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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

Guatemala

PROJECT PAPER

Cooperative Strengthening Project

Amendment No. 1

AID/LAC/P-585
No Basic PP

Project Number: 520-0286

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: 1

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: GUATEMALA

3. PROJECT NUMBER: 520-0286

4. BUREAU/OFFICE: LAC 05

5. PROJECT TITLE (maximum 40 characters): Cooperative Strengthening Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 08 31 94

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 90 — B. Quarter 4 — C. Final FY 93

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total	400	600	1,000	7,081	11,919	19,000
(Grant)	(400)	(600)	(1,000)	(7,081)	(11,919)	(19,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country					588	588
Other Donor(s)					5,388	5,388
TOTALS	400	600	1,000	7,081	17,895	24,976

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) DA	233	090		11,000	-	8,000		19,000	-
(2)									
(3)									
(4)									
TOTALS				11,000		8,000		19,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 242 | 252 | 031 | 041

11. SECONDARY PURPOSE CODE: 220

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BF						
B. Amount	8,000						

13. PROJECT PURPOSE (maximum 480 characters)

To assure greater efficiency and economic viability of participating federations and cooperatives and increased income for their members.

14. SCHEDULED EVALUATIONS

Interim MM YY 06 93 — MM YY — Final MM YY 07 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☒ 941 ☐ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

I certify that the methods of payment and audit plans are in compliance with the payment verification policy.

for Richard Harger

Gary Byllesby
Controller

17. APPROVED BY

Signature: Terrence J. Brown

Title: Mission Director

Date Signed: MM DD YY 08 28 90

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

GUATEMALA

COOPERATIVE STRENGTHENING PROJECT
520-0286

PROJECT PAPER

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PROJECT AUTHORIZATION AMENDMENT

Name of Country : Guatemala

Name of Project : Cooperative Strengthening Project

Project Number : 520-0286

I. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Cooperative Strengthening Project for Guatemala involving additional planned obligations of not to exceed $8,000,000 in grant funds to a new total of planned obligations of not to exceed $19,000,000 over an additional period of three years of the original PACD of August 31, 1991 or August 31, 1994 the revised PACD. This authorization amends and incorporates the original project authorization signed July 18, 1986 in a Action Memorandum. The period in force therefore starts July 18, 1986 and terminates the date of the revised PACD of August 31, 1994. This Project Authorization is approved subject to the availability of funds in accordance with the A.I. D. OYB/allotment process, to help in financing foreign exchange and, if AID should otherwise agree in writing, local currency, costs for the project. The planned life of the project is 8 years from the date of initial obligation (9-26-86). A.I.D. reserves the right to contract directly the services of the PASA, the long term technical assistance contract, project evaluations and project audits, and procurement of foreign exchange commodities and vehicles.

II. The project goal consists of developing a strong, self-sufficient cooperative movement comprised of Guatemalan federations providing appropriate services to their member cooperatives without external financial assistance except for commercial credit, federated cooperatives and independent cooperatives providing timely, adequate, efficient services to their members and being sustained solely by their own income generation. The projects' purpose is to assure greater efficiency and economic viability of participating federations and cooperatives and increased income for their members.

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

The amendment will build on the success of the initial phase of the Project and finance the provision of a broader range of technical services to more comprehensively address the problems and needs of non-financial cooperatives. The Project will continue the financial stabilization process to assist the cooperatives to write-down historical losses while developing and introducing the policies required to ensure long-term financial stability and improved member service delivery.

Under the amendment the Project will increase assistance to develop the business side of agricultural and agribusiness cooperatives by developing profitable services which enhance the productive potential of their members. This will include support for agricultural investigation and extension; greater promotion of natural resource management practices; development of market information and support programs; more effective input supply provision; and, direct cooperative participation in crop marketing and processing alternatives.

All such programs will increase the value of member production while generating cooperative earnings and their ability to build institutional capital. Finally, the Project will address the financing requirements of selected cooperatives by providing access to capital for short-term production and medium and long-term investment. The limited Project-financed credit component (US$1.6 million) will be complemented by a GOG counterpart of Q 2.5 million or $588,000 in local currency resources channeled through the National Agricultural Development Bank (BANDESA).

III. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

IV. <u>Source and Origin of Commodities, Nationality of Services</u>

Commodities financed by A.I.D. under the project shall have their source and origin in the United States (A.I.D. Geographic Code 000), except as A.I.D. may otherwise agree in writing.

Except for ocean shipping, the suppliers of commodities or services shall have the United States, as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

V. Waivers

The following waivers to A.I.D. regulations are hereby approved:

Justification for the Use of Other than Full and Open Competition approved by Director Anthony J. Cauterucci, on June 29, 1990.

Terrence J. Brown
Director, USAID/GUATEMALA

Date 8/28/90

Drafter:PDSO:REduardo

Clearances:	Date:
RLA, MWilliams Tegucigalpa 11766	06/28/90
C/PDSO, DBoyd	8/14/90
ORD, GStraub	8/14/90
C/PRM, DAdams	8/14/90
OEPA, DHoelscher	8/14/90
RCO, JMcAvoy	8/22/90
CCONT, GByllesby	8/22/90
DDIR, SWingert	8/22/90

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II. PROJECT SUMMARY AND RECOMMENDATIONS

A. BACKGROUND

The Cooperative Strengthening Project (520-0286) was initiated in 1986 to help the federated cooperative movement in Guatemala recover from the devastating impact of national political violence, high levels of inflation, and internal management problems. As originally designed, the project was intended to recapitalize the national federations and selected affiliated cooperatives, correct balance sheet deficits and weaknesses, and strengthen cooperative management, administration and operations. A mid-term evaluation of the project conducted in 1989 indicated that the project was successfully accomplishing these objectives, though at a slower rate than originally projected in the initial project design, but that it was not addressing the fundamental business weaknesses of both the federations and their affiliates, and it was having little or no direct impact on low-income members of the agricultural cooperatives. The evaluation recommended that the project be extended, but that the emphasis in the second phase of the project should shift toward activities that would improve the underlying financial, economic and social base of the cooperative system.

A separate USAID/Guatemala Project -- Agribusiness Development (520-0276) -- included a cooperative component designed to help a limited number of non-federated cooperatives develop successful business activities in the production and marketing on non-traditional agricultural products destined for export. This project, which was originally scheduled to end in October 1988, was extended twice -- first through March 1990, and then through August 1990 -- through a series of funded and non-funded extensions. An end-of-project evaluation of this cooperative component concluded that, while the project had had some success in working with a very small number of export-oriented cooperatives, the financial and managerial capabilities of the cooperatives were so limited that sustainability of project-initiated activities was questionable.

The current project amendment attempts to deal with both of these issues. Independent cooperatives will be supported through the Cooperative Strengthening Project to ensure that successful managerial and sound financial systems are developed. At the same time, the Cooperative Strengthening Project will focus increasingly on developing the agricultural business activities underlying the financial viability of the cooperative organizations.

B. PROJECT SUMMARY

The Cooperative Strengthening Project is designed to complement the deficient private and public sector programs currently providing assistance to small and medium-scale producers. The purpose of the Project is to improve the capability of Guatemalan cooperatives in providing their members with access to a wider variety of services.

The large group of small and medium producers responsible for most of Guatemala's grain production for domestic consumption and 70% of its non-traditional crops for export must have greater and more effective access to existing technologies, markets and financing if increases in productivity and incomes are to materialize.

Notwithstanding the presence of market opportunities and Guatemala's capacity for producing a wide range of agricultural commodities, development of the agricultural sector has been slow due to the difficulties and costs needed to provide technical and financial assistance, infrastructure support, and access to agricultural inputs and markets to the thousands of small farmers located throughout the country.

A series of recognized impediments to development must be overcome before increased agricultural productivity can occur. These include:

- Rural land distribution remains highly skewed and there is little new land that can be brought under production;
- agricultural technology use is limited and farm yields are low;
- farmer access to marketing, storage and processing infrastructure is inadequate and uncertain;
- off-farm employment opportunities are scarce and rural incomes are low;
- rural savings potential is limited; and,
- access to commercial and public financing to increase investment in the sector remains very limited.

A primary goal of the Project, therefore, is to identify and address the principal impediments to the development of the cooperative movement and to revitalize its ability to mobilize and channel resources and services to rural members. Beginning in early 1987 in-depth institutional analyses were completed within eight federated cooperative systems. These studies confirmed earlier findings that the movement is poorly managed and fiscally troubled, and concluded that changes in cooperative policies, administration and financial management were needed before efforts could be made to develop and introduce new member service programs. In response, the Project chose to focus on administration and financial management reform.

During the instituttional reform phase, significant progress has been achieved: An entrepreneurial attitude to cooperative service delivery has been introduced, and participating federations and cooperatives have initiated changes in policies, interest rates, pricing, capitalization, and delinquency-control procedures, all of which have proved crucial to the development of the cooperatives' ability to extend effective services to their members. During the initial phase, special emphasis was placed on the development and introduction of appropriate operational policies and practices, as well as on actions needed to bring about the financial stability of participating organizations.

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While making important strides toward realizing these objectives, the Project must now turn its attention to the development of profitable cooperative services which have a direct impact on member productivity. Services which incorporate the production, marketing and processing problems of the small farmer members will be given greater priority. In particular, the Project must begin to address the low business volumes and weak economic base which characterize a large number of agricultural cooperatives.

The participating cooperative organizations must be able to generate sufficient income from business operations to cover operating expenses, pay adequate salaries and provide a full range of high-quality services to their member cooperatives, the success of which is dependent upon the ability of cooperative members to pay for these services through heightened productivity and incomes. Mechanisms, therefore, will be implemented to increase cooperative access to both public and private financial markets, thereby allowing members to augment production and thus generate cooperative earnings needed to build institutional capital.

The Amendment to the Project will permit consolidation of the institutional development program through the transfer of technology and practical skills, as well as the institutionalization of project norms, methods, and procedures. The expansive phase will also shift emphasis from support of the cooperative federations to more direct involvement with base-level cooperatives and will include a broader range of Project-financed technical services to better meet the problems and needs of non-credit union institutions. The institutional development effort meanwhile will continue to focus on training, strategic planning, and organizational development.

The non-financial cooperatives are plagued by low business volumes which result from myriad production, processing, and marketing problems affecting their members. Member income is confined by low crop yields, poor market outlets, the high cost of agricultural inputs, and the inability to access the technology needed to increase productivity and diversify into higher remunerative production. The cooperatives have been unable to remedy these resource problems due to their poor capital situation, low annual earnings, and limited ability to compete in the market.

By focusing on the business side of agricultural cooperatives (more profitable services that enhance the productive potential of their members), the Project will promote an increase in agricultural investigation and extension; greater promotion of natural resource management practices; development of market information and support programs; more effective input supply provision; and, direct cooperative participation in crop marketing and processing alternatives.

Finally, the Project will begin to meet the finance requirements of the cooperatives by providing capital for short-term production and medium and long-term investment. At the same time it will continue to promote the financial stabilization of the cooperative organizations -- a process which has permitted them to write-down historical losses -- while introducing the policies required to ensure long-term service delivery.

By addressing more directly the resource access problems of the rural population, the Amendment intends not only to build on the experience and progress attained during the initial 2.5-year period (Phase I) but also to increase the number and quality of cooperative services that have a direct impact on members.

C. GRANTEE

The Grantee will remain the National Federation of Savings and Loan Cooperatives (FENACOAC), the largest and strongest of Guatemala's cooperative organizations and the current Administrator of the $11 million Cooperative Agreement. FENACOAC has been an effective Project Administrator, and its Project Management Office (PMO) has received high marks for its technical competence and ability to effect change within the participating cooperative organizations. The $8.0 million Amendment will increase the LOP financing to a new total of $19.0 million and permit the participating cooperatives to provide their members with the services needed to increase productivity and incomes.

As Administrator, FENACOAC will manage the project's financial resources, provide policy and administrative support to the Project Management Office (PMO), monitor participant compliance with the terms of the Cooperative Agreement, and ensure regular progress and financial reporting to the USAID Mission. The Project Management Office (PMO), the technical unit which works closely with each of the participating cooperative organizations, will continue to provide the technical support and guidance necessary to increase service delivery to their members.

The PMO implementing unit has been reorganized to permit a broader range of technical support and direct assistance to base-level cooperative affiliates. Four operating units have been created -- institutional development, credit & finance, promotion & training, and agricultural production and marketing -- to backstop the ongoing programs within each of the organizations working with the Project. These core divisions will provide general support to the PMO and cooperative staff charged with implementing the development plans with each of the Project participants, including federations, their affiliates, and the independent cooperatives. The institutional development and financial stabilization programs initiated during Phase I will continue, however, much greater emphasis will now be placed on the development of commercial services and programs which have a direct impact on the productivity and income of cooperative members.

During Phase II, the role and the operational strategy of the Project Management Office will also change to address the technology transfer concerns identified in the mid-term evaluation. The Federations and cooperative participants will assume a much more active and direct

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role in the planning and execution of the annual Development Plans, effectively shifting responsibility for meeting implementation targets from the PMO to the organizations themselves. The intent is that of institutionalizing project methods, norms and strategies within as many organizations as possible during the extended Project.

The PMO will assist the federations, their affiliates, and the independent cooperatives to identify priority activities and provide guidance in developing strategies to improve their operations; however, responsibility for carrying-out the work will be transferred to the organizations themselves. This will reduce the tendency among some organizations to view the Project as something external by promoting more direct participation in project analysis, planning and decision-making. As the cooperatives begin to work more closely with the PMO personnel, they are expected to become more committed to the execution of their development plans and to better understand the the Project's approach to institutional development. Technical skills, procedures and strategies will be transferred to the participants to improve their ability to identify problems, analyze and develop effective solutions, and, implement policies and services which will ensure long-term growth and stability.

D. RECOMMENDATIONS

USAID/Guatemala recommends the authorization of a $8.0 million Amendment to the FENACOAC Cooperative Agreement to finance the second phase of the Cooperative Strengthening Project (520-0286). The project design committee views the Project as technically, economically and environmentally sound, with the necessary capacity and development resources to fully accomplish all of the intended project objectives.

E. SUMMARY COST ESTIMATE AND FINANCIAL PLAN (U.S.$000)

Description	AID			LOP Counterpart
	FX	LC	TOTAL	LC
PASA	599	-	599	-
TECHNICAL ASSISTANCE	2,539	-	2,539	-
PROJECT MANAGEMENT SUPPORT	220	893	1,113	-
INSTITUTIONAL SUPPORT	144	1,658	1,802	1,360
INACOP	-	(11)	(11)	-
CONFECOOP	-	(30)	(30)	-
STABILIZATION FUND	-	1,930	1,930	4,028
SAVINGS/PROTECTION FUND	-	(345)	(345)	-
CREDIT	-	(200)	(200)	588
AUDIT/EVALUATION	40	209	249	-
TRANSPORTATION EQUIPMENT	100	-	100	-
CONTINGENCY	30	224	254	-
TOTAL	3,672	4,328	8,000	5,976

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III. PROJECT RATIONALE AND DESCRIPTION

A. PROJECT RATIONALE

1. Setting

The importance of agriculture as the mainstay of the Guatemalan economy has changed little during the past 15 years. Fifty-eight percent of the economically active population is engaged in agriculture, and two-thirds of the country's foreign exchange earnings are generated through the export of traditional agricultural commodities such as coffee, cotton, sugar, bananas, and livestock.

Only fourteen percent of Guatemala's land area is cultivated, while another ten percent is used for pasture. Smaller farms in the Highlands turn over a large proportion of their land to annual crops for domestic consumption. Traditional export crops, on the other hand, are produced on the larger, plantation-type farms of the Pacific Coastal Plain; modern agricultural technology use is not widespread and farm yields are low.

Guatemala also has the most highly skewed land distribution of any Central American country. In 1979, plots smaller than 3.5 hectares (8.6 acres)[1] in size comprised 78 percent of all farms but represented less than 10 percent of the land under production. At the other end of the scale, plantations over 450 hectares (1111 acres) in size represented less than 1 percent of the total number of farms but occupied 34 percent of all arable land.

Approximately 80 percent of the rural population lives on farms averaging less than 4 manzanas (7 acres)[2], which is generally considered too small to generate the production and income needed to sustain the average rural family (5 or more people). As a result, much of the rural population must resort to off-farm employment as migrant laborers on Pacific Coastal plantations to supplement farm income. Recent studies indicate that the number of small, subsistence-level farming operations has increased steadily over the past 20 years, inhibiting the development of the sector and contributing to increasing social unrest. Regionally, the smallest farms are concentrated in the predominantly Indian Western Highlands (44.6 percent of total farms) and in the East (10.8 percent of total farms). This concentration of small, poor-quality farms has resulted in the cultivation of land inappropriate for agricultural use, accelerating both deforestation and soil erosion, and has limited the ability of the Government to launch programs which can provide services to the many scattered small farming operations.

Since the election of a civilian President in 1985, the Government has initiated a series of actions designed to provide the framework for national

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[1]One hectare equals 2.47 acres

[2]One manzana equals .7 hectares or approximately 1.7 acres.

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economic growth. Major fiscal, monetary and exchange rate reforms were introduced in late 1989 in response to an increasing fiscal deficit, an overvalued exchange rate and a persistent deterioration in foreign trade owing primarily to the falling price of coffee, the most important of Guatemala's agricultural exports. The uncertain macroeconomic environment and declining world markets for Guatemala's traditional agricultural exports (such as cotton, bananas, livestock and coffee) has further discouraged commercial banks from granting loans for agricultural activities. When combined with the declining rates of internal savings mobilization, the main source of funds for commercial bank credit expansion, the ability of the Government to promote increased investment in agriculture is in serious doubt.

Although the fiscal and monetary measures undertaken by the government in 1989 are likely to have a favorable long-term impact on the economy, the prospects for short-term development of the agricultural sector are particularly dim. Traditionally, the commercial banking system has been the main source of financing for the agricultural sector. In 1981, 21 percent of new loans disbursed by commercial banks were for agricultural endeavors, but in 1988 this percentage had declined to 11.9 percent, pointing up a steady reduction in agricultural lending which has virtually eliminated small and medium-scale producer access to commercial bank financing. In addition to this overall decline in agricultural lending, the distribution of available resources has become highly skewed to favor large loans to a few wealthy farmers. During the last quarter of 1988, the forty largest commercial bank loans for agriculture accounted for more than 80 percent of total agricultural lending during that period.

Private sector reluctance to invest in the agricultural sector has contributed to hindering the Government's development strategy. Moreover, that situation is further aggravated by the lack of an effective public sector infrastructure to provide production support services to the small and medium-scale producers. For example, the agricultural research institute (ICTA) has been unable to transmit the technologies and production information to the farmers who could use it to improve yields; the extension service of the Ministry of Agriculture (DIGESA and DIGESEPE) is underbudgeted, overextended and lacks sufficient numbers of trained extension personnel; and the Agricultural Development Bank (BANDESA), the primary source of small farmer financing, is inefficient, bureaucratic, undercapitalized and unable to satisfy current demands for production and investment financing. These factors converge to create a situation where the small producer has few alternatives, and agricultural production and small farmer incomes have suffered as a result.

2. Statement of the Problem

Development of Guatemala's agricultural sector depends on the ability of thousands of small and medium-scale farming operations to increase production and productivity. Although these farms produce most of the basic grains consumed in domestic markets and a significant percentage of Guatemala's non-traditional agricultural exports, they suffer from a low level of socio-economic well-being characterized by:

* low income
* high levels of un- and under-employment
* high levels of economically forced migration
* high mortality rates
* poor nutrition and low caloric intake
* low education levels with high illiteracy rates
* loss of cultural values
* violence
* cultural stress -- anomie, alienation
* destruction of the natural environment

Achieving an adequate economic status is made difficult by:

* small land holdings and insecure land titles
* low levels of productivity and limited technology
* low levels of production -- small production volumes
* high relative costs of production
* low prices received for product relative to costs of production.

These variables are highly interrelated: Low levels of productivity result in both high unit production costs and small production volumes. Small land holdings affect both productivity and production volumes. Taken together, these factors give rise to a situation in which production costs are high relative to the prices the small farmer receives for his product; as a result, the total amount of income generated is limited. The upshot is an absence of economic opportunities -- insufficient demand for rural labor few stable jobs, and an inadequate return on productive activities. Perhaps the major obstacle to overcoming these problems and achieving improved income and other economic benefits is a systemic lack of access to critical resources -- goods, services, knowledge (information), and options.

Among the most important resources needed to improve the socio-economic well-being of the small farmer are:

* credit,
* quality supplies at cost-effective prices,
* knowledge about cost-effective methods for improving production and productivity,
* knowledge of alternative products and opportunities,
* knowledge and skills to adapt and apply new techniques and technologies,
* knowledge to manage small-scale farm activities effectively,
* access to market options that can increase prices.

Increased agricultural productivity is linked to improved small farmer access to production resources. Yet Guatemalan private and public-sector institutions operate in such a way as to systematically exclude low-income small farmers from obtaining effective access to essential services. The cost of delivering services to these farmers is high due to the small scale of operations. Moreover, public and private sector assistance and investment are insufficient to meet the current need and demand for services.

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In summary, other factors contributing to the difficulty of improving socio-economic conditions for small farmers include:

* strong cultural barriers
* distance and isolation
* lack of a supportive physical and institutional infrastructure

3. Cooperatives as a Service Delivery Mechanism in Rural Guatemala

Cooperatives traditionally have been important mechanisms for channeling credit and services to farmers and rural communities in Guatemala. In many areas, cooperatives represent the only institutions offering high-risk, low-profit services to the rural poor, and their impact is far greater than either the private or public institutions which have had a limited outreach in much of rural Guatemala. Cooperatives, therefore, have the potential to serve as alternative mechanisms for rural service delivery in Guatemala. Frequently the only service institutions readily accessible to many small farmers because of their broad geographic base, the cooperatives provide members with agricultural input supply, technical assistance, basic marketing and processing support, and credit.

4. Brief Description of the Guatemalan Cooperative Movement

Cooperatives have been a legally recognized form of enterprise in Guatemala for more than 80 years. Their early history is characterized by slow growth, the absence of government assistance, and a widespread belief that they were communist-inspired institutions. Although the popularly-elected governments of Arévalo and Arbenz (1944 to 1954) were more supportive of cooperative development, only 62 cooperatives were active in the country in 1953.

Significant growth of the cooperative movement actually began during the 1960s, when the Alliance for Progress, the Catholic Church, and other international donors were involved in the creation and strengthening of rural cooperatives. This early support was based on the belief that cooperatives provided a viable alternative to the inadequate public sector rural development programs. They were viewed as democratic, apolitical and potentially important vehicles for channeling essential services to the rural areas to stimulate agricultural production and incomes. Access to credit, though a prime factor in promoting local participation in the newly founded cooperative organizations, nevertheless resulted in excessive member demand for financing and ignored the long-term sustainability and capital formation aspects of more sound institutional development programs.

Recent statistics (1989) list 1,008 legally chartered cooperatives, with the highest concentration located in the Highland's departments of Chimaltenango, Quiché, Sololá, Quezaltenango, Huehuetenango and San Marcos. Although accurate figures are lacking, the Confederation of Cooperative Federations (CONFECOOP) estimates that only 600 of the registered cooperatives are active and providing services to their members.

The cooperative movement is predominantly rural-based: Seventy-four percent (74 percent) of membership and eighty percent (80 percent) of the cooperatives are located outside Guatemala City. Approximately 10 percent of the rural population (170,000 families) hold membership in rural cooperatives. Credit unions dominate the movement with over 60 percent of total membership, though they have an agricultural orientation and provide services to many small farmers. Agricultural cooperatives are second in importance with 24 percent of total membership.

a. Structure of the Cooperative Movement

The Guatemalan cooperative movement is vertically structured: At the top is the Confederation of Federated Cooperatives (CONFECOOP), which integrates the federated cooperative systems and represents their interests before the Guatemalan Government. There are ten existing cooperative federations---FENACOAC (credit unions), FECOAR (agriculture), ARTEXCO (artisan cooperatives), FEDECCON (consumer cooperatives), FEDECOAG (agriculture), FEDECOVERA (agriculture), FEDEPESCA (fisheries), FENACOVI (housing), FECOMERQ (agriculture) and FEDECOCAGUA (agriculture)---in addition to a large number of independent, non-federated organizations. Only 30 percent (300 cooperatives) of the total number of active, registered cooperatives are affiliated with one of the federations, but these tend to be the largest and strongest organizations. Some successful independent cooperatives do exist (such as Cuatro Pinos and Inmaculada Concepción), but they are few in number.

A second recently-formed organization, the Grand Union of Non-Federated Cooperatives (GUCONOFE), claims to represent the non-federated cooperative movement. However, its membership represents a small minority of cooperatives. The stronger independent cooperatives (such as Cuatro Pinos and Inmaculada Concepción) have no affiliation nor interest in the Union. GUCONOFE has been active in lobbying the government for legal recognition as an organization equal to CONFECOOP, but its interest appears to be more political than development oriented. The National Congress has not taken action on the new cooperative legislation (which would recognize GUCONOFE), and given the highly political environment of this election year it is unlikely that anything more will transpire during 1990.

Two public-sector institutions regulate and supervise the cooperative system. One, the National Institute of Cooperatives (INACOP), was created in 1979 to centralize all non-financial public programs related to cooperatives. INACOP is responsible for promoting and registering cooperatives, as well as providing advisory assistance and educational support. In recent years, the Institute has become more concerned with partisan politics than with dispensing quality technical support to the movement, earning it a poor reputation in the field. INACOP tends to be overstaffed, under-budgeted and technically weak; in the short term it is not expected to play an important role in the development of Guatemala's cooperatives. The second institution -- the Inspector General of Cooperatives (INGECOP) -- was created as an independent agency in 1988. Prior to that year INGECOP was part of INACOP. It is responsible for the fiscal supervision of the cooperative movement, and its principal activity is the completion of cooperative audits. With a staff of 60 auditors and 12 supervisors, the Inspector General's office operates out of a central office in Guatemala City and four regional offices (Zacapa, Quetzaltenango, Progreso and Esquintla). During 1989, INGECOP audited approximately 45 percent of the active, registered cooperatives (315 organizations), and its reputation has improved considerably since it became independent. In 1989, it obtained a budget increase, acquired nine micro-computer systems, and adopted a professional approach to auditing and supervision of the movement. Although the quality of the audits is less than uniform, the Director General is committed to improving both the quality and the frequency of audits.

b. Historical Events Influencing Cooperative Development

Three recent historical events have had a significant impact on cooperatives in Guatemala: the reconstruction efforts following the 1976 earthquake, the widespread social and political violence of the late 1970s and early 1980s, and recent public policies designed to gain political support.

Following the devastating earthquake of 1976, cooperatives reduced their normal operations and concentrated on emergency relief. Both the government and international donor agencies used the cooperative movement for distributing funds and materials for relief and reconstruction to the rural sector. Many of the current financial problems of the rural cooperatives can be traced to this relief effort. Cooperatives became the primary means for assisting the national reconstruction effort because of their widespread presence throughout the Western Highlands. Unfortunately, credit mechanisms tied to reconstruction assistance were never adequately managed, and the resulting reconstruction loan portfolio of the cooperative movement demonstrates a high rate of delinquency: It is estimated that between 50 and 75 percent of the outstanding bad debt of the federated cooperatives can be traced directly to the reconstruction effort.

The political violence in rural Guatemala during the late 1970s and early 1980s also seriously damaged the cooperative movement. Countless numbers of top and middle-level managers, as well as members, were singled out and killed or forced to flee the country. Economic activity plummeted in the countryside, facilities and equipment were destroyed, and membership was depleted, resulting in operational losses as the volume of cooperative business fell. Delinquency and irrecoverable loans increased owing to the death or migration of members, and social programs initiated to support widows and orphans were an added drain on the cooperatives' scarce financial resources. By the mid-1980s, the cooperative movement was in a state of disarray -- its economic base had been destroyed and its leadership intimidated both psychologically and physically.

Finally, the recent public policy environment has created problems for the cooperative movement. The public sector agricultural development bank, BANDESA, a primary source of credit to cooperatives and rural producers, has contributed to cooperatives' problems through inconsistent lending and erratic collection practices. These problems are exacerbated by the government's tendency to channel politically expedient, poorly conceived and administered BANDESA loans through the cooperatives. Cooperatives and their members are typically in default on these loans, often considered to be gifts. In response to the high incidence of delinquency in its cooperative loan portfolio, BANDESA has denied further credit to cooperatives that are in arrears on previous loans, thereby virtually eliminating cooperative access to public sector financial assistance.

c. The Growth Phase

At the time the Cooperative Strengthening Project was designed in 1985, the Guatemalan cooperative movement was weak and disorganized. Many cooperatives had ceased to function as effective institutions. Effective leadership was absent, the capital base of the movement had been seriously eroded, membership was stagnant or declining, and there was serious doubt as to whether the movement could regain its role in providing services to the rural population.

Since 1985, the movement has entered a new phase of expansion, and cooperative membership has begun to recuperate. In 1988, a total of 1,008 cooperatives had obtained legal charters from the National Institute for Cooperatives (INACOP). A majority of these organizations are located in the Western Highlands regions of Chimaltenango, Quiche, Sololá, Quetzaltenango, San Marcos and Huehuetenango. They are classified as follows:

Primary Service	Number of Coops	Membership
Agricultural	485	52,279
Savings & Credit	204	128,803
Consumer	137	23,271
Housing	73	8,786
Production	72	2,919
Others	37	258
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TOTALS	1,008	218,595

INACOP estimates that 35 percent of the registered cooperatives are inactive; another 30 percent provide very limited services to their members. Though it is estimated that only 10-15 percent of rural cooperatives are well-run, viable institutions, the movement nevertheless signifies the only access to formal intermediary organizations for many rural inhabitants. In late 1989, a study was undertaken of the "Best 100" cooperatives in Guatemala, which have a combined membership of 122,041 individuals, or 56 percent of all cooperative members. Combined assets in 1988 totalled approximately 84 million Quetzales, 60 percent of which was represented by the credit unions, while the loan portfolios equaled 42.7 million Quetzales at year-end 1988.

The only other important source of financial services to the rural population, the Government's Agricultural Development Bank (BANDESA), has a loan portfolio of 200 million Quetzales, Q110 million of which is classified as fully performing. Over 90 percent of BANDESA lending is earmarked for small loans to agriculture. By comparison, the total loan portfolio of the "Best 100" cooperatives amounts to approximately 40 percent, (Q47 million) of BANDESA's healthy portfolio. Although reliable figures relating to delinquency are lacking, it is estimated that loan arrears total approximately 37 percent.

5. Weaknesses in the Cooperative System

Although the cooperative movement in Guatemala is considered one of the stronger in Central America, most cooperatives were organized for social and political (rather than economic) reasons. Consequently, a business orientation has been notably absent in most of the country's cooperative institutions.

Through the efforts of various programs[3] to support the revitalization of the cooperative system as a means of delivering effective, low-cost services to the rural poor, USAID/Guatemala has helped reestablish the rural cooperatives as one of the more dynamic sectors of the rural economy. In particular, the Cooperative Strengthening Project (520-0286) has contributed to stabilizing and increasing the financial viability of the major cooperative federations. Meanwhile, the Agribusiness Development Project (520-0276) has demonstrated the feasibility of involving small farmers in non-traditional export-oriented agriculture.

The project has had a positive and sustainable impact on attitudes and practices related to administration and financial management at both the federation level and among member cooperatives. The task ahead is to further develop their ability to provide high-quality and profitable services to members.

Though the foundation for a more sustained and comprehensive cooperative development program has been put into place, the cooperatives and their secondary-level federations are still weak institutions; the primary-level cooperatives continue to be plagued by inadequate services, a weak financial position, and poor management:

<u>Services</u>

* Services provided by the cooperatives are often inadequate, ineffective, or unrealistic -- they do not reach enough members, are too limited and primarily socially oriented;

* The cooperatives lack resources to generate and implement services that meet their members' needs, particularly in the areas of (a) capital for revolving credit funds, (b) working capital for production, (c) working capital to finance marketing, and (d) medium-term capital for infrastructure improvement and crop renovations;

* Services provided by the cooperatives are sometimes not in their members' best interests. The members could frequently obtain higher prices, more reliable goods and better terms from other sources;

* The cooperatives generally lack the skills necessary to operate effective, business-oriented service institutions. This is especially

[3]These include the Small Farmer Marketing, Agricultural Diversification, Agribusiness Development and Cooperative Strengthening projects.

apparent in the lack of knowledge or production technologies, market conditions and familiarity with the array of skills essential for operating successful agribusiness ventures (marketing, processing, post-harvest handling).

Internal Financial Problems

* The cooperatives are characterized by high levels of indebtedness, insolvency, low or negative net worth, high internal delinquency, and inadequate capitalization;

* Many cooperatives lack an economic membership base that would permit adequate income generation. As a result, the cooperatives are not run as self-sustaining business enterprises: income does not cover the cost of providing services, and the cooperatives are characterized by high costs and prices plus low profitability; and

* The cooperatives generally lack an entrepreneurial approach.

Management

Key management problems at the cooperative level include:

* Absence of long-term strategic plans: There is no clear definition of their functions, nor an understanding of the legitimate role of a cooperative and the minimal requirements needed to achieve that role;
* Lack of adequately trained staff and leadership;
* Ineffective board-management relations;
* Absence of effective accounting, inventory, statistical and reporting systems;
* Inadequate supervision and control mechanisms;
* Inadequate policies and procedures, especially in credit administration; and
* Inadequate by-laws and statutes

The federations share most of the problems that plague the primary-level cooperatives. In addition, however, the federations have particular problems in the areas of:

* Meeting member cooperative needs: Given their origin and funding, the federations are more dependent upon and responsive to external agencies and donors;

* By law and tradition the federations are more oriented toward social and representational functions rather than service and profit;

* A conflict of interest between the needs of the federations and those of the member cooperative. The federations tend to provide a

very limited range of services and these are often over-valued in order to cover operating costs.

* "Democratic" control sometimes distorts orientation and operations
* Federation leadership is poorly trained, paternalistic, and lacks an entrepreneurial and growth orientation;
* The absence of an adequate base of economically viable member cooperatives limits business potential and produces financially weak and dependent federations.

6. Relationship of Proposed Project to Major Development Constraints

The proposed rural cooperative development strategy for the 1990-1994 period intends to address specific resource limitations to improving the socio-economic well being of small farmers. It will focus on improving the availability of needed goods, services, information and options for a select set of small farmers and other low-income rural residents in Guatemala.

The primary target beneficiaries are those rural families that currently are (or that will become) members of cooperatives supported by the project and rural laborers who will be directly employed in the production and marketing of agricultural and other products produced by these cooperatives. Secondary beneficiaries include small shopkeepers, market vendors and others who can expect to experience increased economic activity due to greater purchasing power and activity of the primary beneficiaries.

USAID/Guatemala's cooperative development activities are chiefly concerned with helping to improve socio-economic status in terms of economic factors -- primarily income and employment -- although resolving these should have a beneficial impact on other problems, such as nutrition, mortality, education and violence.

The project proposes to improve the availability of "goods, services, information and options" by:

a. Increased availability of reliable short-term production credit through the cooperatives and by arrangements between the cooperatives and established credit institutions;

b. Increased availability of long-term infrastructure and land purchase and improvement credit through arrangements with established programs (such as the coffee development project and HAD) and credit sources (such as BANDESA);

c. Improved and expanded input supply operations through the cooperatives, providing an increased variety of goods designed to meet the needs of members at prices that are realistic yet competitive;

d. Expanded marketing operations through the cooperatives that cover a wider range of member-produced products, provide timely payments, and consistently return a higher income to the member than can be obtained via other intermediaries;

e. Expanded technical assistance and training services that address real issues and limitations and that develop skills necessary to produce, handle and market the members' products effectively and efficiently; and

f. Development of alternative markets and marketing mechanisms that provide higher rates of return to the members

B. PROJECT OBJECTIVES

The emphasis of the Cooperative Strengthening Project during Phase I was placed on improving the policy environment, financial stability and administrative structure of the cooperative federations and a select group of their primary-level affiliates. This was a time-consuming but necessary step in the process of revitalizing the cooperative sector in Guatemala, and it is now largely completed. Phase II of the project, involving a three-year PACD extension and a four-year extension of the technical assistance contract, focuses more directly on developing improved and sustainable services among the primary level cooperatives as a means of improving the socio-economic well-being of cooperative members.

1. Goal

The Cooperative Strengthening Project supports the USAID/Guatemala goal of improving the socio-economic well-being of low-income rural residents -- in particular, small farmers and their families, small-scale entrepreneurs, artisans and agricultural laborers who would benefit from increased employment opportunities through the cooperatives. The direct contribution of the Cooperative Strengthening Project to achieving those goals will be to help a specific group of small farmers, entrepreneurs and artisans (those organized in or join participating cooperatives during the course of the project) to improve their lives in terms of:

a. Improved income from agricultural, artisan and other productive activities, resulting from higher volumes of sales and improved price/cost ratios;

b. Increased employment for participating cooperative members and their families, and an increase in the number of daily laborers employed by participating farmers and artisans, and;

c. Increased real wages for cooperative members and their families and for workers employed as daily laborers in project-assisted programs.

d. Additional benefits will accrue to credit union members, who will benefit from a recuperation of the par value of share capital, greater rates of return on savings deposits, and increased availability of loan funds for productive purposes.

Impact will be measured using both existing data (e.g., financial statements, cooperative records, loan applications, etc.) and information to be collected through special studies and the ongoing institutional analyses conducted by the staff of the Project Management Office (PMO). The PMO is developing a new monitoring system (see Section VI) to permit it to measure improvements in the performance of the participating cooperatives and assess their capability to provide real and sustainable benefits to their members.

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Initially, the Project Management Office will measure organizational performance using standardized indicators which can be applied to all of the different cooperative organizations to participate in the Project. Historical records will be used to establish past performance and improvements will be measured against this data. These broad performance indicators include:

- Membership growth;
- Growth of savings and deposits;
- Share capital growth;
- Increases in institutional capital (i.e., reserves)
- Loan portfolio growth; and,
- Declines in overall loan delinquency

Such data is relatively easy to gather and it provides an external observer with a snapshot of the general health of a participating organization, as well as the overall progress of the Project. As additional information is collected, it will be used to expand and refine the monitoring system. Once baseline performance indicators have been established, targets for each of the participating organizations will be included as part of their annual business plans. These plans will include financial and membership targets as well as more organizationally specific projections of such items as growth of sales, volume of produce marketed, loans approved, etc.. The PMO will develop a standardized reporting format; work closely with cooperative staff to establish annual targets; and, monitor and evaluate the progress of each organization on a regular basis.

In addition to the institutional performance indicators, the Project will also attempt to measure the impact of project initiatives on cooperative member income, crop yields of affiliated farmers, improved employment opportunities, etc.. Such information is much more difficult to obtain and specific cooperative member profiles must await completion of the institutional analyses which proceed full project participation. The diagnostic process among the cooperative federations, their base-level affiliates, and the independent cooperatives is expected to be completed by March/April, 1991.

Although the design for the extended Project does not include the completion of a baseline study, substantial data on cooperative members was collected during Phase I among FECOAR agricultural cooperatives and nine credit unions affiliated to FENACOAC. This information will be complemented by additional data to be collected during the first six months of the extended project. During this period, the PMO will complete an inventory of each federation and cooperative participant as a guide to be used in preparation of the annual business plan. The data to be compiled includes institutional and membership characteristics, including: crops produced; average yields; marketing channels used; technology use; average income; etc.. The information will be drawn from loan application data, cooperative records on sales and purchases, and special impact and feasibility studies to be undertaken as part of normal project development. An impact evaluation is scheduled for the third year of the extended project.

The project's goals will be achieved by increasing the overall productivity of cooperative members, which should result in higher levels of total production and the volume of produce marketed by participating cooperative members (primarily small farmers), in a price/cost effective manner. Specific benefits that should accrue to members of participating cooperatives and associations include:

a. Increases in productivity brought about by improved production technologies, including: renovation of productive lands, improved plant varieties, fertilizer and pest management practices among small farmers; and by using improved materials and equipment in the case of artisan cooperatives;

b. Increases in the total volume of member production resulting from higher productivity;

c. Decreases in relative unit costs of production as participating farmer members adopt more cost-effective production technologies;

d. Increases in the total volume of products marketed in both local and international markets through the cooperatives; and,

e. Increases in prices received for products marketed, by shifting from low to higher-value products and channeling those goods to more profitable market outlets.

If the project succeeds in increasing yields and total production, shifting some farmers from low to higher-value products, and helping farmers and others find more profitable market outlets for their products, it will have established the basis for improving employment and income. It is important to recognize that not all of these changes must take place in each individual cooperative for the project to be considered successful. Specific needs and opportunities vary from cooperative to cooperative, and accordingly, the impact indicators must be tailored to the circumstances of each organization.

As noted earlier, substantial baseline information exists on production, productivity and marketing systems in the agricultural sector. The University of Wisconsin Land Tenure Center study of FECOAR cooperatives, current investigations of the effect of non-traditional crops on the production of basic grains, as well as the data generated for the Highlands Agricultural Development project, provide a strong basis for measuring changes brought about in the highlands cooperatives. Similarly, data generated for the Small Farmer Coffee project can be used as baseline information for the coffee cooperatives; ARTEXCO production and marketing information is relatively available; and, the monitoring system established in the Project Management Office will follow on-farm improvements in the cooperatives selected for intensive assistance.

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Major assumptions concerning achievement of the Goal of the Project include:

* Relative political stability, especially in terms of rural violence;
* Relatively stable macro-economic environment, with no hyperinflation;
* Continued high demand for domestically-consumed crops (especially basic grains and other traditional food crops), in addition to coffee and other traditional crops produced and exported by participating cooperatives and non- traditional agricultural export products (both fresh and frozen) for international markets;
* Realistic government policies regarding exports, together with the absence of international restrictions on products destined for the export market;
* Absence of major natural disasters that adversely impact the benefits from changes introduced at the farm level;
* Adequate access to external financing;
* Farmer willingness to accept new technologies and the ability to apply these correctly; and,
* Ability of cooperatives to achieve market efficiency.

2. Project Purpose

The lack of access to resources has been identified as the key constraint to improving the socio-economic status of small farmers in Guatemala. Cooperatives are one of the few, if not the only, formal institutions in Guatemala providing assistance and support to low-income farmers and artisans. For the most part, however, the cooperatives have not been effective providers of services. Beset by financial, managerial and technical deficiencies, the variety, quality and effectiveness of the services provided by the cooperative organizations have been inadequate to meet their members' needs. The main purpose of the Cooperative Strengthening Project, therefore, is to help the cooperative organizations overcome the constraints that impede their functioning as effective service institutions, thereby increasing member access to the resources needed to improve their own economic activities.

The project has three general purposes: (1) to establish effective, on-going systems and services in the national federations to support the continued growth, expansion and development of rural cooperatives in Guatemala; (2) to improve the performance of a core group of cooperatives in providing cost-effective resources (high quality goods, services, information and options) that are necessary to support the members' production, post-production handling and marketing needs; and (3) establish a supportive legislative and regulatory environment that permits and facilitates the operation of cooperatives as viable business operations.

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The strategy for accomplishing this is to:

* Improve the quality and performance of cooperatives serving selected small farmers, artisans and entrepreneurs through helping these institutions develop and offer the services needed by their members;

* Establish successful cooperative-owned marketing operations (especially for non-traditional agricultural products) through local brokers, processors and limited direct export activities and improve the prices received by cooperative members for their products;

* Improve federation support of primary-level cooperatives, including the establishment of an on-going process of promoting and supporting cooperative growth and development and therefore ensure both the sustainability and replicability of project-initiated activities;

* Stabilize the financial position of both the federations and a select group of primary-level cooperatives, thereby ensuring that the organizations are able financially to sustain project-initiated activities; and

* Develop a legal and regulatory environment that supports modern, business-oriented cooperative operations.

Cooperatives have an important role to play at all stages in this process, providing a "scale" function. Through cooperatives, it is feasible to purchase inputs at lower rates; by grouping small farmers in units, technical assistance is more easily dispensed; and through storage, packaging, segmenting and timing markets, cooperatives aid in adding value to raw agricultural and other products. These are functions that the cooperatives should be providing, and they can be performed without heavy investments in infrastructure. The purpose of the project is to improve those functions.

3. End-of-Project Status

During Phase II the Project will work with two substantially different forms of cooperative organizations: a federated structure that seeks to develop effective systems of cooperatives, and independent agribusiness cooperatives and associations that are engaged in rather sophisticated processing and marketing activities. In addition to the structural differences, the services provided by the federations and the cooperatives to their members vary widely (input supply, credit, processing, marketing, etc.), complicating the monitoring system and evaluation of progress. For this reason, a standardized set of End-Of-Project-Status conditions have been prepared to permit regular evaluation of the participating organizations using criteria to measure progress and institutional performance in service delivery and long-term financial viability throughout the LOP.

a. <u>Federations</u>

By the end of the project there will be at least five business-oriented cooperative federations (ARTEXCO, FENACOAC, FECOAR, FEDECOAG, and FEDECOVERA) that are well-managed, financially strong, and providing high-quality, cost-effective services that meet the needs of their member cooperatives.

-- Managenment Considerations

The Federations will have adopted or modified bylaws, operating policies and internal statutes consistent with the operation of the organizations as sound business enterprises. They will possess:

- well-defined policies, procedures and internal controls;
- a well-designed and realistic long-range strategic plan that is evaluated and updated annually by Boards of Directors and cooperative staff;
- a full-time, well-trained professional staff capable of operating the federation as a successful business venture;
- good board-management relations; and
- good internal operating and administrative systems, including accounting, logistics, credit administration, financial analysis, management of services, statistics and reporting.

-- Financial Soundness

The financial viability of the Federations will depend upon their ability to develop and maintain a profitable business relationship with a sufficiently large number of cooperative affiliates to generate business volumes capable of sustaining the institution. The effectiveness of this relationship on the financial soundness of the federations will be measured by a variety of indicators, including:

- The existence of a positive net worth (i.e., assets exceed liabilities and accumulated debt);
- A reduced or renegotiated debt burden that is realistic and manageable by the federation;
- Significantly reduced and manageable levels of loan delinquency (e.g., 5-10% of new lending) and the establishment of adequate reserves;
- Adequate capitalization in the form of reserves and paid-in capital to ensure the solvency of the organization, and respect for the ownership contribution of cooperative affiliates through the payment of interest and/or dividends;

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- Self-sufficiency in current operations with the costs of services begin covered by fees and generating a positive contribution to margins/income; and,
- Financial projections that indicate continued and sustained growth and viability of services provided to those member cooperatives possessing a business relationship with the federation (e.g., projections of sufficient business volumes to sustain the services of the institution).

-- Service Delivery

The long-term sustainability of the cooperative federations is very closely linked to their ability to provide (or broker) a full range of services to their cooperative affiliates. Although services offered will be specific to each federation, they will generally include:

- Staff development, training and technical assistance
- Input sales
- Credit
- Savings mobilization
- Production assistance
- Post-harvest handling and market intervention

The services offered by a federation must be adequate to reach the majority of its member cooperatives; of sufficiently high quality to provide a positive real benefit to the cooperatives; and, priced to cover costs while remaining competitive with alternative sources of similar services. Additionally, the federations must be capable of developing and executing an active campaign to promote membership growth and an expansion of business relationships with greater numbers of base-level affiliates either through the promotion of new cooperatives or the expansion of existing membership bases, of at least 10% per year.

b. Federated Cooperatives

By the end of the project there will be a core group of 57 viable, business-oriented cooperatives (25 in FENACOAC, 6 in FECOAR, 8 in FEDECOAG, 12 in FEDECOVERA and 6 in ARTEXCO) that are well-managed, financially strong and provide high-quality, cost-effective services that meet the production and marketing needs of their members. The criteria to be used in evaluating the management and operational capabilities of the federated cooperatives are very similar to those to be applied in the assessment of the federations. The cooperatives must possess both the operational framework and the trained staff necessary to manage the institutions without significant external assistance. They must possess:

-- adequate by-laws and internal statutes;
-- well-defined policies, procedures and internal controls;
-- a well-designed long-range strategic and business plan that is reviewed and updated annually;
-- a full-time, well-trained professional staff capable of operating the cooperative as a successful business venture;
-- good board-management relations; and
-- effective internal controls and administrative systems, including accounting, logistics, credit administration, financial analysis, management of services, statistics and reporting.

The financial viability of the federated cooperatives will be determined using indicators such as:

-- Possession of a viable membership base which can generate the business volumes needed to sustain the institution;
-- Existance of a positive net worth (e.g., assets exceed liabilities and accumulated debt);
-- A manageable debt burden;
-- Significantly reduced and manageable levels of delinquency;
-- Adequate capitalization, in the form of reserves and paid-in capital, that respects the ownership contribution of each individual member,
-- Self-sufficiency in current operations with the cost of services covered by fees; and
-- Financial projections that indicate continued and sustained growth and viability.

c. Independent Agribusiness Cooperatives

During the extended Project, actions will be taken to provide assistance to at least 14 non-federated agribusiness cooperatives to enhance their ability to successfully become engaged in producing and marketing non-traditional agricultural products. These organizations will be expected to possess the same managerial, financial and service characteristics of the federated agricultural cooperatives. In addition, they must also be capable of managing the complexities of production scheduling; contracting with local processors; and, establishing and maintaining direct and indirect contacts with international and local markets.

d. Legal Environment

Finally, the Project will promote the establishment of an adequate legal (legislative and regulatory) that permits the effective growth and expansion of cooperatives and cooperative systems in Guatemala. This environment would include adequate provisions for joint ventures, retention of earnings and capital, realistic pricing policies, professional management, and, a mechanism for assuring adequate and effective supervision of cooperative operations.

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The End-of-Project Status (EOPS) indicators to be used in evaluating the performance and long-term viability of the participating organizations represent the characteristics of an "ideal" cooperative. The Project's institutional development program will attempt to establish the conditions under which as many organizations as possible can approach and/or reach this ideal during the extended project period. During Phase I substantial progress was attained within the cooperative federations and a small number of their affiliates. Phase II will continue the federation development program, however, much more emphasis will be directed at fifty-seven (57) federation affiliates and fourteen (14) independent cooperatives.

The target group of base-level cooperatives are to be selected from among the strongest of the federated and independent cooperatives, however their problems are many and all may not be capable of meeting the full range of performance indicators (EOPS) during the extended project. As a result, the procedures established by the PMO during Phase I --- completion of an institutional assessment; negotiation of written participation agreements; and annual evaluations --- will be combined with the Project monitoring system to permit regular evaluation of institutional progress and actions to either redirect assistance or terminate the participation of an organization.

Under normal conditions, continued participation in the Project will remain contingent upon compliance with the Participation Agreements and effective completion of the activities agreed upon in the annual Development Plans. The Development Plans are an output of the institutional assessment and are designed to address the principal problems and/or opportunities of the cooperatives. A variety of external and internal factors may affect an organization's ability to comply with the Participation Agreement, including:

-- lack of managerial capacity;
-- lack of internal control;
-- unwillingness of cooperative leadership to adopt necessary policy and operational changes; and,
-- inability to establish an economically viable business base with members to generate the income needed to ensure long-term viability.

Whenever it is determined that an organization is unwilling to address its' internal deficiencies (e.g., management, policies, etc.) due to Board or management opposition, project assistance will be terminated. In the case of external factors which limit the economic viability of an organization, attempts will be made to address these factors before terminating project assistance. Under all circumstances, the annual evaluation of the Development Plans will form the basis for decisions concerning the continuation and/or termination of a Participation Agreement.

Success of the institutional development program may not necessarily require that a federation or cooperative be capable of meeting all of the End-of Project Status conditions. In some cases, application of the

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full range of performance criteria may be inappropriate due to the economic and/or cultural conditions within which an organization operates. For example, some of the smaller agricultural cooperatives may find it more cost-effective and efficient to contract for specific services (accounting or agronomic technical assistance) on an as-needed basis rather than developing a costly internal overhead which cannot be sustained from earnings. Similarly, a federation may be capable of ensuring its long-term financial viability independently from the business relationship with its' affiliates.

The primary criteria to be used in determining the point at which Project assistance is no longer necessary include:

-- existance of capable management and/or leadership;
-- possession of operating policies and procedures which ensure adequate control and effective use of resources; and,
-- services which satisfy members and generate the minimum earnings necessary to sustain the organization.

However, since the intent of the institutional development program is to develop a pool of rural cooperatives which can be used as a model for other similar organizations, project assistance to those cooperatives meeting the above-mentioned criteria may be continued throughout the LOP, subject to decisions to be reached at the semi-annual project review meetings. Such a continuation of technical guidance and support will permit the organizations to consolidate and refine existing services while also permitting further development and expansion into new areas.

Achievement of the Project Purpose will be verified by cooperative records, the project monitoring system, special and routine evaluations, and regular audits planned during the life of the project.

The major assumptions for achieving the Project Purpose are:

* Avoidance of government misintervention in cooperatives;
* Responsiveness on the part of government agencies to recommended changes;
* Ability to overcome cultural barriers to trust between members and managers, or at least that these barriers will not impede development of effective institutions;
* Capability of leadership in the cooperatives and federations to adopt a business-oriented mentality;
* Possibility of developing leadership skills to oversee management without deterring the function of the cooperatives;
* Persuading the boards to adopt needed changes -- appropriate turn-over rates, appropriate role, adequate staff payments, delegation of authority, etc.;
* Adequate economic basis for each federation and cooperative;
* Willingness of cooperatives to accept outside advisors and counseling; and
* Ability of the cooperatives and federations to retain trained staff.

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C. PROJECT ELEMENTS AND OUTPUTS

1. Introduction

Phase I of the Cooperative Strengthening Project has been directed at problem identification and resolution, with a specific emphasis on policy reform and administration and management improvement. While significant improvement has been noted, much more intensive support is necessary among the base-level cooperatives to ensure that project benefits reach the intended beneficiaries.

Phase II of the Project represents a controlled expansion strategy, which limits the number of organizations assisted in order to ensure the sustainability of project-initiated changes in a core groups of cooperatives. This is also consistent with the need to work within the constraints of the current and planned resources of the FENACOAC Project Management Office (PMO), the project's implementing unit. The strategy builds on the willingness and ability of participating organizations to modify existing policies and procedures without over-extending their management and service delivery capabilities. Short-term economic viability and the expressed willingness of organizations to adopt Project guidelines will be primary considerations in determining participation.

The institutional development program stressed during Phase I will be complemented by the financial components of the Project (financial stabilization and credit) and by a new component designed to address the production and marketing problems of the small and medium-scale farmer members of the agricultural cooperatives. This last component will include Project-financed agricultural investigation and extension programs in both basic grains and non-traditional crops; increased use of farmer leaders and para-technicians to transfer technical skills; and the development of activities designed to improve the availability and profitability of marketing channels for member production.

During Phase I the PMO identified five federations and a possible target group of fifty-seven of their primary-level affiliates to be provided assistance during the extended Project. They include:

- -- FENACOAC and twenty (25) credit union affiliates
- -- FECOAR and six (6) regional supply cooperatives
- -- FEDECOAG and eight (8) agricultural cooperatives
- -- FEDECOVERA and twelve (12) coffee cooperatives
- -- ARTEXCO and six (6) textile marketing cooperatives

In addition to the five groups listed above, the PMO is currently assessing the feasibility of assisting two other federations (FEDECOCAGUA and FECOMERQ), as well as a limited number (10-14) of independent, agribusiness-oriented cooperatives for direct assistance. The Cooperative Component of the Agribusiness Development Project (520-0276) is currently working with four (4) such cooperatives, all of whom will be provided follow-on assistance. As further information is gathered, an additional 10-12 independent agribusiness cooperatives may become participants in the Project.

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All potential Project participants (including the independent, non-federated organizations and the affiliates of the two new federations) will be analyzed using policy guidelines and strategies developed by the Project during Phase I. This analysis permits the Project Management Office to identify past and current problems, and to assess the potential of the cooperatives to operate as viable and effective service intermediaries. The PMO will select and provide intensive assistance to those organizations which are:

-- most economically and financially viable,
-- have demonstrated an understanding of their problems, and
-- have shown a willingness to take the necessary actions to improve member service delivery while reducing their dependence on external resources.

The results of the institutional analysis will be used to determine the terms and conditions of project participation, as well as the magnitude and timing of project assistance. The strict criteria used to evaluate eligibility is aimed at accelerating the impact of the Project by focusing assistance on the strongest of the cooperative organizations before expanding to those in need of longer development periods. Qualified organizations will receive technical assistance, training and financial support (for basic office equipment and salary support grants) to improve administration and increase the organization's ability to attract and retain qualified staff.

Continued participation in the Project -- for both federations and cooperatives -- will be contingent upon (a) compliance with the terms of the Participation Agreements, and (b) effective completion of the activities agreed to in the annual development plans. The annual plans are designed to attack the root causes of the institutional deficiencies that have historically limited the ability of the cooperatives to provide their members with profitable, high quality services. The objective is to develop economically and financially independent cooperative organizations that can provide high quality services to their members on the basis of self-generated income.

As an important focus of this development strategy during Phase II, direct assistance to the primary-level cooperatives (except in the case of the independents) will be increasingly provided by federation staff, with the PMO acting in an advisory capacity. This will ensure that the federations are able to carry out project initiatives after the project has ended.

2. Project Components

The Project addresses cooperative institutional development and expansion of effective services through five (5) closely linked components:

-- institutional development
-- financial stabilization and recapitalization

-- production and marketing services
-- credit, and
-- policy dialogue and legal reform.

Although presented here as separate elements, these components are in fact highly interrelated. Credit supports both production and marketing services and recapitalization; institutional development must support the stabilization and service development objectives; stabilization and recapitalization must be undertaken in the context of the long-term growth and services requirements of the institutions that are assisted under the Project.

a. **Institutional Development**

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

Implementation strategy and the terms of the agreements are determined according to the following step-by-step procedures, designed to ensure acceptance of the Project's focus on sustainable business development:

1) Institutional Assessment. The initial activity with any cooperative or federation is an assessment of the actual or potential viability of the organization within the markets which it operates. This assessment pinpoints the potential for growth and expansion and develops parameters of profitability needed to sustain the enterprise. The assessments are prepared jointly by the technicians attached to the Project Management Office (PMO), staff of the federations, and the staff of interested cooperative organizations. The potential viability of the enterprise is closely examined, identifying key problems, areas of opportunity, and priority actions required to achieve sustainability.

2) Development Strategy. Once the assessment process is complete, the second step is to develop a plan that addresses the principal problems inhibiting the cooperative from realizing its potential and satisfying the service needs of its member-owners. This strategy is designed to improve cooperative operations and efficiency, and to establish patterns, policies and attitudes affecting profitability, capitalization, administrative discipline, staff improvement and member relations necessary for survival. The strategy will differ relative to the kind of cooperative and its

particular needs. Preference is given to cooperative services that produce regular income, and which neither compete directly with the government nor depend heavily on public or other subsidies. Although not all-inclusive, services supporting agriculture, artisanry, cottage and small enterprise, commerce, trades and professions are preferred. Concurrence between the cooperatives and the PMO is sought on the major problems, issues, and remedial measures that must be taken. Boards of Directors must ratify a draft of the development program, while agreements on cost-sharing and authority for actions are negotiated prior to initiation of activities.

3) Promotion and Training. Promotion and training activities are designed to instill a growth mentality and eliminate the attitudes of disillusionment, fatalism, and withdrawal that have characterized rural Guatemalan cooperatives in recent years. The primary objective is to develop a commitment to expansion and diversification of cooperative services; promotion of new membership; and management of the cooperatives as business enterprises. Training will be aimed at developing the federations' capability to sustain training activities once the Project ends.

The program will combine formal training events (to be conducted in both the Project Management Office and the offices of the federations and individual cooperatives) with on-the-job follow-up to ensure the transfer and application of skills in day-to-day cooperative operations. Particular emphasis will be placed on the training of permanent cooperative staff (specifically managers and accountants) in the techniques of cooperative business development (accounting and budgeting, financial planning, market development, credit administration, purchasing, production management, administration and contracting). Training will also be designed to enhance the understanding of Project goals and strategies.

Specific outputs for the institutional development component include:

-- The PMO diagnostic methodology and procedures will be packaged and distributed and a minimum of 3 federation staff should be capable of using these materials to analyze base-level affiliates by September 30, 1990.

-- Diagnoses for all targeted federations and their base-level affiliates should be completed no later than November 30, 1990. Institutional development plans and agreements with these organizations should prepared before December, 1990.

-- Diagnoses for all independent cooperatives should be completed before June, 1991, and development plans and agreements should be prepared before August, 1991.

-- Federation and cooperative Board members and staff will participate in at least one training program annually in areas such as long-range strategic planning; budgeting; policy analysis; Board/management relations; etc..

-- Each participating institution will develop and apply a promotion strategy with specific membership and/or other growth objectives; take specific actions to achieve those goals; and, evaluate progress on an annual basis.

-- Each participating federation will have a specific long-term training program that addresses the needs of its affiliated cooperatives, and will allocate the staff and resources to carry-out the program.

b. Recapitalization/Financial Stabilization

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

The component is designed to address the financial problems of the cooperatives through policy modification, training, reorientation and development of profitable member service programs, and by providing financial resources to stabilize and rebuild lost net worth. The specific objectives are to:

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

-- Strengthen the cooperative system's financial condition by improving the balance sheets and earnings;

-- Restore member and non-member confidence in the financial soundness of cooperatives and credit unions; and

-- Establish compliance with minimum operating standards and conditions that contribute to the safety and soundness of cooperative operations.

<u>Objectives</u>. Although the general objective of the stabilization program is to rebuild the net worth of participating cooperatives, the recapitalization process is also designed to develop and introduce financial management mechanisms that increase long-term viability. In particular, the program will attempt to bring about changes in capital formation strategies, interest rate policies, credit delivery and administration, and resource mobilization programs. Improvement in financial management skills is particularly important to the ability of the cooperatives to effectively compete with the private sector in the delivery of profit-making services, and long-term success will require the adoption of new, more business-like policies than those which have characterized the movement in the past. Illustrative examples of the likely changes include:

1) <u>Loan Portfolio Management</u>: Guatemalan cooperatives have been reluctant to write-down non-recoverable loans, with the result that balance sheets list non-viable assets and do not accurately reflect the financial position of the institutions. Cooperative managers have feared that writing-off bad loans would set a precedent that might encourage other members to default on their loans. Although this risk exists, it can be minimized by continuing to maintain a register of all written-off accounts, withholding new loans to members who have had loans purged, and retaining legal options for eventual recovery.

   The stabilization program requires a reduction of outstanding loan delinquency by classifying the loan portfolio and purging non-recoverable accounts (e.g., those that are more than one year in arrears). A more accurate picture of asset quality thus emerges, providing cooperative managers with the financial information necessary to estimate operating income and their ability to introduce additional, self-sustaining service programs for members. The availability of stabilization funding will likely remain a key incentive for inducing cooperatives to reform their portfolio management practices.

2) <u>Recognition of Losses</u>: The Project will also continue to introduce a new, more fiscally conservative method of calculating loan delinquency within the Guatemalan cooperative movement. Both credit unions and agricultural cooperatives have traditionally calculated delinquency as the total amount of payments which are past due.

   The Project's delinquency calculation method considers the entire loan balance as delinquent when any payment is overdue. Placing the entire amount at risk encourages more aggressive collection efforts and the creation of reserves to guard against the potential loss. Recognizing that such accounts represent potential losses rather than viable assets reinforces the use of improved credit portfolio management practices and encourages the organizations to more closely screen members (for credit worthiness, credit history, and ability to pay) in order to reduce the risk of loan loss.

3) Interest Rate Reform: Traditionally, the Guatemalan cooperative movement has depended on low-cost, external sources of subsidized credit as the primary source of operating capital. Cooperative leaders have been reluctant to charge market rates in credit programs because, according to them, this would "violate cooperative philosophy" and "places too much of a burden on poor members." This has precipitated an overall decline in the quality and quantity of member services as inexpensive external resources have become more scarce. The capital base of the cooperatives has been impaired, income has been insufficient to fund new services or expansion, and the organizations have been unwilling to build internal sources of capital through income generated on member shares or retained earnings.

Access to stabilization assistance requires the cooperatives to adopt policies of charging more market-oriented interest rates on loans, pay competitive rates of return on share capital and savings deposits, and accelerate the creation of permanent institutional capital by retaining greater amounts of net income in reserves.

4) Institutional Capital Formation: Guatemalan cooperatives have also relied on "share capital" as the principal source of low-cost, long-term funds. However, they have tended to overestimate the value of this share capital and underestimate the need to build reserves and retained earnings. The lack of adequate reserves has eliminated the "financial cushion" needed to protect the par value of membership shares against loss. Creating institutional capital is an essential element for the long-term viability of cooperative organizations.

The stabilization component promotes the adoption of a broad capital formation strategy (for both credit unions and agricultural cooperatives) which assigns a portion of net earnings to the permanent capital reserve account of a federation and/or cooperative. The intent is to increase an organization's independence from external sources of funds while improving capital formation. At present, the ability of cooperatives to build a permanent capital base through reserves is limited owing to the low profitability of service programs and small net operating margins. As services are revitalized and expanded, and the institutional development program improves operational efficiency, cooperative income and net margins should increase.

Participation Criteria. Participation in the Recapitalization and Financial Stabilization component is open to all cooperatives, credit unions and federations which can meet specific eligibility criteria and agree to implement operational and policy changes to resolve their particular economic and financial problems. General eligibility criteria include:

-- Demonstrated economic potential and financial viability;
-- Development of an approved stabilization and recovery plan (including, but not limited to, annual operating plans and budgets, reserve formation and surplus distribution plans, effective delinquency control and collection procedures, adoption of appropriate capitalization systems, and a program to actively seek growth and development opportunities);
-- Acceptance of external audit, inspection, supervision and reporting requirements established by the Project Management Office to verify both compliance with the stabilization plan and general performance;
-- Implementation of realistic pricing policies designed to cover all operating, reserve formation and capital costs;
-- Implementation of sound investment, credit and asset/liability management policies and procedures;
-- Participation in relevant Project-supported institutional development programs; and when necessary,
-- Negotiation of agreements with creditors to restructure external debt and prevent foreclosure and/or liquidation while undergoing Project-financed stabilization.

Financial Stabilization Procedures. Organizations capable and willing to meet the Participation Criteria will be provided with financial stabilization assistance following procedures developed during Phase I of the Project:

1) Stabilization Agreements: Use of financial stabilization assistance is strictly controlled through legally binding contracts (Stabilization Agreements) between the Grant Administrator (FENACOAC) and the beneficiary organization. These Agreements are evaluated and renewed on an annual basis, and specify the covenants and terms of the investment financed by the stabilization fund. (See Annex G for illustrative agreements).

2) Identification of Losses: Participating organizations are assisted in examining their loan portfolios and classifying those loans considered non-recoverable. Existing reserves against bad debts, as well as the savings and shares of delinquent members, are then deducted from the outstanding loan amounts. The difference is assigned to a new account for later liquidation, and the Project's investment of financial stabilization resources is equivalent to this amount.

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3) Investment Mechanism: Once the amount of effective loan loss has been identified, the stabilization funds are disbursed to the beneficiary organizations as "tied capital contributions." Currently, the recipients are required to invest the resources in high-yielding financial instruments (certificates of deposit) offered by local finance companies. Earnings from these certificates of deposit are made available to the beneficiary organization over a three to five-year period to allow the gradual removal of unrecoverable accounts from their books. The stabilization mechanism was reviewed and approved by the Regional Legal Advisor and AID/W in May, 1989. (See Annex G).

Finally, any collections made on loans already written-off are used to create further reserves against bad debt, thus directly increasing the cooperatives' capital reserves. (Note: During Phase I, a portion of such income has been used to finance staff incentive programs to encourage collection of such written-off accounts. This practice may be continued during Phase II). At the end of this stabilization program, the cooperative will have replaced its non-recoverable loans with an equivalent amount of stabilization funds, restoring both member share values and the depleted reserves.

The Recapitalization and Stabilization Component has demonstrated its effectiveness in helping the cooperatives cope with the problems of unrecoverable loans and weak capitalization. It generates earnings to cover historical losses, but is also accompanied by a disciplined approach to controlling current delinquency through annual appraisals of the loan portfolio; systematic writing-down of unrecoverable loans; and the aggressive creation of reserves to cover future loan losses. The policies and procedures being promoted through this component are important to the long-term viability and sustainability of the cooperatives, but overall success will likely also depend on additional access to external credit to fully restore cooperative economic activity.

Specific outputs for the Recapitalization and Stabilization Component include:

-- The Financial Stabilization policies and procedures should be effectively introduced and in use within all participating cooperative organizations by June, 1991.

-- Stabilization analyses for all federated cooperatives should be completed by December, 1990, and for all independent cooperatives by June, 1991.

-- Stabilization plans, agreements and disbursements of funds for the federations and their affiliated cooperatives should be completed by January, 1991, and for the independent cooperatives by July, 1991.

-- Tentative plans for the disposition of the Stabilization Fund at the end-of-project should be prepared and submitted to USAID/G no later than August, 1991. A final decision should be taken no later than December, 1991.

During the preparation of the Amendment, the Mission did consider the possible creation of a U.S. Dollar-denominated Stabilization Fund during Phase II as a means of maintaining the value of Project funds in an environment where further devaluation of the Quetzal is likely during the LOP. The recommendation was made in the Financial and Economic Analysis (Annex E.2) and it has some merit; however, it was not adopted for a variety of reasons:

-- The Financial Stabilization element of the Project is viewed as a Guatemalan Fund. The purpose is to institutionalize norms, policies and procedures being promoted by the Project and prevent a significant deterioration in the assets of the cooperative movement. The use of an off-shore, dollar-denominated fund creates an artificial environment which is (1) not sustainable beyond the LOP and (2) complicates the PMO's ability to transfer of important stabilization concepts to federation and cooperative staff.

-- The use of local finance companies as the investment vehicle for the Fund was originally adopted because they offer the Project a high yield (currently 18.5%), security of funds management, and short-term liquidity. This vehicle is viewed as a temporary mechanism, and at the appropriate time the intent is to reinvest the Stabilization resources back into the cooperative movement. The institutional development program and the criteria which surround eligibility for access to the stabilization funding are designed to create the conditions where this reinvestment can actually occur.

-- The losses of the participating federations and cooperatives to be written-down through the Financial Stabilization program are Quetzal-denominated assets. The amendment will increase funding for stabilization to $5.095 million, sufficient to address the identified asset loss of the participating federations and cooperatives during the extended Project period.

-- Currently the Stabilization Fund is earning 18.5% annually vs. a possible 8.5% if invested in an off-shore, dollar-denominated account. The annual yield on the Guatemalan fund is expected to increase to approximately 23% during the LOP, however, little information is available to project the possible devaluation of the Quetzal in upcoming years.

-- Recently discussions have taken place with two local finance companies concerning the possible use of a portion of the stabilization fund as a partial guarantee against finance company loans to federations and cooperatives. The possibility of leveraging private sector credit to complement the Project's limited credit funds would become more complex using a dollar-denominated, off-shore fund.

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Finally, the financial stabilization effort is being accelerated to permit the initiation of the recapitalization process in all participating organizations prior to January, 1991. Current banking legislation does not provide for dollar-denominated deposit accounts and transactions in Guatemala, and all beneficiaries of the stabilization program would require prior GOG approval to maintain foreign currency accounts in the U.S.. It is unlikely that the recommended dollar-denominated fund could be created before January, 1991, and significant delays in project implementation could result from a mid-term change in operational strategies be adopted.

c. Production and Marketing Services Component

Improvements in small farmer productivity and incomes are particularly important to the long-term viability of the agricultural cooperatives, as well as to a significant number of the rural credit unions. They must generate earnings from profitable services in order to cover operating expenses and create the reserves necessary to ensure financial stability. As member income increases, their ability to invest in and pay for cooperative services will also improve. Assistance, therefore, will be provided to help the cooperatives develop profitable member services which can both increase farmer productivity and generate earnings for the cooperatives themselves.

Currently, Guatemala lacks an integrated public and private sector infrastructure to provide effective production support services to the small farm sector. This is one of the primary limitations to improving agricultural production and rural incomes. The low profitability of small farmer agriculture has created a vicious cycle in which farmers have neither the information nor the resources to obtain the technology and assistance required to improve production. External assistance is very limited and of varying quality, and a majority of the small producers have been unable to take advantage of the available markets for a wide variety of products. Although cooperatives cannot provide 100% of the support needed, they can significantly increase the assistance now available.

The production and marketing component seeks to help the cooperatives and federations establish effective production improvement services by improving and/or expanding existing services, and by coordinating these services with other programs or institutions, such as ANACAFE and the coffee technification project, and the Highlands Agricultural Development project (HAD-II). Existing cooperative services (fertilizer supply, marketing and input sales) will be enhanced while also developing complementary programs to further improve member productivity and incomes. The component represents an expansion of the production, post-harvest handling and marketing assistance that has been provided to the agricultural cooperatives participating in the Cooperative Strengthening Project (520-0286) and the cooperative development program of the Agribusiness Development Project (520-0276).

The Production Services Component is designed to increase the ability of Guatemalan federations and cooperatives to provide their farmer members with greater access to:

-- Technology to improve their farm productivity;
-- Information and assistance required to market their production profitably; and,
-- Training to improve the effective use of high-cost agricultural inputs; select among diversification options; and evaluate and use all available marketing, post-harvest handling and processing alternatives.

The intent is to supplement GOG agricultural extension programs by increasing the capability of the cooperatives to provide timely and more effective assistance to their farmer members. The range of activities to be supported under this component is broad, including:

-- Promotion of improved cultural practices which result in increased yields and product quality;
-- regional soil sampling programs
-- adaptive field research and improved use of agricultural inputs and IPM technology;
-- farmer training in all aspects of fertilizer, pesticide and fungicide application and safety;
-- crop diversification and improved seed variety trials for commonly grown horticultural crops;
-- farmer extension programs to transfer production and post-harvest handling technology and skills;
-- investigation of marketing and processing alternatives;
-- networking with market information services (such as the Exporters Guild, ANACAFE, and other public and private sector programs), to evaluate local and international markets and select the most profitable market alternatives

The effective implementation of the Production & Marketing component requires the completion of preliminary work among the agricultural cooperatives prior to the initiation of the full range of training and technical assistance activities. In particular, the Project must complete a survey of potential agribusiness cooperatives to be selected for project participation; identify the principal production and marketing problems to be addressed; complete a similar process within the federated agricultural cooperatives; and, prepare an implementation plan which is both realistic and within the capabilities of both the Project Management Office and the cooperatives themselves.

An initial target date of December, 1990, has been established for completion of this problem identification process. Subsequently, the federations and independent cooperatives must prepare plans to address the principal production and marketing problems or their members, including requirements for new staff positions, equipment and budgets. These plans should be approved by Boards of Directors and the PMO within two months from the completion of the needs assessment (February, 1991).

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<u>Pesticide Use Training and Integrated Pest Management</u>. The effective and safe use of high-cost agricultural inputs is important to increasing the productivity and incomes of the small farmers, as well as to the long-term, sustainable development of the rural cooperatives. The Production Services component will therefore include the development and implementation of activities to provide training in agricultural chemical use to farmers affiliated to the participating cooperatives. These programs will promote the safe and effective use of agricultural chemicals of all kinds, including pesticides, fungicides and fertilizers. This represents an expansion of the Project's agricultural extension program beyond the current focus on fertilizer selection criteria (appropriate formulas) and application techniques. Training will be provided to federation and cooperative extension personnel, as well as to their farmer members, in all aspects of agricultural chemical handling, application techniques, and safety measures. This training will include the use of written materials and audio-visual techniques, but the primary vehicle for skills transfer will remain the in-field demonstrations on land cultivated by the farmers themselves.

The on-farm experimentation methodology being used for the investigation and extension program has encountered strong farmer interest and support, and its current focus will be expanded to include integrated pest management training. The project will draw heavily on current IPM technology developed by CATIE and Zamorano Agricultural Training School in Honduras, and it will promote IPM practices in all crops where appropriate. Participating cooperatives will be encouraged to develop information and training campaigns for their members in agricultural input use as an additional service which can have a favorable impact on farmer productivity and income. Access to the Project's Credit Component will be linked to the existence of farmer training programs in the proper selection, handling and application of agricultural inputs.

<u>Processing and Marketing</u>. The agricultural investigation and training program will be complemented by activities designed to address the processing and marketing problems faced by small-scale producers. This includes assessing and evaluating current market, post-harvest handling and processing alternatives, and developing appropriate, cost-effective mechanisms and services to permit greater cooperative participation in the marketing of member production. The marketing and processing problems of both traditional and non-traditional crop producers will be targeted through this component. Likely activities include the development of marketing agreements with existing processing firms; identification of new brokers and value-added marketing/processing procedures for current marketed commodities; promotion of direct cooperative access to domestic and international markets; development of linkages to other ongoing Mission and GOG projects; and participation in local and international trade fairs.

d. **Credit Component.**

The objective of the credit component is to restore economic activity in the rural areas of Guatemala. Successfully reactivating the service capability of Guatemala's cooperatives is closely linked to their ability to effectively mobilize, invest and recover financial resources. This component will help the federations and cooperatives generate and expand economically beneficial services and operations such as lending, input supply, marketing and distribution of members' output, as well as, providing their members with other financial, commercial and production-oriented services. Revolving lines-of-credit within the cooperatives and federations will be created to meet needs for short-term production and marketing credit in addition to more long-term programs of field renovations and infrastructure development. At present, most of the agricultural and production cooperatives lack access to reliable and dependable lines of credit. The Project will address this need directly while also attempting to develop ties to local sources of short and long-term financing.

Development of improved credit analysis and loan administration within the cooperatives is particularly important to the success of the credit component. The institutional development component will therefore provide guidance and training to participating federations and cooperatives in all aspects of credit policy design, financial statement analysis, budget and cash flow preparation, and repayment capacity evaluation as the principal means of improving financial management skills and the credit-worthiness of the institutions. The credit component is also closely related to the production and marketing component, as credit is essential to finance improvements in these areas.

Eligibility Criteria. To be eligible for credit funds a federation or cooperative must comply with sound funds management practices, including:

-- Uniform application of membership dues and capitalization requirements;
-- Credit financing limited to income-generating projects (such as agricultural production, marketing, small enterprise, artisanry);
-- Use of Project-approved internal and external audit programs;
-- Adoption and use of approved operating and financial policies that contribute to the economic viability of the institution; and
-- Active participation in the Institutional Development component of the project.

When a participating organization has demonstrated a commitment to meet these general criteria, a more in-depth review of the institution's strengths and weaknesses will be conducted by the Project Management Office. The key areas analyzed to determine credit-worthiness include:

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

Credit Beneficiaries. The credit component will supply wholesale loans to a select group of creditworthy cooperatives and farmer associations to finance income-generating activities. Eligible activities include:

- -- financing of input supplies;
- -- short-term crop credits;
- -- approved land renovations;
- -- introduction of improved technology for existing production;
- -- shifting to higher-value crops;
- -- intermediation of credit to members (including individuals and the cooperative affiliates of the federations);
- -- investments in storage, post-harvest handling, processing or marketing infrastructure and equipment;
- -- farm machinery and/or transport; and,
- -- other productive investments to be made by the cooperative organizations themselves.

The small size of the credit component (US$1.6 million, or 6.80 million Quetzales at current exchange rates) means that the Project will not be able to satisfy the entire credit demand in the participating organizations. As a result, these resources will be used to satisfy a portion of the demand for short-term financial assistance while ongoing efforts are made to leverage additional credit assistance through the GOG's Agricultural Development Bank (BANDESA) and the private financial sector. The GOG has already indicated a willingness to contribute 2.5 million Quetzales of local currency in 1990 for the creation of a BANDESA cooperative credit line, and work has begun on policy guidelines to be used in disbursing these resources to eligible cooperative intermediaries. In addition, two local finance companies have indicated interest in financing cooperatives if risks and costs can be reduced. The Project Management Office will continue to persue all available options to leverage Project financial resources in return for greater public and private sector lending to the Guatemalan cooperative movement.

As is the case with the Production & Marketing component, a series of preliminary analyses must be completed before credit can be disbursed to the cooperatives participating in the Project. This financial analysis process is well-advanced within several of the cooperative federations, however, the analysis work to be completed among the independent, export oriented cooperatives must be accelerated if production for the 1990 winter market is to be financed by the Project. Tentative targets for the disbursement of credit funds have been prepared as follows:

Q2.0 million during FY1990
Q3.0 million during FY1991
Q4.0 million during FY1992

These target are flexible and are closely linked to the adoption of policies and procedures that reduce credit risk. Effective cooperative policies must be in-place and staff trained in the most important aspects of credit intermediation (appraisal, contracts, collections, delinquency control, analysis, etc.) before disbursements can be made.

Credit Policy. The operational policies which guide the institutional development, financial stabilization and the credit components of the Project were approved by the Mission in 1988 (see Annex F). They are currently being revised by the Project Management Office in preparation for (1) the inclusion of the independent agricultural cooperatives currently being assisted under the Agribusiness Development Project (520-0276), and (2) the increased emphasis to be placed on the development of income-generating service programs among the federation affiliates.

The Credit Policy will maintain the use of market or above-market rates of interest in all lending, and all organizations seeking access to project financing (federations and/or base-level cooperatives) will be required to meet the eligibility criteria mentioned earlier and be subject to an in-depth financial analysis to identify risks, collateral requirements, and possible terms of loan agreements. Once agreement has been reached on the terms and conditions of the financing to be provided, a formal, legally-binding loan Agreement will be signed between the beneficiary organization and the Project Administrator (FENACOAC).

Much of the preparatory work for use of the Project's credit component was completed during Phase I (within the federations). Phase II will increase the emphasis to be placed on the development of the federation affiliates and the independent cooperatives; and in the short run, the development of income-generating cooperative services will require access to external financing. Financing for short-term working capital loans will likely dominate the Project's portfolio due to the limited resources available ($1.6 million); however, consideration will also be given to medium-term investment loans (5-year terms) should additional liquidity become available. For example, the GOG has committed to provide some counterpart financing through the Agricultural Development

Bank (Q2.5 million), and additional efforts will be undertaken to leverage resources through the commercial banking sector, possibly using a portion of the financial stabilization funds as a partial guarantee against non-payment. The development of an effective, complementary relationship with BANDESA and the commercial banking system will be important to increasing cooperative access to external financing; however, the Project will also continue to promote greater resource mobilization and capital contributions from cooperative members to lower costs and increase organizational independence.

e. Policy Dialogue and Legal Reform

Guatemalan cooperatives operate within the context of a variety of antiquated laws and regulations which in many ways limit their ability to generate capital and compete with private enterprise. In addition to the poor legal framework, Government supervision of the movement is sporadic and subject to political manipulation. There are two independent Government institutions charged with working with the movement -- the National Institute of Cooperatives (INACOP), the promotion and training agency, and the Inspector General of Cooperatives (INGECOP), the regulatory agency. At present, INACOP is overstaffed, underbudgeted and politically motivated. Personnel are immersed in cooperative theory and philosophy, and there are few (if any) businesslike criteria used when providing training or technical assistance to client organizations. Although the Cooperative Strengthening Project had budgeted $11,000 to strengthen INACOP, the resources were not disbursed due to the political motivation and unwillingness of the Institute to support the Project's business focus in working with the cooperatives.

The regulatory/fiscal agency of the Government (INGECOP) is also weak and inconsistent in the quality and frequency of its fiscal audits of the cooperatives. INGECOP does not possess adequate guidelines against which it can measure the performance and acceptability of cooperative institutional policies and practices, and legal sanctions are weak and rarely applied against organizations found to be in violation of cooperative legislation. INGECOP is currently powerless to force compliance with audit findings, and this absence of legal authority has perpetuated the existence of inept, inefficient and, in many cases, bankrupt cooperative institutions.

The present Government is supportive of the development and expansion of the cooperative movement, however the theory which guides government policy is flawed and appears to be based on a mixture of rhetoric and ignorance of successful cooperative experience in other countries. The result has been a government orientation toward cooperatives that discourages their growth as economic entities. Among the policies that openly discourage such development are:

-- INACOP believes that positive net margins achieved in one cooperative should be redistributed to those organizations with negative margins;

-- INGECOP inspectors have informed cooperative federations that they cannot charge more than the amount paid for supplies when selling to their base-level affiliates;
-- Cooperatives are prohibited from owning or operating business ventures, nor can they engage in joint business ventures with other cooperatives or private enterprises;
-- Both INGECOP and INACOP oppose any increase in cooperative interest rates to match the local market since "cooperatives are not profit-making institutions"; and,
-- INACOP openly advocates the theory that cooperatives are "social entities" first and business entities second.

Government policy and regulation of the cooperative movement is important to its long-term success, however, the ability of the project to influence policy is as yet in doubt. The policy dialogue component will attempt to reorient Government attitudes toward the cooperative movement by sponsoring in-country and international observation trips, conferences and seminars. The Project will also sponsor specific training exercises with INACOP extension personnel and INGECOP auditors and supervisors. The goal will be to develop an awareness among policy makers of the need for effective cooperative legislation and regulation. This could represent a non-threatening means of educating appropriate government officials about the effective role of government institutions in supervising cooperative organizations, and for developing a commitment to appropriate reform of government policies.

The direct Project-financed initiatives with INACOP and INGECOP will be complemented by a continuation of project assistance to the Confederation of Guatemalan Cooperative Federations (CONFECOOP). To date, the Project has supported the creation of a CONFECOOP data bank with information on the cooperative movement and has financed a series of seminars and promotional events to assist its' lobbying efforts with the Government. CONFECOOP has been actively supporting a change in the Cooperative Law to lessen the restrictions against cooperative business development, and it continues to play an important role in the ongoing cooperative debt renegotiations with the National Agricultural Development Bank (BANDESA). The Confederation represents the only local institution capable of negotiating and representing the interests of the movement with the Government. The Project will continue to provide limited financial and technical support to further this process.

Activities in legislative and regulatory reform are designed to foment a consensus on needed changes in laws and their application, as well as develop strategies to bring about modifications and explore alternatives to achieving these objectives. Immediate concerns involve legal constraints to the functioning of cooperatives as modern business organizations and the inadequacy of government regulation. The Policy Dialogue and Legal Reform component will therefore attempt to identify the primary legal constraints to effective cooperative business operations, and promote changes to national legislation and improvements in the supervisory and promotion services of INACOP and INGECOP.

D. RELATIONSHIP OF THE PROJECT TO USAID AND GOG STRATEGIES

1. Conformity with GOG Strategies/Programs

The Guatemalan Government has four overall goals for the development of the agricultural sector: maximization of agricultural sector income; generation of greater rural employment; distribution of the benefits of development to the poorer sectors of the rural population; and achievement of a stable and balanced process of development and growth. The strategy is designed to:

- guarantee domestic food security through increased storage, production and productivity of basic grains;

- increase foreign exchange earnings through the export of traditional and non-traditional agricultural products;

- assure effective natural resource management and use through increased irrigation, expanded soil conservation, forest management, and watershed protection;

- expand agricultural diversification and agro-industrial development through improved incentives and investment;

- and, promote the active participation of small farmers in the development process through technical assistance and expanded and strengthened farmer organizations.

The institutional development initiative represented by the Cooperative Strengthening Project is fully consistent with and supportive of the GOG's agricultural development strategy.

2. Relationship to USAID/Guatemala and AID Agricultural Development Strategies

The USAID/Guatemala Rural Development Strategy is designed to support the GOG's agricultural sector development program and to increase agricultural production, productivity and rural incomes. The intent is to increase productive employment opportunities in the rural areas and contribute to the overall growth of the economy through expanded agricultural export earnings. To date, priority has been given to the Western Highlands, the area of greatest poverty and that which possesses the greatest potential for diversification into higher value crops. The rural development portfolio is targeting:

- improved natural resource management and land use (crop diversification, irrigation)

- increased agricultural productivity (credit, improved inputs, appropriate technology, and research)

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- expanded local and export markets (collection/ packing centers, storage, market information) and

- improved farmer training, extension services, and administration and management of agricultural enterprises.

The Amendment to the Cooperative Strengthening Project incorporates all of the key elements of the Mission's rural development strategy. Small and medium-scale farmers produce most of Guatemala's grains for consumption and non-traditional crops for export, and they represent a majority of the membership in existing rural cooperatives. Effective rural cooperatives can increase small farmer access to technology, expanded markets, and financing, currently the most important constraints to development of the agricultural sector.

3. Relation to Past Development Activities

The proposed program builds on the lessons and initiatives of several prior USAID/Guatemala in developing and strengthening Guatemalan cooperatives, including projects to develop and support the credit union system and a regional cooperative federation in the 1960's and 1970's, and more recent projects involved in Small Farmer Production and Small Farmer Marketing. The most recent related project activities involve the cooperative improvement component of the Agribusiness Development Project (520-0276) and the Cooperative Strengthening Project (520-0286). The findings and conclusions of two recent evaluations of these projects are especially important for understanding the logic of the proposed rural cooperative development strategy. The three fundamental findings and recommendations of the Cooperative Strengthening Project evaluation were:

* the project's activities in administrative and financial management improvement were essential to developing effective cooperative organizations, but were not sufficient to meet the development needs of either the cooperatives or their members;

* institutional development and financial stabilization need to continue, but with less priority; and

* the Cooperative Strengthening Project needs to increase activities designed to improve the underlying business operations and services of both the federations and primary-level cooperatives.

The most salient findings and lessons of the Agribusiness Development Project evaluation were that:

* shifting farmers from local-market traditional products to export-oriented non-traditional products results in significantly improved

income and increased employment[1];

* success in entering and participating in the export market, particularly in the case of fresh products, is dependent on a highly complex set of technologies and skills that is largely beyond the reach of individual small farmer associations; and

* small-farmer organizations need to be able to control key processing and marketing resources (infrastructure) to reduce inherent risks in the export market.

Based on the above, the proposed amendment represents a shift in emphasis from the previous two projects. Financial stabilization and institutional development will be continued, but on a much less intensive level. Emphasis will shift from developing and strengthening the federations to developing and strengthening the primary-level cooperatives. Finally, the major focus of activities will be on strengthening cooperatives services that have a direct impact on members and on developing a capability to sustain those activities.

4. Relationship to Other Donor Activities

A wide variety of international donors are working with the Guatemalan cooperatives, but the primary emphasis of these programs is directed at cooperative education and training, promotional programs, and some limited institutional support. The list of donors includes: Catholic Relief Services; Agro Accion Alemana; Canadian International Development Agency (CIDA); Miserior; Friedrich Naumann Foundation; Sociedad Canadiense de Cooperacion para el Desarrollo Internacional; Konrad Adenahuer Foundation; Friedrich Ebert Foundation; and the European Economic Community. Total financial assistance to be provided is estimated at approximately US$3.0 million over a three-year period. USAID/Guatemala will continue to coordinate as closely as possible with these other donors. However, no donor is supporting a program of the size and complexity of the Mission's cooperative development initiative.

5. Linkages to Other Resources

The proposed project needs to develop ties to existing programs and resources to leverage resources and expand capabilities. There is no need to duplicate efforts. Among potential relationships that need to be

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[1]This is consistent with the findings of an earlier evaluation of the Latin American Agribusiness Development Corporation. See John H. Magill, William E. Bolton, Paul H. Dillon and Amalia M. Alberti, Employment and Income Impacts of Investments in Export-Oriented, Non-Traditional Agribusinesses: An Examination of Six Investments Financed by the Latin American Agribusiness Development Corporation de Centroamerica (LAAD-CA), 1989.

explored are:

HAD-II	-- For intensive production assistance in technified agriculture.
PROEXAG	-- For generalized assistance in exporting of non-traditional agricultural products
Gremial	-- For training and information on exporting of non-traditional agricultural products
BANDESA	-- For local currency credit funds
Ministry of Agriculture	-- For agricultural production assistance
3rd Vice Ministry	-- For specialized funding through the Fondo Social
Peace Corps	-- Technical assistance on a cooperative level
VOCA	-- Short-term specialized technical assistance
LAAD	-- Loan funds for agribusiness development activities.

IV. COST ESTIMATE AND FINANCIAL PLAN

A. PROJECT AMENDMENT BUDGET

The total cost of the Cooperative Strengthening Project will be $19.0 million over the eight year implementation period to result from this Amendment. A total of $11.0 of ARDN grant funds was obligated in August, 1986, and an additional $8.0 million of ARDN grant funds corresponds to this amendment. The LOP counterpart contribution will be the local currency equivalent of $6.0 million, a portion of which ($588,000) will be contributed by the Government of Guatemala in PL480 Title I local currency. The remaining direct and indirect counterpart ($5.4 million) will be contributed by the cooperative organizations participating in the Project.

Expenditures under this amendment will cover a four-year period (September 1, 1990 through August 31, 1994). AID funds will finance a PASA technical assistance contract with the USDA $599,000; long and short-term technical assistance $2.539 million to the participating cooperative organizations; the operational costs of the Project Management Unit $1.113 million; the institutional development of the cooperative federations, their rural affiliates, and a select number of independent, export-oriented agricultural cooperatives $1.802 million; transportation and equipment $100,000; an increase in the financing for the financial stabilization component $1.930 million; audits and evaluations $249,000; and contingencies $254,000. Reductions were done in INACOP ($11,000); CONFECOOP ($30,000); savings/protection fund ($345,000); and credit ($200,000).

The Amendment is in response to a recently completed mid-term evaluation of the Project. The evaluation recommended an extension of the PACD; a continuation of the long-term technical assistance being provided to the Project Management Office and the participating cooperative organizations; a shift in the emphasis of project activities to focus more directly on developing improved and sustainable services among primary level cooperatives; and, the incorporation of independent cooperatives that had been receiving assistance under the recently completed Agribusiness Development Project (No. 520-0276).

As reflected in Table IV-1, Summary of Cost Estimates and Financial Plan, the total of the increased funding amounts to $8.0 million to be provided by AID and a total LOP Counterpart of $6.0 million to be provided by the participating Federations and cooperatives, and the Government of Guatemala. The GOG counterpart countribution of $0.6 million in credit funds is to be derived from the PL 480 Title I program. Foreign exchange expenditures will amount $3.3 million, or 41% of the total AID contribution. The balance of the AID funding ($4.7 million or 59%) will be used for local costs and will be expended in local currency. For budgeting purposes, the exchange rate was considered at Q4.25 per $1.00.

TABLE IV-1

SUMMARY COST ESTIMATE AND FINANCIAL PLAN

(U.S.$000)

Description	AID FX	AID LC	AID TOTAL	LOP Counterpart LC
PASA	599	-	599	-
TECHNICAL ASSISTANCE	2,539	-	2,539	-
PROJECT MANAGEMENT SUPPORT	220	893	1,113	-
INSTITUTIONAL SUPPORT	144	1,658	1,802	1,360
INACOP	-	(11)	(11)	-
CONFECOOP	-	(30)	(30)	-
STABILIZATION FUND	-	1,930	1,930	4,028
SAVINGS/PROTECTION FUND	-	(345)	(345)	-
CREDIT	-	(200)	(200)	588
AUDIT/EVALUATION	40	209	249	-
TRANSPORTATION EQUIPMENT	100	-	100	-
CONTINGENCY	30	224	254	-
TOTAL	3,672	4,328	8,000	5,976

The original Budget line items included in the Project's Financial Plan were followed in this Amendment. Accordingly, AID resources will finance the following five (5) broad components:

DESCRIPTION	$(millions)	Percent
Expatriate Technical Assistance	$ 3.1	39%
Project Management Support	1.1	14%
Support to participating Federations and Cooperatives	3.3	41%
Audits and Evaluations	0.2	2%
Contingencies	0.3	4%
TOTAL	$ 8.0	100%

As reflected in Table IV-2 below, Methods of Implementation and Financing, there is no change from the original agreement.

TABLE IV-2

METHODS OF IMPLEMENTATION AND FINANCING

(US$000)

Method of Implementation	Method of Financing	Amount
--Participating Agency Service Agreement (PASA)	Direct Reimbursement	479
--Participating Agency Service Agreement (PASA)	Direct Payment	120
--Technical Assistance Contract	Direct Reimbursement	2,539
--Cooperative Agreement	Direct Reimbursement w/Advances	4,862
TOTAL		8,000

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Table IV-3, Summary of Expenditures by Fiscal Year, illustrates total planned expenditures to cover Phase II of this project, including the reprogramming of the available funds of the current budget and projections for the additional funds to be provided by A.I.D.

TABLE IV-3
PROJECTION OF EXPENDITURES BY FISCAL YEAR
(U.S.$000)

Fiscal Year	Available Funds	Amendment Budget	Total AID
1990	232	516	748
1991	1,602	3,529	5,131
1992	756	1,713	2,469
1993	588	1,289	1,877
1994	409	953	1,362
TOTAL	3,587	8,000	11,587

-- Funds available for reprogramming $3.6 million.

The budget inputs follow the budget line items included in the original Financial Plan for greater control and accountability. In addition, an analysis of actual vs. projected costs was completed by the Mission to determine the current financial status of the Project. The financial review of the Project revealed the following:

Original Obligation in July, 1986	$11.0 million
Disbursements thru March 31, 1990	5.4
Expenditure projection April-August, 1990	2.0
Balance available for reprogramming	$ 3.6 million

The expenditure projections for the period April thru August 31, 1990, are based on ongoing negotiations with the participating cooperatives and include both credit and financial stabilization investments expected to occur in the immediate future. The budget analysis used to identify the funds available for reprogramming is illustrated in Table IV-4. The available balance, estimated at $3.6 million, will be reprogrammed into Phase II of the project.

-- Project Budget PHASE II $11.6 million.

Table IV-4 also illustrates the original Project Budget for $11.0 million; the reprogramming of the remaining funds ($3.6 million); and the additional funding ($8.0 million) to be provided through this Amendment. The revised Project Budget for Phase II will total $11.6 million, and the revised LOP Budget will total $19.0 million.

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REVISED FINANCIAL PLAN/ PLAN FINANCIERO REVISADO
IN U.S. DOLLARS/ EN DOLARES U.S.

TABLE IV-4

ACTIVITY/ACTIVIDAD	AID/GUATEMALA FUNDING/FONDOS AID GUATEMALA				
	CURRENT BUDGET/ PRESUPUESTO ACTUAL	FUNDS AVAILABLE/ FONDOS DISPONIBLE 8/31/90	PHASE II BUDGET/ PRESUPUESTO FASE II	AMENDMENT BUDGET/ PRESUPUESTO DE LA ENMIENDA	REVISED BUDGET/ PRESUPUESTO REVISADO
I. Participating Service Agreement -PASA-/ Contrato de Servicios Participativo	580,000	41,000	640,000	599,000	1,179,000
II. Institutional Development/ Desarrollo Institucional	5,110,000	1,401,000	7,163,000	5,762,000	10,872,000
A. International Technical Assistance/ Asistencia Tecnica Internacional	3,124,000	634,000	3,173,000	2,539,000	5,663,000
B. Guatemalan Program Operations/ Operaciones del Programa en Guatemala	1,986,000	767,000	3,990,000	3,223,000	5,209,000
1. PMO Local Operations/ Operaciones Locales OAP	891,000	453,000	1,566,000	1,113,000	2,004,000
2. Federation Institutional Development/ Desarrollo Institucional de las Federaciones.	1,034,000	273,000	2,075,000	1,802,000	2,856,000
3. INACOP/INGECOOP Regulatory Assistance/ Asistencia para el Rol Regulador de INACOP o INGECOOP	11,000	11,000	0	(11,000)	0
4. CONFECOOP Institutional Support Grant/ Donación de Apoyo Institucional a CONFECOOP	50,000	30,000	0	(30,000)	0
5. Transportation Equipment/ Equipo de Transporte	0	0	100,000	100,000	100,000
6. Audits and Evaluations/ Auditorias y Evaluaciones	0	0	249,000	249,000	249,000

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REVISED FINANCIAL PLAN/ PLAN FINANCIERO REVISADO
IN U.S. DOLLARS/ EN DOLARES U.S.

TABLE IV-4

ACTIVITY/ACTIVIDAD	AID/GUATEMALA FUNDING/FONDOS AID GUATEMALA				
	CURRENT BUDGET/ PRESUPUESTO ACTUAL	FUNDS AVAILABLE/ FONDOS DISPONIBLE 8/31/90	PHASE II BUDGET/ PRESUPUESTO FASE II	AMENDMENT BUDGET/ PRESUPUESTO DE LA ENMIENDA	REVISED BUDGET/ PRESUPUESTO REVISADO
III. Capitalization/Stabilization/ Capitalización/Estabilización	3,510,000	345,000	1,930,000	1,585,000	5,095,000
A. Stabilization Fund/ Fondo de Estabilización	3,165,000	0	1,930,000	1,930,000	5,095,000
B. Saving Protection/ Liquidity Fund/ Fondo para Protección de Ahorros o Liquidez	345,000	345,000	0	(345,000)	0
IV. Credit/ Crédito	1,800,000	1,800,000	1,600,000	(200,000)	1,600,000
V. Contingency/ Contingencias	0	0	254,000	254,000	254,000
GRAND TOTAL ITEMS I-V	11,000,000	3,587,000	11,587,000	8,000,000	19,000,000

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B. PHASE II INPUTS

The Financial Plan of the extended Project will finance a USDA PASA Project Manager; long and short-term technical assistance to the FENACOAC Project Management Office (PMO) and the participating cooperatives; institutional development and financial support to the cooperative federations, base-level affiliates, and independent cooperatives; vehicles; audits and evaluations; and contingencies. A line item discussion of the Financial Plan and illustrative budgets are provided as follows:

1. PARTICIPATING AGENCY SERVICE AGREEMENT (PASA)

The Amendment contemplates a continuation of the PASA Project Manager's postion through the LOP. The costs included represent salaries and benefits (costs directly paid by the USDA), as well as those to be managed by the Mission, including allowances (e.g., housing, education, etc.), local and international travel, and miscellaneous support costs. Total USDA/PASA costs for resident advisor during Phase II of the project amount to $640,000, for a total LOP cost of $1,179,000 through August, 1994.

In addition to the long-term PASA advisor, the project extension contemplates the possible use of a broad variety of short-term technical assistance during Phase II. Approximately 10/p months of short-term technical assistance for a total of $140,000 will be contracted by the Mission thru either the existing USDA/PASA Agreement or other contracting mechanisms.

2. INTERNATIONAL TECHNICAL ASSISTANCE

a. Long-term technical assistance contract

The original Project design provided for the contracting of long-term tecnical assistance services to provide advisory assistance and support to the Project Administrator (FENACOAC) and the participating cooperative organizations. Although the Agreement with FENACOAC has a five-year LOP, the original technical assistance contract was awarded for a three-year period and totaled $2.10 million. The contract was recently extended for 3.5 months, increasing total contract cost by $200,000 to a new total estimated cost of $2.30 million.

The current Contractor (a cooperative consortium led by the World Council of Credit Unions) received high marks in the recently completed mid-term evaluation for its effective implementation assistance during Phase I. The Amendment contemplates an extension of the long-term technical assistance contract thru the new LOP. However, during Phase II only three long-term advisors will be on resident assignment in Guatemala -- a senior Credit and Financial Advisor, a Training Advisor, and an Agricultural Cooperative Business Development Advisor. The need for these three technical advisors was confirmed in the mid-term evaluation and they will be contracted through the extended LOP of the project, or for an additional 4 p/years each. The long-term technical assistance contract costs will total an additional $2.36 million.

b. Short Term Technical Assistance

Fifty-eight p/months of short-term technical assistance are contemplated during Phase II of the Project. Illustrative areas in need of specialized, short-term assistance include:

TYPE OF ASSISTANCE	P/MONTHS
<u>Credit & Finance</u>	
-Operation of a central funding program	2
-Analysis of options for final disposition Financial Stabilization and Credit Funds	3
-Liquidity management	2
-Resource mobilization	2
<u>Training</u>	
-Audio visual materials development	2
-Strategic planning	4
-Business plan development	6
<u>Production & Marketing</u>	
-Post Harvest handling techniques	4
-Value added processing alternatives	3
-Agricultural chemicals	4
-Marketing (in general)	6
-Export marketing	7
-USDA procedures & requirements	4
-Disease control	9
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-- The Cost of each person-month of short-term technical assistance was estimated at $14,000, and includes base salary, per diem, overhead, miscellaneous expenses and round-trip airfare.

-- Attachment 4 illustrates the detailed budget for both long-term and short-term technical assistance.

3. PROJECT MANAGEMENT OFFICE

The project will continue to be managed and implemented thru the Project Management Office (PMO), an implementation unit created during Phase I by FENACOAC, the Project Administrator. The PMO also received very high marks for its implementation capabilities

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during the mid-term evaluation. During Phase II of the Project, the PMO has been reorganized to permit more comprehensive technical support and training to be provided to the participating federations and cooperatives. The PMO staff will be increased from its current total of five (14) local employees (technicians and support personnel) to a new total of approximately twenty-six (26).

Attachment 5 illustrates the estimated operational costs of the Project Management Office on an annual basis through the extended LOP. These costs are estimated as follows:

1990	$105,830
1991	$352,020
1992	$369,084
1993	$421,282
1994	$317,785
TOTAL	$1,566,000

The budget categories include Salaries, Benefits, Per Diem, Transportation, Insurance, Consultants, Rent, Office Furnishings and Equipment, Training of Personnel, Office Maintenance, Mail, Office Supplies, Subscriptions, Honoraria, Other Costs and Overhead.

Sixty percent (60%) of the PMO costs correspond to salaries and benefits. Salary levels are competitive and will permit the PMO to attract and retain high-quality local technicians. The salaries line item contemplates annual increments of 21%, including 10% for performance increases plus 11% for cost-of-living increases (a very conservative amount as compared to current trends in Guatemala). The fringe benefit line item is a direct charge to salary costs and has been estimated at 32% -- 10% charge for IGSS payments; 8.3% for Severance Payment, a legal benefit payable to all PMO personnel at termination of employment; 4.2% for unused leave; 1.3% for other costs such as IRTRA; and 8.3% for the Christmas Bonus (equivalent to one month's salary and paid at the end of each year).

4. INSTITUTIONAL DEVELOPMENT AND SUPPORT

The Institutional Development component of the project represents a continuation of many of the programs developed during Phase I. The detailed budget supporting the costs is broken down by budget line item and by year, including AID and Counterpart resources, as illustrated in Attachment 6. The detailed budget includes the following line items: Contracting of Personnel, Salary Support, Equipment and Furnishings, Computer Equipment, Improvements to Offices and Buildings, Special Studies, Promotion and Publicity, Training, and Salary Support Subsidies for participating federations and base-level cooperatives, etc.. The costs for Institutional Development component will total $2.10 million.

a. Human Resources - Recursos Humanos

Forty percent (40%) of the costs of the Institutional Development Component correspond to the contracting of support personnel in the federations and cooperatives. Included are (a) financial assistance to federations and cooperatives to allow hiring adequate management and support staff (e.g., managers, accountants, etc.) and (b) the contracting of specialized technical personnel necessary to initiate and/or operate service programs when current federation or cooperative income is insufficient. A major change from the Phase I program is the planned inclusion of 28 agricultural technicians to work with the independent and the federated agricultural cooperatives. In addition to the agricultural technicians, the project will finance the employment of critical staff in the federations and selected federated and independent cooperatives, on a declining basis, during the LOP.

The project-financed support element is viewed as a short-term, temporary assistance for attracting and maintaining qualified staff within the federations, their base-level affiliates, and the independent cooperatives. As a result, Project financing for this element will be phased-out over the LOP to avoid creating an organizational dependence on external funds to employ necessary personnel. During Phase I, the Project Management Office (PMO) established a practice which permitted the gradual reduction and elminiation of external, support assistance over a four-year period. Such assistance is subject to negotiation with each participating organization. For example, the Project would finance a possible 100% subsidy for key personnel with the understanding that the receiving organization would pick-up the salary cost in subsequent years at an increasing rates. This program is illustrated as follows:

Salaries	Project Support	Counterpart Contribution
Year 1	100%	0%
Year 2	60%	40%
Year 3	40%	60%
Year 4	0%	100%

The program is designed to permit the participating federations and cooperatives to contract and retain qualified staff while income-generating services to finance these key positions are developed and introduced. All federation and cooperatives participating in this program are required to establish a reserve from net income to finance an increasing share of the project-financed subsidy during the LOP to assure the continuation of the services after the project terminates.

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b. Furnishings and Equipment - Mobiliario y Equipo

The Project will finance the procurement of essential office and agricultural supplies within participating federations and cooperatives. The budget includes the detail by type and number of items required and totals approximately Q512,000.

c. Buildings/Physical Improvements - Edificios/Instalaciones Fisicas

This budget line item includes financing to improve the physical infrastructure of federations and/or cooperatives. It includes construction and/or expansion of existing facilities to enhance image and operational capabilities. For budget purposes only an annual amount has been included in the budget. The total LOP Project budget for this element totals Q640,000.

d. Honoraria/Special Studies - Honorarios/Estudios Especiales

The Project will finance the completion of special studies contracted locally at an estimated per study cost of Q40,000. Total estimated LOP Project costs are Q720,000. Illustrative examples of the studies to be financed includes:

-- Marketing analyses (coffee, non-traditional crops, and basic grains) designed to improve cooperative interventions in the commercialization of member production.
-- Three cooperative insurance studies (life, equipment and vehicle insurance; share/savings coverage; etc.) designed to improve credit union and agricultural cooperative programs.
-- Feasibility studies for new and existing services among federations and base-level cooperatives.
-- Agricultural production studies in areas such as input supply, fertilizer and pesticide practices, improved seeds, etc.
-- Export Marketing studies in a wide variety of areas (agricultural productes, textiles, etc.).

e. Promotion and Publicity - Promocion y Publicidad

The line item for Promotion and Publicity is designed to enhance cooperative services and promote greater (and new) member participation. Annual budgets for such programs are contemplated within four (4) federations and 42 cooperatives and total Project costs are estimated at Q214,000.

f. Training - Capacitacion

The Project will finance a wide variety of training activities with the federations and the base-level cooperatives, including: accounting and financial management; administration; marketing; loan approval procedures, risk analysis, and credit administration; financial stabilization and capital formation; agricultural extension programs; project evaluation; production systems and irrigation; etc. The total LOP Project training costs total Q2,593,180.

Training will also be conducted using a variety of methodologies: seminars and workshops; in-country field trips; specialized courses and seminars within similar organizations; conferences and local fairs; and international training and participation at trade fairs, etc.

g. Operating Subsidies - Subsidios a Gastos Operativos

This Project will provide limited operational support financing to participating organizations to help them defray start-up costs of specialized programs (e.g., computer installation, vehicle and equipment repair, per diem expenses, etc.) while income-generating services are developed and introduced. The total LOP Project costs are estimated to total Q239,000.

h. INACOP/INGECOP

Limited funding ($11,000) was budgeted in the original Agreement to provide assistance to the GOG cooperative promotion and training institute (INACOP). Those funds were not utilized. During Phase II, the Project will increase efforts to enhance (1) the promotional and training programs of INACOP, and (2) the supervisory functions of the GOG cooperative regulatory agency (INGECOP). The Project budget for this element has been increased from $11,000 to a new total of $50,000 (Q212,500) to finance local and international training for the leadership and staff of both INACOP and INGECOP. This assistance is important to promote changes in cooperative legislation, and to enhance the technical capabilities of both organizations in promoting and supervising the development of the movement.

i. CONFECOOP

The Project will continue to provide limited financial support to CONFECOOP, the National Confederation of Cooperative Federations. The Confederation has actively supported the goals of the Project and it remains the spokesman of the movment vis. a vis. the GOG and the international development community. The original budget totaled $50,000, of which approximately $20,000 was used during Phase I. No increase in the current budget is contemplated during Phase II of the Project.

5. STABILIZATION FUND

The Stabilization component of the project has been described in detail in the body of the project paper. The original project budgeted $3.2 million for this component, all of which has been used or committed during Phase I. The Amendment will increase the funding available for the Financial Stabilization component by an additional $1.9 million.

6. CREDIT

The Credit Component of the original agreement totaled $2.8 million of which $1.0 million was transferred to finance the increasing needs of the Financial Stabilization Component. The remaining $1.8 was not disbursed during Phase I, since the focus was on the policy reform and institutional development of the federations and their base-level affiliates. Accelerated disbursements of credit funds are planned during Phase II for short-term production and medium-term investment financing. The total AID funding for the credit component will total $1.60 million during Phase II, a reduction of $200,000 of the current budget in recognition of the willingness of the GOG to contribute local currency counterpart credit funds (Q2.5 million) in support of project initiatives.

7. AUDITS/EVALUATIONS

The original design budgeted Audits and Evaluations as two separate budget line items. In Phase II, the costs of Project Evaluations and Audits are now part of a new line item. Details concerning the timing and funding required for evaluations and audits are included in Attachment 7. Total costs are estimated at $249,000.

A RIG audit has been requested for completion during FY91, and the Project will be subject to regular financial reviews by the USAID/G Controller's Office and/or CPA firms. In addition, the Project will continue to finance the annual audits of the participating federations and selected audits within the base-level cooperatives participating in the Project. The independent auditors who perform these audits will be required to comply with the Government Auditing Standards, 1988 Revision.

8. TRANSPORTATION EQUIPMENT

Most of the commodity procurement actions were completed during Phase I. Commodities to be purchased during Phase II are to support (a) production and marketing activities, (b) training, and (c) the extension of the data processing program to an additional five (5) cooperatives. The required equipment has been budgeted under the category it is supposed to support. The transportation equipment included in this budget line item will likely include three (3) four wheel drive vehicles (to be purchased by USAID/G) and twenty-five (25) motorcycles.

9. CONTINGENCY

This original Financial Plan did not include a contingency line item as a separate budget element. This has been changed in Phase II given the wide range of project activities and the unlikelihood that all necessary financing has been identified. Use of the Contingency line item will be subject to receipt of a request from the Project Administrator (FENACOAC) and final approval of the Mission to be acknowledged thru the issuance of a Sequential Implementation Letter (SIL).

Inflation factors have been included in the budget projections.

10. COUNTERPART

Direct Counterpart: The direct counterpart contribution to be provided by the participating federations, their affiliates, and the independent cooperatives is based on the following:

a. The increasing share of salaries and benefits to be contributed by the federations and cooperatives participating in the Salary Support element of the Institutional Development Component (see section 4., a.). This counterpart contribution will total approximately $940,000 during the LOP.

b. The proportional share of federation and cooperative contributions in the procurement of Equipment & Furnishings to be financed by the Project. The organizations will contribute approximately forty percent (40%) of the total value of computer and agricultural equipment to be financed with Project funds during Phase II for a total LOP contribution of $63,400.

c. The proportional share of participating organization contributions to the Physical Improvements to be financed with Project funds. The contribution will total $100,400 during the LOP.

d. The contribution of the federations and cooperatives to the Project-financed costs of the feasibility studies and other analyses to be completed during Phase II. Beneficiary organizations will be expected to contribute approximately thirty percent (30%) of the total costs of such studies for a counterpart contribution of $65,900 during the LOP.

e. The proportional contribution of the participating organizations to the costs of the Project-financed promotional campaigns. It is estimated that this contribution will total approximately sixteen percent (16%) to these costs, for a total counterpart of $15,900 during the LOP.

f. The participating organizations will be expected to contribute to the costs of the training programs to be financed by the Project. For every two individuals financed by the Project, the organizations will be expected to contribute to the costs of one additional participant. In addition, in situations where Project financing is used to defray the costs of cooperative participation in trade fairs, the beneficiary organization will contribute fifty percent (50%) to these costs. Total counterpart contribution will be $175,000.

g. All beneficiaries of the Financial Stabilization Component will contribute a counterpart estimated to total $1,214,000 during Phase II of the extended Project. This counterpart is calculated as the retention of earnings and other procedures adopted by the participants to absorb thirty percent (30%) of the losses to be written-down through the stabilization process.

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h. GOG counterpart is calculated as the total credit funds to be contributed from local currency generations through the PL480 Title I program. The GOG has committed to provide $588,235 of credit through the National Agricultural Development Bank (BANDESA) in support of cooperatives participating in the Project.

<u>Indirect Counterpart</u>: A significant indirect counterpart contribution is also expected to result from the adoption of two project-sponsored financial development strategies: aggressive deposit mobilization among the credit unions and promoting greater member capital participation thru share purchases within both credit unions and the non-financial cooperatives.

The indirect counterpart represents the expected increase in share capital and deposits to occur during the LOP as the participating organizations adopt the financial development strategies being promoted by the Project. Although these resources (deposits and shares) are retained by the organizations themselves and do not represent a direct contribution to the Project, they are an output of the policy guidance being promoted. The indirect counterpart contribution represented by the increase in cooperative savings and share capital will total approximately $2.8 million over the LOP.

PROJECTED BUDGET TO DETERMINE AVAILABLE BALANCE AS OF 8/31/90

US

BUDGET LINE ITEM	CURRENT BUDGET	EXPENDITURES			AVAILABLE BALANCE
		AS OF 3/31/90	PROJECTED 4/1 – 8/31/90	PROJECTED THRU 8/31/90	
PASA	580,000	479,000	60,000	539,000	41,000
TECH ASSISTANCE.	3,124,000	1,937,000	553,000	2,490,000	634,000
PMO	891,000	363,000	75,000	438,000	453,000
FEDERATION SUPPORT	1,034,000	247,000	514,000	761,000	273,000
INACOP	11,000	-	-	-	11,000
CONFECOOP	50,000	7,000	13,000	20,000	30,000
STABILIZATION FUNDS	3,165,000	2,337,000	828,000	3,165,000	-
SAVINGS	345,000	-	-	-	345,000
CREDIT	1,800,000	-	-	-	1,800,000
AUDITS/EVALUATION	-	-	-	-	-
CONTINGENCY/INFLATION	-	-	-	-	-
TOTAL:	11,000,000	5,370,000	2,043,000	7,413,000	3,587,000

PROJECT BUDGET

9/1/90 – 8/31/94

ATTACHMENT 1

US $ 000's

BUDGET LINE ITEM	CURRENT BUDGET	PROJECTED EXP. THRU 8/3/90	FUNDS AVAILABLE	PHASE II BUDGET	NEW FUNDING	REVISED BUDGET	LOP COUNTERPART BUD		
							DIRECT	INDIRECT	TOTAL
PASA PROJECT MANAGEMENT	580	539	41	640	599	1,179			
TECHNICAL ASSISTANCE	3,124	2,490	634	3,173	2,539	5,663			
PROJECT MANAGEMENT OFFICE	891	438	453	1,566	1,113	2,004			
INSTITUTIONAL SUPPORT	1,034	761	273	2,075	1,302	2,836	1,360		1,3
INACOP	11	0	11	0	(11)	0			
CONFECOOP	50	20	30	0	(30)	20			
STABILIZATION FUND	3,165	3,165	0	1,930	1,930	5,095	1,214	2,814	4,0
SAVINGS PROTECTION FUND	345	0	345	0	(345)	0			
CREDIT	1,800	0	1,600	1,600	(200)	1,600	588		58
AUDITS/EVALUATIONS	0		0	249	249	249			
TRANSPORTATION EQUIPMENT	0		0	100	100	100			
CONTINGENCY	0		0	254	254	254			
TOTAL	11,000	7,413	3,587	11,587	8,000	19,000	3,162	2,814	5,97

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ATTACHMENT 2

SUMMARY BUDGET PHASE II
COOPERATIVE STRENGTHENING PROJECT
SEPTEMBER/90 THRU AUGUST/94
IN US $

LINE ITEM BUDGET	SEPT.-DEC/	1,991	1,992	1,993	JAN-AUGUST/94	TOTAL
PASA PROJECT MANAGEMENT	47,000	148,000	150,000	165,000	130,000	640,000
TECHNICAL ASSISTANCE	263,103	730,368	743,469	783,696	652,364	3,173,000
PROJECT MANAGEMENT OFFIC	105,830	352,020	369,084	421,282	317,784	1,566,000
INSTITUTIONAL SUPPORT	262,624	687,743	556,574	391,713	176,346	2,075,000
STABILIZATION FUND		1,930,000				1,930,000
CREDIT		1,080,000	520,000			1,600,000
AUDITS/EVALUATIONS	4,000	31,765	74,265	71,765	67,205	249,000
TRANSPORTATION EQUIPMENT	47,500	52,500				100,000
CONTINGENCY	17,400	119,000	56,000	43,600	18,000	254,000
TOTAL	747,457	5,131,396	2,469,392	1,877,056	1,361,699	11,587,000

PARTICIPATING SERVICE AGREEMENT (PASA) BUDGET
SEPTEMBER/90 THRU AUGUST/94
IN US $

ATTACHMENT 3

BUDGET LINE ITEM	SEPT. DEC 90	1,991	1,992	1,993	JAN-AUG./94	TOTAL
PASA/W COSTS	36,922	115,293	119,218	126,009	81,580	479,022
LOCAL ALLOWANCES (HOUSE, EDUC)	8,000	24,000	27,600	31,740	24,334	115,674
HOME LEAVE		4,000		4,000		8,000
REPATRIATION COSTS					20,000	20,000
REST AND RECUP. TRAVEL	1,500		1,500		1,500	4,500
OTHERS	578	4,707	1,682	3,251	2,586	12,804
TOTAL LOCAL COSTS	10,078	32,707	30,782	38,991	48,420	160,978
TOTAL BUDGET PASA	47,000	148,000	150,000	165,000	130,000	640,000

ATTACHMENT 4

COOPERATIVE STRENGTHENING PROJECT
TECHNICAL ASSISTANCE BUDGET

SEPTEMBER/90 THRU AUGUST/94
IN US $

LINE ITEMS	SEPT. DEC/90	1991	1992	1993	JAN AUG./94	TOTAL
SALARIES						
3 PERSONS	58,000.00	182,700.00	191,835.00	201,426.75	140,998.73	774,960.48
SUBTOTAL:	58,000.00	182,700.00	191,835.00	201,426.75	140,998.73	774,960.48
FRINGE BENEFITS						
3 PERSONS @ 25%	14,500.00	45,675.00	47,958.75	50,356.69	35,249.68	193,740.12
SUBTOTAL:	14,500.00	45,675.00	47,958.75	50,356.69	35,249.68	193,740.12
ALLOWANCES						
HOUSING	19,250.00	60,637.50	63,669.38	66,852.84	70,195.49	280,605.20
EDUCATION	4,775.00	19,100.00	20,055.00	21,057.75	22,110.64	87,098.39
TEMP LODGING	3,900.00	0.00	0.00	0.00	9,480.00	13,380.00
POST	5,800.00	18,270.00	19,183.50	20,142.68	14,099.87	77,496.05
DRAPERIES	2,100.00					
SUBTOTAL:	33,725.00	98,007.50	102,907.88	108,053.27	115,886.00	458,579.64
TRAVEL EXPENSES						
DOMESTIC						
CHIEF OF PARTY	600.00	1,800.00	1,890.00	1,984.50	1,389.15	7,663.65
TRAINING SPECIALIS	1,800.00	5,400.00	5,670.00	5,953.50	4,167.45	22,990.95
PROD. & MKTG. SPEC	1,200.00	3,600.00	3,780.00	3,969.00	2,778.30	15,327.30
SUBTOTAL:	3,600.00	10,800.00	11,340.00	11,907.00	8,334.90	45,981.90

COOPERATIVE STRENGTHENING PROJECT
TECHNICAL ASSISTANCE BUDGET

ATTACHMENT 4

SEPTEMBER/90 THRU AUGUST/94
IN US $

LINE ITEMS	SEPT. DEC/90	1991	1992	1993	JAN AUG./94	TOTAL
INTERNATIONAL						
CHIEF OF PARTY	2,400.00	5,040.00	5,292.00	5,556.60	5,834.43	24,123.03
TRAINING SPECIALIS	2,400.00	5,040.00	5,292.00	5,556.60	5,834.43	24,123.03
PROD. & MKTG. SPEC	2,400.00	5,040.00	5,292.00	5,556.60	5,834.43	24,123.03
HOME LEAVE	0.00	15,000.00	0.00	16,537.50	0.00	31,537.50
R&R	4,630.00	0.00	12,761.44	0.00	0.00	17,391.44
EMERGENCY TRAVEL	1,000.00	1,050.00	1,102.50	1,157.63	1,215.51	5,525.63
SUBTOTAL:	12,830.00	31,170.00	29,739.94	34,364.93	18,718.80	126,823.66
RELOCATION						
EXCESS BAGGAGE	412.50	0.00	0.00	0.00	1,504.80	1,917.30
UNACCOMP BAGGAG	3,000.00	0.00	0.00	0.00	10,944.00	13,944.00
HHE SHIPPING	19,800.00	0.00	0.00	0.00	72,144.00	91,944.00
VEHICLE SHIPPING	2,000.00	0.00	0.00	0.00	7,293.00	9,293.00
HOME LEAVE BAG.	0.00	9,456.00	0.00	10,416.00	0.00	19,872.00
HHE STORAGE	3,888.00	12,312.00	12,927.60	13,573.98	13,762.09	56,463.67
SUBTOTAL:	29,100.50	21,768.00	12,927.60	23,989.98	105,647.89	193,433.97
PROJECT SUPPORT	12,348.00	38,897.00	40,842.00	42,884.00	45,029.00	180,000.00
SUBTOTAL:	12,348.00	38,897.00	40,842.00	42,884.00	45,029.00	180,000.00
TOTAL TECH ASSIST.	164,103.50	429,017.50	437,551.17	472,982.61	469,864.99	1,973,519.76
OVERHEAD 40% S&B	29,000.00	91,350.00	95,917.50	100,713.38	70,499.36	387,480.24
TOTAL L. T. ASSIST.	193,103.50	520,367.50	533,468.67	573,695.99	540,364.35	2,361,000.00
SHORT TERM T.A.	70,000.00	210,000.00	210,000.00	210,000.00	112,000.00	812,000.00
TOTAL T.A.	263,103.50	730,367.50	743,468.67	783,695.99	652,364.35	3,173,000.00

PROJECT MANAGEMENT OFFICE BUDGET

PRESUPUESTO DE LA OFICINA ADMINISTRADORA DEL PROYECTO (PMO)

ATTACHMENT 5

PERIODO SEPTIEMBRE/90 A AGOSTO/94

EXPRESADO EN QUETZALES

	CONCEPTO	SEPT. DIC 90	1,991	1,992	1,993	ENERO-AGO/94	TOTAL
A.	SALARIOS	185,231	628,703	760,731	920,484	742,524	3,237,672
	SUBDIRECTOR	15,173	54,907	66,438	80,390	64,848	281,755
	JEFE DESARROLLO INSTITUCIONAL	15,173	50,070	60,584	73,307	59,134	258,269
	JEFE FINANZAS Y CREDITO	13,228	48,311	58,456	70,731	57,057	247,782
	JEFE PRODUCCION Y MERCADEO	14,508	48,311	58,456	70,731	57,057	249,062
	TECNICO EN CRED Y FINANZAS	8,675	28,889	34,956	42,296	34,119	148,935
	TECNICO EN CRED Y FINANZAS	8,003	26,651	32,248	39,020	31,476	137,398
	TECNICO EN CRED Y FINANZAS	8,675	28,889	34,956	42,296	34,119	148,935
	TECNICO AGRICOLA Y MERCADEO	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO AGRICOLA Y MERCADEO	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO AGRICOLA Y MERCADEO	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO AGRICOLA Y MERCADEO	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO AGRICOLA Y MERCADEO	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO AGRICOLA Y MERCADEO	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO EN DESARROLLO INST.	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO EN DESARROLLO INST.	7,331	24,413	29,540	35,744	28,833	125,862
	TECNICO EN DESARROLLO INST.	7,331	24,413	29,540	35,744	28,833	125,862
	MONITOR	5,839	21,196	25,647	31,032	25,033	108,746
	SECRETARIA EJECUTIVA	5,556	18,503	22,388	27,090	21,852	95,389
	ADMINISTRADOR	6,819	22,707	27,476	33,246	26,818	117,066
	CONTADOR	3,200	11,544	13,968	16,902	13,634	59,248
	SECRETARIA	3,800	13,709	16,587	20,071	16,190	70,357
	SECRETARIA AUXILIAR	2,600	8,658	10,476	12,676	10,225	44,636
	SECRETARIA RECEPCIONISTA	2,200	7,326	8,864	10,726	8,652	37,769
	MENSAJERO	2,200	7,326	8,864	10,726	8,652	37,769
	CONSERJE	1,800	5,994	7,253	8,776	7,079	30,902
	CONSERJE	1,800	5,994	7,253	8,776	7,079	30,902
B.	PRESTACIONES LABORALES	60,200	157,176	190,183	230,121	185,631	823,310
C.	VIATICOS (8 DIAS/MES CAMPO X 14 TECNICOS X 40.00 DIA)	17,920	49,280	49,280	49,280	31,360	197,120

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PROJECT MANAGEMENT OFFICE BUDGET

PRESUPUESTO DE LA OFICINA ADMINISTRADORA DEL PROYECTO (PMO)

ATTACHMENT 5

PERIODO SEPTIEMBRE/90 A AGOSTO/94

EXPRESADO EN QUETZALES

	CONCEPTO	SEPT. DIC 90	1,991	1,992	1,993	ENERO–AGO/94	TOTAL
D.	TRANSPORTE (900/MES POR VEHICULO x10 VEH.)	36,000	99,000	99,000	99,000	63,000	396,000
E.	SEGUROS	2,000	6,000	6,000	6,000	4,000	24,000
F.	CONSULTORIA (1 CONSULTORIA MES A 1000 C/U SOBRE DESARROLLO ORGANIZACIONAL, SITUACION FINANCIERA DEL PAIS)	2,000	12,000	12,000	12,000	5,000	43,000
G.	ALQUILERES ($3,800/MES* 4.25)	64,448	197,838	207,729	218,116	149,565	837,696
H.	MOBILIARIO Y EQUIPO	8,750	112,250	6,000	6,000	1,000	134,000
	5 EQUIPOS DE COMPUTO		106,250				106,250
	5 ESCRITORIOS	4,000					4,000
	5 ARCHIVOS	1,750					1,750
	EQUIPOS VARIOS	3,000	6,000	6,000	6,000	1,000	22,000
I.	MANT. MOB. Y EQUIPO 1500*MES	6,000	18,000	18,000	18,000	12,000	72,000
J.	CAPACITACION PERSONAL	7,975	30,300	30,300	30,300	15,950	114,825
	2 CURSOS/MES A 200 C/U	1,600	4,800	4,800	4,800	3,200	19,200
	4 VIAJES INTERNACIONALES/AÑO *$1,500	6,375	25,500	25,500	25,500	12,750	95,625
K.	AGUA, LUZ, TELEF. Y COMUNIC. (4000/MES)	16,000	48,000	48,000	48,000	32,000	192,000
L.	SERVICIO DE ENCOMIENDA (800.00 MENSUALES)	3,200	9,600	9,600	9,600	6,400	38,400

PROJECT MANAGEMENT OFFICE BUDGET

PRESUPUESTO DE LA OFICINA ADMINISTRADORA DEL PROYECTO (PMO)

PERIODO SEPTIEMBRE/90 A AGOSTO/94

ATTACHMENT 5

EXPRESADO EN QUETZALES

	CONCEPTO	SEPT. DIC 90	1,991	1,992	1,993	ENERO-AGO/94	TOTAL
M.	PAPELERIA Y UTILES 2,250.00/MES	9,000	27,000	27,000	27,000	18,000	108,000
N.	SUSCRIPCIONES 400/MES	1,600	4,800	4,800	4,800	3,200	19,200
O.	HONORARIOS Q. 400.00/MES	1,600	4,800	4,800	4,800	3,200	19,200
P.	OTROS COSTOS DIRECTOS Q. 1,000/MES	4,000	12,000	12,000	12,000	6,133	46,133
	SUBTOTAL	425,925	1,416,746	1,485,423	1,695,501	1,278,963	6,302,557
Q.	COSTOS INDIRECTOS (5.6% S/CD)	23,852	79,338	83,184	94,948	71,622	352,943
	TOTAL PRESUPUESTO PMO	449,776	1,496,084	1,568,606	1,790,449	1,350,585	6,655,500
	PRESUPUESTO PMO EN DOLARES	105,830	352,020	369,084	421,282	317,785	1,566,000

PRESUPUESTO QUE SE UTILIZARA EN DOLARES

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INSTITUTIONAL SUPPORT BUDGET
DETALLE DE PRESUPUESTO PARA DESARROLLO INSTITUCIONAL

ATTACHMENT 6

PERIODO: SEPTIEMBRE/90 A AGOSTO/94
EXPRESADO EN QUETZALES

	CONCEPTO	INSTITUCION		SEPT.-DIC/90		1,991		1,992		1,993		ENERO-AGOSTO/94		TOTAL	
				AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.
1	RECURSOS HUMANOS			448,263	0	1,164,313	568,933	955,437	901,777	702,180	1,305,036	290,481	1,168,665	3,560,675	3,944,411
A.	CONTRATACIONES			4	0	9	6	7	11	4	17	0	17		
	2 ASESORES EN ASISTENCIA TECNICA	FENACOAC	4,000	16,000	0	34,848	23,232	28,111	42,166	17,007	68,028	0	68,595	95,966	202,021
	1 DIRECTOR FINANCIERO	FEDECOCA	1,500	6,000	0	13,068	8,712	10,542	15,812	6,378	25,510	0	25,723	35,987	75,758
	1 INGENIERO AGRONOMO	FEDECOCA	2,000	8,000	0	17,424	11,616	14,055	21,083	8,503	34,014	0	34,297	47,983	101,010
	1 ASESOR ADMINISTRATIVO	FEDECOCA	1,200	4,800	0	10,454	6,970	8,433	12,650	5,102	20,408	0	20,578	28,790	60,606
	1 SUBGERENTE	FEDECOVE	900	3,600	0	7,841	5,227	6,325	9,487	3,827	15,306	0	15,434	21,592	45,455
	1 AGRONOMO	FEDECOVE	900	3,600	0	7,841	5,227	6,325	9,487	3,827	15,306	0	15,434	21,592	45,455
	1 INGENIERO AGRONOMO	FEDECOVE	1,500	6,000	0	13,068	8,712	10,542	15,812	6,378	25,510	0	25,723	35,987	75,758
	4 ADMINISTRADOR DE COOPS.	FEDECOVE	2,000	8,000	0	17,424	11,616	14,055	21,083	8,503	34,014	0	34,297	47,983	101,010
	1 INSPECTOR-AUDITOR	FEDECOVE	600	2,400	0	5,227	3,485	4,217	6,325	2,551	10,204	0	10,289	14,395	30,303
	1 JEFE CREDITO	FEDECOAG	1,500	6,000	0	13,068	8,712	10,542	15,812	6,378	25,510	0	25,723	35,987	75,758
	2 PARATECNICOS	FEDECOAG	600	2,400	0	5,227	3,485	4,217	6,325	2,551	10,204	0	10,289	14,395	30,303
	1 ENCARGADO COMERCIALIZACION	ARTEXCO	1,500	6,000	0	13,068	8,712	10,542	15,812	6,378	25,510	0	25,723	35,987	75,758
	1 ASESOR ADMINISTRATIVO	ARTEXCO	2,000	8,000	0	17,424	11,616	14,055	21,083	8,503	34,014	0	34,297	47,983	101,010
	1 ENCARGADO CONTROL DE CALIDAD	ARTEXCO	600	2,400	0	5,227	3,485	4,217	6,325	2,551	10,204	0	10,289	14,395	30,303
	4 GERENTES DE COOPERATIVAS	ARTEXCO	2,800	11,200	0	24,394	16,262	19,678	29,516	11,905	47,620	0	48,016	67,176	141,415
	1 INGENIERO AGRONOMO	FECOAR	2,300	9,200	0	20,038	13,358	16,164	24,245	9,779	39,116	0	39,442	55,180	116,162
	6 EXTENSIONISTAS	FECOAR	2,100	8,400	0	18,295	12,197	14,758	22,137	8,929	35,715	0	36,012	50,382	106,061
	1 SUBGERENTE	FECOMERQ	1,300	5,200	0	11,326	7,550	9,136	13,704	5,527	22,109	0	22,293	31,189	65,657
	1 AGRONOMO	FECOMERQ	1,500	6,000	0	13,068	8,712	10,542	15,812	6,378	25,510	0	25,723	35,987	75,758
	SUBTOTAL			123,200	0	268,330	178,886	216,453	324,679	130,954	623,815	0	528,180	738,936	1,555,561
	PRESTACIONES			39,424	0	85,865	57,244	69,265	103,897	41,905	167,621	0	169,018	236,459	497,779
	28 TECNICOS PARA COOPS NO FED.			233,999		655,198	332,803	514,800	473,201	374,401	613,600	187,201	471,467	1,965,600	1,891,071
	TOTAL CONTRATACIONES			396,623	0	1,009,393	568,933	800,517	901,777	547,260	1,305,036	187,201	1,168,665	2,940,995	3,944,411
B.	APOYO SALARIAL			41,640	0	124,920	0	124,920	0	124,920	0	83,280	0	499,680	0
	FENACOAC (12X300/MES)			14,400	0	43,200		43,200		43,200		28,800		172,800	0
	FECOAR (6 COOPERATIVAS)			11,240		33,720		33,720		33,720		22,480		134,880	0
	FEDECOAG (1 subgerente)			2,400		7,200		7,200		7,200		4,800		28,800	0
	FECOMERQ (6 COOPS x 150. C/U)			3,600		10,800		10,800		10,800		7,200		43,200	0
	OTROS			10,000		30,000		30,000		30,000		20,000		120,000	0

INSTITUTIONAL SUPPORT BUDGET

DETALLE DE PRESUPUESTO PARA DESARROLLO INSTITUCIONAL

ATTACHMENT 6

PERIODO: SEPTIEMBRE/90 A AGOSTO/94

EXPRESADO EN QUETZALES

	CONCEPTO	INSTITUCION	SEPT.-DIC/90		1,991		1,992		1,993		ENERO-AGOSTO/94		TOTAL	
			AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.
2	EQUIPO Y MOBILIARIO		299,738	166,500	206,544	103,000	3,450	0	2,300	0	0	0	512,031	269,500
A.	EQUIPO DE COMPUTO		51,000	34,000	55,250	36,800							106,250	70,800
B.	MAQUINAS D/OFICINA (10 A-500 C/U)		25,500		47,500								73,000	0
C.	OTROS EQUIPOS		223,238	132,500	103,794	66,200	3,450	0	2,300	0	0	0	332,781	198,700
	10 ESCRITORIOS	TODAS	1,600		2,400		2,400		1,600				8,000	0
	10 ARCHIVOS	TODAS	700		1,050		1,050		700				3,500	0
	OTROS (BANDEJAS, EQ. MENOR)	TODAS	22,250		1,000								23,250	0
	EQUIPO AGRICOLA	NO FEDERADAS	198,688	132,500	99,344	66,200							298,031	198,700
3	EDIFICIOS/INSTALACIONES FISICAS		80,000	53,333	280,000	186,667	280,000	186,667	0	0	0	0	640,000	426,667
A.	IMAGEN FISICA COOPS	FENACOAC	80,000	53,333	280,000	186,667	280,000	186,667						0
	(16 COOPS X 40,000 C/U)												640,000	426,667
														0
														0
4	HONORARIOS POR ESTUDIOS ESPECIALIZADOS		95,000	40,000	290,000	80,000	175,000	80,000	120,000	60,000	40,000	20,000	720,000	280,000
														0
A.	COMPUTO													0
	2 BASES DE DATOS	FECOAR Y FEVERA			15,000								15,000	0
														0
B.	INVESTIGACION MERCADOS (3 INV.)	VARIAS	15,000		15,000		15,000							0
													45,000	0
														0
C.	FACTIBILIDAD DE PROYECTOS 2 ESTUDIOS X 7 FEDERACIONES		80,000	40,000	160,000	80,000	160,000	80,000	120,000	60,000	40,000	20,000	560,000	280,000
D.	OTROS ESTUDIOS		0	0	100,000	0	0	0	0	0	0	0	100,000	0
	1 ESTUDIO DE SEGUROS	FENACOAC			60,000								60,000	0
	1 ESTUDIOS DE COMERCIALIZACION	ARTEXCO			40,000								40,000	0
														0
5	PROMOCION Y PUBLICIDAD		22,000	7,400	64,000	20,000	64,000	20,000	64,000	20,000	0	0	214,000	67,400
	20 COOPS 2000/AÑO	FENACOAC	12,000	2,400	40,000	8,000	40,000	8,000	40,000	8,000		0	132,000	26,400
	6 COOPS POR 1000/AÑO	FECOAR	2,000	1,000	6,000	3,000	6,000	3,000	6,000	3,000			20,000	10,000
	8 COOPS POR 1000/AÑO	FEDECOAG	3,000	1,500	8,000	4,000	8,000	4,000	8,000	4,000			27,000	13,500
	INSTITUCIONAL FEDERACION	ARTEXCO	5,000	2,500	10,000	5,000	10,000	5,000	10,000	5,000			35,000	17,500

INSTITUTIONAL SUPPORT BUDGET

DETALLE DE PRESUPUESTO PARA DESARROLLO INSTITUCIONAL

ATTACHMENT 6

PERIODO: SEPTIEMBRE/90 A AGOSTO/94

EXPRESADO EN QUETZALES

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	CONCEPTO	INSTITUCION	SEPT.-DIC/90 AID	SEPT.-DIC/90 CONTR.	1,991 AID	1,991 CONTR.	1,992 AID	1,992 CONTR.	1,993 AID	1,993 CONTR.	ENERO-AGOSTO/94 AID	ENERO-AGOSTO/94 CONTR.	TOTAL AID	TOTAL CONTR.
7	CAPACITACION		151,150	58,663	666,801	206,350	678,801	213,350	716,301	220,350	380,126	84,706	2,593,180	792,420
A	CURSOS EN OFICINAS (1 POR MES X30 POR 205 COSTO/PERSONA)	TODAS	24,600	12,300	73,800	36,900	73,800	36,900	73,800	36,900	49,200	24,600	295,200	147,600
B.	TALLERES/DIAS DE CAMPO (4 AL MES X 50 PARTICIPANTES A UN COSTO DE 15.00/PARTICIPANTE)	TODAS	12,000		36,000		36,000		36,000		24,000		144,000	0
C.	GIRAS EDUCATIVAS NACIONALES (3 GIRAS X 7 FEDERACIONES X 8 PARTICIPANTES X 200 COSTO/PART)	TODAS			33,600	16,800	33,600	16,800	33,600	16,800	11,200	5,600	112,000	56,000
D.	CURSOS EN INSTITUCIONES AFINES (8 PERSONAS/MENSUALES X 200/CURSO)	TODAS	6,400	3,200	19,200	9,600	19,200	9,600	19,200	9,600	12,800	6,400	76,800	38,400
E.	CONFERENCIAS Y FERIAS NACIONALES AGRITRADE SIMMEFER		30,000 30,000	30,000 30,000	70,000 60,000 10,000	60,000 60,000	82,000 70,000 12,000	70,000 70,000	94,000 80,000 14,000	80,000 80,000	14,000 14,000	0	0 0 290,000 240,000 50,000	0 0 240,000 240,000 0
F.	GIRAS EDUCATIVAS AL EXTERIOR (2 GIRAS/AÑO X 6 PARTICIPANTES X 10,625 C/U)				127,500	31,875	127,500	31,875	127,500	31,875	63,750	15,938	446,250	111,563
G.	PARTICIPANT TRAINING GERENTES AHORRO Y CREDITO GERENTES AGRICOLAS	FENACOAC AGRICOLAS	25,500 25,500	0	102,000 76,500 25,500	0	102,000 76,500 25,500	0	127,500 76,500 51,000	0	76,500 51,000 25,500	0	433,500 306,000 127,500	0 0 0
H.	FERIAS INTERNACIONALES (2 FERIAS POR AÑO A $5,500 C/U X 4.25				46,750	11,688	46,750	11,688	46,750	11,688	23,375	5,844	163,625	40,906
I.	CAPACITACION A COOPS NO FEDERADA	NO FEDERADAS	52,650	13,163	157,951	39,488	157,951	39,488	157,951	39,488	105,301	26,325	631,805	157,951
8	SUBSIDIO A GASTOS OPERATIVOS	TODAS	20,000		60,000		60,000		60,000		38,865		238,865	0
9	INGECOOP		0		127,500		85,000		0		0		212,500	
10	CONFECOOP		0		63,750		63,750		0		0		127,500	
	TOTAL DESARROLLO INSTITUCIONAL		1,116,151	325,896	2,922,908	1,164,950	2,365,438	1,404,794	1,664,781	1,611,386	749,472	1,273,371	8,818,751	5,780,398
	DESARROLLO INSTITUCIONAL DOLARES		262,624	76,681	687,743	274,106	556,574	330,540	391,713	379,150	176,346	299,617	2,075,000	1,360,094

AUDITS AND EVALUATIONS BUDGET

ATTACHMENT 7

DETALLE DE PRESUPUESTO PARA AUDITORIAS Y EVALUACIONES

PERIODO: SEPTIEMBRE/90 A AGOSTO/94

EXPRESADO EN QUETZALES

CONCEPTO	SEPT.-DIC/90		1,991		1,992		1,993		ENERO-AGOSTO/		TOTAL	
	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.
TOTAL AUDITORIAS Y EVALUACIONES	17,002		135,000		315,625	0	305,000	0	285625	0	1,058,252	
AUDITORIAS A FEDERACIONES (7 FEDS. X 15,000 C/U ANUAL)			105,000		105,000		105,000		105,000		420,000	0
EVALUACIONES DEL PROYECTO (1 x $40,000)							170,000				170,000	0
AUDITORIAS A COOPERATIVAS (1)	17,002		30,000		30,000		30,000				107,002	0
AUDITORIAS AL PROYECTO (2)					180,625				180625		361,250	0
AUDITORIAS/EVALUACIONES DOLARES	4,000		31,765		74,265		71,765	0	67,205	0	249,000	0

(1) Contratadas por AID <FINANCIAL REVIEWS>

(2) Contratadas por AID <NON FED AUDITS>

ATTACHMENT 8

TRANSPORTATION EQUIPMENT BUDGET
DETALLE DE PRESUPUESTO PARA EQUIPO DE TRANSPORTE

PERIODO: SEPTIEMBRE/90 A AGOSTO/94

EXPRESADO EN US $

CONCEPTO	INSTITUCION	SEPT.-DIC/90		1,991		1,992		1,993		ENERO-AGOSTO/		TOTAL	
		AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.	AID	CONTR.
EQUIPO DE TRANSPORTE		47,500	0	52,500	0	0	0	0	0	0	0	100,000	0
1 VEHICULO	FEDECOAG			15,000								15,000	0
4 MOTOCICLETAS	FEDECOAG	4,500		4,000								8,500	0
1 VEHICULO	FEDECOCAGUA			15,000								15,000	0
4 MOTOCICLETAS	FEDECOVERA	4,500		4,000								8,500	0
2 MOTOCICLETAS	FECOMERQ			4,000								4,000	0
15 MOTOCICLETAS	NO FEDERADAS	4,500		10,500								15,000	
2 VEHICULOS	PMO	34000										34,000	

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V. IMPLEMENTATION PLAN

The complexity of Cooperative Strengthening Project, along with the need to implement key aspects of the project quickly to produce the desired results by the end-of-project, will require close monitoring and control of the implementation schedule and financial plan. In particular, project diagnoses and implementation agreements must be completed early in the new contract extension period (last quarter FY1990 and through the second quarter of FY1991). Stabilization analyses and agreements must be also be executed early in the project, and funds disbursed quickly to ensure that stabilization objectives will be completed by the end of the project. Likewise, credit funds must be planned and fully disbursed during FY1991 and FY1992 to provide adequate support to creating viable business enterprises in the assisted cooperatives and federations. Finally, the project must take the steps necessary to ensure the transfer of concepts and skills to the federations and cooperatives throughout the life of the project to ensure the long-term sustainability of project-initiated reforms and new initiatives.

The fact that most of the preliminary steps for the project have been successfully concluded during Phase I should make these actions possible. The implementation schedule outlined below highlights the key events and schedules that need to be met for the project to achieve its objectives.

	KEY EVENT OR ACTIVITY	TARGET DATES	
1.	PP Amendment Reviewed and Approved by USAID/G	June	1990
2.	Congressional Notification submitted to Congress	July	
3.	Initial funds obligated ($1.0 million)	July	
4.	Cooperative Agreement with FENACOAC Amended	August	
5.	Long-term Technical Assistance Contract advertised, negotiated and awarded	August	
6.	Diagnostic methodology and procedures distributed and being used by the staff of the participating federations among their base-level affiliates	September	
7.	Initial commodity procurement plans completed and PIO/C issued	October	

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8.	Completion of institutional analyses of cooperative federations and selected affiliates completed	November	
9.	1991 Annual Development plans and agreements signed with federations and base-level affiliates	December	
10.	Introduction of the Project Monitoring System and initial establishment of targets or performance indicators for federations and affiliates	December	
11.	Financial Stabilization analyses completed within all federations and select number of base-level affiliates	December	
12.	Initial assessement of primary agricultural production, marketing and processing problems of the agricultural cooperatives completed and initial strategy developed	December	
13.	Agreements signed and stabilization funds disbursed to all participating federations	January	1991
14.	Project Management Office fully staffed and Agricultural Production & Marketing division in full operation	January	
15.	PASA Agreement amended, fully funded, and negotiated with the USDA	January	
16.	Completion of institutional analyses of independent, agribusiness cooperatives	April	
17.	Development plans and agreements signed with all independent cooperatives to participate in the Project	May	
18.	Financial Stabilization analyses completed within all independent agribusiness cooperatives	June	
19.	RIG External Audit completed	June	
20.	Disbursement of financial stabilization funds to all independent cooperatives	July	
21.	Presentation of tentative proposals for disposition of Stabilization Fund to USAID/G for review of options	August	

22. Establishment of coffee technification programs within FEDECOVERA and FEDECOCAGUA cooperative affiliates	October	
23. PMO evaluation of stabilization and institutional development agreements with all participating organizations	December	
24. Presentation and approval of 1992 Development Plans for all federations, base-level affiliates, and independent cooperatives	December	
25. USAID/G decision on disposition of the Stabilization Fund formalized	December	
26. Strategy and implementation plan to prepare for disposition of the Stabilization Fund submitted and approved by Mission	April	1992
27. PMO evaluation of stabilization and participation agreements for all federations and cooperatives	November	
28. Presentation and approval of 1993 development plans for all participating organizations	December	
29. External evaluation of Project progress and impact completed	June	1993
30. PMO evaluation of stabilization and participation agreements for all federations and cooperatives	November	
31. Presentation and approval of 1994 development plans for all participating organizations	December	
32. Final Audit of the Project	June	1994
33. Final Evaluation of the Project	July	1994

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VI. MONITORING PLAN

The monitoring system currently employed by the FENACOAC Project Management Office (PMO) tracks the activities carried-out by the project team, but does not provide a complete description of progress toward achieving goal and purpose-level objectives. The monitoring system to be used during Phase II of the Project needs to provide continuous information on three key issues:

- Impact of activities on project beneficiaries;
- Improvements in institutional performance; and
- Prospects for sustaining project-introduced activities benefits.

In short, the monitoring system must provide regular and consistent feedback on the progress of the project toward accomplishing its objectives, as opposed to merely tracking the work output of the technicians. Because of the multiple focus of the project on federations, individual cooperatives and member beneficiaries, the monitoring system needs to track impact at all three levels.

Accurate and detailed baseline data is not presently available for many of the income and production indicators to be used in evaluating the impact of the project on cooperative members (e.g., crop yields, value of production, employment generation, income, etc.). In addition, many of the federations and base-level cooperatives do not maintain historical records of their financial and operational performance. As a result, one of the first steps to be taken by the PMO will be that of creating a data base of information for each of the organizations to participate in the Project. The statistical profile of each institution will be developed during the diagnostic process (for those organizations not yet reviewed) or during the preparation of the annual work plans, and will be used to create a more effective project monitoring system. This system will include projections or targets for each institution, and progress will be measured against actual levels of accomplishment for each goal, purpose and output indicator. The intent is to permit the PMO to report on actual progress and/or variance from targets, and to forecast the ability of each of the participating cooperatives to achieve their objectives.

A. Indicators

The indicators to be prepared for the participating cooperative organizations will provide the basis for planning and measuring impact and their performance at the goal, purpose and output levels. The particular indicators selected will vary between organizations due to their different services, however, they can be grouped into the following catagories to provide information on the various aspects of the cooperative development program (e.g., financial viability, institutional performance, growth, and services), as well as the specific impact of cooperative improvement on the members.

The basis for the monitoring system must be the institutional and financial analysis that is carried out in each institution at the initiation of project activities with the cooperative and/or federation. This analysis must collect data on the initial status of a key set of indicators for the organization. Illustrative indicators include:

<u>Goal Level</u>

-- Total number of members
-- Total land area of members
-- Land area in production
-- Major crops, with approximate amount and value of production marketed during most recent crop cycle
-- Market each major crop is sold in
-- Average Production Cost (per quintal or manzana)
-- Number of days of labor paid by the cooperative during the most recent crop cycle (if appropriate)
-- Average daily wage
-- Amount of patronage refunds (or dividends) distributed during the previous year

<u>Purpose-Level Indicators</u>

-- Number of cooperative Board members
-- Number of cooperative staff
-- Intensity of member use of cooperative services

Savings/Member
Loans/Member
Sales/Member
Average Product Marketed/Member

-- Efficiency

Members/staff
Assets/staff
Gross income ($)/staff
Gross income ($)/assets
Expense/income
Operating costs/gross income

-- Growth

Membership
Assets
Gross Income
Net Income
Volume of sales of supplies to Members ($)
Volume of product marketed ($)

-- Membership Growth and Penetration

Non-active members purged
Number of new members added

-- Financial

Repayment capacity
Return on Capital
Reserves/Loans
Reserves-Capital/Assets
Net Worth
Debt Burden (payments/gross income)

-- Delinquency (bad loans/total portfolio)

-- Substitution of Internal Capital for External Capital
Debt/Equity Ratio

-- Services Offered and Performance Statistics

Volume of input sales
Market volumes
Technical Assistance (p/days)
Training (p/days)
Credit ($)

-- Image

Increased market penetration
Improved community image
Market niche

-- Administration

Competitive pricing strategies
Entrepreneurial attitude
Improved credit analysis
Improved information system
Improved operating policies and procedures (documents, confirmed by audit)
Break-even pricing
Member capitalization
Establishment of reserve accounts
Delinquency control
Positive real interest rates
Adequate staff remuneration
Adequate budget to cover recurrent and development costs
Adequate administrative systems in operation (e.g., auditing, accounting, reporting, member information, and credit administration

B. Structure and Use of the Data Base

The monitoring system to be used during Phase II will collect and store the individual variables for each of the participating cooperative organizations. These will subsequently be used to update progress on a regular basis. Most of the cooperatives keep monthly financial records, while the PMO currently generates reports on a quarterly basis. Other indicators, such as those related to goal-level impact are only available on a crop-year basis or through special studies.

The PMO will collect and analyze basic trends as frequently as possible during implementation, however, the database will be established to generate information on a quarterly basis for most routine financial and statistical data. Production, productivity and marketing data will logically follow crop cycles, and may vary from cooperative to cooperative due to climatic and other external factors. It is also expected that the PMO will encounter delays of one or more months between the end of a reporting period and the generation of statistical reports due to inevitable delays in collecting, entering and analyzing the information. However, as implemenation proceeds forward, the historical progress of each institution in meeting targets will become increasingly easy to report.

In summary, the Project Management Office (PMO) will modify the monitoring system used during Phase I to permit it to measure the impact of the Project at the goal, purpose and output levels. The process to be used in developing this new monitoring system will include:

-- Review and selection of individual indicators to be used in monitoring project impact within each of the organizations participating in the Project. The indicators will be customized to meet the needs of the different types of cooperatives and federations, but certain indicators (membership, financial performance, etc.) will be common to all.

-- Develop definitions for each item to be included in the indicator set. Some data items (such as gross income, total assets, number of active members, etc,) are self-evident and quantifiable, but others (such as adequate capitalization policies, appropriate by-laws and statutes, etc.) may require narrative discussions to determine whether or not an organization has achieved the desired status.

-- Construct a profile data sheet to be applied to each institution. The PMO will develop a standardized data collection instrument to collect and record a baseline set of indicators and targets for each institution to be assisted under the project.

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- -- Establish desired performance targets for each individual cooperative organization assisted through the project.

The target date for completion of this process has been established as December, 1990, for the federated organizations and June, 1991, for the independent cooperatives. Once complete, the monitoring and reporting system will be used for the systematic collection, analysis and reporting of indicators. The system will collect relevant data at regular, specified intervals, and be used by the participating cooperatives, the Project Management Office, and USAID/G to provide a system-wide summary of performance and achievement of project goals.

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VII. SUMMARIES OF ANALYSES

A. TECHNICAL ANALYSIS

The fundamental technical issue facing the Cooperative Strengthening Project is whether or not it is possible to develop strong, viable and sustainable cooperative systems that generate positive real benefits -- both economic and social -- for their members within the time and budget constraints of the proposed project amendment. As the mid-term evaluation of the project noted, most of the cooperatives and federations assisted through the project lacked the essential business volumes necessary to sustain them as financially viable entities. To produce sustainable improvements in the Guatemalan cooperative system, the Cooperative Strengthening Project had to address the issue of improving the underlying business base for the federations and their member cooperatives.

The proposed amendment to the Cooperative Strengthening Project attempts to strengthen the business activities of the cooperatives and federations through production-oriented strategies designed to increase productivity and production-oriented strategies designed to increase the productivity and production of cooperative members, and through market-oriented strategies designed to increase the volume of marketing activities conducted by the cooperatives. These two strategies offer enhanced business oportunities in the areas of input sales, loans, processing and marketing.

Production-orientes strategies can be designed to (a) increase productivity and production of existing crops to increase gross income; (b) decrease the unit costs of producing existing crops to increase net income; (c) diversify into higher value crops to increase both gross and net incomes; or (d) increase the value of the product brought to market through improved post-harvest handling. Analyses conducted for the Small Farmer Coffe Improvement Project and field demonstration plots in the FECOAR cooperatives have indicated that is technically feasible to increase yields significantly through the application of proper technologies. Improved seed, control of plant populations, and the matching of fertilizers to local soil conditions are relatively low-cost technological improvements that can result in significant increases in yields. These technologies are within the technical capabilities of the small farmers who must implement them, and will, if implemented properly, result in substantial cost savings to the farmer. Appication of these technologies results in more effective resource use and a higher demand for farm inputs, and generates increased employment for both the cultivation of the crops and in harvesting. More capital-intensive improvements -- such as renovation of coffee lands and irrigation, which carry greater risks and require financing -- need to be carried out in the context of carefully designed programs.

Shifting to higher-value crops is also a feasible alternative for small farmers with access to effective market outlets, and particularly in areas where landholdings are small. Experiences in several of the independent cooperatives producing non-traditional agricultural products indicate that it is both technically and economically feasible to shift from traditional food crops to crops such as snow peas, strawberries, broccoli, cauliflower and baby vegetables. Economic returns are so high that real income gains can be achieved. Furthermore, shifting to these crops creates a high demand for labor, both among cooperative members and for local seasonal workers.

Improved post-harvest handling is important for both traditional and non-traditional products. Frequently, much of the farmers' potential gains are lost through poor post-harvest handling.

Increasing production has several implications for the long-term business prospects of the cooperatives and federations. There should be an increase in demand for farm supplies and inputs, an increased need for credit, and a need for continuous technical assistance. The ability of the cooperatives to help members plan input requirements and provide bulk purchasing based on production schedules should constitute a viable business opportunity.

Achieving sustainable improvements in production and post-harvest handling requires long-term, extensive technical assistance. In the absence of reliable sources of technical assistance through government agencies or programs, this must be provided through the cooperatives. Moreover, over the long run it must be financed through revenues generated by the business activities of the cooperatives. The focus of the financial stabilization and institutional development components of the Cooperative Strengthening Project have been on reducing staff and cost; no plans have developed to project needed staff and budget increases to support long-term production activities.

The technical feasibility of marketing operations for the cooperatives and federations is more problematic. Past attempts to market member produce have not, with the exception of the coffee cooperatives, been particularly succesful. Cooperatives tend to underestimate the value of the role played by market intermediaries and the risks involved in marketing; at the same, they tend to overestimate the financial margins of marketing operations.

For a cooperative marketing effort to be successful, the institution must control a key resource in the marketing chain (storage, cooling, contracting, transportation or capital), and must add real value to the product. There appear to be sound business opportunities for cooperative enterprises in three major product groups -- traditional food crops produced for sale to local markets; fresh fruits and vegetables for export; and specialized local markets. Traditional food crop marketing is a potentially viable business due to the volume of produce grown by cooperative members. FECOAR members, for example, produce at least $10.0 million in basic food crops each year. To be successful in this area, however, the cooperatives must be able to provide some value-added service -- such as storage, processing, packaging or transportation -- that is needed, cannot be performed by the farmer, and that is clearly competitive with existing alternatives. The cooperatives must also have the capital to provide cash advances and prompt payments to the farmers, and be capable of absorbing market losses.

The experience of the agribusiness cooperatives in direct exports underscores the fact that this is a complicated business requiring sophisticated management skills and operational capabilities. Few of the cooperatives supported through the project will have the ability to engage in successful direct market operations. Other market opportunities, however, exist. Producing for local brokers (including established exporting cooperatives), local processing operations (for frozen fruits and vegetables), and local premium markets offer ample opportunity for cooperative business ventures. While these are technically feasible, they require careful analysis, detailed business planning, and sufficient project support to assure success.

The Cooperative Strengthening Project does not, as yet, have a program to develop production and marketing capabilities in the cooperatives and federations. To be successful, the project needs to include assistance in business planning, specific feasibility studies, short-term technical assistance, credit (both for short-term working capital and medium-term infrastructure development), and training. Finally, any program developed within the cooperatives or federations must be designed for sustainability; business plans and financial projections need to indicate that the long-term personnel and operations of any cooperative business activity can be sustained from the income to be earned.

B. FINANCIAL AND ECONOMIC ANALYSIS

Prior to analyzing the Cooperative Strengthening Project in financial and economic terms, it is important to understand the current economic situation under which it operates. Inflation has been low, traditionally, and kept under strict control. This year (1990), inflation has accelerated to the point where the government is printing money to support spending programs. The Mission believes, however, once this turbulent period subsides, the government will be able to stabilize inflation at around 10 percent per year.

The banking system is evolving from a restricted, protected, and highly conservative environment, to a free and more competitive environment. This evolution and removal of interest rate limitations have an effect on the project and its participants.

Historically stable (and overvalued), the Quetzal lost parity with the Dollar in the 1980s. Since 1985 the quetzal has fluctuated dramatically. Devaluing from 1:1 to a high of 4:1 in 1985, the currency stabilized at 2.7:1 for several years. During the past year, strong pressure on the Quetzal has sent it spiraling from 2.78 to 4.3. As it manages under a volatile economy, the project must make choices that:

- -- Maximize the efficiency an effectiveness of the Stabilization Fund, Credit Component, and Technical Assistance;
- -- Enhance the ability of project participants to achieve self-sufficiency; and
- -- Produce economically justifiable benefits for the targeted beneficiaries.

To attain and maintain the goals of the Stabilization Fund, the PMO must consider the problem of maintenance of value in an environment of consistent currency devaluation. In an effort to leverage the Fund, the project should pursue options such as a guarantee facility which could mobilize long-term credit. To allay speculation about the Fund, the PMO should also determine the Fund's future as soon as possible. Finally, the PMO should regularly monitor and assess the impact the stabilization program is having, and make modifications accordingly. If the project resolves some of these issues, the stabilization program can continue to meet with the kinds of successes it has had in both FENACOAC and FECOAR.

Projections of credit demand and capacity in the five federations indicate the $1.6M (Q6.8M) is sufficient for anticipated needs. The PMO faces the issue that the project has not yet extended credit, and is well-aware that the project cannot achieve envisioned developmental impact until it does so. Lending opportunities (in addition to those currently under negotiation with FECOAR and FEDECOVERA) need to be identified and marketed, and the credit component should be put to productive use as early as possible during the extended project. Credit continues to be an essential aspect of the project since it provides the small-scale farmer with an alternative to costly informal sector credit.

According to projections, four of the five federations are self-sufficient. All but FEDECOAG generate positive net income throughout the life of the project. Assuming the technical assistance packages are successful and sustainable, the participants should continue to produce positive results beyond the life of this project. Net cash flows, an indicator of self-sufficiency, are consistent and positive for FEDECOVERA, FECOAR, and ARTEXCO, volatile for FENACOAC, and negative for FEDECOAG. An extensive recapitalization program accounts for much of the FENACOAC volatility. In the case of FEDECOAG, the PMO has decided to target its efforts at improving the self-sufficiency of member cooperatives, while also attempting to identify a viable business role for the federation.

The project has a positive economic impact on farmers on several different levels by:

-- Renovating coffee production

-- Facilitating access to market rate credit

-- Implementing technical assistance programs.

The project anticipates some of these programs will increase farmer income by as much as 36 percent. The savings on interest over informal rates will allow farmers to pursue opportunities before deemed too costly. All components of the project -- Stabilization, Credit, and Technical Assistance -- can have a significant economic impact on federations, cooperatives, and farmers.

The remaining issue for the PMO will be to galvanize and coordinate all of the project initiatives so that these benefits are realized.

C. SOCIAL SOUNDNESS ANALYSIS

The original social soundness study conducted in 1986 for Phase I of the Cooperative Strengthening Project concluded that the project was socially sound and consistent with local cultural values. The study pointed out that the major issues facing cooperatives in rural Guatemala were the tendency of supporting organizations to promote cooperatives as charitable rather than business-oriented institutions; the absence of effective marketing operations in the cooperatives; the inability of the cooperatives to finance agricultural technical assistance activities; competition by government-subsidized fertilizer programs; and low educational levels among cooperative members and Boards. It recommended that the project adopt a cautious strategy that promoted growth within the context of sound cooperative management; that emphasized education and training for members, board and staffs; and that attempted to develop the technical assistance and marketing functions using external resources (such as the Peace Corps).

These conclusions are generally valid today. Small farmers and the cooperatives supported through the Cooperative Strengthening and other USAID/Guatemala projects have been the subjects of numerous studies during the past three years. Among the more significant findings and conclusions of these studies are:

<u>Beneficiary Characteristics</u>

* The project will have a direct impact on approximately 76,000 members of 50 to 70 predominantly rural-based cooperatives. The project will reach and have a direct impact on about 49 percent of the members of the five federations, and on 35 percent of the total number of active rural cooperative members in Guatemala during the next four years.

* Most of the members of cooperatives assisted through the project are low-income farmers, with small landholdings averaging between 4 and 5 manzanas (6.8 to 8.5 acres)

* Agricultural cooperative members are predominantly monolingual in indigenous languages or bilingual. Credit union members are largely bilingual or monolingual in Spanish, although indigenous members constituted 32.5 percent of the membership of 8 surveyed credit unions.

* Income levels are such that most target beneficiaries would fall into the lowest 20 percent bracket of the population in terms of earned income.

<u>Sociocultural Feasibility</u>

* Cooperatives as a form of organization have a long history and wide acceptance among rural populations in Guatemala.

* Acceptance of technical assistance provided through the project should not be a problem, as small farmers have demonstrated a willingness to adopt new technologies in the production of traditional crops and to change crops when these can be shown to produce an economic benefit.

* Project success is highly dependent upon the ability of the project to develop and instill attitudes that favor running cooperatives as business enterprises rather than social welfare institutions. This requires major changes in historical cooperative approaches and philosophy, and proved to be a stumbling block in some organizations during Phase I. Adoption of new approaches by the federations and several cooperatives indicates, however, that with the proper strategies, these changes can be achieved. Substantial resources in the institutional development and training component of the project are therefore dedicated to teaching and inculcating this concept among the federations, cooperatives and members.

* The root of most problems facing small farmer organizations in Guatemala is the wide gap that exists between the managerial, administrative and technical skills needed to run the organizations and the education and skill levels of the members. This is reinforced by a deep distrust between indigenous members and ladino technicians and managers; lack of an understanding of the need for specialized skills in the management and financial aspects of the cooperative; and the common practice of providing low salary and compensation levels that are devoid of incentives for good performance and combine to inhibit development. Unless the project can succeed in educating cooperative Board members and develop an understanding of the need for good, skilled management, sustainability of project-initiated activities at the local cooperative level is questionable.

In summary, the project's objectives appear to be compatible with existing sociocultural patterns. Several issues -- such as the capability of managing local institutions, the potential conflict between indigenous memberships and ladino management, growth potential and member loyalty -- need to be specifically addressed during project implementation and monitored throughout the course of the project.

Sustainability and Replicability

Several mechanisms for diffusing benefits beyond the initial target population are built into the project design, especially for the federated cooperatives:

* Programs and services institutionalized in the primary-level cooperatives will continue to benefit both current and new members after the project ends.

* Although the project will directly benefit only a subset of the affiliated cooperatives during the next four years, the institutionalization of support programs and services in the federations means that these institutions will have the capability of extending project benefits to the remaining cooperatives once the project has terminated.

* Since all programs and services are designed to be self-sustaining on the basis of earned income, the federations should be capable of sustaining them once project resources are withdrawn.

This is not the case, however, with the independent cooperatives, which will not have access to continued support services upon termination of the project unless they can be persuaded to affiliate with one of the federations. Neither is there a program for providing assistance to other independent cooperatives once the project ends. USAID/Guatemala must accept the fact that extension of benefits to other cooperatives after the project is over cannot occur in the absence of federation support.

Social Consequences and Benefit Incidence

* This project will provide low-income farmers and other rural artisans and microentrepreneurs access to financial resources, production inputs, production technologies, marketing opportunities, business-oriented education and practices, and participation in modern-oriented business organizations. Because the beneficiary base is limited to cooperative members who are uniformly low income families, resources provided through the project will in fact be distributed equitably among the beneficiaries.

* Increasing agricultural productivity and shifting from low- to high-value crops, generate significant employment opportunities for both the cooperative members and outside day laborers. The project should have a significant impact on employment generation in assisted cooperatives.

* The project should have a negligible displacement effect. FEDECOVERA, ARTEXCO and FEDECOCAGUA members, as well as members of the targeted independent cooperatives, are engaged in export-oriented activities that will not displace other producers. FECOAR and FEDECOAG members are producing traditional products for deficit markets.

* Displacement, should it occur, would have the effect of offsetting needs for imports, resulting in a positive benefit for the country.

* Expansion of credit through the credit union system would appear to expand resources available to the sector rather than replace existing credit sources. Channeling formal credit to individuals who now rely on informal loan sources should have the effect of increasing the supply of informal credit to more marginal groups.

* Successful rural cooperative programs will, in the absence of land constraints, tend to reduce out-migration and urbanization tendencies, at least for project beneficiaries.

* Benefits tend to be distributed inequitably within the cooperatives because of poor management and misplaced philosophy. By default, members who fail to repay loans receive a greater benefit from the cooperatives than those who fulfill their credit obligations. Also, resource-scarce cooperatives distribute benefits on a first-come, first-served basis. The heavy emphasis on improving management policies and practices in Phase I of the project is a necessary prerequisite to any sustained cooperative development effort that can

provide an equitable distribution of resources, and must continue into the second phase of the project.

* Evidence on the impact of cooperative development on the role and income of women is somewhat contradictory. Few women are recognized as individual members in the agricultural cooperatives, and even fewer occupy leadership positions. Studies of non-traditional agricultural products indicate that shifting from subsistence or locally marketed crops to export-oriented, non-traditional crops significantly improves the employment opportunities for low-income women. In spite of the high demand for female labor, especially in the cooperatives specializing in non-traditional agricultural products for export, women tend to be paid a lower daily wage than men, even when they are engaged in the same activities. Studies also suggest that successful cooperative marketing enterprises often reduce women's control over income by removing them from the marketing function. The project needs to be aware of these issues, and should develop gender disaggregated statistics on the flow of project resources and benefits. The evaluation scheduled for year three of the project should specifically examine the impact of the project on women.

The proposed project appears to be consistent with existing cultural norms and practices. The major sociocultural impediments to project success -- lack of management skills, absence of disciplined management practices and a business orientation, a tendency by members to exploit the cooperatives, and poor member-manager relationships -- are precisely the problems the project is designed to address.

D. ADMINISTRATIVE ANALYSIS

The Cooperative Strengthening Project is an AID Handbook 13 grant program obligated through a cooperative agreement with the National Federation of Savings and Loan Cooperatives (FENACOAC) and a PASA agreement with the U.S. Department of Agriculture. FENACOAC is the administrator of the AID grant, and the implementing agent for the project. Project implementation is carried out by a Project Management Office (PMO) that was created and staffed by FENACOAC. This office is fully funded by the AID grant and, although it is a dependency of FENACOAC, it operates as a semi-autonomous unit and as a pass-through for USAID/Guatemala financing and management. Technical assistance is provided to the PMO through a contract with a consortium of U.S. cooperative development organizations, with the World Council of Credit Unions (WOCCU) acting as prime contractor.

A mid-term evaluation of the project concluded that the separate PMO structure was probably necessary, given the local structural and legal situation, and that it had been effective in implementing the first phase of the project. The evaluation did note, however, that the PMO was tending to bypass the federations in implementing the project, impairing the transfer of skills and technologies to the national federations and the long-term sustainability of project results. The evaluation also found that the linear approach to project implementation adopted by the PMO made it unlikely to achieve project objectives within the time constraints of the project, and that demands for services from participating cooperatives strained the limits of managerial and staff resources.

A similar organizational structure is proposed for Phase II of the Cooperative Strengthening Project. FENACOAC will continue to be the grantee; the PMO will continue to implement the project; the PASA agreement through the U.S. Department of Agriculture will provide USAID management, and a technical assistance contract will provide expatriate staff to support PMO activities.

Several important changes in the structure have been introduced. Although the PMO is continuing to function as an independent unit, the federations will be much more involved in planning and implementing project activities. This will increase the transfer of technical, managerial and financial skills to the federations, and the likelihood that project initiatives will continue to be implemented after the project ends. It also means that scarce project resources will be leveraged by the involvement of federation's staff in implementing key components of the project. The PMO will adopt a more integrated approach to cooperative development, involving coordinated uses of stabilization, training, service development and credit in contrast to the linear approach followed in the past. A internal reorganization will also give greater priority to developing the underlying business base of participating cooperatives.

This structure appears to address the basic needs of the cooperative organizations to be assisted through the project, and represents an effective and efficient approach to implementing the project. Two important considerations must be kept in mind by project implementers, however. First, the objective of the project is to develop effective and sustainable cooperative institutions rather than accomplish immediate objectives; the transfer of skills, technology, management capability and systems to the cooperative institutions is more important than the accomplishment of externally determined objectives by PMO staff. Second, as the mid-term evaluation pointed out, unless project management assigns sufficient priority and resources to developing the business operations of the base-level cooperatives, the chances of sustaining project-initiated reforms are limited. Project activities designed to revitalize the business base of the cooperatives are found in the credit and production/marketing components. Unless these are given sufficient priority in both the structure and allocation of resources, the project will have little direct impact on the viability of the base-level cooperatives and their members.

VIII. EVALUATION ARRANGEMENTS

Substantial baseline data exist for this project, although additional information is required on productivity, production and business operations in both the individual cooperatives and the federations. The monitoring plan (See Section VI, above) provides for the development of indicators and baseline data, and for systematically tracking these through the life of the project. Basic data on the cooperatives and their members will be generated during the first six months of the project extensions. The computer systems recently installed in the five major federations will be programmed to provide tracking data on a regular basis.

A Mission review of the project should be held within one year of the new contract to ascertain that procedures and programs are in place to accomplish the project purpose within the timeframe of the project. The Mission should hold annual in-depth reviews of the project.

Audits are scheduled for the second and fourth years of Phase II (notice that this is the first and third years of the extended PACD). A mid-term evaluation should be scheduled during the second year of the extension to review progress and recommend improvements.

An end-of-project evaluation should be scheduled during the final months of the project.

IX. ANNEXES

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 86 to FY 94
Total U.S. Funding $19.0 million
Date Prepared: 6-10-90

Project Title & Number: Cooperative Strengthening Project (520-0286)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
A strong, self-reliant cooperative movement capable of providing their members with high-quality, competitive services in a cost-efficient and sustainable manner.	1. Five (5) Guatemalan federations providing appropriate services to their member cooperatives without external subsidies. 2. Fifty-seven (57) federated cooperatives and fourteen (14) independent organizations providing timely and competitive services to their members; experiencing growth in membership and capital; and being sustained primarily through internally generated income. 3. The existance of a pool of trained cooperative leaders and staff capable of continuing the institutional development process beyond the LOP.	1. Project monitoring system measuring progress against institutional performance indicators 2. Federation and cooperative records 3. Third year (1993) impact evaluation 4. Final Evaluation	1. Federations and cooperatives receive improved GOG support and supervision. 2. A continuation of relative political and economic stability. 3. Cooperative leaders and management regularly evaluate business results and remain willing to adopt operational and policy guidance needed to maintain efficiency and service delivery from internally generated income. 4. Technical skills and procedures can be transferred to cooperative leaders and managers during the LOP.

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 86 to FY 94
Total U.S. Funding $19.0 million
Date Prepared: 6-10-90

Project Title & Number: Cooperative Strengthening Project (520-0286)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: assure greater efficiency and onomic viability of rticipating federations and se-level cooperatives and creased income for their mbers.	**Conditions that will indicate purpose has been achieved: End of project status.** 1. In participating credit unions: par value of member shares will be restored; interest rates on savings and loans should approach market rates; total assets should increase by 15% during LOP; and annual deposit growth should increase by 20% over the LOP. 2. Cooperative capital (reserves & shares) for all participants should increase by 15% annually over LOP. 3. Cooperative membership should increase by 5% annually. 4. Delinquency (defined as total value of delinquent accounts/total value of outstanding accounts) reduced and maintained at less than 10% by the end-of-project. 5. A realistic annual business plan will be in-place within all organizations by the end-of-project. 6. 70% of participating federations and base-level cooperatives will have developed a business relationship with members which generates sufficient earnings to sustain the institution. 7. Agricultural cooperative members will experience increases in agricultural production and income by an annual average of 10%.	1. Project monitoring system measuring progress against institutional performance indicators. 2. Federation and cooperative records and financial statements. 3. Third year (1993) impact evaluation. 4. Final Evaluation (1994)	**Assumptions for achieving purpose:** 1. Government policy remains supportive of cooperative development activities. 2. Cooperative leaders and management are capable of understanding and willing to adopt the policies and procedures being promoted by the Project. 3. An adequate economic base exists for each participating federation and base-level cooperative. 4. There exists relative economic and political stability. 5. There are no natural disasters nor significant agricultural set-backs (drought, earthquake, severely restricted international markets, etc.) which affect farm operations and marketing opportunities.

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AID 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 86 to FY 94
Total U.S. Funding $19.0 million
Date Prepared: 6-10-90

Project Title & Number: Cooperative Strengthening Project (520-0286)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1. All independent cooperatives identified; needs assessment completed; and Participation Agreements signed with all potential participants.	1. Federations and affiliate stabilization needs identified and process initiated by December, 1990.	1. Quarterly Progress reports from the Project Management Office.	1. Independent cooperatives willing to meet eligibility criteria for project participation and sign Agreements with the Project.
2. Financial Stabilization needs identified; Agreements negotiated; and stabilization assistance disbursed to federations & independent cooperatives early in Phase II of the Project.	2. Needs assessment completed and Participation Agreements signed with all independent cooperatives by June, 1991.	2. Existence of signed Participation and Financial Stabilization Agreements.	2. PMO and cooperative staff can complete financial analysis work; negotiate Stabilization Agreements; and disburse funds to all participants prior to July, 1991.
3. Agricultural cooperative inventory completed; priority problems and opportunities identified and being addressed by project-financed agricultural extension program.	3. Independent cooperative stabilization requirements identified and process initiated by July, 1991.	3. Existence of a Project monitoring system capable of measuring impact of Project initiatives on the production and income of farmer members, as well as institutional performance indicators.	3. PMO agricultural staff hired, local counterparts identified, and expatriate Ag. Coop. Business advisor on-board before December, 1990.
4. Training plans for cooperative leaders and managers prepared and executed in a systematic manner and capable of transferring understanding of important business development concepts and procedures.	4. Agricultural inventory completed and extension program initiated by December, 1990.	4. Existence of revised Credit Policy.	4. Cooperative leaders and staff willing to participate in project-sponsored training programs.
5. Project Credit Policy reviewed and updated to address the needs of federations, their affiliates, and the independent cooperatives; and disbursements of credit funds made to eligible organizations.	5. Credit policy reviewed and updated by December, 1990.	5. Training records and reports.	
6. PMO fully staffed and Project Monitoring system designed and operating within all participating organizations.	6. Annual average of 300 cooperative leaders and staff trained in project norms, policies and procedures over the extended project period.	6. Audits and evaluations throughout the LOP.	
	7. PMO fully staffed and monitoring system designed and in-use by December, 1990.		

.ID 1020-28 (7-71)
UPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 86 to FY 94
Total U.S. Funding $19.0 million
Date Prepared: 6-10-90

Project Title & Number: Cooperative Strengthening Project (520-0286)

NARRATIVE SUMMARY

Inputs:

PROJECT BUDGET

	Current Budget	New Funding	Revised Budget
PASA Project Management	580	599	1,179
Technical Assistance	3,124	2,539	5,663
Project Management Office	891	1,113	2,004
Institutional Development	1,034	1,802	2,836
INACOP	11	(11)	-0-
CONFECOOP	50	(30)	20
Stabilization Fund	3,165	1,930	5,095
Savings Protection Fund	345	(345)	-0-
Credit	1,800	(200)	1,600
Audits and Evaluations	-0-	249	249
Transportation & Equipment	-0-	100	100
Contingency	-0-	254	254
TOTALS	11,000	8,000	19,000
COUNTERPART	3,825	2,151	5,976

OBJECTIVELY VERIFIABLE INDICATORS

Implementation Target (Type and Quantity)

PASA Agreement fully funded from FY91 funds.

Technical Assistance Contract extension signed by 8/30/90 & incrementally funded over LOP.

PMO fully staffed and Ag. Production and Marketing Division in full operation by December, 1990.

Institutional support plans and budgets completed and approved by January of each year of the extended project.

All Stabilization Funds disbursed by July, 1991.

Credit Funds disbursed and recovered in FY91, FY92, FY93 and FY94.

Yearly audits of participating organizations; 1993 impact evaluation; 1994 final evaluation and final project audit.

Initial procurement plans completed by October/November, 1990.

Contingency funds transferred to line items in need of additional funding.

MEANS OF VERIFICATION

PASA Agreement negotiated and executed.

Long-term technical assistance contract negotiated and awarded.

Financial reports generated by the Project Management Office.

PIO/C's issued for USAID/G procurement actions.

USAID/G Controller Office reports.

Semi-annual progress reports prepared by Rural Development Office.

Audits and Evaluations throughout the LOP.

Sequential Implementation Letters (SIL's) issued for any necessary use of contingency line item.

IMPORTANT ASSUMPTIONS

Assumptions for providing inputs:

Availability of AID funds for approved Operating Year Budgets within the incrementally-funded Project:

FY90	$1.0 million
FY91	$3.0 million
FY92/94	$4.0 million

The counterpart contribution of the federations and cooperatives is dependent on their ability to operate and generate earnings within a relatively stable and competitive economic environment.

COOPERATIVE STRENGTHENING PROJECT
520-0286

SC(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

   Yes

2. FAA Sec. 611 (a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   Yes

3. FAA Sec. 611 (a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplish- ment of the purpose of the assistance?

   Not applicable.

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4. <u>FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501.</u> If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, <u>et seq</u>)? (See A.I.D. Handbook 3 for guidelines.)

   Not applicable.

5. <u>FAA Sec. 611(e).</u> If project is capital assistance (<u>e.g.</u>, construction), and total U. S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

   Not applicable.

6. <u>FAA Sec. 209</u>. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

   Not applicable.

7. <u>FAA Sec. 601(a).</u> Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition;

   Project specifically is strengthening a core number of federations and cooperatives to increase the agricultural production which includes nontraditional export crops, it fosters initiative and competitions to increase exports and specifically works with federations

(c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

and cooperatives. The project provides needed technical assistance to increase agricultural outputs and income of farmers who participate in the cooperative movement of Guatemala.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Project will use US public and private sector institutions for project implementation.

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The Government of Guatemala will provide counterpart contribution amounting to Q.2.5 million or $600,000 for credit funds from foreign currencies owned by the U.S. The National Agricultural Bank (BANDESA) has provided and will continue to provide credit to small farmers.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

See preceding Item 9.

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11. <u>FY 1989 Appropriations Act Sec. 521.</u> If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

The commodities for export fall under the category of fresh vegetables and garlic and are not likely to be in surplus. The amount to be exported will not cause any injury to US producers.

12. <u>FY 1989 Appropriations Act Sec. 549.</u> Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U. S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

a) Not applicable.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

Not applicable.

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

No U.S. PVO received funding in this project.

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16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

FENACOAC the implementing federation ~~is a registered PVO and~~ has been provided with A.I.D. auditing requirements via SIL No. 11.

17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?

Not applicable.

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Not applicable.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support research that is intended primarily to benefit U,S. producers?

The project supports an export activity of fresh vegetables to the U.S. and other than the U.S; however, the amounts exported can reasonably be expected not to cause any substantial injury to U.S. exporters of a similar agricultural commodity.

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b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

The thrust of the project is to work with federations and cooperatives whose members for the most part are farmers residing outside the main cities. The project has a credit component that will be made available to provide them with access to credit. The project provides a major component of technical assistance to improve the farmers ability to produce and improve their income, to strengthen their cooperatives and federations to assure project continuation after the PACD. The project also includes a training component to improve all aspects of the agricultural process and to run their coops. as business enterprises. Women in the agricultural sector are active participants in the production and are more and more involved in the export process and as family member of coops. will be the beneficiaries of the project.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?

DA/ARDN

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses and small incomes of the poor)?

The income generating activities which will be promoted through the project will place emphasis on use of appropriate technology.

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes. The counterpart of the project is being contributed by the Government of Guatemala, the participating federations and cooperatives and exceeds 25 percent of the total project costs.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to

Yes. Phase II of the project will emphasize the benefits to the individual cooperative members who for the most part are small farmers. The project is designing and will implement a monitoring system to assure that benefits accrue the poor majority.

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stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

g.	FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	The cooperatives per se have been established to serve the particular needs, desires of their members, thus this project is specifically addressing this concept. The Project Management Office (PMO) is staffed with a small number of expatriate staff (4) and a large number of highly qualified local technicians who are working with federations and coops. and in Phase II will work much closer with members. This project also will expand on a training component to enhance services to cooperative members. The coop. organization is a ground root educational process of self-government and democracy.
h.	FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	No.
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilization.?	No.

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Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

i. <u>FY 1989 Appropriation Act.</u> Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

No. Assistance is from ARDN account.

j. <u>FAA Sec. 601(e).</u> Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes, however for the technical assistance component of the project $3.2 million the Mission will approve a waiver to contract the continuation of services with the U.S. firm WOCCU.

k. <u>FY 1989 Appropriations Act.</u> What portion of the funds will be available only for activities of economically and socially disadvantage enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Most of the funds are for local implementation and the technical assistance component will be awarded to the current contractor WOCCU.

1. <u>FAA Sec. 118 (c).</u> Does the assistance comply with the environmental procedures set forth in A.I.D. regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income

Yes; however the project is not directed to conservation of the environemnt.

alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help and destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support and training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by sup-

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porting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas: (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) / utilize the resources and abilities of all relevant U.S. government agencies?

m. FAA Sec. 118 (c) (13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the

a) No.

land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? | b) Yes.

n. <u>FAA Sec. 118 (c) (14).</u> Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in a environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? | No.

o. <u>FAA Sec. 118 (c) (15).</u> Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively | No

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undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA; (c) being provided, when consistent with the objectives such assistance, through African, United States and other PVOs that have

Not applicable.

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demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially fcod production, to maintain and improve basic transportation and communication net-works, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics specially to those outside the formal education system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

q. <u>FY 1989 Appropriations Act Sec. 515.</u> If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committee of both Houses of Congress been properly notified?

Not applicable.

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Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Not applicable.

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

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PROYECTO FORTALECIMIENTO COOPERATIVO

(AID/FENACOAC 520-0286)

fenacoac

Guatemala, 8 de agosto de 1990

Ref. PFC-296-90

Señor
Stephen C. Wingert
Director a.i.
Misión AID Guatemala

Estimado señor Wingert:

Nos es grato saber que usted ha regresado a nuestra patria ocupando un puesto que le permitirá contribuir una vez más al desarrollo de la misma, por tal motivo en nombre de la Federación Nacional de Cooperativas de Ahorro y Crédito y Servicios Varios de Guatemala, Responsabilidad Limitada (FENACOAC), de sus afiliadas y en nombre propio, le enviamos un cordial saludo.

En el mes de noviembre del año pasado, se realizó una evaluación del Proyecto de Fortalecimiento Cooperativo (PFC). Al analizar las conclusiones, hemos observado que los logros e impactos más significativos se han dado en la reorientación e introducción de políticas y procedimientos tendientes a mejorar y fortalecer la capacidad, tanto de la Federaciones como de las cooperativas, para proveer servicios de calidad a los asociados. No obstante lo anterior, la evaluación señala áreas de mejoramiento en la ejecución del Proyecto.

Ante esta situación, desde esa fecha hemos venido conversando con la Misión AID sobre la conveniencia y necesidad de hacer una enmienda a dicho Proyecto con el propósito de ampliar su cobertura y lograr un impacto más efectivo a nivel de los asociados que conforman a las cooperativas de base. Para el efecto, la Federación como administradora del Proyecto, ha estado colaborando con el equipo evaluador, con el de rediseño y con los técnicos asignados por parte de AID, en la elaboración de una enmienda para responder a las recomendaciones de la evaluación.

Para alcanzar en mejor forma el objetivo del Proyecto, se necesita: ampliar la cobertura del mismo para lograr mayor impacto a nivel de las cooperativas de base, extender la fecha de su terminación hasta agosto de 1994 e incrementar la cantidad de recursos tanto de la AID como de las organizaciones participantes para los diferentes componentes del Proyecto.

En esta segunda fase del Proyecto, la transferencia de tecnología y conocimientos de la Oficina Administradora del Proyecto hacia las Federaciones, sus afiliadas y el sector cooperativo no federado, se considerará de vital importancia. El enfoque empresarial que ha caracterizado al Proyecto en su primera fase, se mantendrá en esta segunda fase.

.../

Además de la necesidad e importancia de la transferencia tecnológica y su aplicación, creemos que es necesario brindar un apoyo más significativo en las áreas de producción y comercialización agrícola para mejorar la capacidad de las organizaciones agrícolas en generar los recursos necesarios para sostener sus operaciones a largo plazo y ampliar los servicios productivos a sus asociados. Como es de su conocimiento, durante la segunda etapa del Proyecto, se incorporarán algunas cooperativas del sector no federado con el fin de ampliar la cobertura del PFC a un mayor número de organizaciones del sector agrícola, uno de los sectores de mayor importancia para el desarrollo de Guatemala.

Durante la primera fase del Proyecto, el monto de financiamiento aportado por la Misión AID sumaba un total de $11.0 millones, de los cuales FENACOAC administró $10.4. Una vez aprobada la enmienda, el monto total de financiamiento de la Misión llegará a un total de $19.0 millones. Proporcionaremos todo el apoyo necesario para asegurar el mejor uso de estos recursos durante la segunda fase.

Nos sentimos complacidos con el apoyo efectivo que ha dado el Proyecto al Movimiento Cooperativo Guatemalteco, a través de FENACOAC. Compartimos el deseo de la Misión AID en Guatemala, de que se logre un Movimiento mucho más efectivo y capaz de resolver dentro de sus posibilidades, la multitud de problemas que enfrenta el Sector Rural de nuestro país. Creemos también que el rediseño y la ampliación del Proyecto previsto en el documento de la Enmienda, responde a las recomendaciones de la evaluación y permitirá lograr los objetivos, tanto de la Misión AID como del Movimiento Cooperativo Guatemalteco.

Aprovechamos la oportunidad para patentizar nuestro agradecimiento por el apoyo que el pueblo y gobierno de los Estados Unidos de América, a través de la Misión AID, le ha brindado al Movimiento Cooperativo Guatemalteco y le deseamos muchos éxitos en sus nuevas responsabilidades.

Atentamente,

Lic. Francisco S. Pérez Toño
Administrador
Proyecto Fortalecimiento Cooperativo

cc: FENACOAC
cc: PFC
cc: Barry Lennon

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Agency for International Development
Washington, D.C. 20523

LAC-IEE-90-17

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Guatemala
Project Title	:	Cooperative Strengthening Amendment
Project Number	:	520-0286
Funding	:	$8,000,000
Life of Project	:	Three years
IEE Prepared by	:	Alfred Nakatsuma USAID/Guatemala
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	An Environmental Assessment for the use of pesticides and fertilizers was approved for this Project on 12/5/89. New activities under the Amendment deal mainly with institutional strengthening.
Copy to	:	Anthony Cauterucci, Director USAID/Guatemala
Copy to	:	Gordon Straub, ORD USAID/Guatemala
Copy to	:	Alfred Nakatsuma USAID/Guatemala
Copy to	:	Mark Silverman LAC/DR/CEN
Copy to	:	Frank Zadroga ROCAP/San Jose
Copy to	:	IEE File

John O Wilson Date APR - 4 1990

John O. Wilson
Deputy Environmental Officer
Bureau for Latin America
and the Caribbean

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INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Guatemala

Project Title: Cooperative Strengthening Amendment

Funding: $8,000,000

I. Project Description

The goal of the Project Amendment is to increase agricultural production in Guatemala, and its purpose is to develop a more viable and effective Guatemalan cooperative movement by working with selected cooperatives to enhance their managerial and service delivery capabilities and their performance as profitable enterprises. This purpose will be achieved by the implementation of the following activities:

1. Institutional Development--Activities will be undertaken to expand the institutional development program to base-level federation affiliates and independent agricultural cooperatives, to intensify training and skills transfer and to consolidate the progress made in this area to date.

2. Credit--Loans will be provided to address commercial viability and sustainability of agricultural cooperatives by increasing their capability to finance investments in land, improved production practices and processing, and develop marketing infrastructure.

3. Financial Stabilization--Activities will be undertaken to complete the financial stabilization of the participating cooperatives while seeking alternative investment vehicles.

II. Potential Environmental Consequences

As proposed, the Cooperative Strengthening Project Amendment will only have potential negative environmental consequences with respect to the purchase of chemicals including fungicides, insecticides and fertilizers under the Credit Component. All other Components under the Amendment will not have activities which will significantly affect the physical or natural environment, and therefore qualify for categorical exclusion according to Section 216.2 of 22 CFR. An Environmental Assessment (EA) that analyzed the use of these chemicals under the Cooperative Strengthening Project was approved by the AID/LAC Chief Environmental Officer on May 12, 1989. The approved EA indicated that the major environmental concerns for this Project were related to the use of agricultural chemicals, including pesticides, fungicides and fertilizers.

This EA included recommendations to mitigate the potentially negative environmental consequences related to the purchase of these agricultural chemicals, including the provision of training in pesticide use/safety and Integrated Pest Management (IPM) principles; coordination with the Highlands Agricultural Development Project (HAD) on the identification/use of protective equipment and for IPM training programs; pesticide workshops in the field; preparation and distribution of pesticide use and agromedical handbooks; and, modification of the Cooperative Agreement to exclude financing for pesticide procurement.

To date, training in pesticide use/safety and IPM principles and coordination with HAD have been undertaken. In addition, under the proposed Cooperative Strengthening Amendment, the following additional actions are planned to respond to the recommendations of the Environmental Assessment:

-- The current agricultural extension program will be expanded from its current focus on fertilizers to include pesticide and fungicide handling, safety and application techniques. The scope of this training program will include IPM practices, and will go beyond the program description recommended in the EA.

-- The FENACOAC Project Management Office will develop linkages to other Mission projects (including HAD and Small Farmer Coffee Improvement) and public sector agencies to make use of the existing farmer training programs in agricultural chemical selection, handling and use.

-- Federations and base-level cooperatives will promote and develop services which result in more effective and controlled use of agricultural chemicals, including implementation of soil sampling campaigns, on-farm demonstration programs, broader dissemination of information and safety measures.

-- Project financing will not be made available for agricultural chemicals (fertilizers, pesticides and fungicides) unless the participating organizations can demonstrate they they provide their members with training in proper selection, handling and application techniques.

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III. Conclusions and Recommendations

Based on the recent Environmental Assessment approval for chemical and fertilizer use under the Cooperative Strengthening Project, the fact that the mitigative measures recommended under this EA will be implemented through the Amendment, and that all other Amendment activities qualify for categorical exclusion, the Mission recommends that a Negative Determination requiring no further environmental review be approved for the Cooperative Strengthening Project Amendment.

Concurrence:

Anthony J. Cauterucci
Mission Director

3/26/90
Date

			Date:
Drafter:	ANakatsuma, ORD		3/21/90
Clearances:	BLennon, ORD		
	GStraub, ORD		
	DBoyd, PDSO		3/2
	DAdams, PRM		3/22/90
	SWingert, DDIR		3/23/90

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ANNEX E.1

TECHNICAL ANALYSIS
PRODUCTION AND MARKETING SUPPORT

A. INTRODUCTION

The fundamental technical issue facing the Cooperative Strengthening Project is whether or not it is possible to develop strong, viable and sustainable cooperative systems that generate positive real benefits -- both economic and social -- for their members within the time and budget constraints of the proposed project amendment. As noted in the preliminary analyses conducted for the project in 1986, the Guatemalan cooperative movement had been significantly weakened by the period of domestic violence and economic uncertainty in the early 1980s. Most of the cooperatives and federations were financially weak, if not insolvent; many had significant debt levels, and were in arrears on outstanding obligations; management was weak and untrained; and the cooperatives provided few real services for their members. Of the major federations, only FECOAR and FENACOAC were solvent organizations, and even they had problems with capitalization, liquidity and delinquent debt burdens.

The Cooperative Strengthening Project has attempted, during the past four years, to address some of the fundamental management and financial issues facing the federations and their major affiliated cooperatives. As the 1989 evaluation noted, however, while these actions were necessary to revitalize the cooperative system, they were not sufficient. Most of the cooperatives and federations lacked the essential business volumes necessary to sustain them as financially viable entities. The evaluation concluded that the project was unlikely to produce sustainable improvements in the Guatemalan cooperative system unless it addressed the underlying business base for the federations and their member cooperatives.

Accordingly, a production and marketing services component has been included in the amended project to (a) provide cooperative members with specific services needed to improve their individual productive capacity; (b) help develop the commercial base of selected cooperatives to a point where self-generated income can sustain the administration and services of the cooperative; and, (c) in the case of federated cooperatives, generate sufficient business volumes to sustain the federations' administration and services federations through self-generated business income.

The technical feasibility of other components of the project (specifically, the stabilization and institutional development components) has been demonstrated during the first four years of the project. The financial and institutional analyses (Annexes E.2 and E.5) address these components in greater detail. The basic technical question for the new project component is whether or not it is possible to improve the business volumes of the cooperatives, based on improving the production and marketing potential of their individual members, to such an extent that this will be sufficient to

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sustain both the cooperatives and the federations they are affiliated to. This annex assesses the technical feasibility of the project in terms of its production and marketing potential. The financial aspects of this issue are discussed in the Financial and Economic Analysis (Annex E.2).

B. ALTERNATIVE STRATEGIES

Program options for increasing cooperative business opportunities and benefitting cooperative members can generally be classified as production- or market-oriented. Production-oriented strategies are usually designed to (a) increase productivity and production of existing crops to increase gross income, (b) decrease the unit costs of producing existing crops to increase net income, (c) diversify into higher value crops to increase both gross and net income, or (d) increase the value of the product brought to market through improved post-harvest handling. Production-oriented strategies must necessarily focus on the individual producer, as production improvements can only occur if improvements are made at the individual farm level. The cooperative's role in production-oriented strategies is one of providing basic services -- credit, inputs, and technical assistance -- to the individual farmer members.

Market-oriented strategies can be designed to (a) improve marketing margins for existing crops through economies of scale, by engaging in value-added activities or by adopting technologies that permit the cooperative to control the timing of entry to the markets, or (b) develop new markets that provide a higher return per unit of product. In Guatemala, the first of these strategies addresses traditional crops in traditional markets, while the second involves the marketing of the so-called non-traditional agricultural products, either through direct exports or through sales to specialized local markets. These strategies are necessarily focused on the cooperative itself: on whether or not it can perform an effective and efficient role in the marketing function that will return positive real benefits to its members. The assumption is that cooperatives can, through economies of scale and distributing benefits to the members, improve economic returns to small farmers. In some cases the marketing function can be developed independently; that is, the objective is to improve the market for existing products at existing levels of production. In other cases successful marketing operations can only be developed if production levels are also increased.

The Cooperative Strengthening Project amendment is designed to address both production- and marketing-oriented strategies. Where appropriate, the project will help the federations and individual cooperatives improve existing services and develop new services that help cooperative members improve their productive base., Also where appropriate, the project will assist the federations and cooperatives analyze, develop and manage marketing operations.

C. CHARACTERISTICS OF TARGET GROUPS

Agricultural cooperatives in Guatemala vary significantly in terms of their productive base (crops, markets, and commercial activities) and organizational characteristics (size, objectives, financial situation, and management skills). It is useful to classify them into groups that have similar production and marketing problems. In this case, the cooperatives can be classified on the basis of sophistication of the crop mix, market outlets, and the business role of the cooperative involvement in the production and marketing functions.

The agricultural cooperatives to be assisted through the Cooperative Strengthening Project (or, at least, their members) are involved in producing significantly different crops, as can be seen in the table on the following page.

Farmers growing basic food crops for subsistence consumption typically sell marginal surpluses to local markets, either directly or through independent intermediaries. Cooperatives seldom have a role in the marketing operation. The cash crops might be vegetables (such as potatoes) or an oilseed crop (such as sesame) that are destined to the local market or relatively low-value export market. These farmers use low levels of production technology, although they tend to apply higher levels of technology to their cash crops than to their basic grains or subsistence food crops. They are highly risk averse, would typically perceive their marketing options to be very limited, and sell to an intermediary on the basis of cash needs rather than market price.

Farmers engaged in producing traditional food crops for market also produce for home consumption. However, they tend to specialize in a higher value cash crop, which they grow with more skill and higher technology than farmers oriented primarily toward subsistence agriculture. The cash crops might include broccoli in higher elevations, tomatoes or melons in lower elevations or, in some cases, a non-traditional agricultural crop destined for the local or export market. Cash crops are sold directly to the processor or exporter, with little or no direct handling by the cooperative. The farmer sells on the basis of an agreement or formal contract with the buyer, and may receive inputs (especially seed and pesticides) and some technical advice from the buyer. The greatest marketing problems are weak negotiating position, low product differentiation, and high rejection rates (based on product quality) at the packing plant or processor.

Coffee is a high-value traditional crop with a well-defined national and international marketing structure. It is produced by large growers, small farmers, and groups of farmers organized in associations or cooperatives. Coffee cooperatives affiliated to FEDECOVERA are operated as collective farms, while those affiliated to FEDECOCAGUA group individual producers. Production and marketing conditions are similar for the two groups. Coffee is a perennial crop that is relatively forgiving (in contrast with strawberries, for example) of imprecision in production management that might result from collective farming. Production technology ranges from completely overgrown plantations, where virtually all that is done is harvest the beans, to highly technified plantations (of any size) with improved varieties, adequate populations, soil conservation, fertilization,

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disease and pest control, controlled shade, and regular pruning. Smaller producers often sell their crop before harvest, at a low price, to an intermediary because of cash needs. Considerable value can be added in marketing by de-pulping, fermenting, and drying the beans.

Orientation	Description
Basic Food Crops for Subsistence	The primary interest of the members is on producing food crops, primarily for subsistence. Surpluses might be sold in local markets for cash. Basic grains, potatoes, wheat and vegetables are the major crops. Three FECOAR and several FEDECOAG cooperatives are in this category.
Traditional Food Crops for Market	Members are primarily engaged in producing traditional food crops for sale in local markets. Part of the product is retained for subsistence, but the primary focus is on producing crops for sale. The members may also be producing what are now considered to be non-traditional food crops, but for sale on the local, rather than export, market. Three of the FECOAR cooperatives and most of the FEDECOAG cooperatives are in this category.
Traditional Cash Crops for Export	Coffee is the major example of this category. All FEDECOVERA and FEDECOCAGUA cooperatives are in this category.
Non-Traditional Agricultural Export (NTAE) Crops	Members are primarily engaged in the production of high-value cash crops for sale to the export market, whether directly or through brokers and processors. All of the independent cooperatives, three of the FEDECOAG, and several FECOMERQ cooperatives are in this category.

Producing non-traditional agricultural crops for export has gained considerable popularity in recent years. High U.S. demand for vegetable crops (especially in winter months), Guatemala's proximity to the U.S., improved transportation facilities, favorable climatic conditions, and high financial returns have combined to stimulate a rapid growth in this sector. While production issues are significant in the production of non-traditional agricultural products, the principal constraint to success is managerial, both in terms of logistics and in terms of being able to make strategic choices between various production and marketing options. Other constraints -- such as market information, investment capital, and technical skills -- are also managerial problems.

The role of the cooperatives and federations also varies considerably among institutions. FECOAR and its cooperatives have concentrated on input supply operations. FEDECOAG provides credit, some input supplies, and training to its member cooperatives which, in turn, provide credit, input supplies and some marketing services for their members. Attempts by FEDECOAG to centralize marketing operations have produced consistent losses.[1] FEDECOVERA and FEDECOCAGUA have both been involved in credit, input sales, and marketing, at both the federation and cooperative levels. Neither of the federations engages in direct export activities, marketing instead to local exporters. FECOMERQ and its affiliated cooperatives have been engaged in credit, input sales and marketing activities. The independent cooperatives are engaged in input supply and marketing (including direct export) operations.

Cooperative Services	Major Crop			
	Subsistence Crops	Local Markets	Traditional for Export	Non-Trad. for Export
Input Supply Sales	X	X	X	X
Credit		X	X	X
Production T.A.			X	X
Storage, Value-Added Processing and Packaging			X	X
Marketing			X	X

There is a strong relationship between the product and the services provided by the federations and cooperatives. Cooperatives whose members produce basic food crops for subsistence or for sale in local markets tend to be engaged in input supply sales and credit, but not marketing. Cooperatives whose members produce for export tend to be involved in marketing as well as in input supplies and credit.

D. ANALYSIS OF PRODUCTION-ORIENTED STRATEGIES

Although production is must necessarily be planned and executed in coordination with marketing, it is useful to treat the two as separate technical constraints. The role of production-oriented strategies is to increase the volume of produce at costs that are consistent with market value. Production-oriented strategies are usually designed to (a) increase productivity and production of existing crops to increase gross income, (b) decrease the unit costs of producing existing crops to increase net income, (c) diversify into higher value crops to increase both gross and net income, or (d) increase the value of the product brought to market through improved post-harvest handling.

1. Strategies to Increase Production

Agricultural productivity and production levels are low among participating cooperative members. Yields in FEDECOVERA cooperatives, for example, averages only 10 percent of what is considered normal productivity for coffee in the country. Productivity of basic grains and other food crops in FECOAR cooperatives is far below accepted standards, as can be seen in the fact that productivity and production of essential foods in Guatemala are the lowest in Central America and are, in fact, declining. Strategies to increase production apply primarily to traditional crops -- whether for home consumption, local sale or export -- rather than to new or diversified crops.

Coffee

Analyses conducted for the Small Farmer Coffee Improvement project have indicated that it is possible to increase production to at least 30 quintals per manzana through renovation of land and the adoption of a standard technology "package." A program to renovate 10 manzanas of coffee-producing land, using ANACAFE's standard approach, in each of eight selected cooperatives (that is, 80 manzanas of a total land area of 27,000 manzanas) would increase total production in these cooperatives by 48 percent, from a 1989 total of 5,000 quintals to 7,400 quintals by the end of the project. With credit funds programmed for coffee renovation, the two agronomists hired by FEDECOVERA with financial assistance from the project, and assistance from ANACAFE through the Small Farmer Coffee Improvement project, this is a technically feasible program. In fact, the project could expand its targets, either through an increase in the number of manzanas renovated in the eight cooperatives, or through the incorporation of additional cooperatives.

The major technical constraint to increased coffee production in FEDECOVERA is the system of land ownership. Individual farmers prefer to concentrate on their own individual plots of cardamom and other cash crops, rather than devote effort to the collectively farmed cooperative lands. As noted in the mid-term evaluation, this is largely due to a shortage of liquidity in the cooperatives that has been caused by the stringent fiscal measures imposed by the Cooperative Strengthening Project. Uncertainty that daily wages will be paid, and the absence of any year-end profit distributions has eroded confidence in the ability of the cooperatives to provide a realistic source of income. A bridge loan planned to help reduce the cooperatives' dependency on buyer credits, and to provide adequate liquidity during the growing season, along with adequate repatriation-of-profit policies in the cooperative and the federation, should help overcome this constraint.

Traditional Food Crops

Production of traditional food crops (in particular, basic grains and vegetables) is the major activity of the members of most of the agricultural cooperatives assisted by the project. Most of the staple crop production is consumed at home, with any surplus sold in local or regional markets. Traditional food crops have been marginally profitable in the long run (especially now, as shortages have increased prices). To increase income, farmers need to increase production of higher value cash crops. This can be accomplished through increasing productivity of the cash crop or decreasing the amount of land in staple crops and increasing the amount in cash crops. To decrease the amount of land devoted to staple crops, however, the farmer needs also to increase productivity of the staple food crop to cover home consumption requirements.

One of the major constraints to increasing production in traditional food crops, whether for sale or consumption, is the lack of adequate land resources. Landholdings, especially in the crowded highlands, tend to be very small (see Annex E.3, Social Soundness Analysis). Limited land resources mean that increased production can only occur through improvements in technology, particularly double cropping, irrigation, or improved production technologies (including the improved use of fertilizers and pesticides). Lack of irrigation, the high cost of operating capital, strong risk aversion among subsistence farmers, and a lack of feasible alternatives further constrain productivity and overall production levels.

Field trials conducted in FECOAR cooperatives have generally indicated that yields can be increased on existing land through better matching of fertilizer blends to soil conditions. Corn yields, for example, increased an average of 33 percent in the sample of trials, with some increases reaching 47 percent. Wheat yields showed virtually no increase; potato yields increased an average of 9 percent; and broccoli yields in a single trial increased by 7 percent. These increases are significant; if the results could be generalized to all FECOAR members, for example, gross income would increase by nearly $785,000, or approximately $71 per cooperative member, from these crops alone.

Improved seeds offer another vehicle for improving yields, although no data is currently available on potential yields or the availability of improved seeds. Accessibility to other productivity-increasing technologies, such as irrigation, might be achieved through coordination with the technical assistance and small-scale irrigation activities of the HAD-II project.

2. Strategies to Reduce Production Costs

Because staple crops generate little cash income, however, farmers producing traditional food crops face a cash flow constraint to applying improved production technologies. An alternative strategy is to find ways to increase productivity at a reduced cost per unit of output, which can be achieved through (a) the use of improved seed and (b) reduction in fertilizer use by applying a formula that is better tailored to the nutrient requirements of the soil. In both cases, the principal constraint is the lack of access to these inputs.

Again, the field trials conducted in FECOAR cooperatives indicated that matching fertilizer blends to soil conditions could yield significant decreases in the cost of fertilizer per unit of production. The production gains reported above were achieved with significant reductions in the cost of fertilizers, as can be seen below:

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Crop	Average Cost Reduction	Largest Cost Reduction
Corn	36%	54%
Wheat	32	42
Potatoes	48	56
Broccoli	52	52

On the basis of field trials, at least, significant gains can be achieved through improved matching of farm inputs to production necessities.

3. Shifting to Higher-Value Crops

With land at a premium; especially in the highlands, increasing the value of the crop produced presents an attractive alternative to small farmers. This is occurring primarily through the shift from relatively low-value traditional food crops to higher-valued non-traditional vegetables destined for the export market. Although the risks may appear higher, small highlands farmers have displayed a willingness to diversify. Several cooperatives specialize in non-traditional agricultural products, and numerous independent farmers produce high-value non-traditional vegetable crops for local markets. Profitability is so high that land prices in the Central Highlands have increased dramatically in the past few years.

Production technologies for non-traditional agricultural crops are within the capability of small farmers, although much greater care must be taken with the quality of the product compared to traditional crops. This is especially true in the case of crops destined for export, as traditional methods of producing and handling agricultural products will not produce export-quality non-traditional vegetables.

4. Improved Post-Harvest Handling

Improved post harvest handling is essential for export-oriented products, as this is a market that demands high quality products. Local markets do not pay a premium for quality, as the ill-fated marketing venture between FENACOAC and FECOAR discovered, but the export market is quick to reject substandard products. Most of the small farmers entering this market for the first time do not have the skills or experience in picking, sorting, grading, packing and transportation to achieve the level of quality required for either the export or specialty local markets. Cooperatives have a potentially valuable role to play in the transfer of post-harvest handling technology to their small farmer members.

5. Other Issues

Increasing productivity and total production volumes will only generate benefits for farmers if prices are relatively inelastic -- that is, if increases in volumes will not result in corresponding decreases in price due to market surpluses. This generally appears to be the case with the products produced by participating cooperative members. Guatemala is experiencing deficits in many basic food crops, so that increases in production of these commodities should not, on average, decrease prices. Coffee prices are determined by world market conditions, and are unlikely to be affected by changes in small-farmer production levels in Guatemala. The demand for non-traditional agricultural export crops appears likely to remain high in the medium term.

The rising cost of inputs and supplies, especially imported agricultural chemicals, has a negative impact on the success of production-oriented strategies and may, in some cases, result in negative margins. As this is a highly volatile market, any production-oriented strategy adopted by the Cooperative Strengthening Project will need to constantly reassess the economic implications of price changes.

Data on productivity gains have been derived from field trials. Care must be taken in extrapolating field trial results to commercial-scale farming activities, as conditions are less subject to control. Nevertheless, the results obtained in the field trials indicate that it should be possible to achieve substantial productivity gains through the application of a more technologically sound approach to production.

6. Implications of Production-Oriented Strategies for the Cooperatives

Strategies to increase production should significantly increase business opportunities and volumes for the cooperatives and their federations. In particular, increasing production requires an increase in the use of farm inputs. A more rational approach to the use of inputs should provide a justification for planning and scheduling bulk purchase and delivery of these inputs, from the federation to the cooperative and from the cooperative to the member. To the extent that the cooperatives can do this effectively and efficiently, production-oriented strategies should improve the underlying business basis of the cooperatives.

In at least one case, however, the interests of the members conflicts with the interests of the federation. FECOAR is heavily dependent on sales of a traditionally-blended imported fertilizer for its income. Field tests have shown that this blend is not suited to the needs of most of FECOAR's members, yet FECOAR management has been extremely reluctant to modify the fertilizer it provides. FECOAR has also adopted a number of policies designed to maximize revenues (such as withholding fertilizer) instead of targeting its activities to meet member requirements. A failure to adjust these policies will have negative consequences for the technical feasibility of improving productivity in its member cooperatives.

Improving production (including productivity and post-harvest handling) requires a labor-intensive assistance program. Resources planned for the Cooperative Strengthening Project will not be sufficient to reach significant numbers of farmers unless leveraged by the use of agronomists employed by the federations and cooperatives, paratechnicians, group training, leader farmers, and demonstration plots. The program could be further leveraged by developing close ties with ICTA, DIGESA, HAD-II, and other development programs. Even more important, to be effective this effort must be sustained by the cooperative organizations once the project ends. Institutional development plans developed by the PMO for participating cooperatives and federations have not contemplated the long-term need for increased personnel or the budget increases required to sustain these positions. These need to be incorporated in strategic and business plans for all participating cooperative organizations.

The cooperatives could support this type of assistance through increased sales of inputs, which would result from the increased intensity of input use on cash crops. Planning, scheduling and bulk-purchase of necessary inputs to meet farm plan objectives could generate significant increases in sales through the cooperatives. As long as realistic pricing policies are followed, this should increase the viability and long-term sustainability of the cooperative organizations. Other new business opportunities might be created through the need to mass produce improved varieties of seed stock, such as improved open-pollinated corn. To be commercially viable, however, extension services must be highly leveraged and the number of cooperative members must be large. Fertilizer sales are low-margin, high-volume operations, and could not cover the cost of a highly intensive type of assistance to only a few farmers.

Finally, USDA and FDA restrictions on pesticide and fertilizer residues are so demanding that many exporters insist on controlling the provision of inputs to the growers. This could reduce potential input-supply sales for the cooperatives involved in producing non-traditional agricultural export crops.

E. MARKETING SERVICES

Marketing has been a traditional focus of cooperative development programs throughout Latin America. Underlying the emphasis on marketing is the assumption that traditional intermediary relationships are disadvantageous to farmers, and that cooperatives can capture excessive spreads between on-farm prices and final purchaser prices and redistribute those benefits to the member farmers.

Surprisingly few of the Guatemalan agricultural cooperatives and federations provide a marketing service for their members. FECOAR and its affiliated cooperatives do not attempt to market member products, even though the value of member production exceeds $10.0 million per year. Neither FEDECOAG nor its member cooperatives have significant marketing activities; past efforts by the federation resulted in substantial losses. The coffee cooperatives do provide a series of post-harvest and marketing services -- de-pulping, fermenting drying, sorting and marketing the coffee to local exporters. Marketing is the primary function of the independent, non-traditional agricultural cooperatives.

Several major efforts to implement marketing programs have failed. FENACOAC and FECOAR attempted a joint venture for fresh vegetable marketing, but this enterprise (CECOMERCA) went bankrupt, and is being liquidated. Several attempts by FEDECOAG to market member produce have also been unsuccessful

There are strong differences in the markets for traditional products produced for local markets and either traditional or non-traditional crops produced for export that need to be understood in planning marketing activities through the Cooperative Strengthening Project.

1. Traditional Food Products

As mentioned in the previous section on production, farmers either produce traditional crops for home consumption, selling any surplus on an *ad hoc* basis, or produce these as a cash crop for sale in local markets. The marketing of staple grains and local-market vegetable crops is characterized by a relatively large number of small intermediaries. The efficiency of this system has been a subject of continual debate, but there is a great deal of evidence that the financial return to intermediaries is consistent with the level of risk taken and costs of carrying out the activity.

There is little potential role for cooperatives in the marketing of surplus subsistence crops. Successful marketing requires a reliable source of sufficient product to sustain the operations; surplus from subsistence crops does not provide this.

Cooperatives whose members are producing traditional crops primarily for sale to local markets have a potential volume of business that could justify an intermediary role. To the extent that farmers are selling on the basis of cash needs rather than optimal market price, cooperatives could provide a value-added market function if they had the financial and infrastructure resources to purchase, store and time the entry of non-perishable products to the local markets. Margins are relatively low, however, and market risks high. Cooperative marketing programs have a high history of failure in Latin America because they fail to understand the complexity of the role played by marketing intermediaries, underestimate the degree of risk involved, do not understand the dynamics of local markets, and do not adopt realistic pricing policies. Developing a successful marketing function in traditional food crops will require market studies and programs to develop managerial and financial capabilities among cooperative boards and staffs.

Farmers producing traditional food crops for a processor or exporter on the basis of a contract or informal agreement have two principal marketing problems: a weak negotiating position because they must sell their crops during peak production periods to meet cash needs, and high levels of product rejection because of poor quality. Intermediaries provide an import service to small farmers in providing advances (both cash and products, such as bags or boxes), transportation, immediate cash payments for crops, and in assuming risks for the final disposition of the product. The importance of these services should not be underestimated. The cooperatives assisted by the project generally lack the financial resources to provide advances, contract transportation, pay immediately for products, and assume risks. The project has not yet developed strategies to address these problems.

While cooperatives could theoretically consolidate products and gain bargaining strength with buyers, it appears unlikely that any cooperative would be able to command a sufficient share of product to be effective in the short run. Cooperatives could also help by pre-grading the product in a way that would reduce the rejection rate in local markets or processing plant and permit the farmer to find an alternative market. Margins on pre-selecting, however, are small, and would require skilled management and operations to provide sufficient returns to the cooperative to sustain the activity.

Developing successful cooperative marketing programs is difficult in this environment. As the CECOMERCA experience demonstrates, local markets are not particularly quality conscious, and there is little margin to be gained in adopting strategies designed to improve product quality for local markets. Cooperatives have tended to overestimate the margins available in local marketing operations, and have failed to understand the risks and true financial costs involved in operating marketing operations. Existing cooperatives generally have liquidity problems, which prevent them from providing services that are truly competitive with local intermediaries, such as advancing cash or products, providing immediate cash payment for products, or providing timely transportation.

Marketing opportunities do exist in traditional crop marketing, especially if the cooperatives develop appropriate technologies and facilities that enable them to provide a real value-added service. Storage facilities, and centers to sort, grade and pre-package items might provide potentially viable lines of business for the cooperatives. The project needs to develop strategies for identifying, analyzing and developing realistic marketing services.

2. Non-Traditional Products for Export

The high demand for non-traditional vegetables, and the apparent margins to be gained from sales to that market, have produced considerable interest among a number of cooperatives in developing direct-export operations. Furthermore, successful operations are highly profitable. As the experiences of Rincon Grande , La Magdalena, and even Cuatro Pinos has shown, however, this is a difficult market for cooperatives, requiring a level of sophistication that few cooperatives currently possess.

Success in export marketing faces both technical and managerial constraints. Ability to control product quality is a crucial factor, as substandard products are severely penalized in international markets. Producing, selecting and packing a high quality product that meets international standards is essential to successful export operations. Compliance with import standards -- especially in terms of pesticide residues and disease -- is another critical factor, as Guatemalan producers have learned. Failure to do so carries severe penalties. There are also technical constraints to successful export operations in that products must be properly cooled, stored, packed and shipped. Finally, managing export operations is a highly sophisticated field, requiring skilled managers and brokers. Rincon Grande's daily struggles with shipping problems, handling, clearances, and other administrative issues underscores the problems in this area. Guatemalan cooperatives have, so far, been reluctant to pay the salaries and incentives necessary to attract and hold personnel capable of carrying out these functions.

These constraints also provide business opportunities, however. Quality control, the need for proper packing and handling, and the managerial skills required to successfully export perishable products means that there is an indispensable need for intermediary services and a real value to be added through a centralized marketing facility. Individual farmers cannot perform these activities, and intermediary profits tend to be large.

3. Specialized Local Markets

The growth of export-oriented agricultural production has spawned at least two new internal markets that cooperatives may be better able to take advantage of. First, there has been a growth in local food processing -- especially freezing -- to offset the difficulties and risks of exporting perishable fruits and vegetables. At least one study in Rincon Grande indicated that the cooperative could earn profitable returns from marketing to local processors and avoiding the risks of direct exports. Second, there is a growing market in Guatemala for high quality fresh fruits and vegetables -- for hotels, restaurants and more sophisticated consumers. This market does pay a premium for high-quality produce.

Marketing strategies designed to take advantage of these two markets may establish a viable niche for the cooperatives and avoid the risks inherent in exporting fresh fruits and vegetables. The project needs to help the cooperatives identify feasible opportunities, assess risk, develop valid business plans, capitalize the operations and develop the managerial skills needed to operate viable marketing operations.

4. Summary of Marketing Opportunities

Unless a cooperative controls a key resource in the marketing chain (storage, cooling, contracts, transportation or cash), and unless there is a real value to be added to the product by the cooperative's activities, marketing programs are likely to fail. There appear to be sound business opportunities for cooperative enterprises in three major product groups -- traditional food crops produced for sale to local markets, fresh fruits and vegetables for export, and specialized local markets. Developing these opportunities will require a carefully coordinated plan of technical assistance, capital investments and training.

F. PRIORITY OF NON-TRADITIONAL AGRICULTURAL EXPORTS IN THE PROJECT

Guatemala appears to have a natural comparative advantage in the production of high-value-per-weight fruits, and vegetables for export to Central America, North America, and Europe. Climatic conditions and small farmer production patterns in the highlands are well suited to labor-intensive crops (such as broccoli or snow peas) which, having a relatively high water content, adapt well to the cool conditions. The lowland valleys, when irrigation is available, provide the hot, dry conditions appropriate for melons, onions, and tomatoes. The devaluation of the Quetzal, moreover, means increasing advantage in export as compared to local markets. Direct export of high value products, however, requires management ability, technical skills in production and marketing, and capitalization far beyond the ability of all but a very few of the present cooperatives.

Grain and traditional food crop production, on the other hand, is barely able to compete with imports and, at best, offers a marginal existence to small-scale producers. These are, however, essential subsistence crops for Guatemalan small farmers, who are primarily concerned with survival.

Between direct export and subsistence, is an intricate system of production and marketing in which subsistence and cash crops are grown together in many varieties of ways, and crops are marketed through a variety of channels. Surplus corn is sold on the local market; potatoes are sold to intermediaries for delivery to Guatemala City markets; sesame is sold to intermediaries for eventual export; lettuce is sold to markets in nearby communities; strawberries and broccoli can be sold to Guatemalan supermarkets or freezing plants; garlic is shipped to Panama or sold to French importers on an FOB Guatemala fixed-price basis; melons are sold to exporters under contract; cucumbers are sold to Miami brokers under a minimum price plus percentage basis; snow peas are sold to Miami brokers using another cooperative as packer, grader, and handler on a fixed fee basis; and strawberries are exported directly on a commission basis to Miami brokers using the cooperative's own packing and cooling facilities. The Cooperative Strengthening Project is not faced with a choice between a few simple alternative crops and markets, but rather with a system in which production and marketing involves many degrees of increasing sophistication.

The potential for higher returns to production and marketing are greater at higher levels of market sophistication. Generally, however, the higher up the ladder of market sophistication a cooperative is, the more likely it needs:

- -- adequate levels of capital to absorb losses due to market fluctuations;

- -- investment in processing facilities;

- -- highly effective management;

- -- sophisticated systems of market information;

- -- highly skilled technical staff in specialized production and post-harvest skills; and

- -- an internalized ability to analyze long-term changes in market opportunities.

These are the skills and capabilities that can only by developed through a intensive project intervention, usually as a package and over a relatively long timeframe. Furthermore, at higher levels of market sophistication, the risk of significant loss is considerable. The Cooperative Strengthening Project has been primarily concerned with the development of a stable institutional structure in which services (including productive and marketing services) can be effectively and profitably delivered to a large beneficiary group. The level of risk and intensity of resources needed in a program of direct assistance to a significant number of NTAE agribusiness cooperatives requires a major shift in emphasis and priorities and increase in technical resources.

The Project is limited, then, in its ability to provide assistance to a large number of agribusiness cooperatives engaged in direct export activities. It is appropriate for the project to make a policy of responding to initiatives taken by the cooperatives rather than promoting a specific market or crop, and to limit assistance to a restricted number of cooperatives. Assistance to non-traditional agricultural exports should be limited to providing assistance that can be leveraged by the proposed extension programs with FECOAR and FEDECOAG, market linkages with the private sector, or assistance provided other projects. The agribusiness cooperatives that have received previous assistance through the Agribusiness Project -- some of which have already developed capabilities in producing and marketing for export and need only limited assistance in internalizing the changes introduced in production, marketing, or management. Extending intensive assistance to a larger number of export-oriented cooperatives would be better suited to a separate project with a longer time frame, a clearly defined strategy for dealing with cooperative failure as a result of project assistance, and a financial assistance package more similar to venture capital than debt finance.

G. RECOMMENDED ASSISTANCE PROGRAM

1. Production Assistance

Production assistance needs to be tailored to the specific needs of three different types of cooperatives: *extensive, leveraged* programs in federated cooperatives whose members produce traditional crops for local markets; *intensive, specialized* programs for federated and independent cooperative producing non-traditional vegetables for export; and *direct, supervised* assistance for renovation of coffee lands and installation of the ANACAFE technology package for small coffee producers.

The specific elements of each include:

Traditional Crop Cooperatives Associated with Federations

1) Training in basic agricultural practices applicable to any crop;

2) Leveraging of extension services through the use of demonstration plots, agronomists hired by the federations and cooperatives, paratechnicians, and group training, and through linkages to ICTA, DIGESA, HAD-II, and other projects and agencies;

3) Introduction of cost-saving technology for staple crops, such as soil sampling to reduce fertilizer use and introduction of improved varieties;

4) Introduction of diversified crops in a cost-sharing program of demonstration plots to reduce risk to the farmer; and

5) Limited, carefully planned assistance in infrastructure development for storage, sorting and grading, packing and other low-technology processing facilities.

Federated and Independent Non-Traditional Export-Oriented Cooperatives

1) Specialized training and technical assistance in all aspects of crop production, especially in product quality standards and proper use of approved pesticides;

2) Specialized training and technical assistance in all related aspects of post harvest handling and processing;

3) Extensive assistance in management, accounting, pricing, and finance to run the cooperative as a business;

4) Help in identifying resources and developing business plans for major infrastructure development (cold storage facilities, pre-cooling, and packing sheds); and

5) Assistance should be leveraged as much as possible with assistance provided by other programs, such as PROEXAG, PRODAC, HAD-II, and the Gremial.

Coffee Technification

1) Training in all aspects of technification through a leveraged extension program of paratechnicians, demonstration plots, and group training;

2) Provision of closely-supervised medium-term credit with an adequate grace period on repayment of principal;

3) Development of nurseries for multiplication and distribution of improved variety plants; and

4) Assistance should be leveraged through the AID/ANACAFE Project.

2. Marketing Assistance

Marketing Assistance should be provided in two separate programs: a specific program of assistance to independent cooperatives producing non-traditional products, and a general program that will identify new market opportunities, develop market linkages, provide market information, and train cooperatives and their members in contracts, negotiations for all cooperatives.

Intensive Marketing Assistance to Export-Oriented Cooperatives

1) specialized, intensive training in post-harvest handling, processing, and packing;

2) Assistance in developing backward linkages to suppliers of raw material;

3) Training in management and administration as it relates to marketing and agribusiness;

4) Assistance in developing contacts with local brokers, processing plants and intermediaries;

5) Invitational travel to trade shows to make contacts with buyers.

Generalized Marketing Assistance

1) Identification of new market outlets through a series of studies, seminars, meetings, and interviews with cooperative members and agribusiness representatives;

2) Assistance in the development of market contacts and linkages

3) compilation and distribution of market information, including the characteristics and performance of alternative buyers, processors, and exporters;

4) Training in sales, contracts, and negotiations;

5) Coordination with the programs of production assistance, above, in the provision of complementary assistance in production of new high value crops.

ANNEX E.2

FINANCIAL AND ECONOMIC ANALYSIS

This annex analyzes the financial and economic impacts of the proposed Cooperative Strengthening Project (CSP). In particular, it assesses the Stabilization Fund component and the Credit component, as well as their relationship to and impact on cooperatives and members. Principle concerns include:

- -- Ability of project-supported cooperatives and federations to achieve financial self-sufficiency during the course of the project;
- -- Efficiency and effectiveness of proposed interventions (stabilization, credit, and technical assistance);
- -- Economic justification of the project; that is, will the project produce economically justifiable benefits for the targeted beneficiaries.

A. INTRODUCTION AND BACKGROUND

Prior to analyzing the CSP in financial and economic terms, it is important to understand the current economic situation under which it operates. Inflation has been low, traditionally, and kept under strict control. This year, inflation has accelerated to the point where the government is printing money to support spending programs. The Mission believes, however, once this turbulent period subsides, the government will be able to stabilize inflation at around 10 percent per year.

The banking system is evolving from a restricted, protected, and highly conservative environment, to a free-market environment. This evolution and removal of interest rate limitations have an effect on the project and its participants.

Historically stable (and overvalued), the quetzal lost parity with the dollar in the 1980s. Since 1985 the quetzal has fluctuated dramatically. Devaluing from 1:1 to a high of 4:1 in 1985, the currency stabilized at 2.7:1 for several years. During the past year, strong pressure on the quetzal has sent it spiraling from 2.78 to 4.3.

This analysis assumes inflation will moderate and continue in the range of 10 percent per year. Exchange rate stabilization is assumed at 4.5 for the remainder of the year. In 1991, currency is projected to depreciate at a rate of 10 percent per year.

B. STABILIZATION FUND COMPONENT

Described in detail in the body of this paper, the Stabilization Fund is designed to address the financial problems of the cooperatives through policy modification, training, reorientation and development of profitable member service programs, and provide financial resources to stabilize and rebuild lost net worth. By recapitalizing federation and cooperative balance sheets, the Stabilization Fund encourages the long-term self-sufficiency of the institutions by a) building morale and member expectations that they can pull through their financial crises and, more importantly b) improving the creditworthiness of participating institutions and thereby fostering relationships with independent financial institutions. Such relationships will facilitate the "graduation" process whereby federations or cooperatives can remain self-sufficient after the life of the project.

Issues to be resolved regarding this component include 1)Maintenance of value of the Fund, 2)Productive use or leveraging of the Fund, 3)Future of the Fund, and 4) Impact on Participating Institutions.

1. Maintenance of Value.

The following table depicts the amount of stabilization funds disbursed to date, as well as the estimated need for future disbursements:

TABLE 1

	Dollars (in millions)	Exchange Rate	Quetzales (in millions)
Actual Disbursed*	2.331	2.78	6.480
Estimated Additional	2.756	4.5**	12.402
TOTAL FUNDS	5.087	--	18.882

*It is important to note that the debts covered with the disbursements are quetzal denominated debts. The value and significance of these debts continue to decline as the quetzal continues to depreciate against the dollar.

**Estimated average exchange rate for 1990.

While Q18.882M is sufficient to cover the losses of the participating institutions, the project may wish to reconsider its current policy of converting the stabilization funds into high-yielding quetzal denominated funds. Q6.480M, worth $2.331M in mid-1989 are today worth $1.440M, using an average exchange rate of 4.5. This represents a 38 percent reduction in value.

Although dollar denominated funds do not earn as high a rate of return, can pose logistical problems, and might delay current stabilization implementation, they might be preferable to current quetzal funds. Table 1.1 (found at the end of this annex) compares the results of of converting incoming stabilization funds into quetzal denominated accounts (as is currently done) versus keeping new funds in an offshore dollar denominated trust account.

For the purposes of analysis, a 1990 exchange rate of 4.5:1 is assumed. The dollar fund is not initiated until the beginning of 1991, allowing for transaction delays. Dollar deposits earn 8 percent, quetzal deposits earn 18 percent. In scenario #1, local currency value depreciates at 10 percent per year, scenario #2, 15 percent, and scenario #3, 20 percent. In the last nine months, the quetzal has devalued by 55 percent. According to the formula the PMO uses, the Q12.402M estimated need will earn enough interest by the end of five years (1994) to write down the bad debt of the participating institutions and leave principal intact. In other words, by the end of 1994, the value of the stabilization fund must be Q24.8M in order to cover delinquent quetzal denominated debt.

A summary of Table 1.1 highlights the value of the fund under the three scenarios described above:

SUMMARY TABLE 1.1

Fund Value if $ Denominated	1990	1991	1992	1993	1994
Dollars (M) (unchanging)	2.756	2.976	3.215	3.472	3.750*
Quetzales (M)					
scen.#1	12.402	14.734	17.503	20.794	24.703
scen.#2	12.402	15.403	19.131	23.761	29.511
scen.#3	12.402	16.073	20.831	26.996	34.987

*Assumes annual interest compounding. The value will be higher if interest is compounded more frequently.

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Fund Value if Q denominated	1990	1991	1992	1993	1994
Quetzales (M) (unchanging)	12.402	14.634	17.269	20.377	24.045*
Dollars (M)					
scen.#1	2.756	2.956	3.171	3.402	3.650
scen.#2	2.756	2.828	2.902	2.977	3.055
scen.#3	2.756	2.710	2.665	2.620	2.577

*Assumes annual interest compounding. The value will be higher if interest is compounded more frequently.

If the quetzal depreciates by only 10 percent per year, either alternative is viable and acceptable. Both alternatives provide enough quetzal funds to cover estimated stabilization needs and leave principal intact. Leaving the funds in quetzal denominated funds will always generate enough quetzal funds under each scenario. The issue becomes the dollar value of the fund at the end of 1994 if depreciation exceeds 10 percent per year. The project must decide whether the losses in value experienced under scenarios 2 and 3 exceed the time and cost of setting up a dollar trust fund. If so, it should consider choosing the dollar option. If expectations regarding quetzal devaluation exceed 20 percent per year, the choice is clear.

2. **Productive Use of Funds.**

Evaluations of the project have correctly pointed out that the stabilization funds deposited in FIASA could be put to more productive use. The PMO is currently discussing options which address this criticism with FIPASA. One alternative under review is to create a guarantee facility, much like the Bureau for Private Enterprise's Private Sector Revolving Fund, to mobilize credit to the agricultural sector. Specifically, Fund deposits in FIPASA could be used to provide a 50 percent guarantee for a Q1.28M long-term coffee renovation loan to FEDECOVERA. (Even if the PMO pursues the dollar denominated account for incoming stabilization funds, there are more than sufficient original quetzal denominated funds to provide the leverage described here). The loan would renovate ten manzanas each in eight cooperatives. The advantages of this option are broad and significant:

-- It diversifies the impact that the project can achieve, from federation to farmer, by providing long-term investment lending to supplement the short-term capabilities of the credit component.

-- It builds a FEDECOVERA/ FIPASA relationship which would ensure "graduation" of the federation and ongoing access to credit. Access to market rate credit has a direct impact on cooperatives whose alternative sources of credit are often twice as costly.

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-- It mobilizes credit to a sector which has experienced a 43 percent decline in new loans since 1981.

-- It reduces the credit risk of direct lending by 50 percent!

-- It is in keeping with USAID guidance to utilize local counterparts.

Table 2 indicates the FEDECOVERA coffee renovation loan is financially feasible, with an expected payout of 6.5 years, using conservative assumptions of volume and cost improvements. The economic impact of the loan is discussed in section three of this annex.

3. Future of the Stabilization Funds.

There is no plan for the application or disbursement of these funds. Expectations have been raised among some participants that this money will be shared among them. Others are concerned the funds will be turned over to FENACOAC. Clearly the issue of the future of the funds must be addressed.

An option which could accomplish two goals (one economic/financial, the other psychological) is to create performance incentives whereby a seat is earned on the board that manages the fund. Such an option 1) encourages the progress toward well-managed, financially sound and economically profitable organizations via incentives, and 2) allays federation and cooperative speculation and misgivings about the future of the funds.

4. Impact on Participating Institutions.

The stabilization/ recapitalization program has had a positive impact on the organizations that have received funds to date--FENACOAC and FECOAR. At the end of 1989, Q244,984 in income generated from funds disbursed to FENACOAC had been applied to reserves. Earnings are capitalized, further strengthening the capital base. FENACOAC has written down Q800,000 of bad loans, resulting in a cleaner asset base. Capital is a higher percentage of total assets and the capital mix has been altered from high share capital to high reserves. The PMO expects this progress to continue.

Both FECOAR and six of its targeted cooperatives received stabilization funds in March 1989. Since then, FECOAR, who received Q1.0M in funds has generated a reserve of Q118,000 which will be used to write down bad debt. The cooperatives, who received Q2.4M in funds, have generated reserves of Q384,539 which will be applied to bad debt. Because no loans have been written down as of yet, the PMO should encourage compliance with the intent of the program which is to clean up the balance sheets of the participating institutions.

C. THE CREDIT COMPONENT

As highlighted in the body of the paper, credit serves as an important stage in the cooperative strengthening process. Currently, the credit component consists of $1.6M project funds and may be supplemented by Q2.5M local counterpart funds. Participating federations and cooperatives can access credit funds after complying with institutional development and stabilization conditions.

An essential aspect of the program, the component provides short-term working capital credit at market rates of interest and reduces the high cost of informal credit. By facilitating access to working capital and improving its efficiency, the project has a positive impact on the cooperatives' financial position and long-term self-sufficiency.

Unfortunately, necessarily rigid guidelines whereby credit is disbursed have resulted in no credit extension to date. As the project proceeds, it will be important to shift focus from commercial lending guidelines to development lending guidelines. In other words, due to the high risk nature of the loans, and past performance record, the project must be prepared to accept losses of up to 20 percent. The PMO can pursue a number of alternatives in order to plan for losses. Loan loss reserves of 20 percent can be assumed in analyses of credit extension (as in the coffee renovation loan discussed here), a reserve account could be funded out of stabilization funds, or, a higher loss expectation could be built into the interest charged to federations.

None of the developmental impact envisioned by the project can be achieved without disbursement of funds. There can be no production and marketing assistance, no coffee renovation. Indeed the overall project cannot be considered viable without disbursement of funds, as none of the economic benefits can be realized. Recognizing this, the PMO is negotiating lending possibilities with FECOAR and FEDECOVERA, and is assessing credit potential in other federations and cooperatives.

Tables 2(FEDECOVERA), 3(FECOAR), 4(ARTEXCO), 5(FENACOAC), and 6(FEDECOAG), found in the back of this annex, analyze the historical and projected financial condition of the participating federations, in order to determine financial sustainability, self-sufficiency, creditworthiness, and credit demand. By becoming more familiar with participant credit needs, the PMO can begin accelerating the extension of credit.

1. FEDECOVERA.

Table 2 examines the financial sustainability and self- sufficiency of the federation if it assumes a Q1.28M loan for coffee renovation (Q16,000 of credit per manzana x 80 manzanas). Assuming the full effects of the renovation are evident in 1993, and taking the conservative approach that no cost improvements are realized as a result of renovation, FEDECOVERA is able to service and amortize the debt over an estimated 6.5 year period. The assumed rate of interest on the debt is 23 percent and recuperation of interest from cooperatives is 80 percent--a 20 percent default rate. The only year that FEDECOVERA is not a net cash generator is 1990 when a 50 percent cooperative default rate is assumed, due primarily to lags in collection of interest at the onset of the project. For the period 1990 to 1994, the project shows a positive net present value (NPV) of Q206M at a 20 percent discount rate.

SUMMARY TABLE 2
FEDECOVERA

(Q000s)	1990	1991	1992	1993	1994
Sales	3097	3514	4190	5505	6055
Net Income	38	71	95	131	152
Cash Flows	-65	97	50	117	182

Whether the coffee renovation project is initiated via a stabilization fund guarantee or the credit component, it is financially feasible. Moreover, it improves the ongoing self-sufficiency of the federation as intake from the 10 percent marketing commission doubles over the life of the project. Because the cooperatives are run as collective farms, the remainder of net income benefits goes directly to the farmers. (See Tables 8 and 9).

It is possible that credit demand in FEDECOVERA will exceed the Q1.28M as coffee renovation is expanded in these cooperatives and extended to others. If only 100 additional manzanas are renovated, credit demand will increase by Q1.6M. Further, the PMO is currently negotiating a Q1.0M bridge loan to finance inventory.

2. FECOAR.

Table 3 demonstrates the projected financial position for the federation, based on the technical assistance package outlined in the Technical Analysis Annex. If the project introduces farmers to a technology package that will likely increase sales, productivity, income, and their use of supplies, the cooperative will sell more. Improvements will be reflected at the federation level. The technical assistance should also improve inventory management and help control costs. If the cooperatives benefit as suggested, the federation's loan recovery rate should improve. If this happens, self-sufficiency is enhanced.

SUMMARY TABLE 3
FECOAR

(Q000s)	1990	1991	1992	1993	1994
Sales	4325	4973	5719	6577	7563
Net Income	269	297	325	419	456
Cash Flows	439	159	134	157	114

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For the purposes of analysis of the federation's self-sufficiency and creditworthiness, real sales growth of 5 percent is assumed. No cost control improvements are realized until 1993, and no loan recovery rate improvement is introduced. Based on these conservative assumptions, FECOAR generates positive cash flows during the period 1990 to 1994. At a discount rate of 20 percent, NPV is Q811M. Projected cash flows indicate that FECOAR could service a Q1.0M working capital credit line at market interest rates.

3. ARTEXCO.

Artexco's sales have grown 4700 percent since 1985, as shown in Table 4. While there is no justification for projecting such continued growth, it is rational (based on improved client contact mechanisms, stable foreign demand for Guatemalan textiles, emphasis on production and marketing, and the introduction of export quality dyed yarn) to assume real sales growth of 5 to 8 percent per annum. Although ARTEXCO has received donations in the past, this analysis projects no income-supporting donations.

SUMMARY TABLE 4
ARTEXCO

(Q000s)	1990	1991	1992	1993	1994
Sales	1288	1546	1855	2226	2671
Net Income	159	206	266	341	409
Cash Flows	135	142	191	253	305

Without donations, and with conservative growth assumptions, ARTEXCO is a financially self-sustaining enterprise. Its creditworthiness suggests lending on the local level to finance materials or at the federation level to increase dye plant capacity. Cash flow projections with an NPV of Q679M (at a 20 percent discount rate) indicate ARTEXCO could service a O1.0M working capital line at market rates of interest.

4. FENACOAC.

In close collaboration with the PMO, FENACOAC, a recipient of stabilization funds, has taken major policy decisions in the areas of restructuring capitalization, paying higher interest on savings, reducing dependency on external capital, mobilizing internal savings, and raising interest rates on loans.

Table 5 projections, based closely on PMO and federation expectations demonstrate FENACOAC's efforts in these areas. Liquidity remains high throughout the period 1990 to 1994 as the federation focuses on becoming

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liquidity managers for the credit union movement. Demand deposits increase as a percentage of liabilities plus capital. At a minimum, deposits are expected to increase by the amount of long-term bank loan amortization. This shift from low-interest bearing share capital to market raté deposits has a significant, positive impact on farmer income.

On the other side of the balance sheet, the project's direction is to encourage farm lending at market interest rates. The farmer benefits by having access to cheaper funds. Informal , "middleman" rates are often as high as 70 percent.

The indicators of a financially sustainable and self-sufficient credit union include:

-- loanable funds at competitive interest rates

-- low loan delinquency rates

-- demand deposits paying market rates

Table 5 suggests FENACOAC is moving to accomplish these as well as other goals, with PMO guidance. In addition to the above, the project is encouraging FENACOAC to increase interest rates on share capital (positively affecting farmer income), and create local independents.

<u>SUMMARY TABLE 5</u>
FENACOAC

(Q000s)	1990	1991	1992	1993	1994
Interest Income	2212	2467	2316	2107	2206
Net Margin	86	213	209	112	183
Cash Flows	-972	-272	320	59	-305

Although projections indicate fluctuations in FENACOAC's net cash position and a negative NPV and IRR, the federation generates positive net income in each year. FENACOAC provides an essential alternative to the farmer. This alone warrants continued project guidance and assistance which should improve self-sufficiency as well as long-term sustainability.

5. **FEDECOAG.**

Table 6 summarizes FEDECOAG's historical and pro forma financial condition. In the past, the federation has relied heavily on donations. The negative cash and securities line on the balance sheet indicates FEDECOAG's operating shortfall and continued reliance on outside support. Clearly, financial sustainability and self-sufficiency remain an issue at the federation level.

SUMMARY TABLE 6
FEDECOAG

(Q000s)	1990	1991	1992	1993	1994
Sales	197	227	268	316	373
Net Income	7	7	8	8	9
Cash Flows	-296	-304	-309	-358	-415

Indeed, joint PMO/ FEDECOAG projections suggest the federation does not become solvent until 2001. Because FEDECOAG has no advantage in developing sales, no commercial department, no advantage in fertilizer, and a large debt burden, the project should focus its efforts on select cooperatives, as outlined in the Technical Analysis Annex. The economic impact of the technical assistance program on a representative cooperative is discussed in section D of this annex.

In the short run, the Cooperative Strengthening Program is not likely to have a positive impact on the federation's income potential. Consistently negative net cash flows and negative NPV and IRR deem the federation non-creditworthy under program guidelines. Demand for credit may arise if FEDECOAG pursues a fertilizer joint venture with Chiquita. The project should consider lending from the credit component only if it can secure a mortgage on FEDECOAG's building which earns Q100,000 per year in rent. The project estimates that demand for cooperative directed credit might exceed Q1.7M.

Table 7 of next page demonstrates the current status/sufficiency of the credit component.

TABLE /

	Credit Demand/Capacity (in millions of quetzales)	% of Component
FEDECOVERA*	3.9	51
FECOAR	1.0	13
ARTEXCO	1.0	13
FENACOAC	---	---
FEDECOAG	1.7	23
FEDECOCAGUA	to be determined	---
FECOMERC	to be determined	---
NON-AFFIL. COOPS.	to be determined	---
TOTAL NEED	7.6	100
TOTAL FUND**	7.6	100
EXCESS/DEFICIENCY	---	---

*Includes 1)coffee renovation loan of Q1.28M which may be mobilized by stabilization fund guarantee, 2) additional renovation loan of Q1.6M, and 3) bridge loan of Q1.0M.

**$1.8M of project credit component at exchange rate of 4.2.

Until additional lending opportunities are identified and the component marketed, the current credit component is sufficient to cover estimated credit needs. In the meantime, the PMO should continue to seek productive credit opportunities that will have a positive impact on federations, cooperatives, and farmers, and improve prospects for long-term sustainability and self-sufficiency.

D. ECONOMIC IMPACTS.

The project, as designed, has a positive economic impact on farmers in the following ways:

-- Renovating coffee production

-- Facilitating access to market rate credit

-- Technical assistance programs which a)improve traditional crop production, b)shift production from lower to higher yielding crops, and c)target marketing to higher paying sources.

l. **Coffee Renovation.**

Table 8 highlights the benefits to the cooperative and farmer resulting from the renovation of 10 manzanas of land, currently yielding 14.2 quintales per manzana at $70 per quintal. Under the project, farmer income increases by 22 percent. IRR is 54.7 percent. Table 9 uses the same methodology but substitutes a price which is 15 percent below the original price of $70. This sensitivity analysis tests the project if coffee prices continue to fall. Even with a 15 percent drop in price, table 9 shows an increase in farmer income of 15 percent and an IRR of 35.4 percent.

TABLE 8

	Renovated					Non-Renov.	TOTAL
Year	Manzanas	Yield	Price #1	Total Revenue	Net * Income	Net Income	Net Bene-fit**
1	10	14.2	70	9940	-916	2584	-3500
2	10	19.2	70	13440	392	2584	-2192
3	10	29.2	70	20440	4242	2584	1658
4	10	40	70	28000	8400	2584	5816
5	10	40	70	28000	8400	2584	5816
6	10	40	70	28000	8400	2584	5816
7	10	40	70	28000	8400	2584	5816
8	10	40	70	28000	8400	2584	5816
9	10	40	70	28000	8400	2584	5816
10	10	40	70	28000	8400	2584	5816

IRR = 54.8%

*Note that net income includes full servicing of interest expense.

**Distributed equally among 136 active members, $5816 represents a 22 percent increase in annual farmer income, assuming an average daily wage of Q3.2.

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TABLE 9

	Renovated					Non-Renov.	TOTAL
Year	Manzanas	Yield	Price #2	Total Revenue	Net * Income	Net Income	Net Bene-fit**
1	10	14.2	60	8520	-1285	2215	-3500
2	10	19.2	60	11520	-664	2215	-2879
3	10	29.2	60	17520	2636	2215	421
4	10	40	60	24000	6200	2215	3985
5	10	40	60	24000	6200	2215	3985
6	10	40	60	24000	6200	2215	3985
7	10	40	60	24000	6200	2215	3985
8	10	40	60	24000	6200	2215	3985
9	10	40	60	24000	6200	2215	3985
10	10	40	60	24000	6200	2215	3985

IRR = 35.4%

*Note that net income includes full servicing of interest expense.

**Distributed equally among 136 active members, $3985 represents a 15 percent increase in annual farmer income.

2. Access to Credit.

As discussed in section C, the project has a positive impact on the farmer's income, and, therefore, on his self-sufficiency, by providing a vehicle for accessing credit at market interest rates. The project achieves this both by encouraging FENACOAC to follow such policy guidance and by extending credit via the credit component. The informal financial sector provides loans at 5 to 10 percent interest per month, depending on the size of the loan. Access to market rate loans of 25 to 30 percent per annum can save the farmer 50 to 75 percent on interest costs.

TABLE 10

	Informal (50%) Interest Paid	Market (25%) Interest Paid
Project Credit Line - Q7.56M	Q3.78M	Q1.89M
FARMER SAVINGS	---	Q1.89M

The Q1.89M or $450,000 savings to farmers is substantial. As important, the access to less expensive credit enables the farmer to pursue opportunities previously out of raech due to the high cost of credit. The farmers realize dual economic benefits.

3. Technical Assistance.

Although the project does not expect to have a significant impact on FEDECOAG at the federation level, it can improve the economic well-being and self-sufficiency of the farmers if it focuses its program at the cooperative level. A participation agreement has been reached between Casvachi and the PMO. The project anticipates that by targeting assistance to Casvachi in the areas of

-- Marketing: what to produce and when

-- Production: use of proper fertilizers for given types of soil

-- Training: implementation of sound business management practices

the volume of Casvachi's agricultural sales can increase by 15 percent and costs can be reduced by 4 percent. Table 11 outlines how the program affects the farmer.

TABLE 11

Casvachi (agricultural component isolated)

	Before Project		With Project	
(Q000s)	1989	% sales	1990	% sales
Sales	801.4	100	921.6	100
CGS	729.0	91	803.3	87
Gr.Profit	72.4	9	118.3	13
Op. Expense	40.7	5	47.0	5
Op. Profit	31.7	4	71.3	8

Increase in benefits to the 84 member cooperative is Q39,600 or $9429.

Increase in benefits to the farmer is Q471 or $112, representing a 36 percent increase in farmer annual income.

Another cooperative which will benefit from technical assistance is Rey Quiche (FECOAR). Currently, 85 percent of the cooperative's production is in basic grains, the remaining 15 percent in traditional vegetables. By improving traditional crop production and yield by 15 percent and reducing costs by 4 percent, the cooperative might see the following improvements in financial condition:

TABLE 12
Rey Quiche

	Before Project		With Project	
(Q000s)	1989	% sales	1990	% sales
Sales	592	100	681	100
CGS	529	89	578	85
Gr.Profit	63	11	103	15
Op. Expense	63	11	72	11
Op. Profit	0	0	31	4.6

Increase in annual benefits to the cooperative is Q31,000 or $7380.

A number of cooperatives have been targeted for this and other types of technical assistance programs. The program expects all participating farmers will enjoy economic benefits as a result of these programs.

E. CONCLUSION.

The Cooperative Strengthening Project continues to operate in an environment of economic turbulence. As it manages under a volatile economy, the project must make choices that:

-- Maximize the efficiency an effectiveness of the Stabilization Fund Credit Component, and Technical Assistance;

-- Enhance the ability of project participants to achieve self-sufficiency; and

-- Produce economically justifiable benefits for the targeted beneficiaries.

To attain and maintain the goals of the Stabilization Fund, the PMO must consider the problem of maintenance of value in an environment of

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consistent currency devaluation. In an effort to leverage the Fund, the project should pursue options such as a guarantee facility which could mobilize long-term credit. To allay speculation about the Fund, the PMO should determine the Fund's future as soon as possible. Finally, the PMO should regularly monitor and assess the impact the stabilization program is having, and make modifications accordingly. If the project resolves some of these issues, the stabilization program can continue to meet with the kinds of successes it has in FENACOAC and FECOAR.

Projections on credit demand/capacity in the five federations indicate the $1.8M (Q7.6M) is sufficient for anticipated needs. The PMO faces the issue that the project has not yet extended credit and realizes the project cannot achieve envisioned developmental impact until it does so. Lending opportunities (in addition to those currently under negotiation with FECOAR and FEDECOVERA) need to be identified and marketed, and the component put to productive use. Credit continues to be an essential aspect of the project as it provides the farmer with an alternative to costly informal sector credit.

According to projections, four of the five federations are self-sufficient. All but FEDECOAG generate positive net income throughout the life of the project. Assuming the technical assistance packages are successful and sustainable, the participants should continue to produce positive results beyond the life of this project. Net cash flows, also an indicator of self-sufficiency, are consistent and positive for FEDECOVERA, FECOAR, and ARTEXCO, volatile for FENACOAC, and negative for FEDECOAG. An extensive recapitalization program accounts for much of the FENACOAC volatility. In the case of FEDECOAG, the PMO has decided to target its efforts at improving the self-sufficiency of member cooperatives.

The project has a positive economic impact on farmers on several different levels by:

-- Renovating coffee production

-- Facilitating access to market rate credit

-- Implementing technical assistance programs

The project anticipates some of these programs will increase farmer income by as much as 36 percent. The savings on interest over informal rates will allow farmers to pursue opportunities before deemed too costly. All components of the project--Stabilization, Credit, and Technical Assistance--can have a significant economic impact on federations, cooperatives, and farmers.

The remaining issue for the PMO will be to galvanize and coordinate all of the project initiatives so that these benefits are realized.

TABLE 2: FEDECOVERA HISTORICAL

INCOME STATEMENT (Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Sales	2028.29	2749.22	3945.90	2758.88	2815.15
CGS	1943.52	2713.61	3945.89	2779.85	2815.15
Gross Profit	84.77	35.62	0.01	-20.97	0.00
Operating Expense	331.18	294.25	281.44	277.28	243.11
Operating Profit	-246.41	-258.64	-281.43	-298.25	-243.11
Interest Expense	-27.12	-20.10	0.00	0.00	0.00
Interest Income	11.48	30.72	13.13	23.64	5.79
Inc.bef Xtra items	-262.05	-248.02	-268.30	-274.60	-237.31
Maint.Fees & Non-Op	210.58	405.75	507.70	390.16	333.18
Net Income	-51.47	157.73	239.40	115.56	95.87

BALANCE SHEET *(Q 000s)*					
Cash	302.17	174.53	723.14	91.50	151.72
Accounts Rec.	552.94	945.36	1870.89	4109.19	3906.64
Inventory	112.16	86.23	395.32	119.86	116.40
Total Curr Assts	967.28	1206.12	2989.35	4320.55	4174.75
PP&E	65.45	69.49	74.82	80.25	78.45
less:depr	-33.82	-45.70	-55.40	[illegible]	[illegible]
Total Fixed Assets	31.63	23.79	19.41	18.49	9.75
Def&Oth LT Assets	32.06	34.09	33.26	31.18	31.18
Total LT Assets	63.69	57.89	52.67	49.66	40.93
TOTAL Assets	1030.97	1264.01	3042.02	4370.22	4215.68
Accounts Payable	597.31	479.07	476.40	722.36	963.25
Total Curr Liab	597.31	479.07	476.40	722.36	963.25
LT Bank Loans	0.00	0.00	1285.00	1965.00	1464.04
Other LT Liab	309.51	522.91	779.19	1080.70	1240.98
Total LT Liab	309.51	522.91	2064.19	3045.70	2705.03
TOTAL Liabilities	906.82	1001.98	2540.59	3768.06	3668.28
Capital	104.16	104.30	382.29	448.35	510.16
Accum Ret Earn	19.99	157.73	119.14	153.81	37.24
TOTAL Equity	124.15	262.03	501.43	602.16	547.40
Liab + Equity	1030.97	1264.01	3042.02	4370.22	4215.68

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TABLE 2: FEDECOVERA PROJECTIONS

INCOME STATEMENT *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
Sales	2815.15	3096.66	3514.33	4189.76	5504.74	6055.21
CGS	2815.15	3096.66	3514.33	4189.76	5504.74	6055.21
Gross Profit	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expense	243.11	247.73	281.15	335.18	440.38	484.42
Operating Profit	-243.11	-247.73	-281.15	-335.18	-440.38	-484.42
Interest Expense	0.00	-147.20	-294.40	-294.40	-294.40	-294.40
Interest Income	5.79	73.60	235.52	235.52	235.52	235.52
Inc.bef Xtra items	-237.31	-321.33	-340.03	-394.06	-499.26	-543.30
Commission&NonOp	333.18	359.67	411.43	488.98	630.47	695.52
Net Income	95.87	38.33	71.41	94.92	131.21	152.22

BALANCE SHEET *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
Cash	151.72	86.55	183.53	233.88	350.49	532.86
Accounts Rec.	3906.64	4273.40	4568.63	5027.72	5669.88	6061.27
Inventory	116.40	123.87	140.57	167.59	220.19	242.21
Coffee Tech Asset	0.00	1280.00	1280.00	1280.00	1280.00	1280.00
Total Curr Assts	4174.75	5763.81	6172.73	6709.19	7520.56	8116.34
PP&E	78.45	78.45	78.45	78.45	78.45	78.45
less:depr	-68.70	-75.57	-78.45	-78.45	-78.45	-78.45
Total Fixed Assets	9.75	2.88	0.00	0.00	0.00	0.00
Def&Oth LT Assets	31.18	32.00	32.00	32.00	32.00	32.00
Total LT Assets	40.93	34.88	32.00	32.00	32.00	32.00
TOTAL Assets	4215.68	5798.70	6204.74	6741.19	7552.57	8148.34
Accounts Payable	963.25	1052.87	1194.87	1424.52	1871.61	2058.77
Total Curr Liab	963.25	1052.87	1194.87	1424.52	1871.61	2058.77
LT Bank Loans	1464.04	1464.00	1464.00	1464.00	1464.00	1464.00
Coffee Tech.Loan	0.00	1280.00	1280.00	1280.00	1280.00	1280.00
Other LT Liab	1240.98	1365.08	1501.59	1651.75	1816.93	1998.62
Total LT Liab	2705.03	4109.08	4245.59	4395.75	4560.93	4742.62
TOTAL Liabilities	3668.28	5161.95	5440.46	5820.27	6432.54	6801.39
Capital	510.16	561.17	617.29	679.02	746.92	821.61
Accum Ret Earn	37.24	75.58	146.98	241.90	373.11	525.34
TOTAL Equity	547.40	636.75	764.27	920.92	1120.04	1346.95
Liab + Equity	4215.68	5798.70	6204.74	6741.19	7552.57	8148.34

TABLE 3: FECOAR HISTORICAL

INCOME STATEMENT *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Sales	2681.59	4467.19	3403.49	3311.07	3760.44
CGS	2620.70	3989.32	3049.64	2819.01	3574.20
Gross Profit	60.90	477.87	353.85	492.07	186.24
Operating Expense	196.24	206.05	305.15	402.51	389.90
Operating Profit	-135.34	271.83	48.69	89.56	-203.66
Interest Expense	-155.59	-217.23	-227.90	-301.43	-376.58
Interest Income	384.60	459.70	412.69	493.83	638.71
Inc.bef Xtra items	93.67	514.29	233.48	281.97	58.47
NonOp Items	-5.29	-12.72	9.03	4.76	-15.02
Reserve Accounts	-30.00	-412.61	-190.45	-194.43	-10.86
Net Income	58.38	88.97	52.06	92.30	32.59

BALANCE SHEET *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Cash	32.64	135.94	103.61	96.59	16.74
Accounts Rec.	0.00	19.57	1.04	6.75	49.09
Inventory	3050.68	5344.93	2296.50	4128.26	2744.67
Reserve	-64.28	-160.61	-285.00	-321.60	-269.69
ST Loans	2004.91	2032.91	2379.41	2024.90	4510.47
Reserve	-312.12	-509.73	-523.47	-571.23	-571.23
Interest Rec.	107.38	112.88	129.82	122.88	144.02
Reserve	-102.98	-96.31	-93.06	-89.89	-86.54
ST Investments	2235.56	435.44	3274.94	1647.47	6764.31
Other Curr. Assets	33.16	54.51	68.79	93.73	180.99
Total Curr Assts	6984.94	7369.53	7352.57	7137.86	13482.84
LT Investments	45.00	45.00	45.00	45.00	[illegible]
PP&E	770.44	770.44	992.83	987.60	1139.99
less:depr	-135.52	-153.99	-172.08	-184.49	-205.47
Total Fixed Assets	634.92	616.45	820.75	803.11	934.52
LT Loans	1448.22	932.81	936.63	1601.17	1405.56
Def&Oth LT Assets	581.35	1.85	1.07	1.08	100.01
Total LT Assets	2709.48	1596.11	1803.51	2450.36	2485.10
TOTAL Assets	9694.42	8965.64	9156.08	9588.22	15967.94
ST Bank Loans	1567.35	2073.49	2253.57	2426.65	2642.09
Stabiliz. Funds	0.00	0.00	0.00	0.00	3400.00
Accounts Payable	1497.60	293.67	72.38	133.71	2747.21
Interest Payable	430.99	581.27	732.79	751.23	874.06
Other ST Liab.	68.32	76.63	74.51	98.36	176.17
Total Curr Liab	3564.27	3025.07	3133.25	3409.94	9839.52
LT Bank Loans	3853.95	3292.63	3174.65	2918.09	2633.32
Deferred Liab.	202.07	305.73	357.61	363.98	401.57
Total LT Liab	4056.02	3598.36	3532.26	3282.07	3034.89
TOTAL Liabilities	7620.28	6623.42	6665.52	6692.02	12874.41

INCOME STATEMENT *(Q 000s)*	FY1989	P1990	P1991	1992	P1993	P1994
Sales	3760.44	4324.50	4973.18	5719.16	6577.03	7563.58
CGS	3574.20	3892.05	4475.86	5147.24	5853.56	6731.59
Gross Profit	186.24	432.45	497.32	571.92	723.47	831.99
Operating Expense	389.90	432.45	497.32	571.92	657.70	756.36
Operating Profit	-203.66	0.00	0.00	0.00	65.77	75.64
Interest Expense	-376.58	-340.66	-312.66	-284.66	-256.66	-228.66
Interest Income	638.71	630.00	630.00	630.00	630.00	630.00
Inc.bef Xtra items	58.47	289.34	317.34	345.34	439.11	476.97
NonOp Items	-15.02	-10.00	-10.00	-10.00	-10.00	-10.00
Reserve Accounts	-10.86	-10.00	-10.00	-10.00	-10.00	-10.00
Net Income	32.59	269.34	297.34	325.34	419.11	456.97

BALANCE SHEET *(Q 000s)*						
Cash	16.74	455.82	615.08	749.36	906.85	1020.66
Accounts Rec.	49.09	43.25	49.73	57.19	65.77	75.64
Inventory	2744.67	3027.15	3481.23	4003.41	4603.92	5294.51
Reserve	-269.69	-302.72	-348.12	-400.34	-460.39	-529.45
ST Loans	4510.47	4500.00	4500.00	4500.00	4500.00	4500.00
Reserve	-571.23	-567.00	-567.00	-567.00	-567.00	-567.00
Interest Rec.	144.02	144.00	164.00	164.00	164.00	164.00
Reserve	-86.54	-86.40	-98.40	-98.40	-98.40	-98.40
ST Investments	6764.31	6764.00	6764.00	6764.00	6764.00	6764.00
Other Curr. Assets	180.99	199.09	219.00	240.90	264.99	291.49
Total Curr Assts	13482.84	14177.20	14779.52	15413.12	16143.74	16915.45
LT Investments	45.00	45.00	45.00	45.00	45.00	45.00
PP&E	1139.99	1253.99	1379.39	1517.33	1669.06	1835.97
less:depr	-205.47	-226.01	-248.61	-273.48	-300.82	-330.91
Total Fixed Assets	934.52	1027.98	1130.77	1243.85	1368.24	1505.06
LT Loans	1405.56	1405.00	1405.00	1405.00	1405.00	1405.00
Def&Oth LT Assets	100.01	0.00	0.00	0.00	0.00	0.00
Total LT Assets	2485.10	2477.98	2580.77	2693.85	2818.24	2955.06
TOTAL Assets	15967.94	16655.17	17360.29	18106.97	18961.98	19870.51
ST Bank Loans	2642.09	2842.09	3042.09	3242.09	3442.09	3642.09
Stabiliz. Funds	3400.00	3400.00	3400.00	3400.00	3400.00	3400.00
Accounts Payable	2747.21	2884.57	3028.80	3180.24	3339.25	3506.22
Interest Payable	874.06	896.82	896.82	896.82	896.82	896.82
Other ST Liab.	176.17	193.78	213.16	234.48	257.92	283.72
Total Curr Liab	9839.52	10217.26	10580.87	10953.63	11336.09	11728.84
LT Bank Loans	2633.32	2433.32	2233.32	2033.32	1833.32	1633.32
Deferred Liab.	401.57	441.73	485.91	534.50	587.95	646.74
Total LT Liab	3034.89	2875.05	2719.22	2567.81	2421.26	2280.06
TOTAL Liabilities	12874.41	13092.31	13300.09	13521.44	13757.35	14008.90
Capital	3050.07	3250.07	3450.07	3650.07	3850.07	4050.07
Accum Ret Earn	43.45	312.79	610.12	935.46	1354.57	1811.54
TOTAL [illegible]	[illegible]	3562.86	[illegible]	[illegible]	[illegible]	5861.61

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TABLE 4: ARTEXCO HISTORICAL

INCOME STATEMENT *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Sales	22.44	28.67	367.01	988.60	1073.41
CGS	21.64	24.69	266.29	690.09	712.91
Gross Profit	0.80	3.98	100.72	298.51	360.50
Operating Expense	17.16	46.62	99.03	170.25	254.20
Operating Profit	-16.36	-42.64	1.70	128.26	106.30
Interest Expense	-2.89	-3.84	-3.61	-3.43	0.00
Interest Income	5.13	11.94	22.04	23.46	18.09
Inc.bef Xtra items	-14.12	-34.54	20.13	148.29	124.39
NonOp Items	18.42	134.90	-12.16	-62.77	-21.91
Donations	8.76	12.20	25.34	39.59	22.35
Net Income	13.06	112.55	33.31	125.12	124.82

BALANCE SHEET *(Q 000s)*					
Cash	9.18	201.84	213.57	359.52	299.91
Accounts Rec.	46.78	65.14	144.77	205.64	278.94
Inventory	10.81	12.98	11.74	92.70	195.23
Total Curr Assts	66.76	279.97	370.08	657.85	774.09
PP&E	34.88	35.17	100.91	120.46	177.81
less:depr	-14.98	-7.35	-10.31	-17:99	-24.60
Total Fixed Assets	19.90	27.83	90.60	102.47	153.22
Def&Oth LT Assets	3.72	4.17	16.14	4.76	5.64
Total LT Assets	23.62	32.00	106.74	107.24	153.85
TOTAL Assets	90.38	311.97	476.82	765.10	932.94
Accounts Payable	11.89	8.86	40.21	76.93	55.26
Total Curr Liab	11.89	8.86	40.21	76.93	55.26
LT Bank Loans	37.33	25.78	22.03	22.03	0.60
Deferred Liab.	0.32	0.24	4.99	0.00	0.00
Total LT Liab	37.65	26.03	27.02	22.03	0.60
TOTAL Liabilities	49.54	34.89	67.22	98.96	55.86
Capital	8.50	57.40	71.50	128.65	190.50
Donations	122.04	196.82	281.93	355.98	378.17
Accum Ret Earn	-89.70	22.85	56.16	181.51	308.40
TOTAL Equity	40.84	277.08	409.60	666.14	877.08
Liab + Equity	90.38	311.97	476.82	765.10	932.94

CASH FLOWS *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
	6.53	192.66	11.73	145.95	-59.61

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TABLE 4: ARTEXCO PROJECTIONS

INCOME STATEMENT *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
Sales	1073.41	1288.09	1545.71	1854.85	2225.82	2670.98
CGS	712.91	837.26	989.25	1168.55	1380.01	1656.01
Gross Profit	360.50	450.83	556.45	686.29	845.81	1014.97
Operating Expense	254.20	305.04	366.05	439.26	527.11	632.53
Operating Profit	106.30	145.79	190.41	247.04	318.70	382.44
Interest Expense	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income	18.09	12.88	15.46	18.55	22.26	26.71
Inc.bef Xtra items	124.39	158.67	205.86	265.58	340.96	409.15
NonOp Items	-21.91	0.00	0.00	0.00	0.00	0.00
Donations	22.35	0.00	0.00	0.00	0.00	0.00
Net Income	124.82	158.67	205.86	265.58	340.96	409.15

BALANCE SHEET *(Q 000s)*						
Cash	299.91	435.36	577.42	767.96	1020.49	1325.27
Accounts Rec.	278.94	334.90	401.88	482.26	578.71	694.46
Inventory	195.23	231.86	278.23	333.87	400.65	480.78
Total Curr Assts	774.09	1002.12	1257.53	1584.09	1999.85	2500.50
PP&E	177.81	191.15	205.49	220.90	237.47	255.28
less:depr	-24.60	-27.06	-29.76	-32.74	-36.01	-39.62
Investments	0.00	0.00	0.00	0.00	0.00	0.00
Total Fixed Assets	153.22	164.09	175.72	188.16	201.45	215.66
Def&Oth LT Assets	5.64	6.75	6.75	6.75	6.75	6.75
Total LT Assets	158.85	170.84	182.47	194.91	208.20	222.41
TOTAL Assets	932.94	1172.96	1440.00	1779.00	2208.05	2722.91
Accounts Payable	55.26	77.29	92.74	111.29	133.55	160.26
Interest Payable	0.00	0.00	0.00	0.00	0.00	0.00
Total Curr Liab	55.26	77.29	92.74	111.29	133.55	160.26
LT Bank Loans	0.60	0.00	0.00	0.00	0.00	0.00
TOTAL Liabilities	55.86	77.29	92.74	111.29	133.55	160.26
Capital	190.50	228.60	274.32	329.19	395.02	474.03
Donations	378.17	400.00	400.00	400.00	400.00	400.00
Subsidies	0.00	0.00	0.00	0.00	0.00	0.00
Accum Ret Earn	308.40	467.07	672.93	938.52	1279.48	1688.63
TOTAL Equity	877.08	1095.67	1347.26	1667.70	2074.50	2562.66
Liab + Equity	932.94	1172.96	1440.00	1779.00	2208.05	2722.91

CASH FLOWS *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
	-59.61	135.45	142.06	190.54	252.53	304.78

NPV Discount rate	NPV
15.0%	743.4
20.0%	679.3

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TABLE 5: FENACOAC HISTORICAL

INCOME STATEMENT *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Interest Income	947.72	1100.86	1979.60	2144.16	2251.16
Interest Expense	299.02	431.23	898.09	964.35	996.19
Gross Margin	648.70	669.63	1081.51	1179.80	1254.97
Non-Interest Inc.	327.75	414.64	491.78	689.11	739.35
Non-Interest Exp.	242.26	183.26	339.47	473.98	470.51
Admin. Expense	572.47	646.51	784.20	814.11	877.28
Operating Margin	161.72	254.52	449.62	580.82	646.53
Res/Doubt.Debt	-147.79	-139.17	-217.88	-265.35	-175.10
Non-Op Items	2.65	-104.86	-94.85	-157.03	-197.08
Net Margin	16.58	10.49	136.90	158.45	274.35

BALANCE SHEET *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Cash/Market. Sec.	4106.01	10764.89	11678.83	13142.89	12852.64
Accounts Rec.	530.66	617.31	672.14	579.81	342.06
Res/Doubt Acct.	-395.24	-404.46	-304.76	-339.08	-190.58
ST Loans/less res	4127.78	3573.04	3217.27	3021.93	3369.58
Total Curr Assts	8369.21	14550.79	15263.48	16405.55	16373.70
LT Loans	4076.51	4182.51	3842.28	3242.98	2933.03
Res/Doubt Acct.	-180.60	-193.61	-246.00	0.00	-282.20
Shares	365.02	739.80	739.89	789.96	990.12
Fixed Assets	381.33	418.78	441.53	457.09	515.06
less:depr	-197.49	-213.66	-236.86	-260.46	-253.51
Total Fixed Assets	183.83	205.12	204.67	196.63	261.54
Def&Oth LT Assets	53.09	51.06	394.37	441.52	439.53
Total LT Assets	4497.85	4934.88	4935.21	4671.10	4342.03
TOTAL Assets	12867.07	19535.67	20198.69	21076.64	20715.73
Demand Deposits	489.80	2356.34	3237.32	3064.50	3716.24
Accts Payable	117.42	254.44	182.24	188.17	232.52
Interest Payable	18.91	23.88	30.99	144.97	137.26
Other ST Liab.	339.42	388.16	447.22	532.00	590.03
Total Curr Liab	965.55	3022.81	3897.77	3929.63	4676.06
LT Bank Loans	8686.70	7518.42	6602.28	5804.88	5101.67
Non Bank Loans	1000.00	6076.72	6364.88	7499.55	7114.51
Other LT Liab	39.49	38.88	47.55	56.65	45.76
Total LT Liab	9726.20	13634.03	13014.70	13361.08	12261.94
TOTAL Liabilities	10691.75	16656.84	16912.47	17290.71	16938.00
Capital	2158.74	2854.07	3127.75	3757.52	3646.70
Donations	0.00	14.26	21.57	26.08	36.39
Subsidies	0.00	0.00	0.00	0.00	0.00
Accum Ret Earn	16.58	10.49	136.90	2.33	94.65
TOTAL Equity	2175.32	2878.82	3286.22	3785.94	3777.73
Liab + Equity	12867.07	19535.67	20198.69	21076.65	20715.73

CASH FLOWS *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
	2427.06	6658.88	913.93	1464.07	-290.25

*(Q 000s)

Interest Income	2211.98	2467.10	2316.33	2107.38	2206.42
Interest Expense	1297.33	1387.82	1164.43	999.11	876.46
Gross Margin	914.65	1079.28	1151.90	1108.27	1329.94
Non-Interest Inc.	841.45	858.29	915.48	956.75	964.24
Non-Interest Exp.	455.19	451.46	519.26	575.06	613.80
Admin. Expense	967.18	1009.92	1062.92	1088.04	1192.53
Operating Margin	333.73	476.20	485.20	401.92	487.85
Res/Doubt.Debt	-147.67	-163.28	-176.44	-190.26	-204.78
Non-Op Items	-100.00	-100.00	-100.00	-100.00	-100.00
Net Margin	86.06	212.92	208.76	111.65	183.08

BALANCE SHEET
(Q 000s)

Cash/Market. Sec.	11881.00	11609.23	11929.58	11988.60	11683.24
Accounts Rec.	139.01	204.06	323.58	436.09	570.60
Res/Doubt Acct.	0.00	0.00	0.00	0.00	0.00
ST Loans/less res	4923.02	5823.06	6026.59	5940.66	6709.89
Total Curr Assts	16943.04	17636.35	18279.75	18365.35	18963.72
LT Loans	4723.02	4764.33	4017.73	3960.44	4173.26
Res/Doubt Acct.	0.00	0.00	0.00	0.00	0.00
Shares	1566.05	1566.05	1566.05	1566.05	1566.05
Fixed Assets	348.67	316.27	285.70	269.18	252.66
Def&Oth LT Assets	65.03	65.03	65.03	65.03	65.03
Total LT Assets	6702.77	[illegible]	5934.50	[illegible]	[illegible]
TOTAL Assets	23645.81	24348.02	24214.25	24226.05	25320.72

Demand Deposits	4625.55	5756.00	6916.29	8107.90	9332.40
Accts Payable	465.94	682.60	934.17	1214.50	1527.78
Interest Payable	310.63	455.07	622.78	809.66	1018.52
Other ST Liab.	373.86	373.86	373.86	373.86	373.86
Total Curr Liab	5775.97	7267.53	8847.09	10505.92	12252.55
LT Bank Loans	4201.67	3101.67	1950.00	750.00	0.00
Non Bank Loans	9311.14	8865.21	7509.60	6276.84	5421.67
Other LT Liab	45.76	45.76	45.76	45.76	45.76
Total LT Liab	13558.57	12012.63	9505.36	7072.60	5467.43
TOTAL Liabilities	19334.54	19280.16	18352.45	17578.51	17719.98
Capital	4225.22	4854.94	5653.02	6535.89	7417.67
Accum Ret Earn	86.06	212.92	208.76	111.65	183.08
TOTAL Equity	4311.27	5067.86	5861.78	6647.54	7600.74
Liab + Equity	23645.81	24348.02	24214.23	24226.05	25320.72

CASH FLOWS *(Q 000s)*	P1990	P1991	P1992	P1993	P1994
	-971.63	-271.78	320.35	59.02	-305.36

Discount rate	NPV
15.0%	-1101.51
20.0%	-1088.75

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INCOME STATEMENT *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
Production	49.50	27.86	24.20	15.51	171.59
Cost of Product.	44.75	104.84	161.73	81.90	198.32
Gross Profit	4.75	-76.98	-137.53	-66.40	-26.73
Operating Expense	111.18	126.63	122.53	251.50	192.32
Operating Profit	-106.43	-203.61	-260.06	-317.90	-219.05
Interest Expense	-63.50	-59.48	-59.02	0.00	0.00
Inc.bef Xtra items	-169.93	-263.09	-319.08	-317.90	-219.05
NonOp Items	-126.63	15.29	12.39	1.42	5.74
Reserve Accounts	0.00	-79.32	-2.30	0.00	0.00
Donations/Subsid.	73.00	140.18	222.58	229.02	217.17
Net Income	-223.56	-186.94	-86.41	-87.46	3.86

BALANCE SHEET *(Q 000s)*					
Cash & Sec.	100.95	158.05	242.18	146.00	150.15
Inventory	1.63	2.91	2.51	1.60	78.75
Accounts Rec.	1408.32	1273.30	1344.12	1380.08	3489.12
Reserve	-70.35	-63.63	-144.55	-146.35	-152.25
Total Curr Assts	1440.56	1370.63	1444.26	1381.33	3565.76
Fixed Assets	575.91	571.19	310.74	312.83	315.66
less:depr	-63.32	-68.98	-58.44	-70.36	-77.09
Total Fixed Assets	512.59	502.21	252.30	242.46	238.57
Def&Oth LT Assets	0.70	1.52	0.21	0.00	1.30
Total LT Assets	513.29	503.73	252.51	242.46	239.87
TOTAL Assets	1953.85	1874.36	1696.77	1623.79	3805.63
Accounts Payable	75.30	50.10	35.87	40.57	27.28
Interest Payable	517.77	573.40	632.42	692.20	754.56
Other ST Liab.	32.00	17.99	30.28	13.15	20.84
Total Curr Liab	625.07	641.49	698.58	745.93	802.68
LT Bank Loans	2346.11	2346.11	2346.11	2346.11	2396.11
Deferred Liab.	136.84	121.76	112.44	108.18	1645.92
Total LT Liab	2482.95	2467.87	2458.55	2454.29	4042.04
TOTAL Liabilities	3108.02	3109.37	3157.13	3200.22	4844.71
Capital	252.21	255.20	255.91	288.26	290.06
Donations	59.22	58.63	216.34	230.20	493.41
Subsidies	0.00	103.69	74.07	22.65	0.00
Accum Ret Earn	-1465.59	-1652.53	-1738.95	-1826.40	-1822.55
TOTAL Equity	-1154.16	-1235.01	-1192.63	-1285.30	-1039.08
Liab + Equity	1953.86	1874.36	1964.50	1914.92	3805.63

CASH FLOWS *(Q 000s)*	FY1985	FY1986	FY1987	FY1988	FY1989
	92.44	57.10	84.13	-96.18	4.15

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3LE 6: FEDECOAG PROJECTIONS

INCOME STATEMENT *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
Production	171.59	197.33	226.93	267.78	315.98	372.86
Cost of Product.	198.32	195.36	224.66	265.10	312.82	369.13
Gross Profit	-26.73	1.97	2.27	2.68	3.16	3.73
Operating Expense	192.32	90.00	60.00	40.00	20.00	0.00
Operating Profit	-219.05	-88.03	-57.73	-37.32	-16.84	3.73
NonOp Items	5.74	5.00	5.00	5.00	5.00	5.00
Donations/Subsid.	217.17	90.00	60.00	40.00	20.00	0.00
Net Income	3.86	6.97	7.27	7.68	8.16	8.73

BALANCE SHEET *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
Cash & Sec.	150.15	-146.30	-450.08	-758.90	-1116.93	-1531.80
Inventory	78.75	90.56	104.15	119.77	137.73	158.39
Accounts Rec.	3489.12	4012.49	4614.36	5306.52	6102.50	7017.87
Reserve	-152.25	-160.50	-184.57	-212.26	-244.10	-280.71
Total Curr Assts	3565.76	3796.25	4083.85	4455.12	4879.20	5363.75
LT Investments	0.00	0.00	0.00	0.00	0.00	0.00
Fixed Assets	315.66	325.13	334.89	344.93	355.28	365.94
less:depr	-77.09	-82.49	-88.26	-94.44	-101.05	-108.13
Total Fixed Assets	238.57	242.64	246.62	250.49	254.23	257.81
Def&Oth LT Assets	1.30	0.00	0.00	0.00	0.00	0.00
Total LT Assets	239.87	242.64	246.62	250.49	254.23	257.81
TOTAL Assets	3805.63	4038.89	4330.47	4705.61	5133.42	5621.56

Accounts Payable	27.28	31.37	36.07	42.57	50.23	59.27
Interest Payable	754.56	742.79	742.79	742.79	742.79	742.79
Other ST Liab.	20.84	22.92	25.21	27.73	30.50	33.56
Total Curr Liab	802.68	797.08	804.08	813.09	823.53	835.62
LT Bank Loans	2396.11	2396.11	2396.11	2396.11	2396.11	2396.11
Deferred Liab.	1645.92	1810.52	1991.57	2290.30	2633.85	3028.93
Total LT Liab	4042.04	4206.63	4387.68	4686.41	5029.96	5425.04
TOTAL Liabilities	4844.71	5003.71	5191.76	5499.51	5853.49	6260.66
Capital	290.06	308.00	350.00	350.00	350.00	350.00
Donations	493.41	542.75	597.03	656.73	722.40	794.64
Accum Ret Earn	-1822.55	-1815.57	-1808.30	-1800.63	-1792.47	-1783.74
TOTAL Equity	-1039.08	-964.82	-861.28	-793.90	-720.06	-639.09
Liab + Equity	3805.63	4038.89	4330.48	4705.61	5133.43	5621.56

CASH FLOWS *(Q 000s)*	FY1989	P1990	P1991	P1992	P1993	P1994
	4.15	-296.45	-303.78	-308.82	-358.03	-414.87

Discount rate	
15.0%	-1266.7
20.0%	-1171.3

ANNEX E.3

SOCIAL SOUNDNESS ANALYSIS

The social soundness study conducted by Stephen Stewart for Phase I of the Cooperative Strengthening Project concluded that the project was socially sound and consistent with local cultural values. The study pointed out that the major issues facing cooperatives in rural Guatemala were the tendency of supporting organizations to promote cooperatives as charitable rather than business-oriented institutions, the absence of effective marketing operations in the cooperatives, the inability of the cooperatives to finance agricultural technical assistance activities, competition by government-subsidized fertilizer programs, and low educational levels among cooperative members and boards. It recommended that the project adopt a cautious strategy that promoted growth within the context of sound cooperative management; that emphasized education and training for members, board and staffs; and that attempted to develop the technical assistance and marketing functions through external resources (such as the Peace Corps).

These conclusions are generally valid today. Since that study was conducted in 1986, small farmers and the cooperatives supported through the Cooperative Strengthening and other USAID/Guatemala projects have been the subjects of numerous studies. Among the more significant of these are:

Amalia Alberti, *Gender Issues in the Small Farm Coffee Improvement Project*, July 1989.

Ivo Kraljevic, *The Development of Viable Agricultural Organizations in Guatemala: an Assessment of Social and Cultural Factors*, September 1989.

John H. Magill, Eric G. Nelson, and Miguel A. Rivarola, *Cooperative Strengthening Project: Mid-term Evaluation*, November 1989.

John H. Magill and Percy Avram, *Evaluation of the Cooperative Improvement Component of the USAID/Guatemala Agribusiness Development Project*, December 1989.

John H. Magill, William E. Bolton, Paul H. Dillon and Amalia M. Alberti, *Employment and Income Impacts of Investments in Export-Oriented, Non-Traditional Agribusinesses: An Examination of Six Investments Financed by the Latin American Agribusiness Development Corporation de Centroamerica (LAAD-CA)*, May 1989.

James F. McSweeney, *El Subsector Cafe de Guatemala: una Evaluación*, July 1988.

Michael Richards, Sarah Gates, and Randy Stringer, *Land Tenure, Land Utilization, and Household Economy of Cooperative Members Affiliated with the Federación de Cooperativas Agricolas Regionales (FECOAR)*, Guatemala. March 1990.

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Michael Richards, *Estudio de Base y Mercadeo: Efectuado en ocho cooperativas afiliadas a la Federación Nacional de Cooperativas de Ahorro y Crédito, (FENACOAC)*, December 1989.

S&W Consultores, *Assessment of Marketing Structure in Guatemala*, December 1989.

USAID/Guatemala, *Agriculture Sector Review*, March 1987.

Robert C. Vogel, Robert P. Cristen, John McGuire, Juan Carlos Protasi, Antonio M. Salas, and Michael Saperstein, *An Assessment of Rural Financial Markets in Guatemala*, January 1990.

Harry Wing, *USAID/Guatemala Agriculture Sector Development Strategy (1988-1982)*, February 1988.

Carmen Winkler and Judy Rein, *Survey of Women's Organizations and WID Projects/Activities in Guatemala*, February 1990.

Because these studies constitute a recent and thorough examination of the sociocultural context of rural development in Guatemala, it was decided that requirements for the social soundness analysis have been met. This annex, therefore, summarizes the relevant findings of these studies and the specific experiences of two current USAID/Guatemala cooperative projects as they relate to the proposed extension to the Cooperative Strengthening Project.

A. KEY BENEFICIARY CHARACTERISTICS

The project will have a direct impact on approximately 76,000 members of 66 to 80 predominantly rural-based cooperatives. Most of these cooperatives are affiliated with one of five cooperative federations -- FENACOAC (credit unions), FECOAR (regional agricultural cooperatives), FEDECOVERA (coffee-producing cooperatives), FEDECOAG (agricultural production and marketing cooperatives) and ARTEXCO (weavers of artisan products for export). Another 10 to 14 cooperatives assisted by the project are individual agricultural cooperatives not affiliated with any of the national federations. Individual cooperatives affiliated with two other federations -- FEDECOCAGUA (coffee) and FECOMERQ (agricultural marketing) -- are being considered for support through the project. The distribution of cooperatives to be assisted and approximate memberships are as follows:

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Cooperative Group	Number of Cooperatives	er of bers
FENACOAC	25	58,000
FECOAR	6	11,000
FEDECOAG	8	1,900
FEDECOVERA	12	1,402
ARTEXCO	6	1,000
Independent Cooperatives	14	1,000
	71	74,302
FEDECOCAGUA	6	750
FECOMERQ*	5	1,238
	82	76,290

* Assumes that approximately 1,000 of Kato Ki's 4,300 members are currently active

According to estimates developed during the recent study of rural financial markets in Guatemala[1], approximately 170,000 (or 10 percent of low-income rural families) belong to cooperatives. If we assume that 70 percent of the FENACOAC members are small farmers, the project will reach and have a direct impact on about 49 percent of the members of the five federations, and on 35 percent of the total number of active rural cooperative members in Guatemala during the next four years.

Most of the members of cooperatives assisted through the project are low-income farmers with small landholdings. Approximately 50 percent of credit union members (FENACOAC) are engaged in agricultural activities, and nearly 49 percent own small enterprises[2]. All FEDECOVERA, FEDECOCAGUA, FECOMERQ and most FEDECOAG members are small farmers. ARTEXCO members are small-scale artisans who produce woven cloth and other handicraft articles for export.

As demonstrated in recent studies land-holdings are quite small, averaging 4.14 manzanas (approximately 7 acres) in the case of FECOAR members[3], and 4.7 manzanas in the case of FENACOAC members[4]. Landholdings of FEDECOVERA members are much larger, averaging 20 manzanas per member in the 8 cooperatives selected for intensive assistance. Specific data on landholdings in the other cooperatives are not available but, for the most part, members in these organizations also are small landholders[5].

The indigenous background of the cooperatives is quite strong. In the case of FEDECOVERA, for example, most of the members are monolingual in indigenous languages. In five of the six FECOAR cooperatives, 83 percent of the members are either monolingual in indigenous languages or bilingual[6]. Credit union members are largely bilingual or monolingual in Spanish. However, in a recent study of 8 credit unions, 32.5 percent of the total number of respondents were classified as indigenous, a figure which reached as high as 59.5 percent in the COBAN credit union and 98.8 percent in the Argueta credit union[7]. Members of independent cooperatives are largely bilingual in Spanish and local indigenous dialects[8].

Income levels are such that most target beneficiaries would fall into the lowest 20 percent bracket of the population in terms of earning power. In the two recent studies of FECOAR and FENACOAC, for example, per capita income averaged $91 for members of FECOAR cooperatives and $245 for agricultural members of FENACOAC, compared to a country-wide average income per capita of between $500 and $800[9] for Guatemala.

In summary, the direct beneficiaries of the Cooperative Strengthening Project are relatively low income small farmers, artisans and entrepreneurs. They represent approximately 35 percent of existing rural cooperative members, and about 3.5 percent of low-income rural households in the country.

B. SOCIOCULTURAL FEASIBILITY

Essential to evaluating social soundness is the question of whether or not the changes, which the project's success depends upon, are likely to occur. There is ample evidence from the studies and experiences of the two current projects that the proposed project is compatible with the sociocultural values of the intended beneficiary population.

Acceptability of Cooperative Institutions

Perhaps the strongest indicator of the social soundness of the project has been the long history of cooperatives (and other similar organizations) in Guatemala. These institutions, first introduced in the early 1900s, have survived recent turmoil and rural violence. Though cooperatives have not proven particularly effective institutions in recent years, small farmers have nevertheless autonomously formed and joined such groupings, indicating a high degree of acceptance of this form of rural institution. Since the project will be working only with existing institutions, the form of organization is not a major constraint in this project.

Aging

At the same time, the relative stagnation of the cooperative system continues to be a concern. The recent study of FECOAR cooperatives indicates that the cooperatives are not particularly effective in attracting new members -- most members have been members for a long time, and the average age of members has increased during the last fifteen years. Likewise, the number of cooperatives associated with the federations has not increased during the past ten or fifteen years, which reflects a general lack of dynamism in the system.

To some extent this can be traced to the rural violence of the late 1970s and early 1980s. Many potential cooperative members are reluctant to become officially associated with any institution. But it is also due to the absence of a growth orientation on the part of cooperative managers, boards and federations. One objective of the project's institutional development component is to develop a more dynamic growth orientation among the participating cooperatives.

Adoption of New Technologies

Small farmers have demonstrated a willingness to adopt new technologies in the production of traditional crops when these can be shown to produce an economic benefit. Fertilizer demonstration plots in FECOAR cooperatives have resulted in a strong demand for new fertilizer blends and application techniques among basic grain producing farmers. Farmers in Rincon Grande enthusiastically embraced significant changes in strawberry production technologies, even though at great personal risk. Garlic producers in Aguacatan and Chichan have responded well to the introduction of new varieties and disease control technologies. Even small farmers in a highly traditional crop such as coffee have accepted and adopted suggestions for improved varieties, planting technologies and other components of ANACAFE's (The National Coffee Association) technical program. Thus, acceptance of technical assistance provided through the project should not be a problem.

Equally important is the readiness demonstrated by small farmers to switch from traditional to non-traditional crops. A major shift from coffee to cardamom took place among small producers in the 1960s and 1970s. Farmers in the Central Highlands are currently moving away from traditional crops (specifically grains and potatoes) in favor of high-valued, export-oriented products such as cabbage, broccoli, celery, snow peas and french beans, paralleling similar changes on the larger private-sector farms. While the feasibility of producing crops for export remains to be seen, the shifts indicate a high degree of receptiveness among small farmers to apply both the new technologies and alternative crops. Given this predisposition, those changes proposed in the project are consistent with existing sociocultural values within the intended beneficiary population.

Time Allocation Issues

Allocating time for activities should not influence project success. Social energy for creating and sustaining base-level organizations has already been expended. On the other hand, training courses for board members and staffs, which will require beneficiary participation, are scheduled at times convenient to the participants. Beneficiary participation in field trials and demonstration plots, which had been purely voluntary in the past, indicates a high level of interest on the part of cooperative members. The types of activities contemplated by the project do not impose unrealistic, additional time burdens on beneficiaries.

Business Orientation

Project success, in terms of establishing sustainable rural cooperative enterprises, is highly dependent upon the ability of the project to develop and instill attitudes that favor running cooperatives as business enterprises rather than social welfare institutions. Two important factors have created the tendency among many cooperative groups to treat the cooperative as more of a social organization than business enterprise. The first is that the formation of most cooperatives has been sponsored by social-oriented donor organizations and government agencies. Second, local customs make it difficult for cooperative organizations to apply business practices. For example, it is very difficult for a cooperative to fire staff members, even in cases of fraud or embezzlement. Also, it is not socially acceptable for a cooperative to take legal action against a community member to enforce a loan repayment -- the cooperative would rather extend the due date on the loan.

Substantial progress has been made in this area at the federation level and among a select few of the participating cooperatives. At least one federation is resisting this reorientation, and the ability to effect this change in the remaining base-level cooperatives is uncertain. However, the tendency to view cooperatives as social rather than business institutions constitutes the major constraint to the project's goal of developing successful cooperatives. Substantial resources in the institutional development and training component of the project, therefore, are dedicated to teaching and inculcating this concept among the federations, cooperatives and members.

Scale

Achieving efficient business volumes poses another problem for many of the cooperatives. Traditional cooperatives tend to be organized around the local community (with the inherent problems described above), which often does not provide sufficient scale to achieve sustainable business operations. As Kraljevic pointed out, small community-oriented cooperatives are more socially responsible to their members. But, while cooperatives spanning several communities may have internal management and control problems, they also provide cross-cutting experiences that make operation of the cooperative as a business rather than social cooperative more feasible.

Management Capabilities

As Kraljevic has pointed out, at the root of most problems facing small farmer organizations is the wide gap that exists between the managerial, administrative and technical skills needed to run the organizations and the education and skill levels of the members. This is reinforced by the standard philosophy of the cooperative movement that cooperatives should be managed by the members themselves. Deep distrust between indigenous members and ladino technicians and managers (see below), lack of an understanding of the need for specialized skills in the management and financial aspects of the cooperative, and the common practice of providing low salary and compensation levels that are devoid of incentives for good performance combine to inhibit development. Unless the project can succeed in educating cooperative board members and developing an understanding of the need for good, skilled management, sustainability of project-initiated activities at the local cooperative level is questionable.

Cultural Problems in Board-Management Relationships

Cooperatives frequently have been plagued by poor board-management relationships, according to Kraljevic. Although the memberships and boards of directors of many of the cooperatives are predominantly indigenous, managers (especially the paid managers of the more business-oriented cooperatives with whom two USAID/G-sponsored cooperative projects are attempting to work) are modern-oriented ladinos. The indigenous membership generally lacks the skills to effectively manage a modern business operation, but the tradition of exploitation of indigenous populations by Guatemalan ladinos is so strong that members do not trust external managers they have hired. In many cases this mistrust has been well-founded, as managers have taken advantage of their positions.

Numerous examples of this problem have been found in the cooperatives supported by the projects. In Rincon Grande a Ladino manager embezzled funds from the cooperative, and the board has been very reluctant to authorize subsequent managers. Even in Cuatro Pinos, the most successful of the export-oriented, modern cooperatives, the board places unrealistic limitations on management and has dismissed other highly qualified and dedicated employees on the suspicion that they were benefitting unduly from the cooperative.

The project extension incorporates two activities to help deal with this problem. Training is increased to help the boards of directors of the cooperatives gain greater confidence and skills in their roles as directors -- especially to recognize the appropriate division of labor between management and boards. At the same time, the institutional development component of the project is working more intensely to help the cooperatives develop effective internal monitoring systems, so that the boards can exercise appropriate control without interfering in essential management functions.

Member Allegiance

Several of the cooperatives ana reaerations have experienced problems with maintaining member allegiance. In FEDECOVERA, for example, two cooperatives signed separate contracts to sell coffee rather than sell through the federation. Proceeds were used to purchase trucks and other equipment rather than pay back loans received from the federation. Individual members often prefer to sell directly to intermediaries or in local markets rather than through the cooperatives.

This is due in large part to the fact that the services, products and income generated by the federations (and, in most cases, the cooperatives) are not competitive. While the organizations could rely in the past on member loyalty and allegiance to generate business volumes, that is no longer the case. They must become efficient and competitive if they are to maintain member loyalty.

Summary

In summary, the project's objectives appear to be compatible with existing sociocultural patterns. Several issues, such as the capability of managing local institutions, the potential conflict between indigenous memberships and ladino management, growth potential and member loyalty, need to be specifically addressed during project implementation -- primarily through the institutional development and training activities -- and monitored throughout the course of the project.

C. SUSTAINABILITY AND REPLICABILITY

A second major concern regarding social soundness is determining whether or not there is likely to be a multiplier effect; that is, whether project activities or benefits introduced among the initial project beneficiaries are likely to be replicated or diffused among other groups. There are several factors in the Cooperative Strengthening Project that increase the likelihood that this will occur once the project is completed.

Mechanisms for diffusing benefits beyond the initial target population are built into the project design, especially for the federated cooperatives. The primary cooperative itself is the first mechanism for diffusing benefits through growth and the incorporation of new members; programs and services institutionalized in the primary-level cooperatives will continue to benefit current and new members in the future.

The base-level cooperatives are, in turn, supported by second-level federations. Although the project will directly benefit only a subset of the affiliated cooperatives during the next four years, the institutionalization of programs and services in the federations means that these institutions will have the capability of extending project benefits to the remaining cooperatives once the project has terminated. Since all programs and services are designed to be self-sustaining on the basis of earned income, the federations should be capable of sustaining them once project resources are withdrawn. This is not the case, however, with the independent cooperatives, which will not have access to continued support services upon termination of the project unless they can be persuaded to affiliate with one of the federations. Neither is there a program for providing assistance to other independent cooperatives once the project ends.

D. SOCIAL CONSEQUENCES AND BENEFIT INCIDENCE

Access to Resources and Opportunities

The lack of access to critical resources has been identified as the major developmental constraint for small farmers in Guatemala. This project will help resolve this problem in the areas of access to financial resources, production inputs, production technologies, marketing opportunities, business-oriented education and practices, and participation in modern-oriented business organizations. Because the beneficiary base is limited to cooperative members who are uniformly low income families, resources provided through the project will in fact be distributed equitably among the beneficiaries.

Employment Opportunities

As pointed out in several of the studies,[10] increasing productivity and shifting from low- to high-value crops, generate significant employment opportunities for both the cooperative members and outside day laborers. The demand for labor in Cuatro Pinos and Rincon Grande is so high that workers are being trucked in from considerable distances, while Aguacatan and Chichan employ large numbers of migrant workers during the export season. Adopting a modern coffee production technology nearly doubles the person-days of work per manzana of land.

Rural Displacement, Migration and Urbanization

The project should have a negligible displacement effect. FEDECOVERA, ARTEXCO and FEDECOCAGUA cooperative members, as well as members of the targeted independent cooperatives, are engaged in export-oriented activities. Expansion of production by these farmers should not displace markets for other workers in the country. FECOAR and FEDECOAG members are producing traditional products for deficit markets. Displacement, should it occur, would have the effect of offsetting needs for imports, resulting in a positive benefit for the country. Expansion of credit through the credit union system would appear to expand resources available to the sector rather than replace existing credit sources. Channeling formal credit to individuals who now rely on informal loan sources should have the effect of increasing the supply of informal credit to more marginal groups.

Successful rural cooperative programs will, in the absence of land constraints, tend to reduce out-migration and urbanization tendencies, at least for project beneficiaries.

Power and Participation Structures

By working with established cooperatives, the project utilizes (for the most part) existing power and participation structures. As a result, the project itself will not have a major impact on changing local power and participation patterns and therefore may expect to encounter little resistance or rejection. Existing power and participation relationships form the organizational basis of the project.

Reforms that introduce appropriate membership controls governing cooperative management should help resolve some of the above issues.

Distribution of Costs and Benefits

The equitable distribution of the costs and benefits of participation is a key factor in determining the sustainability of the organization. As Kraljevic points out, cooperatives in Guatemala suffer from a history of social-welfarism that has promoted cooperatives as distributors of social benefits rather than as sound business institutions. As a result, they tend to be managed and used by the members as highly tolerant sources of relatively free resources, giving rise to a one-sided relationship in which the member expects to receive benefits without incurring any costs or responsibilities.

This situation has several implications for the project: First, it leads to a highly inequitable distribution of benefits through the cooperative. Since the organizations are resource poor, members who obtain benefits early on tend to be the only ones to do so.

Secondly, this pattern tends to weaken the cooperative itself. Members who have received loans or other benefits take advantage of the cooperative and fellow members by defaulting on loans, failing to fulfill delivery contacts and withdrawing from the cooperative. Once members realize they can exploit the institution in this way without fear of retribution or significant cost, the sustainability of the organization is weakened.

Examples of this situation abound in all of the cooperative groups assisted by the project, and it is precisely this problem that the Cooperative Strengthening Project is designed to address. The heavy, almost one-sided emphasis on improving management policies and practices in Phase I of the project has been seen as a necessary prerequisite to any sustained cooperative development effort and must continue into the second phase of the project.

Real Benefits

Another problem facing cooperatives is that they often fail to deliver real benefits to their members. The cooperative often expects its members to participate simply because it is there to help them rather than its ability to deliver competitive and tangible benefits. In fact, the benefits offered by cooperatives in Guatemala are usually more rhetorical than real. The costs and benefits of participation in the cooperatives must be competitive with the costs and benefits for similar services available elsewhere, and this is often not the case. The project must be able to transform the cooperatives into providers of real services and benefits in order to be successful in building sustainable programs at the cooperative level.

Women in Cooperatives

Evidence of the impact of cooperative development on the role and income of women is somewhat contradictory. Few women are recognized as individual members in the agricultural cooperatives, and even fewer occupy leadership positions. As examples, only 6 of the 300 members of Flor Patzunera are women, 11 of the 51 members of Rincon Grande are women, and although actual numbers are not available, very few of the 1630 members of Cuatro Pinos are women.[11] Females who are independent members have generally become so through the death of their male partner, who had been the primary member. The major exception to this is weaving cooperative, ARTEXCO, in which women account for a substantial portion of the membership.

Studies of non-traditional agricultural products indicate that shifting from subsistence or locally marketed crops to export-oriented, non-traditional crops significantly improves the employment opportunities for low-income women. Much of the employment generated by successful cooperative activities will provide economic opportunities for women. Cuatro Pinos provides employment for 180 women in its classification and packing operations. The majority of field workers in Rincon Grande are women. Women perform all classification work in the Flor Patzunera cooperative. In spite of the high demand for female labor, especially in the cooperatives specializing in non-traditional agricultural products for export, women tend to be paid a lower daily wage than men, even when they are engaged in the same activities.

Studies also suggest that successful cooperative marketing enterprises often reduce women's control over income by removing them from the marketing function. When production is marketed through the cooperative rather than by women in their more traditional role as market vendor, income tends to flow to the male partner in the household rather than to the female, regardless of the amount of labor contributed by the female.

At the same time, several of the cooperatives have initiated special women's programs, either through external donor initiatives or through their own resources. Marketing groups, production project (chickens, pigs and rabbits), social programs and other women- and family-oriented programs have been initiated in both the federations and independent cooperatives as these have attempted to deal with some of the social issues facing their members. Where the cooperatives have autonomously initiated such programs they are sustained and relatively effective. Well-intentioned but misguided donor-initiated women's programs, however, have tended to place unrealistic financial and personnel burdens on the cooperatives, and have siphoned off scarce cooperative resources in relatively unproductive activities.

The monitoring system for the project should develop gender disaggregated statistics on the flow of project resources and benefits, and the evaluation scheduled for year three of the project should specifically examine the impact of the project on women.

E. SUMMARY AND CONCLUSION

The proposed project appears to be consistent with existing cultural norms and practices. The major sociocultural impediments to project success -- lack of management skills, absence of disciplined management practices and a business orientation, a tendency by members to exploit the cooperatives, and poor member-manager relationships -- are precisely the problems the project is designed to address.

<u>NOTES:</u>

1. Vogel, et. al., p. 54.

2. Richards, pp. iv, 41 and 77.

3. Richards, Gates and Stringer, pp. 50-60.

4 Richards, pp. 48-53.

5. According to Kraljevic, average landholdings in the independent cooperatives were extremely small, pp. 25-33.

6. Richards, Gates and Stringer, p.38. Members of the sixth cooperative, Jutiapa, are primarily monolingual in Spanish.

7. Richards, p. 13.

8. Kraljevic, pp. 25-33.

9. Per capita income estimates for Guatemala vary widely. The April 1990 issue of *International Monetary Statistics*, published by the International Monetary Fund, estimated GNP per capita at $830 for year-end 1988.

10. See especially Kraljevic, pp. vi, 20 and 21; Magill, Bolton. Dillon and Alberti, *op. cit.*; Magill and Avram, pp. 25 and 37;

11. Winkler and Rein, pp. 39-41.

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ANNEX E.4

ADMINISTRATIVE ANALYSIS

A. PROJECT ADMINISTRATION

The Cooperative Strengthening Project is a $11.0 million AID Handbook 13 grant program obligated in August, 1986, through a $10.42 million Cooperative Agreement with the National Federation of Savings and Loan Cooperatives (FENACOAC) and a $580,000 PASA Agreement with the U.S. Department of Agriculture. The Federation is the Administrator of the AID Grant and the implementing agency for the Project. The PASA Agreement has financed a Project Manager who is attached to the Mission's Rural Development Office and located in the Federation's Project Management Office. The roles of FENACOAC and the PASA Project Manager will remain unchanged during the second phase of the Project.

A general assessment of the capabilities and performance of the National Federation of Savings and Loan Cooperatives (FENACOAC) as the Project Administrator was completed during the November, 1989, mid-term Evaluation. The assessment concluded that the Federation was an effective Project Adminstrator and fully capable of providing guidance and administrative support during the follow-on phase of the Project. Annual development plans and budgets were prepared and submitted to USAID/G in a timely and efficient manner; a monitoring and reporting system was developed and implemented to track progress; management of the Project's financial resources was well-controlled; and, documentation and filing systems were complete and well-maintained.

During Phase II, the Federation will continue to act as the legal recipient of the AID Grant and the Administator of the Project's financial resources. It will:

-- provide administrative support to the Project Management Office; hire its' local staff; contract for short-term technical assistance; and procure local commodities as needed;
-- provide overall policy guidance and operational advice to the the Project Management Office (PMO);
-- act as the disbursing agent for the project's financial resources;
-- issue all legal documentation (e.g., stabilization contracts, loan contracts, agreements, etc.) necessary during implementation;
-- monitor participant compliance with the terms of the Cooperative Agreement; and,
-- submit regular progress and financial reports to USAID/G;

Management decision-making will remain divided among FENACOAC (the Grantee), the Chief of Party of the technical assistance team, and the USAID/G Project Manager. During the first phase of the Project, an effective working relationship developed which permitted close collaboration and coordination during implementation without weakening the ability of the Project Management Office (the primary implementing unit) to respond quickly to problems and/or new opportunities among the cooperative participants. The Federation will continue to review and approve Annual Plans and Budgets, as well as monitor expenditures amd progress in attaining Project goals; however, responsibility for day-to-day implementation will remain with the Project Management Office (PMO).

B. PROJECT MANAGEMENT OFFICE

The organizational structure and operating strategy of the FENACOAC Project Management Office (PMO) has evolved over the three-year project life. The original design envisioned the creation of two separate implementing units (i.e., the Funds Management Unit-FMU and the Technical Development Unit-TDU) for the Project. The FMU was to have managed the financial operations of the Project (credit and financial stabilization) using FENACOAC's infrastructure and personnel, and the TDU was to operate independently and have focused on all other non-financial aspects of the institutional development and training program with the participating organizations.

In early 1987, this design was modified and the separate functions of the FMU and the TDU were merged into a single Project Management Office (PMO). Responsibility for implementation of the financial and the technical components of the Project was transferred from the Federation. The PMO was staffed with Guatemalan technical and support personnel and four expatriate advisors contracted through a consortium of cooperative development organizations led by the World Council of Credit Unions (WOCCU), the international arm of the Credit Union National Association (CUNA). Although the Project Management Office is a dependency of FENACOAC, it operates as a semi-autonomous unit with the Federation providing overall policy guidance and acting as a pass-through for USAID/Guatemala financing and management.

Internally, the Project Management Office was organized to provide a team approach in providing assistance to the cooperative movement. The expatriate team was selected to represent functionally distinct skills -- training and institutional development, agricultural cooperative development, finance and credit unions -- with the idea that all would work with each participating federation. A PMO counterpart was assigned to work with each of the four expatriate advisors. During the first phase of the Project, the arrangement proved too difficult to implement. The federations were confused about the role of the advisors; it was difficult to coordinate work with the federations as no individual had a lead role; and it spread the team too thin. The PMO technicians and the expatriate advisors were skilled technically, but the need to develop and "learn" the diagnostic methodology as implementation proceeded forward overwhelmed the team effort. As a result, the PMO was restructured to assign one technician the primary responsibility for each federation. The structure was functional, but it greatly increased the span of authority and administrative burden on the Chief of Party to the detriment of his technical assistance activities as the Project's Senior Financial Advisor. Segmentation of the PMO technicians also tended to limit the range of services available to each federation. For example, some federations received high quality and necessary assistance in one area (e.g., strategic planning and policy reform) while other equally important areas (e.g., finance and marketing) were not addressed sufficiently.

The mid-Evaluation concluded that the separate PMO administrative structure was necessary and effective in attaining the immediate short-term goal of promoting change in the policies, attitudes and management practices of the participating cooperative organizations. However, a significant concern existed that the skills of the PMO technical personnel would not be effectively transferred to the cooperative organizations within the remaining life-of-Project (August, 1991).

For Phase II of the Project, the PMO has been reorganized and its' operational strategy modified to address the technology transfer concerns identified in the mid-term evaluation, and permit the Project to provide more direct assistance to federation affiliates and independent cooperatives. The Federations and the independent cooperatives will be required to play a more direct role in the planning and execution of their development plans, effectively shifting responsibility for meeting implementation targets from the PMO to the organizations themselves. The goal of the reorganization is that of institutionalizing project methods, norms and strategies within as many organizations as possible during the extended Project.

The internal reorganization will also modify the role of the Chief of Party and reintroduce the team approach to the PMO's working relationship with the cooperative organizations. The administrative burden on the Chief of Party will be reduced; the PMO will be better able to address a broader spectrum of issues affecting the cooperatives; and, counterpart organization participation in the design and execution of the institutional development process will be increased. The reorganization will take place in two phases: an interim structure for the remainder of 1990, and a final structure to be created when all operating divisions are fully staffed. The interim structure includes four operational and one support division and will permit the PMO to continue implementation of 1990 development plans with the cooperative federations. This includes direct technical assistance to six cooperative federations; a start-up program with a large number of their base-level affiliates; and the development of links to selected independent cooperatives in preparation for the merger of the Cooperative Component of the Agri-business Development Project (520-0276) planned to occur in late August, 1990. The interim structure is illustrated on the following page.

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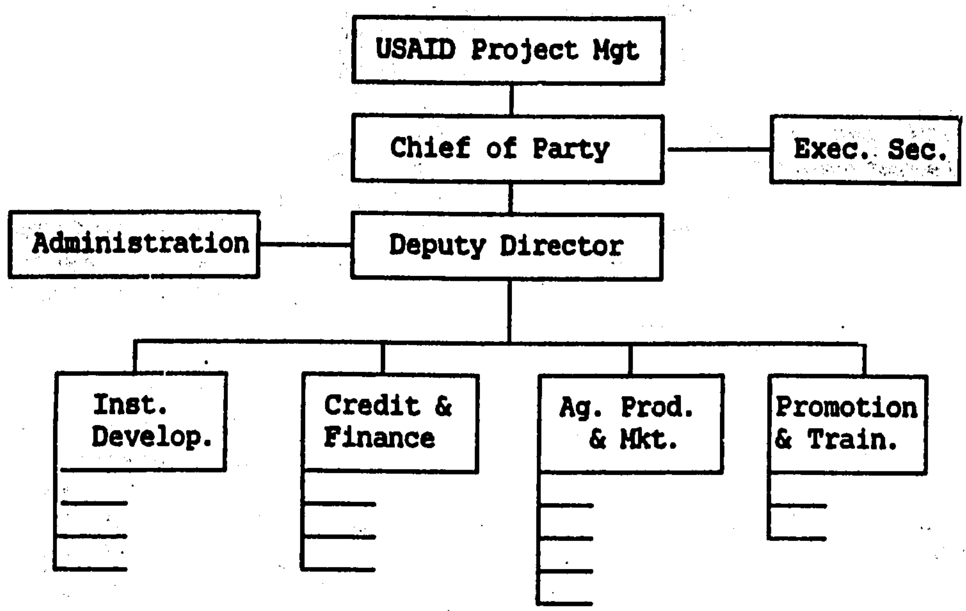

The total number of PMO personnel and the specific skills required will be determined over the period June-August, 1990. At present it is expected that each Division will be staffed by a Chief and between 2-4 technicians; however, as the technical assistance needs of the independent cooperatives and the base-level affiliates of the cooperative federations are more accurately identified, internal shifts and/or increases in PMO staffing may occur.

For operational purposes, the actual assignment of the technicians to a particular Division is unimportant since the PMO will operate as a unit in providing assistance to the cooperative organization participants. A wide variety of technical skills will be necessary during Phase II, and effective internal coordination among the operating division's is more important than physical location. The PMO organizational structure has been designed to create a multi-skilled management team based on the experience gained during Phase I. The management team will be chaired by the Chief of Party of the expatriate technical assistance group and include the active participation of the Deputy Director and the Chief's of the four operational divisions (i.e., credit & finance; institutional development; promotion & training; and agricultural production & marketing). The Deputy Director is a Guatemalan PMO technician with broad administrative, management and financial skills. He will work closely and share responsibility with the Chief of Party for all aspects of Project implementation; supervise the internal administration of the Project Office; evaluate the progress of the participating organizations; and provide direct technical support to each of the operating Divisions. The PMO management team will work closely with federation and cooperative staff to identify problems and/or opportunities; target priority areas for Project assistance; assign responsibility for getting the job done; and, regularly monitor and evaluate progress.

As noted earlier, the role of the Project Management Office will change during Phase II. The PMO will assist the federations and the independent cooperatives in the development of their annual work plans, but responsibility for implementation will remain with each institution. Once the annual plans have been developed and approved, the PMO management team will assign technicians from each of the operational divisions to work with federation and cooperative staff during implementation. The intent the new PMO structure is to transfer responsibility for design and execution of development plans from the PMO to the federations and the cooperative participants. The PMO will continue to assist them to identify priority activities and provide guidance in developing strategies to improve their operations; however, responsibility for carrying-out the work will be transferred to the cooperatives themselves. This will reduce the tendency among some organizations to view the Project as something external by promoting more direct participation in project analysis, planning and decision-making. As the organizations begin to work more closely with the PMO personnel, they are expected to become more committed to the execution of their development plans and to better understand the the Project's approach to institutional development. Technical skills, procedures and strategies will be transferred to the participants to improve their ability to identify problems; analyze and develop effective solutions; and, implement policies and services which will ensure long-term growth and stability. The specific functions of the PMO operating divisions includes the following:

1. Project Administration

The administrative and accounting functions of the PMO have been centralized in one division under the direction of the Senior Project Accountant. The Project Accountant will supervise a staff of one accountant, three secretaries, a messenger, and two maintenance personnel. The division will maintain Project records; procure local commodities and short-term technical assistance; and, provide overall administrative support to the Project Office. It will closely coordinate all financial and administrative transactions with FENACOAC and be monitored by the Federation's internal auditor.

2. Institutional Development

The institutional development division is the unit charged with all aspects of the organizational development of the participating cooperatives. Activities include policy analysis, strategic planning, feasibility studies, internal administration, electronic data processing, and technical staff training. The division will be staffed by a Chief and three (3) subordinate technical personnel. The objective of this division is to assist the federations, their affiliates, and the

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independent cooperatives to develop and improve internal management policies and systems, including: personnel, budgeting, planning, information and reporting, and accounting. The institutional development division will work in close collaboration with cooperative staff to address institutional deficiencies; identify and analyze new opportunities; and develop the annual action plans.

In addition to the development of more realistic organizational structures, the Division will also assist the organizations to develop economically viable service programs which address the problems of their members and can be sustained over time from internally generated earnings. This process will require close internal coordination among the members of the PMO management team, since a variety of technical skills will be necessary to evaluate alternative strategies. Illustrative activities include:

-- identification, analysis and evaluation of the economic and technical feasibility of new projects and services;

-- identification of short-term technical assistance needed to address the service needs of cooperative members (e.g., control of coffee rust; vegetable export marketing; development of new savings instruments, etc.);

-- upgrading and/or developing the quality and variety of extension services provided to affiliated cooperatives and individual members.

3. Credit and Finance

The credit and finance division will provide specialized technical assistance to the participating organizations in all aspects of financial management, credit administration, capital formation, resource mobilization, financial stabilization and debt restructuring. The division will include a Chief and three (3) credit & finance technicians. The objective of this division is to assist the federations, their affiliates and the independent cooperatives to analyze the profitability of their operations and services, and wherever necessary, to develop and implement the policies and procedures required to ensure long-term sustainable growth and financial independence.

The Credit and Finance division will work very closely with the staff of the Institutional Development division in assisting the the participating institutions to develop strategies and policies which affect the financial and economic viability of their organizations. The process will include evaluation of current and potential cost and profit centers, and the development of strategies and services which increase cooperative income while addressing the needs of their members. Illustrative examples of the analysis process include: operational overhead; capital structure; financial management and credit administration; budgeting; resource mobilization; margin and spread analysis; etc. The analyses will be undertaken in close collaboration with federation and cooperative staff with the intent of transferring PMO analytical skills and enhancing their ability to develop and implement appropriate service programs which contribute to the financial well-being of their organizations.

4. Agricultural Production, Marketing and Processing

The Agricultural Production and Marketing division is a new unit created to address the specific production, marketing and processing problems of the agricultural cooperative sector. Initially, it will be staffed by a Chief and six (6) agricultural engineers. The problems facing Guatemalan agricultural cooperatives are complex and are directly linked to the low productivity and profitability of small farmer agriculture. The organizations have been unable to provide the high quality production and marketing support required by their members due to a variety of reasons. In particular, the cooperatives lack infrastructure, capital, management skills, and the ability to identify economically viable service options which can impact directly on their farmer members. The cooperatives' ability to develop and provide the requisite member support services is directly linked to earnings, and traditionally these have been so low that the organizations have limited services to input supply.

The long-term viability of the agricultural cooperatives is dependent on their ability to provide profit-making services to their farmer members. To date, these organizations have been dependent on low-cost external loans and grants from a variety of donor organizations to finance their operations. As funding has become more scarce, the quality and variety of cooperative services has diminished, as has the earnings potential of cooperative members.

The PMO's Production and Marketing Division has been established to address the commercial side of the agricultural cooperatives and the technical assistance and service requirements of their members. It will work closely with the Finance & Credit and the Institutional Development division's in providing technical guidance to federation and cooperative staff in the development of the business side of their organizations; and, it will provide grant-funded assistance to finance programs which can enhance the productive and earnings potential of their farmer members. The package of PMO assistance will therefore include:

-- technical assistance to analyze and develop commercial agricultural service programs (e.g., input supply, export marketing, credit delivery, etc.);

-- financing and technical support to develop agricultural investigation and extension programs in areas such as integrated pest management, natural resource management, small-scale irrigation, crop diversification, soil sampling and fertilizer trials, etc.

5. **Promotion and Training**

The Promotion & Training division is designed to address a broad range of training needs identified during Phase I of the Project. It will be staffed with a Chief (the expatriate Staff Development Specialist) and two subordinates with skills in credit & finance and agriculture. During the first year of the extended Project, the primary purpose of the Promotion and Training division is to increase the awareness, competence and management skills of elected leaders. Many of the policy and operational changes necessary to reorient the cooperatives toward commercial business development requires the prior approval of Board's of Directors (e.g., pricing of services, retention of earnings, budgeting, etc.). The institutional development process initiated during Phase I was slowed in part by a lack of understanding among Board members of the need for change. This resulted in uncertainty and an unwillingness to adopt new operational policies which were critical to the development of more effective and profitable service programs.

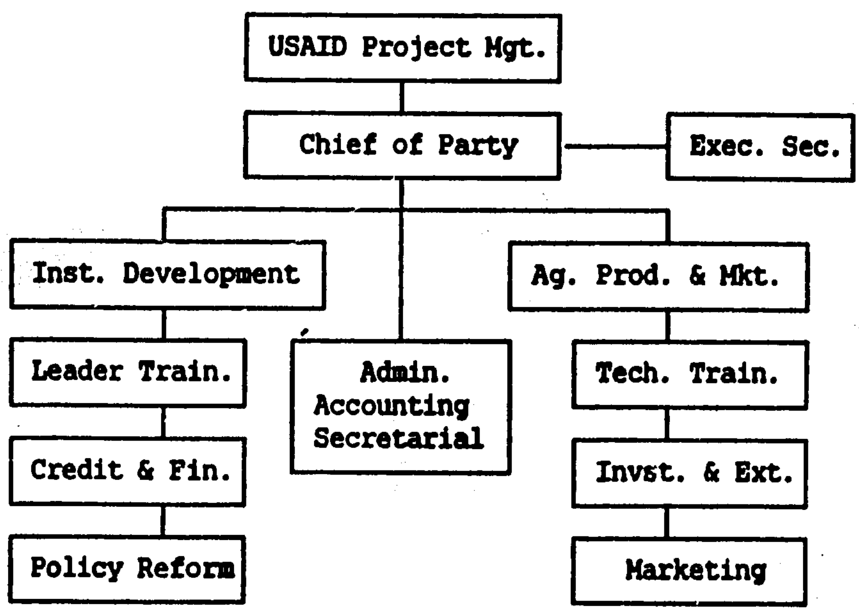
The Promotion and Training division will promote the policies and procedures being developed by the PMO's technical divsions in working with Federation and cooperative staff. Emphasis will be placed on Board/management responsibilities and authority; fundamentals of administration; interpretation of financial statements; financial controls and reporting; cooperative business development; operational policy analysis; parliamentary procedure; etc. The division will operate in close coordination with the other technical units, and will develop Board training programs which are closely tied to the ongoing technical analysis and training work being undertaken with cooperative staff. The goal is to introduce the Project's policies, norms and procedures to Board members, and promote the business approach to cooperative operations that guides project development. The purpose of the Board training is to prepare members for the policy and operational changes that must be approved if their organizations are to attain long-term independence and viability. For example, while the Credit & Finance division provides technical training to cooperative staff in loan analysis procedures, the Training division may provide Board members with training in credit policies and interest rate determination. The intent is to reduce the gap of understanding that exists between the technical staff of the cooperatives and their less-skilled leadership as a means of increasing Board support of the institutional change process.

C. EXTERNAL TECHNICAL ASSISTANCE

A three-person technical assistance team will be contracted by USAID/G to provide technical and management guidance to FENACOAC's Project Management Office during Phase II of the Project. The composition of the technical team will address the three ongoing areas of priority activity envisioned during Phase II: financial systems development; training and technology transfer to cooperative leaders and staff; and agricultural cooperative business development. The skills of the resident advisors will be complemented by a component of approximately 64 p/months of short-term specialists in a wide variety of areas, including: resource mobilization, liquidity management, and capital formation; agricultural processing and marketing; input supply; specific crop production technologies; natural resource management; coffee technification; handicraft marketing; etc..

The resident personnel will include a Finance and Credit Advisor; a Staff Development and Training Specialist; and an Agricultural Cooperative Business Development Advisor. The advisors will backstop the technical divisions of the Project Management Office, as well as providing direct technical support and guidance to the participating cooperative organizations. In addition to the specific technical responsibilities of the Chief of Party, this individual will also work in close coordination with the Project Administrator (FENACOAC) and USAID/G Project Management in all aspects of project development, including: regular reviews and reporting of progress; development of implementation strategies and policies; and, overseeing the operations of the Project Management Office. As noted earlier, FENACOAC will continue to delegate responsibility for day-to-day implementation to the PMO, which will manage project resources in accordance with the guidelines of the Cooperative Agreement; however, the Federation remains the Grantee and must be regularly consulted on all aspects of implementation, evaluation of progress, and reporting.

Once the Agricultural Cooperative Business Development Advisor has arrived in-country and been oriented to the ongoing programs of the Project, the final operational structure of the Project Management Office will be set in-place. Two operational divisions will be created: (1) an Institutional Development Division to continue the internal development of the participating cooperatives, and (2) an Agricultural Production and Marketing Division to increase the emphasis placed on the development of agricultural cooperative business volumes while supporting technical programs which impact directly on the value of production and the productivity of their farmer members. The PMO structure will become as follows:



ANNEX E.5

PARTICIPATING INSTITUTION PROFILES

A. BACKGROUND ON THE COOPERATIVE MOVEMENT

In the early 1970s, the Guatemalan government had demonstrated a limited capacity and commitment to help the rural poor. Consequently, the International Agency for Development (AID) and other international donors adopted a strategy of fostering farmer-owned cooperatives as a means of reaching the Highland farmers with the resources needed to improve their productivity and incomes. Cooperative development was viewed as a supplement to the very limited public sector programs (e.g., in the 1970s, GOG programs were extending credit to only three percent of small Guatemalan farmers and only 70 extension agents were working in rural areas). It was hoped that effective farmer cooperatives would encourage the Government to adopt a more vigorous posture in reaching the rural poor.

By November, 1975, the increase in international donor assistance helped turn-around GOG policy, resulting in widespread development of Guatemalan cooperatives. An estimated twenty percent (20%) of the Highland Indians were involved in some sort of cooperative; this percentage increased significantly following the 1976 earthquake, when large amounts of reconstruction aid were channeled through rural cooperatives. By the late 1970s Guatemala was home to the fastest growing cooperative movement in Latin America. Some 510 cooperatives, organized into eight federations with a combined membership of more than 130,000 individuals, operated in rural areas. Fifty-seven percent (57%) of these organizations were located in the Western and Central Highlands, and they were exerting a profound impact on political attitudes, marketing strategies, and agricultural production techniques.

Prior USAID/G Assistance to Cooperative Development

USAID/Guatemala began to support cooperative development in the mid-1960s. The Mission provided substantial backing to the nascent credit union movement through a technical assistance contract with the Credit Union National Association (CUNA).**2.CUNA transferred responsibility for its international credit union development contracts to the World Council of Credit Unions (WOCCU) in the early 1980s.* These activities led to a consolidation of independent credit unions and the establishment of a national credit union federation, FENACOAC. A Mission-funded project with Agricultural Cooperative Development International (ACDI) led to the creation of six regional agricultural cooperatives that comprised the Federation of Regional Agricultural Cooperatives, or FECOAR. The Mission continued to support cooperative development during the 1970s and 1980s. Both the Small Farmer Development Project and the Small Farmer Marketing Project, for example, focused on cooperatives as mechanisms for channeling assistance to the rural poor. Several recent projects -- notably the Agribusiness, Dairy and Cooperative Strengthening projects -- highlight the

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Mission's continued interest in, and commitment to, developing cooperative organizations.

B. CURRENT STATUS OF FEDERATED SYSTEM DEVELOPMENT

Preservation and improvement of the federated cooperative movement has been an important element of the Project implementation strategy. Working with the base-level cooperatives through the federated structure, the Project seeks to ensure the widest impact and support of the institutional development program. All actions with base-level cooperatives are undertaken by agreement with their parent federations, and programs that include activities with both federations and their affiliates are emphasized. Because development varies widely among the cooperative federations, their base-level affiliates, and the non-federated, independent cooperative sector, the institutional strengthening program must be individually tailored to fit the needs and opportunities of each cooperative system.

Within the federated organizations, this process is well-advanced. Institutional analyses have been completed, development strategies have been designed and negotiated, and implementation with five (5) federations has been underway for approximately 2.5 years. In the purely financial cooperatives (FENACOAC and its credit union affiliates), development strategy has targeted three priority areas -- resource mobilization and capital formation; credit administration and portfolio management; and promotion and marketing of services. The Federation has modified its capitalization, credit and financial management strategies to compete more effectively with the public and private sectors, and it is now in a position to develop the savings and loan service potential of its urban and rural affiliates so as to capture a greater share of Guatemalan financial markets.

The agricultural and handicraft cooperatives face a different set of problems, though steps have been taken to improve the policy environment in which they operate. Several of the federated systems have adopted changes to improve their administration, management and member service programs, but sustained development will require a longer period to ensure a transfer of skills. A similar situation exists within both the independent cooperatives and the federated systems: internal policies, administration and management are improving, but long-term development of these components is closely linked to the ability of members to increase productivity and incomes. The institutional strengthening process will seek to enhance the ability of non-financial cooperatives to provide their members with those services that generate cooperative earnings while also having a direct, positive impact on member income, including technical assistance and training, the provision of necessary inputs, direct and indirect cooperative participation in marketing and processing, financial assistance, etc.. Ultimately, the ability of cooperatives to provide their members with high-quality, competitively-priced services will determine their capability to attract members and capital--the basic ingredients for cooperative growth and long-term viability.

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C. PARTICIPATION CRITERIA

The participation by different cooperative systems in the project will be guided by several procedures and principles:

a. Diagnostic studies, prepared jointly by the TDU technicians and by staff of interested federations and their affiliates, will comprise the first step of participation. The overall, potential viability of the enterprise will be examined closely, as well as the identification of key problems and areas of opportunity, including suggestions for priority actions.

b. Concurrence is to take place between the federations and the TDU on major problems, issues, and probable remedial measures, as well as on cost-sharing and authority for actions. Boards of Directors must ratify a program outline for development at this stage.

c. Participation by federations will be formalized in a written agreement. This document should include objectives, primary actions to be taken, commitment of resources, standards of measurement of results, and conditions for expanding participation.

d. Continued participation by the federations will be contingent upon results, compliance and general completion of development plans, normally drawn up on yearly terms.

e. In selecting participating federations, preference will be given to the following criteria:

   (1) Cooperatives operating outside Guatemala City or providing services to members whose pursuits are basically rural in character.

   (2) Cooperative services directed at members' enterprises which produce regular income. Services supporting agriculture, artisanry, cottage and small enterprise, commerce, trades and professions will be given priority.

   (3) Cooperative services or programs which neither compete directly with the government nor depend heavily upon subsidies.

D. SUMMARY OF THE NATIONAL COOPERATIVE ORGANIZATIONS

1. National Credit Union Federation (FENACOAC)

The national credit union system -- represented by FENACOAC and its sixty-nine affiliates -- is the largest and strongest of Guatemala's national cooperative organizations. Founded in November, 1963, FENACOAC has grown to its current 100,000 individual members with assets totalling 50.0 million Quetzales. The present credit union system had its origins in the Catholic Church (i.e., many Maryknoll missionaries promoted community credit unions in the late 1950s and early 1960s) and the Agency for International

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Development, its first significant international donor. AID's assistance began in early 1964 through a contract with the U.S. Credit Union National Association (CUNA) and continued through 1975. During this period, FENACOAC received technical assistance, salary support, financing for training and promotion, and access to soft loans totaling approximately US$1 million for onlending to the affiliates. Rapid growth resulted, and the number of affiliated credit unions increased from 29 in 1965 to over 100 organizations in 1968. A professional staff, attention to profitability, reserve creation and leadership skills were put in place during this period of relative national prosperity and opportunity.

FENACOAC's performance during the decade of 1975-85 was marked by natural, political and economic adversity, unsuccessful attempts to develop a variety of income-generating projects, and a widespread stagnation of the affiliate base. A general climate of uncertainty led to resistance to change. Consequently, membership declined, services became more restricted, and the continued use of outdated and inappropriate lending and savings policies was rapidly weakening the movement (e.g., in 1983 loan delinquency represented 51.6% of the FENACOAC portfolio).

In early 1987, FENACOAC was analyzed prior to the IDP. The following problem areas were identified:

- -- An overdependence on external financing;
- -- the existence of significant long-term delinquency in the loan portfolio;
- -- limited economic potential among a large number of affiliates; and,
- -- widespread use of inappropriate lending and deposit mobilization policies.

The FENACOAC system was considered relatively stable at the time of the diagnostic evaluation, but much of this apparent stability was due to the existence of long-term, inexpensive international loans (which had been reinvested by the Federation in low-risk, high-yielding financial instruments). FENACOAC was not planning for the future reduction in external capital; lending to affiliates was restricted in order to more effectively control loan delinquency, and other support services (e.g., insurance, technical assistance, etc.) were of limited scope and usefulness. In brief, while the federation's short-term future was assured, it was not developing either the resource base nor the potential of its affiliates.

The development plan which resulted from the initial FENACOAC evaluation and the intervening 2.5 years of institutional development assistance was designed to revitalize the system through change in four areas: capitalization policy, interest rate policy, institutional capital formation, and savings mobilization.

a. Capitalization Policy

Over the years, FENACOAC's capitalization policy had become a source of friction with its affiliates. The policy, which required each affiliate to invest 5% of its member share balances in FENACOAC, earning a minimal 3% annual interest, was criticized by a growing number of the larger credit

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unions as inequitable. As credit union membership and share capital grew, affiliates were required to invest increasingly larger amounts of capital in low-value FENACOAC shares. Since the small credit unions are provided equal representation in the FENACOAC General Assembly (and on the Board of Directors), the value of this increasing share ownership was unclear. In addition, the minimal interest earned on the federation shares (3%) represented a significant cost to the larger affiliates, since better rates of return were available within the commercial banking sector. At best, the affiliates expected to recover some of this investment through improved FENACOAC services and/or preferential treatment in services (e.g., better loan terms).

The Project's institutional development program with FENACOAC reached an important milestone in September, 1989, when the federation modified its capitalization policy to:

- -- require that affiliates invest a minimum of 1 percent of their net assets in FENACOAC shares;
- -- permit the payment of higher rates of interest on affiliate share capital; and,
- -- abandon the policy of limiting credit union loan size to a fixed multiple of its share balance, and instead introduce a lending policy guided by ability-to-pay and guarantees offered.

The policy changes, well-received by all the affiliates, immediately reduced the amount of obligatory share deposits from 72 percent to 2.6 percent of total assets. The newly available credit union liquidity was used to reduce outstanding Federation loan balances and/or for 1-year Certificates of Deposit earning more than 11 percent interest.

The impact of these changes remains crucial to the long-term development of the national credit union system. FENACOAC regained its leadership position with affiliates and recovered some of the confidence lost during the decade of the 1980s. The affiliated credit unions obtained (1) a decreased liability position vis-a-vis the federation; (2) increased future liquidity as share deposits were liberated; and (3) increased income from a potentially secure and safe investment in the federation. The FENACOAC decision to implement these reforms was due to the assistance provided through the Project and represents a major change in capitalization procedures not only for Guatemala but also among most other Latin American federations. It will force the Federation to pay competitive rates of interest for affiliates' funds and should stimulate both the savings and capital available to the institution.

b. Interest Rate Policy

The Project also has had a significant impact on the federation's interest rate policies. In 1989, FENACOAC increased interest rates on loans to its affiliates from 9 percent to 11 percent, and a commitment was made to review and adjust interest rates annually in accordance with the prevailing costs of capital. Although lending rates are still below the market, the upward shift is an indication that FENACOAC is willing to move from its dependency

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on inexpensive, subsidized credit as a source of operating capital to competing for resources with private financial markets.

c. Institutional Capital Formation

The FENACOAC development strategy is also promoting the accelerated creation of institutional capital (i.e., undivided reserves derived from earnings) as a substitute for traditional dependency on captive, low-cost member shares and external loans. The Federation plans to create this capital by (a) increasing net income, (b) limiting the distribution of dividends, and (c) reducing operating overhead. Working capital will derive from savings generated within the system, and overall success of this strategy will depend upon the ability of the system to capture earnings, calling for more aggressive, efficient and competitive behavior in financial markets.

d. Savings Mobilization

The final link in the financial strategy for the credit union system is the development of an aggressive domestic resource mobilization program. Aware of the importance of internal savings to its long-term independence and viability, FENACOAC has taken actions to attract new savings. In the medium-term, FENACOAC hopes to become a "liquidity manager" for the affiliated credit unions (rather than a mere conduit for cheap external credit), but this is likely to be a long, difficult process. Although the Federation will continue to lend to affiliates, its success as a national financial intermediary is contingent upon two factors:

-- ability to retain earnings to accelerate the growth of permanent institutional capital; and,
-- ability of the affiliated credit unions to compete for savings and to generate the excess liquidity to be managed by the Federation

Although the credit unions participating in the Project-financed stabilization program have agreed to deposit their excess liquidity in FENACOAC, the ability of the Federation to attract and retain these deposits will depend upon whether the Federation offers competitive interest rates. FENACOAC deposit rates are currently competitive (ranging from 11.75% to a maximum of 13.5%), but the recent changes in GOG monetary and fiscal policy and the likely response of the commercial banking sector will necessitate regular policy review to avoid being priced-out of the market. In the future, both the Federation and its local affiliates will need to offer a wider variety of services in order to retain old members and stimulate new member affiliation and deposit growth.

2. Federation of Regional Agricultural Cooperatives (FECOAR)

The agricultural cooperative system represented by FECOAR and its six regional affiliates is one of the strongest of the national federations. It was also developed with assistance from the Agency for International Development, which in early 1970 signed a contract with Agricultural Cooperative Development International (ACDI) to develop an agricultural cooperative model capable of directly benefitting large numbers of the rural poor, particularly the Indians of the Western Highlands. The program was designed to increase the production of basic grains, enhance the income of the small farmer, and improve the quality-of-life in the countryside as a means of discouraging migration from rural to urban areas.

The regional structure of the agricultural cooperatives promoted by ACDI was unique among Guatemalan organizations. Developed as an alternative to the traditional community-level cooperatives which were viewed as too small to generate the income needed to hire and retain competent management, the model envisioned a federation with six regional headquarters that would each service 3,000-5,000 farmers living within a twenty-mile radius of each affiliate. Cooperative membership was drawn from local, village-level groups of 30 to 40 farmers, which then became the mechanism for channeling services to individual farmers. All members of the regional cooperatives meet as a General Assembly to elect a Board of Directors, which in turn hires the Manager and the administrative staff.

The Federation acts as a wholesaler of credit to its affiliates, as well as provides services such as internal auditing and marketing. FECOAR grew rapidly during the early 1970s, and at its peak had a combined membership among affiliates of over 16,000 farmers. However, the late 1970s and the early 1980s ushered in a politically disruptive period for Guatemala's cooperative movement. Key staff, leadership and members were lost; loan delinquency increased; services were curtailed; and the federation's capacity to support its affiliates in such areas as staff development, auditing, planning and promotion was extremely limited.

FECOAR was diagnosed by the Project Management Office in February, 1988. The institutional assessment identified the following problem areas:

-- high loan delinquency with the principal creditor, BANDESA;
-- high loan losses among the affiliates;
-- general stagnation in services and overall declines in membership;
-- over-dependence on one service activity (fertilizer sales);
-- over-centralization of decision-making;
-- inadequate policy guidance (credit, membership, and pricing of services); and,
-- a lack of marketing and development plans.

a. Development Strategy

The institutional development strategy which resulted from the FECOAR analysis is designed to restore financial stability and service capability by stimulating profitable member services, reducing the credit risk, and building institutional capital through retained earnings. FECOAR and its six affiliates are the only agricultural cooperatives to have received Project-financed stabilization assistance, although the overall development strategy is not expected to change significantly as the program is expanded to other organizations.

The FECOAR stabilization program has two primary objectives: recovering from the high loan delinquencies and operating losses incurred during the

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political disruptions of the late 1970s and early 1980s and reorienting operating policies to permit an expansion of effective and profitable service delivery to cooperative members. The financial stabilization program has begun to generate the income needed to write-off historical losses. However, it is but one component of an overall development strategy that includes increasing sales volumes, raising interest rates, providing incentives for cash sales, creating reserves for bad debts, writing-off bad loans, and increasing cooperative income. These are disciplines which are not found within a majority of the agricultural cooperatives.

b. Capital Formation

Weak capital formation strategies and poor credit administration are common problems among Guatemala's agricultural cooperatives. The FECOAR program has adopted a three-pronged approach to the capitalization issue:

-- <u>Credit Risk Premium</u>: A fixed 5% premium is now charged on credit sales of fertilizers to members. This practice was introduced to reflect the higher credit risk and to stimulate greater cash sales. The proceeds are held by the cooperatives as reserves against loan losses

-- <u>Retained Operating Surpluses</u>: The cooperatives have eliminated the distribution of operating surpluses until all accumulated losses have been paid.

-- <u>Recovery of Delinquent Loans</u>: Collections on loans previously classified as non-recoverable are used to create additional reserves against future loan recovery problems

c. Credit Administration

Closely linked to the capital formation strategy is the development of more effective loan approval and credit administration policies, and the FECOAR system has proven relatively efficient when compared to other Guatemalan agricultural cooperatives. FECOAR affiliates have significantly improved delinquency control over the past few years, closing the year with zero or minimal delinquency on their "current" loans (i.e., those which were issued that year). This is highly unusual for Guatemalan cooperatives, and some of the techniques used to recover "non-recoverable loans" and control new lending may be applicable to other agricultural cooperatives.

For example, one effective method being used to recover a portion of past due portfolio has been to offer a moratorium on interest payments. Although costly to the cooperatives, a surprising number of such loans have been recovered as a result. A separate method used to control new member lending involves the organization of members into small borrower groups, incorporating an ability-to-pay test at the grass-roots level and using "peers" to assess a members ability and/or willingness to repay a loan. The latter method has effectively improved the quality of the membership base. Cooperative loans are made only to individuals who belong to groups that are current in their payments. If one member is delinquent on a loan, the members of his group also become ineligible for new loans; in some cases, groups have decided to assist delinquent members by paying off the loan and restoring the group to good-standing. Long-term delinquency in the FECOAR system declined from 82% in 1986 to 56% in 1989 as a result of these policies, and further improvements should occur as the financial stabilization resources generate additional income.

The financial development strategy to be used within both the credit unions and agricultural cooperatives will remain focused on:

-- Creating mechanisms to increase reserves against irrecoverable loans;
-- Redefining the procedures for classifying loans as delinquent and calculating reserve requirements;
-- Recognition of losses and writing-down assets in amounts equal to the loans considered irrecoverable by applying reserves and share deposits of the debtor;
-- Creating mechanisms to strengthen the permanent capital base of the cooperatives; and,
-- Increasing interest rates on loans, deposits and shares to be more competitive with prevailing market rates and to mobilize greater amounts of share and savings deposits.

3. Federation of Agricultural Cooperatives of Guatemala (FEDECOAG)

FEDECOAG and its forty-eight (48) affiliates are typical of Guatemalan agricultural cooperatives. Formed in 1975, FEDEGOAG is an organization dedicated to the defense and representation of the small-scale, organized farmer, and currently has a membership of approximately 8,000 farmers. The Federation has been relatively successful in attracting assistance from international donors for a variety of socially-oriented development programs which target its small farmer members (including reconstruction financing following the 1976 earthquake), but it offers few effective, sustainable services and does not possess the basic elements of long-term economic viability. Its affiliates are generally small, widely dispersed organizations of uncertain potential producing a broad variety of agricultural commodities. During the early years, a combination of poor administrative and operational practices resulted in serious financial losses to both the federation and the cooperatives, and at the time of the institutional assessment (September, 1987) the future of the FEDECOAG system was in serious doubt.

The institutional analysis by the Project Management Office highlighted the following problems:

-- inappropriate operational policies;
-- overdependence on grant-funded international assistance;
-- inadequate capitalization;
-- poorly trained staff and leadership;
-- high loan delinquency throughout the system (74% of FEDECOAG loans with affiliates were more than one-year past due);
-- a weak and declining membership base;
-- widely disbursed, small cooperative affiliates with limited economic potential; and,

-- few profitable service programs.

The services provided by the Federation were entirely grant-funded and included cooperative training, a limited credit program, and technical assistance. Training was subcontracted to the Cooperative Training School in Chimaltenango (CENDEC), which emphasized cooperative administration and accounting. The CENDEC program was criticized as being too theoretical and affiliates were becoming increasingly unwilling to attend these events.

The Federation's revolving credit program was financed by international donations and the recovery of reconstruction loans disbursed following the 1976 earthquake. The program was designed to reactivate the service potential of the rural affiliates by providing them with access to production and investment financing for onlending to cooperative members. Although well-intentioned, the policy guidance for loan approval was inappropriate (e.g., no interest was charged), credit administration and loan recovery was poor, and the program was viewed as a social service rather than a revolving credit fund. As a result, loan delinquency and inflation decapitalized the fund and the ability of the Federation to expand the program.

The Federation's technical assistance program was and still remains the most effective ongoing service offered to affiliates. Six (6) FEDECOAG extension agents have provided relatively effective production and marketing assistance to the base-level organizations. Several of the larger South Coast affiliates produce vegetables for domestic consumption as well as for export and have developed profitable commercial relationships with local processors and international firms. Similarly, a number of Highland affiliates has diversified into the production of non-traditional crops, having negotiated relatively effective seasonal production contracts with local processing firms. Although production is limited by a severe shortage of financing, the FEDECOAG cooperatives are among a small number of organized farmer groups who have developed effective marketing and processing links with the Guatemalan private sector. FEDECOAG has managed to complement its limited technical assistance program by gaining access to the National University's "Ejercicio Profesional Supervisado" (Supervised Professional Studies) program, a six-month field study required of all University graduates. Like the technical assistance program, the EPS has been well-received by farmers.

The historical financial problems and apparent unwillingness of FEDEGOAG to adopt business-oriented policy mitigated against financial assistance, and the Federation's early participation in the Project was conditioned on progress in introducing improved operational policies. It was believed at the time that FEDECOAG would be unwilling to adopt business-like criteria to guide its operations and that it would withdraw from the Project before mid-year 1988.

The 1989 mid-point evaluation of the Project concluded that the opposite had occurred. The Project had succeeded in reorienting FEDECOAG's traditional role as an intermediary of social-oriented donor assistance, and concrete steps had been taken to redefine its service strategy policy. The Federation prepared a new, aggressive business plan: actions were taken to recover delinquent accounts; staff was reduced by over 50 percent to control

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operating costs, a policy of gradual increments in interest rates was adopted, and the Federation presented a debt rescheduling plan to BANDESA, its principal creditor.

While continuing to implement internal reforms, Phase II of the Project will include financial stabilization assistance to help the Federation write-down historical losses. As with all other Project participants, the stabilization assistance will be linked to continued improvements in FEDECOAG's financial management and operational policies. The Federation's institutional development program will also underscore the introduction of services which generate income, strengthen the links to the cooperative affiliates, and impact directly on their farmer members. For example, in 1989 the Federation opened a pilot farm supply store in the Western Highlands to permit capital-poor affiliates to retain stocks of agricultural inputs for resale to their members. Technical assistance will be provided to monitor and expand this farm supply program by developing commercial relationships with private farm supply firms and other cooperative organizations with similar input supply programs.

The Project will also begin providing technical support and financial assistance to a limited number of FEDECOAG's economically viable base-level affiliates. The Project's Production Services Component will permit the FEDECOAG affiliates to develop and implement agricultural extension programs designed to improve farmer yields of existing crops and to investigate and introduce crop alternatives. Agronomic assistance will target the use of improved seeds, new cultivation practices, and more effective and safe use of agricultural inputs such as fertilizers and pesticides. The Project will also sponsor investigation into existing and potential markets for cooperative member production. In particular, the Project will build upon the success of the South Coast and Highlands affiliates in working with local processing firms, evaluate contractual relationships and past performance, and assess the potential of other FEDECOAG affiliates for entering into similar arrangements.

The identification of the base-level affiliates to be targeted for Project assistance is currently underway, but the process is complicated by the small size and broad geographic dispersion of the cooperatives. Nevertheless, Project Participation Agreements have been signed with three of FEDECOAG's affiliates, and it is expected that a total of six to eight organizations will eventually be selected for the affiliate development activity.

The limited scope of the program must necessarily focus Project assistance on those organizations which possess the greatest short-term potential to address their internal problems while developing and introducing profitable member services. While this effort is underway, the Project will also assist the Federation in assessing the future of its smaller affiliates, including the possibility of purging non-viable organizations and/or restructuring to improve long-term viability (e.g., mergers, development of regional cooperatives, etc.). The future of the FEDECOAG system will depend upon its ability to address the limited potential of its current affiliate base, attract new members by offering competitive, high-quality services, and generate increased economic activity and earnings.

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4. Federation of Artisan Cooperatives (ARTEXCO)

Organized in 1976, the Artisans Cooperative Federation is a central service organization for twenty-two (22) artisan cooperatives located in the Western Highlands of Guatemala. The 2,200 members are small weavers (65% are women) who produce both hand-woven handicrafts and loom-woven textiles for resale in domestic and international markets. ARTEXCO provides its affiliates with access to international markets and technical assistance in product design, market information, cooperative organization, management and administration. The affiliates are located in 7 Departments in the Western Highlands, but a majority (12 cooperatives) are located 40-45 miles from the Federation's headquarters in Quetzaltenango.

During its early years, ARTEXCO attempted unsuccessfully to develop domestic markets for the handicrafts produced by its affiliates by opening retail outlets in the capital. This marketing strategy placed the federation in direct competition with traditional, local intermediaries who were well-known commercially and established in the market. Hampering that effort were the following internal problems:

-- weak federation and cooperative management and administration;
-- poor commercial relationships between the federation and its affiliates;
-- unstable demand for Guatemalan handicrafts in both domestic and international markets;
-- problems in quality control;
-- excessive variety of handicraft items that ARTEXCO attempted to market; and,
-- inadequate pricing and marketing strategies.

a. Shift to Export Marketing Strategy

In 1985, the Federation switched its domestic marketing focus to instead target the more profitable international markets for Guatemalan handicrafts. The Federation increased its participation in international fairs and began to develop new product lines which met with international standards (e.g., designs, sizes, color combinations, texture of products, etc.). A significant growth in sales ensued and ARTEXCO became better-known for the high quality of its products. With the exception of the central office in Quetzaltenango, retail outlets were closed, staff was reduced, and the Federation became a wholesaler of Guatemalan handicrafts. This shift permitted the Federation to take greater advantage of the large number of traditional weavers affiliated with the cooperatives; they responded effectively to the "custom weaves" and designs sought by the international market.

The marketing program continued to improve with the arrival of a German advisor, who in mid-1986 provided the federation with assistance in product design, quality control and international marketing, thus furthering growth in sales. International demand for loom-woven textiles (cloth) produced by ARTEXCO weavers has increased considerably since 1986. Although the Federation continues to market 60 categories of handicraft items (i.e., leather, wood and glass products), 84% of product volume is now derived from woven textiles. During the period 1985-1988, ARTEXCO's sales volume has shown the following growth:

Year	Net Sales
1985	$ 8,310
1986	$ 10,620
1987	$ 35,875
1988	$ 304,790
1989	$ 348,185

An institutional assessment of ARTEXCO, completed by the Project Management Office in March, 1988, confirmed the Federation had succeeded in developing a relatively secure international market for woven textiles. But it also identified a number of organizational and operational problems which could jeopardize the long-term viability of the system:

-- An over-dependence on international donations (particularly the marketing assistance provided by the German advisor);
-- a very weak affiliate base;
-- high operational costs in relation to sales volume;
-- poor information systems (e.g., accounting, financial reporting, and marketing);
-- inferior or non-existent policy guidelines (e.g., product pricing, capitalization, personnel, credit, affiliation, etc.);
-- inadequate staff training within both the federation and the affiliates;
-- over-centralization of authority in management and little participation of the Board of Directors; and,
-- lack of strategic plans to increase market share and strengthen the base-level affiliates.

The Development Plan that resulted was designed to consolidate the progress made in its marketing program and prepare the groundwork for further expansion of services and market share. Project assistance was provided to the Federation in all aspects of accounting and budgeting, personnel management, cost control and pricing of services, marketing and planning. The November, 1989, mid-point Evaluation concluded that this institutional development effort has had a significant impact on ARTEXCO's operations, including:

-- A dramatic, positive change in the manager's style and approach, with a new focus on production and marketing instead of politics;
-- A commitment to strengthening the affiliated cooperatives instead of working with individual weavers;
-- project-financed motorcycles had increased the federation's communication with its affiliates, and the supervision of product quality control had improved as a result;
-- a project-financed fan machine was being used by the federation to maintain better contact with its clients -- improving client service, creating access to new orders, and allowing better follow-up on orders;
-- project-financed improvements to the quality and consistency of its final products by manufacturing high-quality dyed yarns that do not bleed or fade;

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-- individual artisan-weavers not affiliated to the federation were organized into a new cooperative (Fan);
-- an accountant provided by the project had begun the process of developing and introducing accounting systems within several of the affiliates; and,
-- the federation had begun to exercise a new entrepreneurial attitude in its commercial relationship with the affiliates which had begun to translate into a greater marketability of the handicrafts being produced.

The second phase of the ARTEXCO development plan, initiated in early 1990, targets assistance at both the Federation and the cooperative affiliates through focusing on internal administration, financial planning, market development, and the introduction of new services for the affiliated cooperatives. The Project will finance a micro-computer system and an integrated accounting software package to enhance information management, as well as a feasibility study for a new, semi-commercial dye plant to be owned and operated by the Federation; it will assist the Federation in developing a training program for weaver members of the base-level affiliates and support a Federation extension program to enhance the administration and management of the cooperative affiliates.

The development of ARTEXCO's affiliate base is particularly important to the long-term growth and stability of the federated system. At present a majority of the affiliates are disorganized, undercapitalized and unable to address the production problems of their artisan members. Over 70% of the total volume of production marketed through the Federation is obtained from four of the twenty-two affiliates. Although ARTEXCO is committed to increasing its commercial operations with a greater number of affiliates, this will require increased technical training to improve product quality. As a result, ARTEXCO has been tempted to expand commercial relationships with independent, non-cooperative weavers.

The affiliate-level institutional development program will combine a series of Project-financed initiatives to begin addressing internal administrative and management shortcomings as well as upgrading services to members. ARTEXCO has tentatively identified eight (8) cooperatives for participation in the development effort. These cooperatives are among the best organized of the system, and they currently represent over 90% of ARTEXCO's commercial business volume. While the institutional development program moves forward, the Federation will undertake analyses of these organizations to identify and resolve problems (such as a lack of working capital) which are limiting productivity and product quality.

The program will be complemented by two additional ARTEXCO services to affiliates -- expansion of the semi-commercial dye plant operation and a technical training program to upgrade weaving skills among cooperative members.

The growing market for woven textiles has spurred weaver demand for greater quantities and higher quality dyed thread as that currently produced by ARTEXCO's dye shop. The products (e.g., shirts, jackets, bedspreads, belts, etc.) made with ARTEXCO thread represent 85% of the Federation's total sales, including 50 categories of products that use thread as a primary raw material. ARTEXCO estimates that sufficient demand exists to justify a semi-industrial dye shop with an installed capacity to produce 500 to 900 pounds of dyed thread daily. A project-financed feasibility study will be undertaken in mid-1990 to analyze this potential expansion, and if favorable the Federation will likely expand its limited dye plant operation. The introduction of a semi-industrial dye plant has two potential impacts -- (1) creating a new income source for the Federation which is not totally dependent on the international market for handicrafts; and (2), introducing a new, expanded service for the affiliates which may help them remedy the supply problems faced by their members for high quality, dyed thread.

ARTEXCO has also encountered serious problems of quality control which are in part due to the limited weaving skills of many cooperative members. The Federation's high volume/high margin foreign clientele demand strict compliance with product quality, color and design specifications; historically, few cooperative weavers have been able to meet these stringent requirements. As a result, the Federation began to develop commercial relationships with private, non-cooperative weavers. The affiliates were forced to deal primarily with importers who buy in Guatemala at lower prices and in smaller volumes. Reversing this trend will require the development of training programs to upgrade the weaving skills of cooperative members. In 1990, ARTEXCO will initiate an advanced training program for approximately 30 "master weavers" who have membership in four of the cooperative affiliates and are owners of small-scale weaving enterprises which employ unskilled trainees. The purpose of the training program is to develop a pool of skilled weavers within each of the affiliates who can transfer the techniques required to produce increased volumes of tie-dyed "jaspe" cloth, the most important single export of the Federation.

5. Federation of Cooperatives of Alta and Baja Verapaz (FEDECOVERA)

FEDECOVERA is a regional federation of agricultural cooperatives operating in the departments of Alta and Baja Verapaz in northern Guatemala. Founded in 1973 by 24 cooperatives, the Federation now has 32 affiliates and a membership of approximately 5,500 farmers. The cooperative members of FEDECOVERA date back to the period following World War II, when the Guatemalan Government confiscated properties belonging to German nationals residing in the country. These included twenty-four (24) well-developed and prosperous coffee and tea plantations, many of which had been in production since the late 1880s. After expropriation, the farms were mismanaged by a series of different Government agencies for approximately 25 years, a period which was characterized by widespread corruption and a virtual destruction of the farms' infrastructure and productive base. Equipment and facilities were lost or destroyed due to poor maintenance, few investments were made to retain or rebuild the productive potential, yields of coffee and tea declined drastically, and the widely-disbursed and poorly-managed "fincas nacionales" were ravished by their Government appointed administrators. Although the farms retained the laborers who had worked for the German owners, worker supervision was lax, productivity low, and farm earnings minimal.

In 1968, the administration of the national farms was transferred to the National Institute for Agrarian Transformation (INTA), and the land was

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reapportioned among 24 "cooperatives" comprising the former farm laborers. This organizational process was completed in 1973 with the founding of the Federation, but it remained little more than a paper organization for another decade. Cooperative members continued to work as farm laborers; little effort was made to promote cooperative doctrine and/or worker discipline; and Federation and cooperative management remained under the control of INTA, which hired and paid all professional staff. The situation remained static until 1982, when the military government appointed an interim Administrator of the FEDECOVERA system and the first concrete steps were taken to build the Federation and lessen its dependence on the Government. New bylaws were approved, a Board of Directors was created, and the system obtained its independence from direct Government control in mid-1984.

An institutional assessment of FEDECOVERA, completed by the FENACOAC Project Management Office in October, 1987, identified a broad series of problems which were likely to destroy the system if left uncorrected, including:

- -- A complete lack of internal information systems, operating manuals, and policies to guide the Federation's commercial relationship with its affiliates;
- -- absence of a disciplined system for credit allocation and loan administration and recovery;
- -- high accumulated loan delinquency;
- -- poor definition of lines-of-authority within both the Federation and among its affiliates;
- -- extreme paternalistic approach to service delivery and a lack of business focus in Federation/affiliate relationships;
- -- high operating costs in relation to income within both the Federation and among affiliates;
- -- extremely weak member capitalization and non-existent sense of ownership;
- -- low and declining yields of coffee per manzana, inconsistent processing quality, and weak market linkages;
- -- widespread illiteracy and extremely weak Federation and cooperative leadership; and,
- -- a lack of clear goals and strategic planning required to reverse historical trends.

The development of the FEDECOVERA system represented one of the more difficult challenges to the Project, and the development plan which resulted from the Assessment was designed to measure the Federation's willingness to adopt the operating controls and policies necessary to address its problems.

Initial Project assistance was limited to technical guidance in all aspects of cooperative administration, organizational development and policy; salary support was budgeted to hire a FEDECOVERA credit supervisor and an agronomist to improve production technologies in 4 of the affiliates; and intensive training was provided for federation employees and leaders in strategic planning, problem recognition and solution. By focusing on operating policies within the Federation, the Project hoped to restore leadership and control.

Although the Federation was lending working capital to the affiliates for "production costs," there was no effective credit policy and few criteria to guide these operations. In 1987, the Federation's outstanding loan portfolio with its affiliates had increased by 310% over the 1983-87 period, signaling an annual increase of approximately 42%. Loans were used by the cooperatives to pay wages, and little investment was made to improve the productivity of the coffee plantations. The resulting declines in coffee yields increased affiliate dependence on the Federation and in turn, FEDECOVERA's dependence on external sources of financing (e.g., BANDESA and coffee exporters) for working capital. Dues paid in to the Federation by affiliates were calculated as a percentage of the marketed volume of production (i.e., 10% for coffee and 3% for tea, cloves and cardamom), and they were increasingly insufficient to meet FEDECOVERA's working capital needs and affiliate demand for short-term production financing. As a result, the productivity of the coffee farms deteriorated; affiliate and federation relations became more strained; and, the initially strong bond that had existed between these organizations was weakened.

The November, 1989, mid-point evaluation of the Project concluded that significant progress had been obtained within the Federation:

-- FEDECOVERA had become more responsive to its members, access to management had improved, and the affiliates felt that it had become more interested in solving their problems;

-- a debt restructuring proposal and repayment plan was developed and presented to BANDESA;

-- there was a new commitment to using budgeting as a financial control tool; Instead of dishing out credit, the Federation adopted a strict budget control (budgets were developed for all member cooperatives) and evaluation of loan requests;

-- the new budgeting system reduced significantly advances to the cooperatives prior to harvest;

-- a new credit policy was adopted and an effective credit review process was introduced with an immediate impact on reducing new loan delinquency; and,

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

While progress on the operational front has been considerable, the internal disorganization and extremely low productivity of the cooperative affiliates remains a major obstacle to the long-term viability of the system. Cooperative administration is rudimentary and wholly dependent on the Federation; outstanding loans remain unpaid; coffee production and yields are severely constrained due to a lack of investment resources (e.g., average coffee yields are 6-8 hundredweight/manzana); and cooperative leadership continues to resist any "outside" control over their operations. Only a small portion of the arable land available is under cultivation, and that which is farmed has deteriorated due to soil erosion and poor cultivation practices.

The collective land ownership pattern carried over from the years of INTA's administration has had a particularly negative effect on cooperative member willingness to invest in on-farm improvements. Although only four percent (4%) of the cooperatives' land holdings are represented by the "collective parcels," the overall impact is significant since their commercial relationship with the Federation is dependent on the coffee produced on these lands. Little other non-coffee production from the cooperatives is channeled through the Federation, virtually eliminating its ability to attach cooperative earnings in repayment of past-due accounts.

6. Federation of Guatemalan Coffee Cooperatives (FEDECOCAGUA)

The FEDECOCAGUA system is well adapted to serve the interests of small-scale coffee producers starting with village level organizations operating in supplies and marketing. They have a wet milling capacity for cherry and processing and grading facilities for meeting export demand. The Federation has experience in honey marketing and technical assistance in coffee production plus effective programs directed at youth and women's enterprises. It is recognized for its leadership in representing small-scale grower's interests in public policy issues.

FEDECOCAGUA has an excelllent credit record with national and international lending institutions.

However, the Federation is overextended in its support of an extensive network of affiliates, many of which cannot maintain adequate administrative and management staff. Revenue from coffee marketing operations was cut drastically during the past two years due to a commodity retention scheme imposed by the government, and the Federation lacks working capital for holding inventories. Although retention requirements have been removed, the system is still undercapitalized for commodity marketing, a significant portion of which is transacted with non-members. Credit and supply operations produce losses due to policies which make the organization heavily dependent upon coffee marketing income to cover expenses.

FEDECOCAGUA is the most likely Federation or first candidate for short-term credit for working capital in its marketing operations. In the area of policy reform, there appear to be good opportunities for modifications in pricing and credit norms plus refinements in relationships between Federation and affiliates. New areas of business in the marketing of spices may be developed as well as improvements in the accounting service provided for affiliated cooperatives.

7. Federation for Agricultural Services and Marketing (FECOMERQ)

The strength of FECOMERQ lies not in its affiliates nor the Federation's cooperative character, but in its direct retail sales of farm inputs in the region of Chimaltenango. The Federation is philosophically committed to the cooperative technique and has a cadre of trained and inspired leadership in its organization. It has attracted considerable international support in past years and maintained a degree of loyalty in its membership through difficult times.

Subsidies and concessional credit have contributed to sloppy credit practices in the FECOMERQ system. Its disparate and dispersed affiliate base is generally composed of small, weak enterprises. The Federation has lost heavily in marketing ventures and is currently in a precarious financial position. Recent operations in fertilizers have caused the organization to lose prestige with government.

The outlook for a viable FECOMERQ is not good. Yet, the organization will probably welcome a thorough diagnostic examination. Follow-on interventions in the areas of policy adjustments, structural modifications and staff development will be difficult and depend on arrangements with creditors and other donors. Recapitalization and credit activities are unlikely to occur during the life of the Project.

Consultaron entre sí de qué forma lo harían,

PROYECTO
FORTALECIMIENTO
COOPERATIVO

DOCUMENTO SOBRE POLITICAS

GUATEMALA, JUNIO DE 1988

PROYECTO DE FORTALECIMIENTO COOPERATIVO

DOCUMENTO SOBRE POLITICAS

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POLITICAS DEL PROYECTO DE FORTALECIMIENTO COOPERATIVO

A. OBJETIVO GENERAL:

Fortalecer a las instituciones cooperativas del sector federado, a través de los tres componentes principales: Desarrollo Institucional, Estabilización Financiera y Crédito. Este fortalecimiento facilitará el logro de dos objetivos específicos: La Autosuficiencia Económica y el desarrollo y consolidación de la Mentalidad Empresarial Cooperativa.

B. POLITICAS GENERALES

1. El Proyecto de Fortalecimiento Cooperativo ha sido concebido para fortalecer el movimiento cooperativo federado de Guatemala, por lo que las instituciones que serán sujeto de asistencia técnica y financiera son las Federaciones y cooperativas federadas.

2. Tomando como base las metas y el enfoque del Proyecto, únicamente se aceptarán como participantes las instituciones cooperativas que se adapten a la mentalidad empresarial que trata de impulsarse dentro del Proyecto.

3. Todas las instituciones cooperativas que deseen participar dentro del Proyecto de Fortalecimiento Cooperativo, deberán someterse al proceso de calificación que ha establecido la Unidad Técnica del mismo.

4. Se ha establecido una interrelación entre los tres componentes del Proyecto. El desarrollo institucional es la base fundamental sobre la cual los fondos de estabilización financiera o crédito pueden fortalecer la institución y facilitar la autosuficiencia. Las instituciones participantes dentro del componente de Desarrollo Institucional podrán optar a cualquiera de los otros dos componentes del Proyecto.

5. La continuidad de la asistencia del proyecto en cualquiera de sus tres componentes, estará condicionada por la recepción de informes periódicos por parte de las instituciones participantes sobre el avance de los convenios y cumplimiento de los planes de trabajo. Estos informes deberán contener suficiente información que permita un seguimiento y monitoreo adecuado.

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6. Los planes de trabajo y los convenios de participacion podran ser modificados, enmendados o ampliados en base a una solicitud escrita de la parte interesada dirigida a la otra parte suscriptora del convenio. Para la aceptación o rechazo de la petición deberá solicitarse un dictamen u opinión al Equipo Técnico del Proyecto. La gerencia de las instituciones participantes deberá mantener informado a su Consejo de Administración sobre los cambios a los convenios y obtener su aprobación en caso fuera necesario.

7. El incumplimiento parcial o total de los convenios suscritos en cada institución, podrán dar como resultado la suspensión total del apoyo a la institución, dependiendo de la magnitud de la falta. Se debe entender como incumplimiento, toda falta a los convenios firmados o bien, la omisión, tardanza o retraso que en forma deliberada y por causas imputables unicamente a la institución recipiendaria se den en el desarrollo de los planes de trabajo previamente acordados.

8. Todas las actividades que se desarrollen dentro del Proyecto de Fortalecimiento Cooperativo serán orientadas hacia:

   a. Incremento en el número de asociados en las instituciones participantes

   b. Lograr equilibrio en los resultados financieros de las instituciones

   c. Fomentar e incrementar el ahorro y capitalización de los asociados en sus respectivas instituciones

   d. Fomentar e i[illegible]tivar la inversión de fondos propios de las institucione en actividades o proyectos productivos y viables o la ampliación de los existentes

   e. Mejorar [illegible]alidad de los lideres cooperativistas mediante la cap[illegible]ción en aspectos de administración de empresas y operac[illegible] cooperativist[illegible].

   f. L[illegible] que las instituciones participantes hayan modificado s[illegible]líticas de operación para alcanzar equilibrio en sus p[illegible]s, capitalización de sus asociados, establecimiento de reservas, control de morosidad e incentivos al personal

   g. Disminuir los niveles de [illegible] en las instituciones participantes

   h. Mejorar los sistemas de auditoria, [illegible]tabilidad, informes, administración de insumos, administración de créditos y movilización de ahorros, que se utilizan en las empresas cooperativas participantes

   i. [illegible] (previo estudio de factibilidad) un programa de [illegible]rativas de

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j. Canalizar fondos de crédito a los asociados bajo lineamientos previamente establecidos.

k. Reestructurar la deuda externa de las cooperativas y federaciones participantes, de acuerdo a su capacidad estimada de pago.

9. Todos los recursos destinados a financiar las actividades mencionadas, serán canalizados exclusivamente a través del Administrador del Proyecto (FENACOAC). FENACOAC desembolsará los fondos en base a las recomendaciones de la Unidad Técnica y las políticas y procedimientos aprobados por AID.

10. Todas las situaciones no previstas en este documento, serán resueltas en forma conjunta o por separado dependiendo del nivel de decisión a tomar, por la Unidad Tecnica del Proyecto, la institución administradora del fideicomiso (FENACOAC) y/o la Agencia para el Desarrollo Internacional (AID).

C. POLITICAS DE LA UNIDAD TECNICA DEL PROYECTO (UT)

1. El enfoque primordial de la UT será de fortalecer a las instituciones cooperativas, mediante una transferencia directa de tecnología a las cooperativas de primer y segundo grado.

2. La UT estará conformada por técnicos nacionales y extranjeros con experiencia en diferentes ramas. Las personas que trabajarán en la UT serán profesionales altamente calificados con la experiencia, capacidad, educación y conocimiento del medio, necesarios para alcanzar los objetivos de este proyecto.

3. Se tratará de minimizar los trámites burocráticos de la UT, mediante una administración eficiente de los recursos del proyecto y una conciencia de las necesidades de los beneficiarios. Para lograrlo el personal de la UT no estará asignado 100% del tiempo dentro de cada institución, sino de acuerdo a las prioridades que se establezcan y a la especialidad de cada técnico.

4. Cada decisión que se tome en lo que se refiere a la distribución de recursos entre Federaciones y cooperativas será aprobada de acuerdo a las politicas definidas por AID. Estas políticas deben ser acatadas por la Unidad Técnica y FENACOAC al ejercer sus funciones especificas, siguiendo los procedimientos administrativos y operativos establecidos.

5. La Unidad Técnica tendrá bajo su responsabilidad la calificación de las instituciones que participarán y el grado de asistencia a brindar dentro de los tres componentes del Proyecto. La calificación mencionada se determinará en base al potencial económico, capacidad administrativa, financiera y comercial y su disposición al cambio que aseguren la autosuficiencia y el desarrollo de las instituciones. El nivel de apoyo se determinará con base a las prioridades que se establezcan en las instituciones donde se pueda lograr mayor impacto en el desarrollo cooperativo.

6. Con el fin de determinar la situación en que se encuentran las empresas cooperativas objeto de este proyecto y el grado de asistencia que el Proyecto brindará, la Unidad Técnica llevará a cabo un estudio de cada institución, debiendo cumplirse secuencialmente los siguientes requisitos:

   a. Realización de un diagnóstico por parte del equipo técnico, para lo cual la institución deberá proporcionar toda la información que le sea requerida y otras facilidades que los técnicos del Proyecto necesiten.

   b. Aprobación por parte del Consejo de Administración del diagnóstico presentado

   c. Aprobación de un Plan de Trabajo por el CdeA, el cual estará basado en los hallazgos del Diagnóstico.

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d. Elaboración de un Presupuesto que contemple los desembolsos que se requerirán dentro de los tres componentes de Proyecto.

e. Suscripción de un Convenio que contendrá las condiciones que el proyecto requiere de las Instituciones, así como las actividades a realizar. Dicho Convenio será suscrito entre el Administrador del Fideicomiso (FENACOAC) y cada una de las instituciones.

7. Con el propósito de lograr unidad de mando, todos los aspectos técnicos y administrativos del Proyecto serán resueltos por la Unidad Técnica y el Administrador del Fideicomiso (FENACOAC) respectivamente. El Director de la Unidad Técnica y el Representante de FENACOAC serán responsables de la coordinación entre sí y con las otras instituciones involucradas en la ejecución del Proyecto.

8. Es responsabilidad de la Unidad Técnica la determinación del grado de cumplimiento por parte de la institución recipiendaria. En casos necesarios la Unidad Técnica propondrá la realización de una auditoría externa o la rescisión definitiva del convenio y podrá dejar de prestar la ayuda sin ningun compromiso de su parte.

9. Las actividades del Proyecto serán programadas normalmente en forma anual; la Unidad Técnica evaluará el impacto, efectividad y cumplimiento de las actividades desarrolladas. De los resultados de dicha evaluación dependerá la extensión o continuación de la asistencia en cualquier modalidad que se haya pactado.

10. Los planes de trabajo de cada institución se elaborarán con la participación activa del personal idoneo de la institución recipiendaria, por lo que deberá haber una estrecha colaboración entre el Equipo Técnico y el personal de cada Federación para ejecutar el plan de trabajo. El Equipo Técnico proporcionará asistencia a cada Federación, siempre y cuando el personal asignado por la misma esté presente para realizar los trabajos en forma conjunta; o bien, haber cumplido con la ejecución de trabajos solicitados por los miembros de la Unidad Técnica.

11. Con el propósito de evitar subutilización de recursos del Proyecto y para no duplicar esfuerzos en áreas similares, las Instituciones participantes informarán a la Unidad Técnica sobre apoyos que estén recibiendo de otras instituciones.

12. El personal del proyecto mantendrá contacto constante con las instituciones participantes, para lo cual se asignarán dos personas dentro de la Unidad Técnica del proyecto como responsables de la comunicación y coordinación con éstas. Uno funcionará como responsable principal y el otro como suplente. Estas personas coordinarán la participación de los

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D. POLITICAS DE DESARROLLO INSTITUCIONAL

1. El desarrollo institucional debe entenderse como una inversión de tiempo, recursos humanos y capital tanto del Proyecto como de la institución participante. El rendimiento de esa inversión deberá reflejarse en un incremento de la eficiencia, efectividad y rentabilidad de la institución, lo cual ayudará a lograr la autosuficiencia.

2. El propósito primordial del desarrollo institucional es de fortalecer la capacidad empresarial de cada institución para poder operar como una verdadera empresa cooperativa en un ambiente altamente competitivo.

3. El Proyecto de Fortalecimiento Cooperativo brindará el desarrollo institucional mediante las siguientes modalidades:

   a. Estudios, análisis e investigaciones realizadas por los técnicos extranjeros y nacionales que trabajan permanentemente en el Proyecto.

   b. Contratación de personas para reforzar áreas especificas en las organizaciones a corto o mediano plazo.

   c. Financiar parcialmente los sueldos o programas de incentivos al personal competente de aquellas instituciones cuyas condiciones financieras no lo permitan temporalmente.

   d. Contratación de especialistas nacionales o extranjeros, para cubrir aquellas áreas donde no se cuenten recursos propios del Proyecto o bien donde éstos sean insuficientes.

   e. Adquisición de bienes y suministros para desarrollar actividades que sean determinantes para lograr las metas establecidas y que las instituciones no sean capaces de adquirirlos con sus propios recursos.

   f. La aplicación de programas integrados de capacitación para los diferentes niveles de directivos y empleados de las Cooperativas y Federaciones.

4. La contratación de personal para prestar asistencia a corto o mediano plazo en las instituciones, se determinará en base a las necesidades de la institución y se buscará no incrementar exageradamente la estructura de las mismas. La participación del proyecto en subvencionar el sueldo y prestaciones de esta persona será temporal por lo que las instituciones deberán hacer reservas para la cobertura de estos gastos en el futuro.

5. La contratación de estudios específicos se hará con personas o firmas nacionales o internacionales de reconocida capacidad en el campo que se trate. La adjudicación de dichos estudios se hará en función a las propuestas técnicas que las mismas presenten en combinación con las condiciones que ofrezcan. El equipo técnico del proyecto supervisará y evaluará constantemente el trabajo realizado con el propósito de asegurar la calidad y confiabilidad de los resultados obtenidos.

6. Las actividades de capacitación estarán orientadas a ayudar a las empresas cooperativas a conocer sus alcances y objetivos en una forma realista y a mejorar la eficiencia de los participantes en sus áreas específicas de trabajo, con énfasis en el sentido empresarial que debe tenerse en la toma de decisiones a los diferentes niveles de la organización.

7. Para desarrollar las actividades de capacitación se utilizarán principalmente los recursos propios del proyecto y los que pudieran brindar las organizaciones que componen el consorcio ejecutor del Proyecto (WOCCU, NCBA, ACDI, COLAC), así como aquellos que se encuentren a nivel nacional. En aquellos casos, en que no se cuenten con recursos nacionales se procederá a contactar personal con experiencia en las áreas específicas en un medio similar al de Guatemala.

8. Se establece como un requerimiento de toda actividad de capacitación o entrenamiento, la evaluación del aprendizaje del participante; asimismo, se evaluará la aplicación práctica de los conocimientos adquiridos en las actividades de capacitación en la ejecución de su trabajo. Lo anterior servirá como base para la continuación de los programas de capacitación previamente acordados.

9. Los equipos y bienes de capital se concederán a las instituciones en consignación. En el caso de incumplimiento, el proyecto podrá trasladar equipo y bienes de una institución a otra, sin ocasionar perjuicio para ninguna de las partes involucradas en la transacción. El proyecto determinará el momento oportuno de trasladar en propiedad, los equipos y bienes a las instituciones, de acuerdo a las políticas y procedimientos definidos por AID.

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E. POLITICAS DE ESTABILIZACION FINANCIERA

1. La estabilización financiera es una actividad complementaria dentro del Proyecto de Fortalecimiento Cooperativo, por lo que no se podrá poner en ejecución este componente, si no se encuentra en ejecución un Plan de Desarrollo Institucional.

2. La Estabilización Financiera requiere 4 elementos básicos:

   a. Sistemas efectivos de mercadeo para los servicios

   b. Administración empresarial efectiva por parte de personal calificado

   c. Políticas adecuadas en administración, finanzas y mercadeo

   d. Sistemas de Control Interno (monitoreo, auditoría, contabilidad)

   e. Capital de trabajo para efectuar consolidaciones, depuraciones y reestructuraciones de activos no rentables.

3. La Estabilización Financiera implica las siguientes disciplinas financieras:

   a. Establecimiento de requisitos mínimos de capital

   b. Establecimiento de requisitos de reservas de capital

   c. Establecimiento de reservas adecuadas para activos no productivos y riesgos eventuales en operaciones. Se ve implícita la necesidad de evaluar continuamente la calidad de los activos

   d. Eliminación total de los déficits crónicos de las instituciones

   e. Establecimiento de un sistema de capitalización interna dinámica, que genere capital de acuerdo a las necesidades de la institución

4. Todos los esfuerzos del Componente de Estabilización Financiera, se encuentran orientados hacia:

   a. Restaurar la viabilidad financiera de las instituciones y evitar la intervención, remates o quiebra total de las mismas, siempre y cuando demuestren potencial económico para hacerlo.

   b. Preservar el valor de las aportaciones de los asociados y de esta manera recuperar la confianza de los mismos.

   c. Reestablecer la confianza de los acreedores y el carácter de sujeto de crédito de la institución participante, mediante

d. Facilitar y ejecutar acciones críticas y necesarias, tales como: fusiones, reestructuraciones, depuraciones y liquidaciones.

e. Lograr la autosuficiencia de las instituciones participantes a largo plazo.

5. Los recursos de estabilización financiera estarán orientados a reforzar temporalmente el capital. Sólo las instituciones que participan activamente y utilizan los servicios de su Federación serán elegibles para la adjudicación de fondos.

6. Las instituciones que participarán en este componente serán calificadas de acuerdo al avance y desarrollo que hayan mostrado en las actividades de desarrollo institucional y a la implantación de políticas que aseguren una buena utilización de los recursos otorgados. Además, deberán llenar los siguientes requisitos:

a. Potencial económico y viabilidad financiera

b. Plan de Estabilización elaborado por la Unidad Técnica

c. Sistemas adecuados de control de la morosidad y cobranzas

d. Anuencia para la supervisión de la Unidad Técnica con el fin de verificar el cumplimiento de los requisitos

e. Incorporación de políticas realistas de fijación de precios para lograr cubrir los gastos de operación y la creación de reservas de capital.

f. Sistema apropiado de capitalización

g. Firma de un convenio de no intervención con los acreedores con quienes la institución se encuentra morosa.

7. La Unidad Técnica calificará a las instituciones cooperativas de acuerdo a los criterios anteriores y determinará su elegibilidad para la participación dentro del componente de estabilización financiera.

8. La aplicación de estos fondos deberá estar orientada principalmente al financiamiento de actividades generadoras de excedentes, con el propósito de capitalizar a largo plazo la institución.

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9. Se podrán utilizar como instrumentos complementarios para lograr la estabilización financiera de las instituciones, los siguientes:

   a. Compra de Activos y Arrendamientos

   b. Capitalización (aportaciones especiales, reservas)

   c. Avales

   d. Préstamos Blandos

   e. Fideicomiso Especial

   f. Fusiones

   g. Liquidaciones

10. La Unidad Técnica determinará conjuntamente con la Institución participante y la Administradora del Fideicomiso (FENACOAC), el o los mecanismos que se aplicarán en cada institución en particular.

11. Para el desembolso de los fondos de Estabilización Financiera se podrán utilizar las modalidades siguientes:

   a. Efectivo

   b. Especie

12. Para el desembolso de los Fondos de Estabilización Financiera se procederá a elaborar conjuntamente entre la Unidad Técnica y la institución participante un Plan de Desembolsos con el propósito de satisfacer oportunamente las necesidades de capital de las instituciones y de proyectar las necesidades financieras del proyecto.

13. La Unidad Técnica y la institución participante tomarán las medidas que consideren oportunas para evitar la intervención de los acreedores, en las instituciones que son sujeto de estos fondos, mientras son mejoradas o fortalecidas por el Proyecto.

14. Las instituciones que participen en este programa deberán constituir un fondo de amortización, para el reintegro de los fondos recibidos por este concepto al Proyecto, posteriormente a darse su fortalecimiento. Estos fondos serán destinados para estabilizar otras instituciones que deseen participar en el futuro.

15. Las instituciones participantes deberán comprometerse mediante la suscripción y firma del Convenio respectivo, a seguir los pasos, lineamientos y actividades que sean recomendadas por la Unidad Técnica para tener el impacto que se pretende en este componente.

16. Las instituciones estarán sujetas a fiscalización y auditoría para asegurar que se está cumpliendo con los requisitos del Convenio de Estabilización Financiera. La Unidad Técnica designará la o las firmas de auditoría que puedan examinar los libros de las organizaciones participantes.

17. Las instituciones participantes deberán tener cobertura de seguros y fianzas de una empresa especializada, juzgada responsable y estable por la Unidad Técnica.

18. La Unidad Técnica tiene la autoridad suficiente para suspender, modificar o eliminar la asistencia en este rubro, en caso se determinara incumplimiento en los Convenios, imputables a la Administración de la institución participante.

F. POLITICAS DE CREDITO

1. El componente de Crédito es el tercer elemento del Proyecto de Fortalecimiento Cooperativo, el cual será canalizado a las instituciones participantes para fortalecer su capacidad económica en la prestación de servicios.

2. Todas las acciones de este componente estarán encaminadas a:

   a. Mejorar la actividad económica del movimiento cooperativo federado, a través del crédito productivo de corto y mediano plazo que será destinado a actividades productivas.

   b. Recuperar la actividad crediticia de las instituciones participantes, que no operaban por falta de recursos en las mismas.

   c. Proporcionar acceso al crédito productivo a los asociados que no han tenido oportunidad en la banca privada u otras entidades financieras.

3. Se contempla la canalización de los fondos crediticios, a través del sistema federado, es decir, no se concederán préstamos directos a las cooperativas, sin canalizarlos por las respectivas federaciones.

4. Para calificarse como sujetos de crédito de los fondos del Proyecto, cada Federación/Cooperativa tendrá que llenar los siguientes requisitos:

   a. Pertenecer al sector cooperativo federado

   b. Estar al día con las cuotas de membresía y capitalización

   c. Estar involucrado en actividades que generen ingresos, tales como: ahorro, crédito, producción agrícola, comercio, pequeña industria, artesanía y cualquier otra actividad rentable

   d. Participar activamente en el componente de Desarrollo Institucional de este Proyecto

   e. Estar dispuesto a someterse a una auditoría externa para verificar el cumplimiento de las condiciones del préstamo

   f. Haber adoptado políticas financieras y operativas que aseguren la viabilidad económica de la institución

   g. Contar con fianzas

   h. Tener establecido un sistema de controles internos sobre créditos y administración satisfactorios.

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5. Cada institución que presente una solicitud de fondos crediticios será calificada por la Unidad Técnica, considerando los siguientes criterios:

   a. Perfil crediticio del prestatario

   b. Estados financieros actualizados

   c. Utilidades netas y capacidad de pago

   d. Proyecciones del Flujo de Caja

   e. Condiciones y convenios del Préstamo

   f. Calidad y valor de garantías

   g. Políticas crediticias de la institución

   h. Sistema de capitalización

   i. Control y recuperación de los créditos morosos

   j. Nivel de capacitación del Departamento Crediticio

   k. Situación de las deudas morosas con acreedores

6. Los fondos crediticios pueden ser destinados a cualquier actividad rentable a corto o mediano plazo previamente calificada por la Unidad Técnica, siempre y cuando las instituciones demuestren que tienen la experiencia, el conocimiento y la capacidad para invertir y recuperar los fondos en dicha actividad. Dichos fondos pueden servir para capital de trabajo o inversiones semipermanentes tales como: ampliación y mejoramiento de servicios, incremento de la base productiva de los asociados, mejoramiento de cultivos, etc.

7. No se contempla el otorgamiento de préstamos solamente para brindar servicios a no asociados, a menos que la actividad a financiar, tenga como finalidad proporcionar los servicios necesarios a los miembros y afiliar a los no asociados a la institución.

8. Con el propósito de facilitar el desembolso de fondos y legalizar el compromiso entre la institución y el proyecto, se emitirá una carta de compromiso por cada préstamo aprobado por la Unidad Técnica. En dicha carta se enunciarán todas las condiciones que regirán el crédito aprobado.

9. Se establecerá un Plan de Desembolsos que estará incluido en la carta de compromiso y podrá ser en una sola entrega o entregas parciales contra cumplimiento de requisitos. Se nombrará un Supervisor, quien conjuntamente con la persona asignada por la Unidad Técnica y la persona asignada por la Institución velarán por el cumplimiento de las reglas de desembolso.

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10. El desembolso de fondos se llevará a cabo, mediante un estrecho cumplimiento de los requisitos de la carta de compromiso entre la institución y el Proyecto. Si existieran cambios en el Plan de Desembolsos o en las condiciones, la carta de compromiso sólo puede ser enmendada por la Unidad Técnica.

11. Toda solicitud de crédito de las instituciones debe presentarse conforme al formato y de acuerdo a los procedimientos aprobados y usados por la Unidad Técnica.

12. Los créditos otorgados podrán ser a corto plazo (Hasta un año) o mediano plazo (Hasta 5 años). Los plazos se fijarán de acuerdo al destino del préstamo y la capacidad de pago de la institución. La Unidad Técnica será responsable de determinar el plazo máximo que se dará a cada institución de acuerdo a los criterios indicados anteriormente.

13. Todo crédito será autorizado conjuntamente por la Agencia para el Desarrollo Internacional (AID) y la Unidad Técnica del Proyecto, previa revisión de la Institución Administradora del Fideicomiso (FENACOAC).

14. Las tasas de interés que se cobrarán serán las del mercado (minorista o mayorista, según sea el caso) y nunca menor a un 8%. Se tomará la tasa promedio de interés del mercado durante un período prudencial, para determinar la tasa de interés adecuada. La misma será revisada periódicamente para determinar su vigencia o efectuar los ajustes necesarios. La tasa de interés variará en función a los siguientes factores: las tasas de inflación y devaluación vigentes, el destino y plazo que tendrá el crédito solicitado y el nivel de riesgo que correrá el Proyecto.

15. Los montos de cada préstamo serán determinados de acuerdo a la capacidad de pago de la institución y estará limitado a los fondos del Proyecto para satisfacer la demanda crediticia.

16. La forma y mecanismo de amortización se fijará de acuerdo a las condiciones específicas de cada crédito, basados en el análisis efectuado por la Unidad Técnica y estará contenido en la carta de compromiso.

17. Todo crédito que el Proyecto otorgue deberá estar garantizado. El Proyecto no dará créditos sin una garantía. Las garantías que el Proyecto aceptará podrán ser fiduciarias, prendarias e hipotecarias. La Unidad Técnica evaluará las garantías ofrecidas y podrá rechazar las mismas, si a su criterio no son de la calidad requerida.

18. Las garantías prendarias e hipotecarias para préstamos deberán ser tangibles, verificables y libre de gravámenes. La institución solicitante correrá con los costos y gastos de escrituración.

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19. El Proyecto financiará hasta un 70% de la valuación comercial que se haga de los bienes que servirán como garantías.

20. La institución prestataria será responsable de asegurar que los créditos son aplicados según los destinos aprobados, que están siendo canalizados a las cooperativas afiliadas y asociados.

21. Se establecerá una multa por incumplimiento en el pago del crédito pactado, que consistirá en un recargo en la tasa de interés cobrado. El recargo por incumplimiento será determinado en las escrituras.

22. El Proyecto brindará asesoría y capacitación al personal que dentro de cada institución tenga bajo su responsabilidad el análisis o control de los créditos, a efecto de obtener un impacto positivo dentro de este componente.

23. Cada institución debe mantener datos estadísticos actualizados sobre precios de venta, costos de producción/operación, para cada actividad que proyectan financiar.

24. La Unidad Técnica del Proyecto contratará auditorías externas, con el propósito de verificar que la institución está cumpliendo con los convenios del préstamo y de que la recuperación de la deuda es efectiva y se encuentra al día.

25. Los fondos provenientes de recuperaciones de crédito (capital más intereses) se canalizarán al Fideicomiso y los mismos serán destinados unicamente como capital para nuevos créditos. Dichos fondos no podrán canalizarse para cubrir los otros dos componentes del Proyecto.

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Annex F

ANEXO I

POSIBLES AREAS DE TRABAJO DENTRO DEL FORTALECIMIENTO INSTITUCIONAL.

A continuación, se enumera algunas de las áreas principales de trabajo que están comprendidas dentro del desarrollo institucional:

Mercadeo

A. Mejoramiento de la imagen de la Federación/Cooperativa

B. Mejoramiento de los servicios existentes

C. Estudios de Factibilidad sobre nuevos bienes y servicios

D. Diseño y ejecución de un Plan de Mercadeo- Actividades Promocionales

E. Mejoramiento y expansión de la base de afiliadas.

Administración

A. Reestructuración organizativa

B. Toma de Decisiones

C. Planificación estratégica

D. Elaboración de Políticas y Procedimientos

E. Diseño y ejecución de los siguientes Sistemas de Información y Control:

Auditoría
Contabilidad
Control de Inventario
Control de Cuentas por Cobrar
Control de Morosidad
Datos estadísticos comerciales y financieros
Presupuestos
Proyecciones - Flujo de Caja
Estado Financiero y Estado de Productos y Gastos
Procesamiento Electrónico de Datos
Diagnósticos Institucionales

F. Administración de Personal en las siguientes áreas:

Reclutamiento y Selección
Delegación de autoridad
Enumeración de responsabilidades
Ejecución de responsabilidades
Plan de Incentivos
Evaluaciones del Desempeño
Capacitación

G. Capacitación y Desarrollo de Liderazgo mediante:

Seminarios
Libros, revistas, periódicos, y otros materiales educativos
Viajes educativos (Domesticos e Internacionales)
Becas

Finanzas

A. Análisis financiero y otorgamiento de crédito

B. Supervisión y control de la morosidad

C. Análisis de volumen y la fijación de precios

D. Análisis y control de gastos operativos

E. Análisis y creación de reservas para cuentas dudosas

F. Análisis de capital de trabajo y flujo de caja

G. Diseño y análisis de sistemas de capitalización

Legislación Cooperativa

A. Ley Cooperativa

B. Estatutos

PROYECTO FORTALECIMIENTO COOPERATIVO

(AID/FENACOAC 520-0286)

fenacoac

CONTRATO DE MUTUO PARA ESTABILIZACION FINANCIERA

Nosotros, AMADEO GIRON HIGUEROS, de setenta y cuatro años, casado, agricultor, guatemalteco y de este domicilio, en mi calidad de Presidente del Consejo de Administración de la FEDERACION NACIONAL DE COOPERATIVAS AGRICOLAS REGIONALES, RESPONSABILIDAD LIMITADA, entidad que en el curso de este contrato se denominará simplemente FECOAR, con personalidad jurídica debidamente reconocida e inscrita en el Registro correspondiente del Instituto Nacional de Cooperativas -INACOP-, bajo el número cero cero ocho (008), folio ocho (8) del libro número uno (1), acreditando la personería que ejerzo de conformidad con delegación expresa del Consejo de Administración de FECOAR, según consta en el inciso TERCERO del Acta número ciento seis (106) de la sesión celebrada el diecinueve de julio de mil novecientos ochenta y ocho, quedando inscrita en el Registro del Instituto Nacional de Cooperativas -INACOP- bajo el número mil ciento cuarenta y cuatro (1144), folio trescientos doce (312) del libro número tres (3) de Representantes Legales de las Cooperativas legalmente autorizadas, y por la otra parte FRANCISCO SAMUEL PEREZ TOÑO, de cuarenta y seis años, casado, Economista, guatemalteco y de este domicilio, en mi calidad de Gerente y representante legal de la FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO Y SERVICIOS VARIOS DE GUATEMALA, RESPONSABILIDAD LIMITADA, como administradora del Proyecto de Fortalecimiento Cooperativo AID-FENACOAC 520-0286, que en el curso de este contrato se denominará simplemente PFC, según acuerdo del Consejo de Administración de FENACOAC contenido en la resolución número CA-2045/87, acordamos suscribir el presente contrato de Mutuo para Estabilización Financiera, de conformidad con los siguientes términos:

PRIMERO: ANTECEDENTES: El presente contrato de Mutuo para Estabilización Financiera, se suscribe dentro del marco del Convenio de Cooperación No. 520-0286-A-00-6329-00 firmado entre FENACOAC y la Agencia para el Desarrollo Internacional (AID), de las cartas de entendimiento y ejecución emitidas y de las que posteriormente se emitan por parte de AID, encaminadas a ejecutar el PFC en Guatemala. Dicho convenio se firmó el veintiséis de agosto de mil novecientos ochenta y seis, con vigencia hasta el veintiocho de julio de mil novecientos noventa y uno.

SEGUNDO: JUSTIFICACION: FECOAR ha sido calificada como Institución participante del componente de Estabilización Financiera por parte de PFC, tomando en consideración que presenta condiciones aceptables para el buen uso de los recursos que se le otorguen y además ha demostrado un razonable avance en la ejecución de las actividades que fueron planificadas para el componente de Desarrollo Institucional. A criterio del PFC, FECOAR llena los requisitos de Potencial Económico y Viabilidad Financiera, para ser seleccionada como beneficiaria del componente de Estabilización; asimismo, las cooperativas del sistema, presentan pérdidas ocasionadas por irrecuperabilidad de préstamos otorgados a sus asociados. Las pérdidas han reducido las reservas de FECOAR y sus cooperativas, a tal grado que es necesario estimular la creación de nuevas reservas.

TERCERO: MONTO Y DESTINO: El PFC por el presente acto otorga a FECOAR un mutuo en concepto de asistencia financiera del componente de Estabilización Financiera, por la cantidad de UN MILLON DE QUETZALES EXACTOS (Q.1.000,000.00), destinados a mejorar la solvencia económico-financiera de FECOAR y el resultado de dicha cantidad, como producto de los intereses que devengue, se utilizará para fortalecer exclusivamente la reserva para cuentas incobrables de FECOAR y la depuración de las pérdidas registradas en las cooperativas por créditos de producción.

CUARTO: CONCEPTO DE LOS FONDOS DE ESTABILIZACION: Los recursos financieros que se conceden a FECOAR mediante el presente contrato, se otorgan en calidad de mutuo, de acuerdo a las condiciones y características que se establecen en las cláusulas siguientes.

QUINTO: TASA DE INTERES: El presente mutuo no devengará intereses.

SEXTO: PLAZO: El presente mutuo para Estabilización Financiera se concede a un plazo no mayor de un año , comprendido del período del uno de abril de 1989 al 31 de marzo de 1990. El plazo podrá prorrogarse por períodos similares dependiendo el cumplimiento de FECOAR y las necesidades de Fondos de Estabilización de las otras instituciones participantes dentro del PFC.

SEPTIMO: FORMA DE PAGO: El pago del presente mutuo, lo hará FECOAR en un sólo pago que deberá hacerse efectivo a más tardar el 31 de marzo de 1990, salvo que se suscribiera un nuevo contrato o prórroga del plazo.

OCTAVO: DESEMBOLSO DE FONDOS: La entrega de los fondos del presente mutuo de Estabilización Financiera estipulados en el presente contrato, los efectuará el PFC mediante un solo desembolso y no más tarde del 31 de marzo de 1989.

NOVENO: COMPROMISOS POR PARTE DE FECOAR: FECOAR por el presente acto, se compromete expresamente a lo siguiente: a) Los fondos provenientes de este contrato deberán colocarse en la institución financiera que conjuntamente determinen el PFC como otorgante de los fondos y FECOAR como recipiendaria. La forma de colocación deberá hacerse bajo el mecanismo de Pagarés Financieros; b) los intereses generados por estos fondos deberán trasladarse directamente y en su totalidad a la cuenta de RESERVA DE CUENTAS INCOBRABLES de FECOAR, a título de propiedad sin obligación por parte de FECOAR a la devolución de dichos intereses al PFC; c) a liberar las ventas en las cooperativas de FECOAR, bajo criterios que sean aprobados por el PFC, a efecto de que se logre mayor rentabilidad y mayor volumen de operaciones en las afiliadas; d) a estimular las ventas al contado en las cooperativas para reducir el riesgo de los créditos incobrables a los asociados, mediante la diferenciación de un 10% entre los precios de crédito y de contado; e) a fijar sus precios con el fin de obtener un margen bruto sobre ventas del 8% tanto a nivel federación como a nivel de las cooperativas, ofreciendo descuentos por volumen mayor de 100 quintales de fertilizante por asociado. Este margen será ajustado gradualmente hasta llegar a una meta mínima de 10% en 1,991. Estos márgenes se revisarán y serán adecuados a la situación del mercado; f) a promover dentro de las cooperativas la depuración de sus estados financieros con las reservas creadas y las aportaciones afectadas; g) a pagar una tasa de interés de 10% sobre las aportaciones de sus cooperativas, así como fomentar y establecer esta práctica dentro de las cooperativas para con sus asociados pagando un 8% sobre las aportaciones de los mismos; h) a pagar una tasa de 10% sobre la liquidez que las afiliadas colocan en la Federación; i) a eliminar la distribución de excedentes a los asociados mediante la rebaja en los precios de los fertilizantes en aquellas cooperativas donde sus reservas son insuficientes para cubrir las pérdidas sobre préstamos incobrables y otras pérdidas de capital; j) a cobrar por los servicios que serán financiados por el PFC y crear una reserva con dichos recursos para garantizar la prestación futura de dichos servicios; k) a mantener la morosidad de las afiliadas a un porcentaje mínimo que será identificado en forma individual por cada cooperativa, para lo cual podrá destinar el diferencial de precio entre crédito y contado; l) a establecer como límite máximo de ventas al crédito la suma de 115,000 quintales distribuidos entre las seis afiliadas; m) a amortizar los préstamos

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incobrables de las cooperativas con los intereses devengados por este fondo proporcionalmente a las pérdidas presentadas por cada una; n) a que los fondos otorgados por el presente contrato de mutuo para Estabilización Financiera quedarán congelados a favor del PFC, para lo cual FECOAR acepta que dentro de los Contratos de Custodia de los Pagarés Financieros, se incluya una cláusula que indique que los fondos únicamente pueden ser retirados por el Representante del PFC, y que este documento que otorgue la entidad financiera quede en poder del PFC en concepto de garantía; ñ) a aceptar la práctica de auditorías externas por parte de las firmas que sean contratadas por el PFC; o) a contratar fianza de fidelidad para los empleados de FECOAR que manejarán los recursos financieros del PFC; p) a remitir trimestralmente al PFC un informe sobre la situación real del uso de los recursos estipulados en este contrato; q) a mantener comunicaciones abiertas y francas con la Unidad Técnica del PFC en todo lo relacionado con el Plan de Estabilización y con el cumplimiento del presente contrato; r) a permitir al equipo técnico del PFC a realizar la supervisión necesaria sobre el uso de los recursos; s) a establecer dentro del sistema contable de FECOAR, las cuentas correspondientes que identifiquen las operaciones de desembolso, recuperación y rendimiento de los fondos.

DECIMO: COMPROMISOS DEL PFC: Por su parte el PFC se compromete a lo siguiente: a) a desembolsar los fondos previstos en este contrato, en la fecha estipulada; b) a proporcionar la oportuna asesoría profesional para facilitar el cumplimiento del plan de Estabilización Financiera para FECOAR; c) a mantener comunicaciones abiertas y francas con FECOAR, en todo lo relacionado con el plan de Estabilización y con la ejecución del presente contrato; d) a cubrir el valor de las auditorías que pudieran ser contratadas, para la fiscalización de los fondos; f) a evaluar el impacto que han tenido las condiciones implantadas mediante el presente contrato y a presentar alternativas para aquellas que no logren los objetivos deseados.

DECIMO PRIMERO: CONDICIONES ESPECIALES EN CASO DE INCUMPLIMIENTO: En caso de incumplimiento por parte de FECOAR en lo referente a los compromisos adquiridos en la cláusula NOVENA de este contrato, el PFC se reserva el derecho de exigir por los medios más convenientes la devolución de los fondos otorgados por el presente Mutuo para Estabilización Financiera, independientemente de que haya o nó vencido el plazo del contrato, para lo cual el PFC podrá dar por vencido anticipadamente el plazo y a requerir la entrega de la totalidad de los fondos otorgados.

DECIMO SEGUNDO: MECANISMOS DE ENMIENDAS: El presente contrato podrá ser modificado, enmendado o ampliado mediante el simple cruce de cartas entre las partes suscriptoras del mismo, siempre y cuando exista mutuo acuerdo en la variación del contrato. Las cartas se denominarán "anexos", y se enumerarán cronológicamente pasando a formar parte de este contrato.

DECIMO TERCERO: ACEPTACION Y FIRMAS: Las partes suscriptoras declaramos que estamos plenamente enteradas del contenido de este documento, que estamos conscientes de las responsabildades y de las obligaciones que implica el presente contrato y en las calidades con que comparecemos, expresamente lo ratificamos, aceptamos y firmamos en la ciudad de Guatemala, a los treinta días del mes de marzo de mil novecientos ochenta y nueve.

Por FECOAR

Amadeo Girón Higueros
Presidente

Por la Administración del Proyecto de Fortalecimiento Cooperativo

Francisco Samuel Pérez Toño
Administrador

AUTENTICA:
En la ciudad de Guatemala, el treinta de marzo de mil novecientos ochenta y nueve, como Notario DOY FE que las firmas que anteceden, son AUTENTICAS por haber sido puestas el día de hoy en mi presencia por los señores AMADEO GIRON HIGUEROS y FRANCISCO SAMUEL PEREZ TONO, personas que se me identificaron con las cédulas de vecindad números de orden C guión tres y registro trescientos cincuenta y ocho, la del primero, y la del segundo número de orden A guión uno y registro cuatrocientos setenta y tres mil trescientos ochenta y cuatro, extendidas por los Alcaldes Muncipales de Santa Apolonia, departamento de Chimaltenango y de esta capital, respectivamente, personas que vuelven a firmar juntamente con el Notario que da fe.

ANTE MI:

COLEGIO DE ABOGADOS GUATEMALA

ABOGADO Y NOTARIO

PROYECTO FORTALECIMIENTO COOPERATIVO

fenacoac

Guatemala, 28 de junio de 1,989

Ref. PFC-141-89

Señor
Felipe de Jesús Godoy Diaz
Presidente del Consejo de Administración
de FENACOAC
Ciudad de Guatemala

Estimado Felipe:

De conformidad con lo que estipula la claúsula DECIMO SEGUNDA del Contrato de Mutuo para Estabilización Financiera suscrito entre la Federación que usted dirige y el Proyecto de Fortalecimiento Cooperativo con fecha 28 de septiembre de 1,988, por medio de la presente estamos haciendo formal modificación de dicho contrato, con el propósito de ajustar el mismo a las condiciones actuales que presenta FENACOAC con relación a este componente.

A continuación se presentan en detalle las claúsulas de dicho contrato que están presentando variación con relación al contrato originalmente firmado:

SEGUNDO: JUSTIFICACION. FENACOAC ha sido calificada como institución participante del componente de Estabilización Financiera por parte del PFC, tomando en consideración que presenta condiciones aceptables para el buen uso de los recursos que se le otorguen y además ha demostrado un notable avance en la ejecución de las actividades que fueron planificadas para el componente de Desarrollo Institucional. A criterio del PFC, FENACOAC llena los requisitos de Potencial Económico y Viabilidad Financiera, para ser seleccionada como beneficiaria del componente de Estabilización; asimismo, presenta pérdidas ocasionadas por irrecuperabilidad de préstamos otorgados a sus cooperativas afiliadas. Las pérdidas han reducido las reservas de FENACOAC a tal grado que es necesario estimular la creación de nuevas reservas.

Además, el Consejo de Administración de FENACOAC aprobó en resolución número CA-2276/89, contenida en el Punto cuarto del Acta Número 334 de la sesión celebrada el 10 de junio de 1989, un nuevo Reglamento de Capitalización que será conocido en las Juntas Regionales convocadas para este fin. Los fondos de Estabilización Financiera servirán para evitar la descapitalización de la Federación debido a la devolución de aportaciones que se dará como consecuencia de sustitución de capital social por capital institucional; asimismo, asegurarán la solidez financiera de FENACOAC durante el período de transición de cambio del sistema.

TERCERO: MONTO Y DESTINO. El PFC por el presente acto otorga a FENACOAC un mutuo en concepto de asistencia financiera del componente de Estabilización Financiera, por la cantidad de **UN MILLON QUINIENTOS MIL QUETZALES EXACTOS (Q.1,500,000.00)**, destinados a mejorar la solvencia económico-financiera de FENACOAC, y el resultado de dicha cantidad como producto de los intereses que devengue, se utilizará para fortalecer exclusivamente la reserva irrepartible de FENACOAC.

SEXTO: PLAZO. El presente mutuo para Estabilización Financiera se concede a un plazo no mayor de un año, comprendido del período del veintinueve de junio de 1989 al 28 de junio de 1990. El plazo podrá prorrogarse por períodos similares dependiendo el cumplimiento de FENACOAC y las necesidades de Fondos de Estabilización de las otras instituciones participantes dentro del PFC. Antes del vencimiento del plazo, a iniciativa del PFC, se llevará a cabo una evaluación cuyos resultados determinará la conveniencia de la prórroga correspondiente del convenio, de la forma que se menciona en la cláusula décimo segunda.

SEPTIMO: AMORTIZACION DEL CAPITAL. El pago del presente mutuo lo hará FENACOAC en un sólo pago que deberá hacerse efectivo **a más tardar el 28 de junio de 1990**, salvo que se suscribiera un nuevo contrato ó prórroga del plazo.

OCTAVO: DESEMBOLSO DE FONDOS. La entrega de los fondos del presente mutuo de Estabilización Financiera estipulados en el presente contrato, los efectuará el PFC mediante un solo desembolso y no más tarde del **29 de junio de 1989.**

NOVENO: COMPROMISOS DE FENACOAC. FENACOAC por el presente acto, se compromete expresamente a lo siguiente: a) Los fondos provenientes de este contrato deberán colocarse en la institución financiera que

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conjuntamente determinen el PFC como otorgante de los fondos y FENACOAC como recipiendaria. La forma de colocación deberá hacerse bajo el mecanismo de Pagarés Financieros; b) los intereses generados por estos fondos deberán trasladarse directamente y en su totalidad a la cuenta de RESERVA IRREPARTIBLE de FENACOAC a título de propiedad sin obligación por parte de FENACOAC a la devolución de dichos intereses al PFC; c) implementar el nuevo sistema de capitalización de FENACOAC a más tardar el primero de septiembre de 1989, de acuerdo al Reglamento mencionado en la cláusula segunda del presente mutuo y que tiene como aspectos principales el requerir la aportación de 1% del activo neto de las afiliadas de FENACOAC como capital permanente en FENACOAC y que promueve el traslado de excedentes para la creación de capital institucional, que será el componente principal del capital de la misma; d) aumentar la tasa de interés sobre préstamos al 11% a más tardar el primero de septiembre de 1989, aplicándose a todos los préstamos vigentes que contractualmente lo permitan y a los nuevos préstamos otorgados a partir de esa fecha; e) antes del fin de cada ejercicio contable, efectuar con el apoyo del PFC, un análisis técnico del costo de capital de FENACOAC con el propósito de ajustar las tasas activas para cubrir el costo de financiamiento y los costos administrativos, y proveer suficiente ingresos para crear reservas adecuadas; f) con el apoyo del PFC establecer un plan de reestructuración de las tasas pasivas sobre depósitos de ahorro para que sean competitivas pero siempre menores a la tasa activa que se cobra, es decir que permita contar con un margen financiero adecuado; g) desvincular la relación préstamo/aportación relacionado con el análisis crediticio que se hace actualmente y aprobar normas que en parte orienten dicho análisis hacia la capacidad de pago del prestatario; h) promover la sana política financiera entre las cooperativas afiliadas de fortalecer la reserva irrepartible de FENACOAC a través de la capitalización de los excedentes anuales y buscar los mecanismos para dar un rendimiento adecuado a las aportaciones de las afiliadas de FENACOAC; i) elaborar un plan para reducir la relación de gastos administrativos/activo total para mejorar la eficiencia y efectividad de las operaciones de FENACOAC a más tardar el 30 de noviembre de 1,989; j) crear un programa competitivo y un mecanismo ágil que atienda a las necesidades de las afiliadas, para captar su liquidez; k) reclasificar y depurar los préstamos irrecuperables de la cartera de afiliadas y otras cuentas de dudosa recuperación, como parte de un programa completo de depuración de sus estados financieros; l) anualmente efectuar revisión y depuración de la cartera de préstamos y sus estados financieros, con el propósito de evitar el incremento de la cartera morosa e irrecuperable y presentar estados financieros realistas; m) implementar de inmediato la práctica de calcular y analizar la morosidad usando el método de cartera afectada; n) reducir la morosidad de FENACOAC al 13.0% (cálculo cartera afectada) a, más tardar el 28 de junio de 1990; ñ) a que los fondos otorgados por el presente contrato de mutuo para Estabilización Financiera quedarán congelados a favor del PFC, para lo cual FENACOAC acepta que dentro de los Contratos de Custodia de los Pagarés Financieros, se incluya una cláusula que indique que los fondos únicamente pueden ser retirados por el Representante del PFC, y que este documento que otorgue la entidad financiera quede en poder del PFC en concepto de garantía; o) a aceptar la práctica de auditorías externas por parte de las firmas que sean contratadas por el PFC; p) a contratar fianza de fidelidad para los empleados de FENACOAC para proteger el capital de las afiliadas y los fondos del PFC; q) a remitir trimestralmente al PFC un informe sobre la situación real del uso de los recursos estipulados en este contrato y avances sobre el cumplimiento de los compromisos contenidos en esta cláusula; r) a mantener comunicaciones abiertas y francas con la Unidad Técnica del PFC en todo lo relacionado con el Plan de Estabilización y con el cumplimiento del presente contrato; s) a permitir al equipo técnico del PFC a realizar la supervisión necesaria sobre el uso de los recursos; t) a establecer dentro del sistema contable de FENACOAC, las cuentas correspondientes que identifiquen las operaciones de desembolso, recuperación y rendimiento de los fondos.

DECIMO PRIMERO: CONDICION RESOLUTORIA EN CASO DE INCUMPLIMIENTO. Los otorgantes aceptan expresamente que el incumplimiento por parte de FENACOAC, a cualquiera de las estipulaciones contenidas en este contrato, especialmente los compromisos adquiridos por dicha entidad en la claúsula NOVENA, dará lugar a que el PFC de manera unilateral, resuelva el presente contrato sin necesidad de declaración judicial, de conformidad con los artículos 1581 y 1583 del Código Civil. Para lo cual el PFC se reserva el derecho de exigir por los medios más convenientes la devolución de los fondos otorgados por el presente mutuo para Estabilización Financiera, independientemente de que haya o no vencido el plazo del contrato, dándose por vencido anticipadamente el mismo y pudiéndose requerir la entrega de la totalidad de la cantidad mutuada. Los intereses generados por los fondos proporcionados por medio de este contrato, dejarán de surtir efecto en forma inmediata desde el momento en que FENACOAC sea notificada por escrito, por parte del PFC, de que se ha verificado condición resolutoria del contrato por inclumplimiento del mismo.

De acuerdo a lo que la claúsula DECIMO SEGUNDA especifica, la presente carta se convierte en el anexo No. 1 de dicho contrato y es parte integral del mismo. Todas las cláusulas o estipulaciones contenidas en el Contrato original que no son modificadas expresamente por este "anexo", conservan plena validez.

Como referencia de cómo quedaría el Contrato, adjunto a la presente se envia un ejemplar que incluye los cambios especificados en las claúsulas anteriores.

Sin otro particular y esperando su carta donde dá su anuencia a los cambios aquí descritos, me suscribo de usted,

Atentamente,

Lic. Francisco S. Pérez Toño
Administrador F.F.C.

Adjunto: Lo indicado.

OOO/emm

CONTRATO DE MUTUO PARA ESTABILIZACION FINANCIERA

Nosotros, FELIPE DE JESUS GODOY DIAZ de treinta y nueve años, casado, Administrador de Empresas, guatemalteco y de este domicilio, en mi calidad de Presidente del Consejo de Administración de la FEDERACION NACIONAL DE COOPERATIVAS DE AHORRO Y CREDITO Y SERVICIOS VARIOS DE GUATEMALA, RESPONSABILIDAD LIMITADA, entidad que en el curso de este contrato se denominará simplemente FENACOAC, acreditando la personería que ejerzo de conformidad con el artículo 31 de los estatutos de la Federación y de la Resolución No. CA-2211-88, inserta en el punto séptimo del Acta No. 322 de fecha 17 de septiembre de 1988, del Libro de Actas del Consejo de Administración, donde se me faculta expresamente para la suscripción del presente contrato, y por la otra parte FRANCISCO SAMUEL PEREZ TOÑO, de cuarenta y seis años, casado, Economista, guatemalteco y de este domicilio, en mi calidad de Administrador del Proyecto de Fortalecimiento Cooperativo AID-FENACOAC 520-0286, que en el curso de este contrato se denominará simplemente PFC, personalidad que ejerzo de conformidad con el Acuerdo del Consejo de Administración de FENACOAC, contenido en la Resolución No. CA-2045-87, ACORDAMOS suscribir el presente contrato de Mutuo para Estabilización Financiera, de conformidad con los siguientes términos:

PRIMERO: ANTECEDENTES. El presente contrato de Mutuo para Estabilización Financiera, se suscribe dentro del marco del Convenio de Cooperación No. 520-0286-A-00-6329-00 firmado entre FENACOAC y la Agencia para el Desarrollo Internacional (AID), de las cartas de entendimiento y ejecución emitidas y de las que posteriormente se emitan por parte de AID, encaminadas a ejecutar el PFC en Guatemala. Dicho convenio se firmó el veintiseis de agosto de mil novecientos ochenta y seis, con vigencia hasta el veintiocho de julio de mil novecientos noventa y uno.

SEGUNDO: JUSTIFICACION. FENACOAC ha sido calificada como institución participante del componente de Estabilización Financiera por parte del PFC, tomando en consideración que presenta condiciones aceptables para el buen uso de los recursos que se le otorguen y además ha demostrado un razonable avance en la ejecución de las actividades que fueron planificadas para el componente de Desarrollo Institucional. A criterio del PFC, FENACOAC llena los requisitos de Potencial Económico y Viabilidad Financiera, para ser

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seleccionada como beneficiaria del componente de Estabilización; asimismo, presenta pérdidas ocasionadas por irrecuperabilidad de préstamos otorgados a sus cooperativas afiliadas. Las pérdidas han reducido las reservas de FENACOAC a tal grado que es necesario estimular la creación de nuevas reservas.

TERCERO: MONTO Y DESTINO. El PFC por el presente acto otorga a FENACOAC un mutuo en concepto de asistencia financiera del componente de Estabilización Financiera, por la cantidad de UN MILLON DE QUETZALES EXACTOS (Q 1,000,000.00), destinados a mejorar la solvencia económico-financiera de FENACOAC, y el resultado de dicha cantidad como producto de los intereses que devengue, se utilizará para fortalecer exclusivamente la reserva irrepartible de FENACOAC.

CUARTO: CONCEPTO DE LOS FONDOS DE ESTABILIZACION. Los recursos financieros que se conceden a FENACOAC mediante el presente contrato, se otorgan en calidad de MUTUO, de acuerdo a las condiciones y características que se establecen en las claúsulas siguientes.

QUINTO: TASA DE INTERES. El presente mutuo no devengará intereses.

SEXTO: PLAZO. El presente mutuo para Estabilización Financiera se concede a un plazo de 6 meses comprendidos del período del 30 de septiembre de 1988 al 31 de marzo de 1989. Antes del vencimiento del plazo, se llevará a cabo una evaluación cuyos resultados determinarán la conveniencia de la suscripción de un nuevo convenio.

SEPTIMO: AMORTIZACION DEL CAPITAL. El pago del presente mutuo lo hará FENACOAC en un sólo pago el 31 de marzo de 1989, salvo que se suscribiera un nuevo contrato ó prórroga del plazo .

OCTAVO: DESEMBOLSO DE FONDOS. La entrega de los fondos del presente mutuo de Estabilización Financiera estipulados en el presente contrato, los efectuará el PFC mediante un solo desembolso y no más tarde del 30 de septiembre de 1988.

NOVENO: COMPROMISOS DE FENACOAC. FENACOAC por el presente acto, se compromete expresamente a lo siguiente: a) Los fondos provenientes de este contrato deberán colocarse en la institución financiera que FENACOAC como recipiendaria considere más conveniente; b) los intereses generados por estos fondos deberán trasladarse directamente y en su totalidad a la cuenta de RESERVA IRREPARTIBLE de FENACOAC a título de propiedad sin obligación por parte de FENACOAC a la devolución de dichos intereses al PFC ; c) a reestructurar el sistema de capitalización de FENACOAC, bajo criterios que sean aprobados por el Proyecto de Fortalecimiento Cooperativo, a efecto de que dentro de dicho sistema se logren los siguientes objetivos: 1) Estabilidad, 2) Equidad, 3) Eficiencia, 4) Costo Efectivo; d)a estimular el crecimiento de la reserva irrepartible mediante un incremento en la tasa activa de interés; e) a establecer un nuevo sistema para clasificar y reducir la morosidad de las cooperativas afiliadas; f) a enfocar el análisis crediticio hacia la capacidad de pago del prestatario; g) a que los fondos otorgados por el presente contrato de mutuo para Estabilización Financiera quedarán congelados a favor del Proyecto de Fortalecimiento Cooperativo para lo cual FENACOAC acepta que el convenio de custodia que entregue la entidad financiera del pagaré que se suscriba, quede en poder del PFC en concepto de garantía ; h) a aceptar la práctica de auditorías externas por parte de las firmas que sean contratadas por el PFC; i) a contratar fianza de fidelidad para los empleados de FENACOAC, que manejarán los recursos financieros del PFC; j) a remitir trimestralmente al PFC un informe sobre la situación real del uso de los recursos estipulados en este contrato; k) a mantener comunicaciones abiertas y francas con la Unidad Técnica del PFC en todo lo relacionado con el Plan de Estabilización y con el cumplimiento del presente contrato; l) a permitir al équipo técnico del PFC realizar la supervisión necesaria sobre el uso de los recursos; m) a establecer dentro del sistema contable de FENACOAC, las cuentas correspondientes que identifiquen las operaciones de desembolso, recuperación y rendimientos de los fondos.

DECIMO: COMPROMISOS DEL PFC. Por su parte el PFC se compromete a lo siguiente: a) a desembolsar los fondos previstos en este contrato, en la fecha estipulada; b) a proporcionar la oportuna asesoría profesional para facilitar el cumplimiento del plan de Estabilización Financiera para FENACOAC; c) a mantener comunicaciones abiertas y francas con FENACOAC, en todo lo relacionado con el plan de Estabilización y con la ejecución del

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presente contrato; d)a cubrir el valor de las auditorías que pudieran ser contratadas, para la fiscalización de los fondos; f) a evaluar el impacto que han tenido las condiciones implantadas mediante el presente contrato y presentar alternativas para aquellas que no logren los objetivos deseados.

DECIMO PRIMERO: CONDICIONES ESPECIALES EN CASO DE INCUMPLIMIENTO. En caso de incumplimiento por parte de FENACOAC, en lo referente a los compromisos adquiridos en la claúsula NOVENA de este contrato; el PFC se reserva el derecho de exigir por los medios más convenientes la devolución de los fondos otorgados por el presente mutuo para Estabilización Financiera, independientemente de que haya o nó vencido el plazo del contrato, para lo cual el PFC podrá dar por vencido anticipadamente el plazo y a requerir la entrega de la totalidad de los fondos otorgados.

DECIMO SEGUNDO: MECANISMOS DE ENMIENDAS. El presente contrato podrá ser modificado, enmendado o ampliado mediante el simple cruce de cartas entre las partes suscriptoras del mismo, siempre y cuando exista mutuo acuerdo en la variación al contrato. Las cartas se denominarán "anexos", y se enumerarán cronológicamente pasando a formar parte de este contrato.

DECIMO TERCERO: FIRMAS. Las partes suscriptoras declaramos que estamos plenamente enteradas del contenido de este documento, que estamos conscientes de las responsabilidades y de las obligaciones que implica el presente contrato y en las calidades con que comparecemos, expresamente lo aceptamos, cada quien en la parte que le corresponde, a los veintiocho días del mes de Septiembre de mil novecientos ochenta y ocho.

Por FENACOAC	Por el Proyecto Fortalecimiento Cooperativo
Felipe de Jesús Godoy Díaz Presidente	Francisco Perez Toño Administrador

AUTENTICA:

En la Ciudad de Guatemala, el veintiocho de septiembre de mil novecientos ochenta y ocho, como Notario DOY FE que las firmas que anteceden, son AUTENTICAS por haber sido puestas el día de hoy a mi presencia por los señores FELIPE DE JESUS GODOY DIAZ y FRANCISCO SAMUEL PEREZ TOÑO, al pie de un contrato de mutuo para estabilización financiera celebrado entre la Federación Nacional de Cooperativas de Ahorro y Crédito y Servicios Varios de Guatemala, Responsabilidad Limitada, Fenacoac, y el Proyecto Fortalecimiento Cooperativo AID-FENACOAC, en un documento que consta de cuatro hojas, personas que se me identificaron con las cédulas de vecindad números de orden A guión uno las dos y registros trece mil quinientos trece, la primera, y la segunda cuatrocientos setenta y tres mil trescientos ochenta y cuatro, extendidas por los Alcaldes Municipales de Amatitlán y de esta capital, ambas del Departamento de Guatemala, personas que vuelven a firmar juntamente con el Notario que dá fé.

x

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ANTE MI:

SERGIO LEONARDO MIJANGOS PENAGOS
ABOGADO Y NOTARIO
COLEGIO DE ABOGADOS GUATEMALA

ABOGADO Y NOTARIO
TIMBRE NOTARIAL

memorandum

DATE: May 15, 1989

REPLY TO ATTN OF: RLA/Honduras, Michael J. Williams MJW

SUBJECT: Interest Earned on Capitalization/Stabilization Component of Cooperative Strengthening Project, Project No. 520-0286

TO: USAID/Guatemala, Anthony J. Cauterucci

Issue: You have asked whether the capitalization/stabilization component of the Cooperative Strengthening Project, Project No. 520-0286, is an acceptable use of appropriated funds.

Project Overview: The Cooperative Strengthening Project assists the federated cooperative movement in Guatemala. The project is implemented through a cooperative agreement, dated August 26, 1986, between AID and the National Federation of Savings and Loan Cooperatives, a private Guatemalan organization (FENACOAC).

The cooperative agreement with FENACOAC provides that the goal of the project is to increase rural family incomes and productivity through strengthened cooperatives providing improved services. The project purpose is to develop a viable, efficient and effective cooperative movement in Guatemala among selected federations and their affiliated cooperatives by enhancing their managerial and service delivery capabilities and by improving their performance as profitable enterprises. The project consists of three components, institutional development, credit and capitalization/stabilization. The purpose of the capitalization/stabilization component is to develop innovative approaches to member generation of paid-in and retained capital while strengthening the cooperatives balance sheets.

Cooperatives have historically been the most effective institutions for providing credit to the rural poor in Guatemala. Although the purpose of the project is the institutional strengthening of the cooperative movement, the ultimate goal of the project is to increase rural family incomes and productivity through providing improved services. In other words, AID intends to improve the economic condition of the rural poor of Guatemala by strengthening the cooperatives whose mandate is to provide credit and related services to the rural areas of Guatemala and whose borrowers have historically been farmers with low incomes.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
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During the ten years preceding the project, the cooperatives had been substantially de-capitalized due to political violence, economic disruption and natural calamities. If the cooperatives were to become financially viable, it was necessary for them to adopt recapitalization policies appropriate to their particular economic and financial difficulties. The capitalization/stabilization component was designed to promote rational economic decision-making by the cooperatives and restore financial stability.

In addition to FENACOAC, there are five other cooperative federations participating in the project. A cooperative federation is comprised of several member cooperatives. The cooperatives themselves are organized and controlled by their individual members. Since FENACOAC is the strongest federation, the project is designed to be implemented through FENACOAC. The Project Management Organization (PMO) has been established by FENACOAC to manage the project. In managing the project, the PMO treats the FENACOAC as one of the six participating federations and is committed to treating all federations equally.

Throughout the design, authorization, obligation and implementation of the project, the project has had three primary components: institutional development, capitalization/stabilization assistance and credit. The three components are complementary. To date, $10,420,000 have been obligated by the cooperative agreement with FENACOAC. The AID funds are budgeted among the three components as follows:

Component	Amount
Institutional Development	$ 5,110,000
Capitalization/Stabilization	2,510,000
Credit	2,800,000
TOTAL	$10,420,000

The project documentation consistently has divided the funding among the three components in the same approximate amounts as shown above. In addition, $580,000 have been obligated by a PASA with the U.S. Department of Agriculture for a project manager.

While the credit and institutional development components were designed with disbursement mechanisms fairly common among AID institutional strengthening projects, the capitalization/stabilization component was designed to respond to the special needs of the cooperative movement in Guatemala. It is useful to review the project documentation to better understand the capitalization/stabilization component.

Project Documentation: The Mission followed an abbreviated Handbook 3 procedure for the authorization of the project with the substitution of a project paper-like document for a complete project paper. The Project Identification Document (PID) for the project was approved by USAID/Guatemala on November 15, 1985. The PID established the basic outline for the three project components. For the capitalization/debt restructuring component, the PID provided for a $3,000,000 component that would "be made available as tied capital contributions to those cooperatives that are successful in classifying their debt portfolio, establishing criteria and procedures for debt collection and recovering and/or restructuring delinquent debt." The PID emphasized that AID funds would not be used to forgive debt or to pay delinquent debt. Instead, this component would grant matching contributions to those cooperatives that were successful in bringing their debt problems under control.

Following further discussions among USAID, the cooperatives, and the Government of Guatemala, the World Council of Credit Unions (WOCCU) prepared a lengthy design document for the Mission that served as the central piece of a project paper-like document for the Mission. The WOCCU document called for a $2,505,000 capitalization and stabilization component which would include two elements: first, a stabilization fund to invest cash and securities in qualified institutions earning asset levels and share values; and second, a savings protection fund to guarantee individual depositors' savings accounts in credit unions and other cooperative financial institutions.

The two funds were to be managed by the Fund Management Unit (FMU), the predecessor of the PMO, acting with the technical advice of AID-financed technicians. The WOCCU report identified several weaknesses in the capital structures of the federations and proposed that the project would provide technical assistance to the federations to prepare individual recapitalization plans. The FMU would disburse capitalization grants to participating federations whose development plans were approved by AID. The operation of the savings protection fund was not defined in the cooperative agreement and was expected to evolve over the life of the project.

Following the approval of the project by the Mission Director on July 18, 1986, USAID/Guatemala requested the approval of AID/W to sign a cooperative agreement with FENACOAC. On August 21, 1986, AA/LAC approved the award of the cooperative agreement to FENACOAC and on August 26, 1986, the cooperative agreement was signed, fully funding the project at $10,420,000.

On November 21, 1988, the cooperative agreement was amended as a part of a general redesign of the project. The changes were largely mechanical and the original project purpose and the basic operation of the stabilization/capitalization component were not changed. The cooperative agreement provides that federations seeking access to capitalization funds must present plans to the PMO that meet certain specific eligibility criteria, including the application of sound credit, investment, and asset/liability management policies and procedures and stabilization plans to assure the growth of the federation's capital.

After the PMO and a participating federation have developed plans meeting these criteria, and the plans have been approved by AID, the PMO makes a loan to the qualifying federation using project funds. The loans are evidenced by loan agreements between the PMO and the participating federations that bind the federations to carry out their capitalization/stabilization plans. If the PMO determines that the plans are not being honored, it may accelerate the repayment of the loan. The loans are interest-free with short-term maturities -- the two capitalization loans thus far have had maturities of six months and one year. At the time of the loan, a disbursement is recorded by AID. Any interest earned by the PMO on the funds prior to disbursement is refundable to AID; interest earned by the participating federation following the disbursement belongs to the participating federation.

At present, the recipients of capitalization loans are required to invest the loan proceeds in high-yielding financial instruments being offered by local finance companies. The interest earned on these investments is then channeled to the permanent reserve accounts of the federation, thus generating new capital to restore depleted reserves and permit increased lending by the cooperatives to their members. Simultaneously with the injection and use of the capitalization funds, the cooperatives are required to retain earnings in amounts equal to the interest income generated by the capitalization funds, thereby further stimulating the creation of reserves without which the cooperatives would perish. When the capitalization loans are repaid, the PMO will recycle the funds to participating federations which have agreed on additional institutional reforms.

After the disbursement of the capitalization loan, the funds belong to the participating federation, AID has no further ownership right to the funds, other than normal refund rights and certain approval rights at the conclusion of the project. At the completion of the project, the financial assets and liabilities of FENACOAC which are attributable to the capitalization/stabilization component will become the property of the successor cooperative financial institution (if feasible) or shall be distributed to participating federations. Prior approval of AID will be required for any proposal to distribute the assets among the federations.

Discussion: The issue is whether any rules or regulations are violated by FENACOAC's use of grant funds to make loans to participating federations which will invest the funds in interest bearing assets and retain the interest earned on the funds.

The threshold question is whether it is permissible for AID to grant funds to FENACOAC for the capitalization of participating cooperative federations. I believe it is clear that the Foreign Assistance Act of 1961, as amended (the FAA), authorizes the use of grant funds for the strengthening the capital structure of the cooperative movement in Guatemala. Funds for the grant were authorized under FAA Section 103, which provides that, Section 103. Agriculture, Rural Development and Nutrition

> (b) (1) Assistance provided under this section shall be used primarily for activities which are specifically designed to increase the productivity and income of the rural poor, through such means as creation and strengthening of local institutions linked to the regional and national levels; organization of a system of financial institutions which provide both savings and credit services to the poor; stimulation of small labor-intensive enterprises in rural towns; improvement of marketing facilities and systems; expansion of rural infrastructure and utilities such as farm-to-market roads, water management systems, land improvement, energy, and storage facilities; establishment of more equitable and more secure land tenure arrangements; and creation and strengthening of systems to provide other services and supplies needed by farmers, such as extension, research, training, fertilizer, water, forestry, soil conservation, and improved seed, in ways which assure access to them by small farmers. (Emphasis added.)

The cooperative agreement and the background documentation are clear that, in accordance with Section 103, the project is designed to strengthen local financial institutions that are designed to provide savings and credit services to the rural poor. Congress has, therefore, authorized the use of these funds for (i) the overall purpose of the project, development of a viable, efficient, and effective cooperative movement in Guatemala, and (ii) the specific project purpose of the capitalization/stabilization component, strengthening the balance sheets of the cooperatives.

A second statutory consideration to bear in mind in determining the appropriateness of the capitalization/stabilization disbursement mechanism is FAA Section 635 (a) which bestows broad authority upon AID to provide assistance on such terms as may be best suited to achieve the purposes of the Act. FAA Section 635 (a) provides,

> "Sec. 635. General Authorities. (a) Except as otherwise specifically provided in this Act, assistance under this Act may be furnished on a grant basis or on such terms, including cash, credit, or other terms of repayment (including repayment in foreign currencies or by transfer to the United States Government of commodities) as may be determined to be best suited to the achievement of the purposes of this Act, and shall emphasize loans rather than grants wherever possible."

A series of decisions by the Comptroller General has established the principle that interest earned on funds granted by the U. S. Government prior to the use of the funds for the purpose granted must be returned to the U. S. Government. See 20 Comp. Gen. 610 (1941), 40 Comp. Gen. 81 (1960). The rationale for these decisions is twofold. First, to permit a grantee to retain earned interest on an advance of interest would impermissibly augment amounts appropriated by Congress. Second, disbursements in advance of those needed for project purposes impose an unnecessary cost on the Treasury, which must finance the amounts disbursed.

The principle that no interest may be earned on grant funds prior to their use for an authorized purpose is embodied in Section 3 (a) of the mandatory standard provisions which are attached to the cooperative agreement. Section 3 (a) states, "If use of the AID funds results in accrual of interest to the grantee or to any other person to whom the grantee makes AID funds available, the grantee shall refund to AID the amount of interest accrued." (A literal reading of Section 3 (a) would require that all interest earned at any time, whether before or after the time at which a valid disbursement takes place, would have to be refunded to AID. This is not the intent of Section 3 (a), however, and only interest earned prior to the authorized use of the funds is required to be returned to AID.)

The Comptroller General has ruled that once grant funds have been applied for authorized grant purposes, interest earned on such funds is "program income", which may remain in the project and is not required to be refunded to the U. S. Government. See 44 Comp. Gen. 87 (1964); B-191420, August 24, 1978. OMB and AID regulations similarly provide that program income earned during the project period shall be retained by th recipient and, in accordance with the cooperative agreement, added to the funds committed to the project by AID and the recipient and used to further eligible program objectives. See OMB Circular A-110, Attachment D and Handbook 13, Chapter 1, Section 1J5(a).

The rule, therefore, is that interest earned on grant funds subsequent to the application of those funds for an authorized project purpose may be retained by the grantee. That is, if the loans from the PMO to the participating federations are for an authorized project purpose, then any interest earned on the funds is not refundable to AID. The next point of analysis is what constitutes an "authorized" purpose under the applicable regulations.

A Comptroller General decision involving the Community Services Administration is similar in many respects to the case before us. See B-192459, July 1, 1980. The grant in the CSA decision was made by CSA to a hospital for the purpose of assisting in the construction of a new hospital facility. The hospital entered into a complex financing arrangement in which the grant funds were transferred to a trustee and the trustee held the funds in a special interest-earning trust fund. The trust fund, including both principal and interest, was used to finance the construction of the new hospital facility. The Comptroller General ruled that the interest earned by the trustee was not refundable to the U. S. Government since the transfer of grant funds from the grantee to the trustee was "an expenditure or disbursement for grant purposes." The Comptroller General reached this conclusion because the hospital had given up possession and control of the grant funds to an independent third party, from whom the grantee had no right to demand return of the

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funds, and because the grantee had received something in exchange for the funds-the promise of a new hospital.

The FENACOAC grant is similar to the CSA grant. AID grants funds to FENACOAC for loans to participating federations that have adopted significant reforms in their capital structures, reforms that are approved by AID and embodied in the loan agreements between the PMO and the participating federations. Once a loan has been made, the PMO may order the accelerated repayment of the loan if the participating federation fails to honor the reforms provided for in the loan agreement, but, otherwise, the capitalization/stabilization funds remain with the participating federation in accordance with the terms of the loan agreement. Equally important, AID has no right to demand return of the funds from FENACOAC or the participating federation, beyond the normal refund rights in the cooperative agreement.

In a more recent case involving AID, the Comptroller General relied upon the CSA precedent in upholding the project design in the Basic Village Services (BVS) decision, B-213909, November 28, 1984. The stated purpose of the BVS grant was to support Egypt's policy of decentralizing authority for development activities. The Comptroller General ruled that the disbursement of grant funds by the Government of Egypt to the local governmental units was a legitimate and proper purpose of the grant, entitling the local governments to retain the interest earned on the grant funds. In the BVS decision, the GAO determined that the authorizing legislation enabled AID to make grants "for the purpose of providing grantees or subgrantees with experience in managing, handling, and, by implication, investing project funds, including the right to earn and retain interest thereon." (Emphasis added.)

As with the Cooperative Strengthening grant, the BVS project documentation was clear that the immediate disbursement of the grant funds "up-front" was necessary in order to meet the project goal of strengthening local government planning and management of financial resources. In the Cooperative Strengthening Project, the purpose of the project is to strengthen the cooperative federations in Guatemala both by providing them with funds for their recapitalization and by promoting essential policy reforms. Rather than providing short term assistance by loans to individual borrowers, the capitalization/stabilization component seeks sustainable institutional development of the cooperative federations. This is only possible if their capital structure is reformed and decisions are made on a rational economic basis so that their members can have access to credit today and in the future.

In the project documentation for the Cooperative Strengthening project, the "up-front" disbursement of grant funds to be used by the participating federations is described as being necessary for several reasons. First, the capitalization/stabilization funds provide the leverage that AID and the PMO need to pressure the federations into adopting needed reforms. The reforms are inevitably going to involve higher interest rates, increased levels of retained earnings and improved delinquency controls. These reforms are not popular with the members of the cooperatives that must approve the reforms. The capitalization funds provide the incentive that the cooperatives need to adopt the needed reforms.

Another primary objective of the project is to encourage cooperatives to make rational economic decisions when investing their capitalization reserves. Much of the blame for the decapitalization of the cooperatives was imprudent investment decisions with the capital reserves of the cooperatives. As in the case of the local government units in Egypt, the cooperatives need to gain experience in managing funds rationally. The loan agreements between the PMO and the federations require that the federations follow sound investment principles and adopt plans to assure the formation of reserves.

Of course, the ultimate objective of every institutional development project is not simply the strengthening of the institution. The institution is a means to an end. The rural poor of Guatemala are the ones whom we are trying to help and AID has identified the private sector cooperatives as the best means of reaching them. Given a sound financial structure and rational credit policies, there is every reason to believe that the cooperative movement can achieve sustained economic performance, while serving the credit and related needs of the rural poor.

At the time the project was designed, the cooperative system was on the verge of bankruptcy for a variety of reasons, many of which were beyond the control of the cooperatives themselves. With the return of relative political calm and the prevailing national economic policies, the cooperatives can be revived. A critical component of this revival is a recapitalization of the cooperative federation that will strengthen them by injecting capital and reforming policies.

Finally, the project purpose of strengthening cooperative balance sheets can best be met by permitting the federations to earn interest on the capitalization funds. Appropriate interest rates and credit policies, by themselves, are not going to recapitalize the cooperatives. The capitalization/stabilization component is designed to provide the capital needed to stabilize the cooperatives and return them to financial stability. Capitalization of the cooperatives is a primary purpose of the project and the accrual of interest is a direct means of capitalization. To say that strengthening the capitalization of the federations is a legitimate project purpose, but that the federations may not use the funds to earn interest would be a non-sequitur.

Two collateral aspects of the capitalization disbursement mechanism also should be considered. First, the project funds are disbursed as loans to the participating federations; and, second, at the end of the project, the final distribution of the proceeds of repayment of the capitalization loans may be subject to AID's approval. Neither of these factors alters the validity of the foregoing analysis of the permissibility of the capitalization/stabilization component, but it is worthwhile to examine both in greater detail.

On the first point, the project documentation and the cooperative agreement provide that the PMO will make capitalization grants to the participating federations. However, the question of whether the capitalization transfers should take the form of loans or grants was not thoroughly analyzed prior to the authorization of the project. During the start-up of the project AID and FENACOAC agreed that it was appropriate for the capitalization assistance to take the form of loans and, in Sequential Implementation Letter No. 6, AID approved project implementation plans that provide for the recipient organizations to repay the resources to FENACOAC. AID stated that, while at some future time it may be necessary to provide grant recapitalization assistance to selected organizations, for the present the capitalization funds should be loans to the participating federations.

I do not believe the legal analysis should hinge on whether the transfer of capitalization resources is done on a loan or grant basis. In either case, from the AID perspective, the purpose of the project is met when the disbursement is made. Applying the test of the CSA decision, supra, once a loan is made by the PMO, AID has no further right to the funds and it has received something of value from the federation-a commitment by the federation to adopt AID-approved policy and structural reforms.

On the second point, the fact that the final distribution of the capitalization repayments may be subject to AID's approval, it should be understood that, as discussed earlier, at the time the project was designed, FENACOAC was by far the strongest cooperative federation in Guatemala and AID chose to implement the project through the PMO, established within FENACOAC. The PMO is to treat all federations, including FENACOAC, equally, and the expatriate technical advisors working with the PMO take great pains to ensure that FENACOAC is treated no differently than the other federations.

At present, FENACOAC holds the capitalization loan repayments in trust for the PMO. The cooperative agreement provides that, at the completion of the project, all commodities of the PMO, as well as its financial assets and liabilities will become the property of the successor cooperative financial institution (if feasible) or will be distributed to the participating federations.

The PMO currently is part of FENACOAC but it is possible that, before the completion of the project, a viable institution will be created outside of FENACOAC to assume the functions of the PMO. If so, then the assets of the PMO will be transferred to the successor organization. If a successor organization is not established, then the assets and liabilities of the PMO will be distributed to the participating federations. AID has an interest in assuring that any such distribution is done equitably and consistently with the goals of the project. Therefore, if a successor to the PMO is not established and a distribution of assets occurs, the cooperative agreement gives AID approval rights over the distribution.

In loan and grant agreements, AID commonly retains approval authority over the final disposition of project assets. In loan agreements, especially, AID often retains approval rights that remain enforceable long after the PACD. Retaining approval rights in the event of a certain contingency does not constitute the degree of control that prevents an otherwise valid disbursement from taking place.

The right to approve any distribution plan is in keeping with the nature of a cooperative agreement. Handbook 13 provides that a cooperative agreement is the appropriate financial assistance instrument when AID anticipates that it will have substantial involvement in the implementation of the project. The cooperative agreement for the Cooperative Strengthening Project closely defines the parameters of the final disposition of project assets. Either they pass to a successor organization or they are distributed to the participating federations. If the latter eventuality occurs, then AID has the right to approve the final distribution to assure that it is consistent with the project objectives.

Conclusion: The purpose of the project's capitalization/stabilization component is authorized by the FAA and project documentation demonstrates that these capitalization loans are necessary to meet the ultimate goals of the project. The disbursement of capitalization funds by FEDACOAC to the participating federations is a fundamental purpose of the project. Therefore, interest earned on the capitalization funds is not refundable to AID.

Clearance: GC/LAC, T. Geiger (State 150487)

ACTION: AID-2 INFO: ECON CHL/4

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RR RUEHTG
DE RUEHC #0487 1320821
ZNR UUUUU ZZH
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FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA 5605
BT
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RECEIVED USAID/HONDURAS C&R UNIT 12 MAY 89 10 55

12-MAY-89 TOR: 08:24
CN: 34097
CHRG: AID
DIST: AID
ADD:

AIDAC FOR MIKE WILLIAMS, RLA

E.O. 12356: N/A
TAGS:
SUBJECT: GUATEMALA COOPERATIVE STRENGTHENING PROJECT

PER FAX MESSAGE NO. 05-26 TO WASHINGTON DATED MAY 9, 1989, GC/LAC HAS REVIEWED THE DRAFT LEGAL OPINION FOR THE REFERENCED PROJECT AND CONCURS IN SAME. EAGLEBURGER
BT
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UNCLASSIFIED STATE 150487

OFFICE	ACTION	INFO
MD		
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EXO		
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ANNEX H

GLOSSARY

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

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FEDECOAG	--	Federacion de Cooperativas Agricolas de Guatemala (Federation of Agricultural Cooperatives of Guatemala)
FEDECOCAGUA	--	Federacion de Cooperativas de Cafe de Guatemala (Coffee Cooperatives Federation of Guatemala)
FEDECOVERA	--	Federacion de Cooperativas de las Verapaces (Federation of Cooperatives of the Verapaz Region)
FEDEPESCA	--	Federacion de Cooperativas de Pesqueras del Pacif. (Federation of Fishing Cooperatives)
FENACOAC	--	Federacion Nacional de Cooperativas de Ahorro y Credito, (National Credit Union Federation of Guatemala)
FENACOVI	--	Federacion Nacional de Cooperativas de Vivienda y Servicios Varios (National Federation of Housing Cooperatives)
FIASA	--	Financiera Industrial y Agricola, S.A. (a local, private finance company)
FMU	--	Funds Management Unit
Gremial/Guild	--	Gremial de Exportadores de Productos No-Tradicionales (Non- traditional Products Exporter's Guild)
ICTA	--	Instituto de Ciencia y TecnologÀa AgrÀcola
INACOP	--	Instituto Nacional de Cooperativas (National Cooperative Institute)
INGECOP	--	Inspector General de Cooperativas (Government regulatory agency for cooperatives)
INTA	--	Instituto Nacional de TransformaciÀn Agraria
NCBA	--	National Cooperative Business Association (formerly the Cooperative League of the USA, CLUSA)
PFC	--	Proyecto Fortalecimiento Cooperativo (Cooperative Strengthening Project)
PID	--	Project Identification Document (an internal A.I.D. document)
PMO	--	Project Management Office
PP	--	Project Paper (an internal A.I.D. document)

PROEXAG	--	A ROCAP-funded Non-Traditional Agricultural Export Project for Central America and Panama
PVO	--	Private Voluntary Organization
SOCODEVI	--	Sociedad de Cooperacion para el Desarrollo Internacional (a Canadian development agency)
USAID	--	Country-level office of the U.S. Agency for International Development; also called a Mission
WOCCU	--	World Council of Credit Unions