4	+4.25	-2.25 (-2/-2½)	**6.50**	-2.75	**7.00**
January 1994	+4.50	+6	+5.25	0	**5.25**	-1.25	**7.25**
February 1994	+8	+6/+9	+8.00	+1.50 (+1/+2)	**6.50**	+2.00	**6.00**

Difference between Differentials

As may be noted, the difference between the average of the Guatemalan and Costa Rican differentials and the Honduran differential was $6.50 per short hundredweight (cwt) in December and February, but dropped to $5.25 in January. *COMARCA'S* performance, comparing it to the Honduran market differential, improved from a negative difference of 50¢ in December to a positive 50¢ in February—the month in which it fixed the differential for most of its export volume.

Greater Profitability and Capitalization of *Farmer-owned Businesses*

Farmer-owned Business	Year Ended	Profitability: Return on assets	Profitability: Return on equity	Volume of Business *(Lempiras)*	Ratio: Equity/ Assets
COHORSIL	*12/31/92*	8.8%	15.3%	8,426,869	57%
	12/31/93	11.3%	20.6%	10,137,036	55%
COMARCA	*12/31/92*	-16.1%		13,298,158	-33%
	12/31/93	9.9%	30.5%	19,601,035	32%
FRUTA DEL SOL	*06/30/92*	0.8%	0.3%	1,223,624	53%
	06/30/93	0.8%	1.7%	1,868,954	45%
UNIOCOOP	*12/31/92*	-24.0%	-170%	8,814,184	14%
	12/31/93	6.2%	39.0%	16,957,604	16%
MAYA OCCIDENTAL	*04/30/92*	-0.2%	-1.4%	6,635,085	15%
	04/30/93	-5.4%	-43%	8,432,613	13%
CANDELARIA	*04/30/93*	-6.6%		147,940	-12%
	02/28/94	-29%		1,504,276	4%
SANMARQUEÑA	*09/30/92*	1.5%	2.3%	424,528	54%
	09/30/93	0.6%	1.1%	471,241	56%
FRANCISCO MORAZAN	*06/30/92*	1.7%	2.4%	571,569	70%
	09/30/93	15.8%	17.4%		91%
CARCOMAL	*12/31/92*				
	12/31/93	-11%		1,028,942	-130%

Greater Profitability and Capitalization of *Farmer-owned Businesses*

Farmer-owned Business	Year Ended	Profitability: Return on assets	Profitability: Return on equity	Volume of Business *(Lempiras)*	Ratio: Equity/ Assets
COOPAVIHL	*12/31/92*	1.3%	8.6%	7,999,093	15%
	12/31/93	3.4%	17.5%	7,595,734	20%
COAVAL	*12/31/92*				
	12/31/93	3.7%	6.5%	7,367,970	57%
ECARACI	*12/31/92*				
	12/31/93	57%	59%	3,728,132	96%
TUTULE	*09/30/92*	-47%		751,853	-17%
	09/30/93	-49%		133,341	-34%
DICOMCAFÉ	*09/30/92*	-1.6%		29,519,013	-1%
	09/30/93				
TRINITECA	*09/30/92*	-1.6%	-5.4%	11,646,121	29%
	09/30/93	-23%	-341%	11,122,131	7%