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9. ABSTRACT

The results of an evaluative study of Guatemalan rural cooperatives receiving assistance through AID. The objectives were to determine more precisely the characteristics of beneficiaries of the programs; the kinds, qualities, and impacts of services provided; the relevance and viability of the institutions operating the programs; the cost/benefit relations of project achievements; major issues relevant to present and future success of programs; and recommendations for future program development. The report presents six general findings of the study: (1) In six years Guatemala has developed a large and strong cooperative movement serving some 50,000 farmers. This is 10 per cent of all farmers, and 18 per cent of farmers in the altiplano, where the bulk of effort has been concentrated. (2) Rural cooperatives supported by AID are reaching almost exclusively individuals within the low-income target group. (3) The AID investment in grant and loan funds has been generally well utilized. (4) The programs have been meeting the AID objectives of assisting small farmers to increase production, improve living standards, participate in national development, and increase rural incomes; and of assisting rural cooperatives to become viable, self-sufficient institutions. (5) The principal shortcomings have been over-concentration on supplying credit and fertilizer, with under-concentration on technical assistance, crop diversification and marketing improvements. (6) Guatemalan cooperatives have a large potential for further growth in membership and for broadening the range of services offered. They also enjoy for the first time in Guatemalan history the strong support of the national government.

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Rural Cooperatives in Guatemala

A Study of Their Development and Evaluation of A.I.D. Programs in Their Support

Volume I—Summary and General Evaluation

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PREFACE

This is a study of rural cooperatives in Guatemala, with special reference to those supported by the United States Agency for International Development, primarily as a means of assisting small farmers, largely of indigenous background, in the altiplano. The principal programs receiving assistnace through AID are the following:

FENACOAC (Federation of Credit Unions)

FECOAR (Federation of Regional Agricultural Cooperatives)

FUNDACION DEL CENTAVO (quasi-cooperative joint borrowing associations of marginal farmers)

INDEPENDENT COOPERATIVES (supported by DIGESA) 1/

The objectives of the study are the following:

- To determine more precisely the characteristics of the beneficiaries of the programs
- To determine the kinds and qualities of services provided to the beneficiaries and their impact
- To determine the relevance and viability of the institutions operating the programs
- To establish cost/benefit relations of project inputs to project achievements
- To discuss major issues relevant to present and future program success
- To make suggestions and recommendations for future program development

1/ Directorate General of Agricultural Services, Ministry of Agriculture, Guatemala

While we have performed this study under contract with the Agency for International Development, Washington, D.C., the views expressed herein are our own and do not necessarily reflect the views either of AID or of its Mission in Guatemala.

This evaluation of rural cooperative programs is unusual in that for the first time the normal or "institutional" type of evaluation (presented in Volumes I and II) was supplemented by a detailed farm level survey of small farmers (presented in Volume III) including both cooperative members and matching groups of non-members.

While as evaluators we have been frank in our findings, we earnestly hope that the groups we have studied will accept them in the constructive spirit in which they are offered. We fully appreciate the problems with which they are faced. Improvement of the economic conditions of small farmers in the Guatemala altiplano is not an easy task. The four groups studied are sincerely endeavoring to improve the lot of small farmers who are operating under exceedingly difficult conditions.

There is room for great pride of achievement on the part of both Guatemalans and Americans who have been associated with these programs. The Guatemalan rural cooperative movement has a promising future in expanding services to its members and in contributing to the economic and social development of the country. The quality of Guatemalan cooperative leadership, not only at the national level but also in the countryside, inspires confidence in the future.

We appreciate the assistance and courtesy that has been extended to us by all of the cooperative organizations covered in this report as well as by officials of DIGESA and many other organizations and individuals in Guatemala.

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RURAL COOPERATIVES IN GUATEMALA

Section I - Summary and Recommendations

Section II - General Evaluation

SECTION I

SUMMARY OF PRINCIPAL FINDINGS AND RECOMMENDATIONS

A. General Findings

(1) During the past six years, Guatemala has developed one of the largest and strongest cooperative movements for small farmers of any Latin American country of comparable size. Some 50,000 farmers, over 10% of all farmers in the country, are now being attended by cooperatives and the Fundación del Centavo. In the altiplano, where the bulk of effort has been concentrated, the penetration is 18% 1/.

(2) Guatemalan rural cooperatives supported by AID are reaching almost exclusively individuals who fall within the category generally referred to by AID as the low-income target group. The program is heavily concentrated in the highlands, where the vast majority of farmers are minifundistas of indigenous background. Both the cooperatives and the Fundación del Centavo serve not only very small landowners but also many who utilize land of others in exchange for money, labor, or a share of the production.

(3) The AID investment in grant and loan funds has been generally well utilized. In almost every respect, the progress anticipated in PROPs and CAPs, both overall and in terms of objective verifiable indicators, has been met or exceeded, in many cases by significant margins. Table I-1 presents data on some of the leading indicators established by the AID program documentation.

(4) The programs have been in full alignment with the major purposes and objectives set forth in the various AID program documentation (PROPs and CAPs)--namely, to assist small farmers, particularly in the altiplano, to:

-- "increase production"
-- "improve living standards"
-- "participate... in national development"
-- "increase rural incomes"

1/ Perhaps another 3% are served by other organizations, principally analogous to the Fundación del Centavo, which are completely outside AID or cooperative programs.

-- "organizing marketing"

and to assist rural cooperatives in"

-- their "development"
-- their "federation"
-- their "achievement of viable" and "self-sufficient" institutions
-- providing "technical information, necessary inputs and production credit"
-- "democratic representation...through...village member committees"

(5) Aside from specific project weaknesses indicated below, the principal shortcomings of the program as a whole have been:

a. There has been over-concentration on supplying credit and fertilizer, while the development of needed technical assistance, agricultural diversification, and marketing programs has been given insufficient attention. The assumption that credit for annual inputs is the key to improving the condition of the small farmer is dubious, as Volume III of this report demonstrates.

b. The various projects have been operated as independent parallel programs whose paths rarely touch and without any overall planning as to how the rural cooperative movement as a whole can best be organized and developed to serve the small farmers of Guatemala.

(6) Cooperatives in Guatemala have a large potential for assisting small farmers. They have the capability both for further large growth in membership and for broadening the range of services offered. They also enjoy for the first time in Guatemala history the strong support of the national Government.

B. Findings with Respect to Specific Programs

(1) FENACOAC (National Federation of Credit Unions)

a. In the history of AID programs to support cooperatives in Latin America, FENACOAC must rank as one of the outstanding success stories. Not only has its membership and savings growth been meteoric, but it has concentrated particular attention on serving low-income farmers and other rural inhabitants in areas of the country where the need is greatest.

b. FENACOAC has surpassed AID's projections with respect to growth in membership, capitalization, volume of activity,

and achievement of self-sufficiency. While it can utilize additional assistance to extend and broaden its program, it has fully achieved AID goals respecting institutional viability. It is particularly gratifying that the progress of FENACOAC during the period covered by this study has been achieved under exclusively Guatemalan leadership.

c) The strong points of FENACOAC and its affiliated credit unions are the following:

1. It serves more members (54,000) and more farmers (30,000) than all other cooperatives in Guatemala combined.

2. It does an excellent job of providing short-term credit for

   ---annual farm production, particularly purchase of fertilizer
   ---operation of small businesses, many concerned with agricultural marketing and processing or with rural handicraft.

3. It has made significant numbers of successful short-term loans for

   ---purchase of land by small farmers
   ---land improvements
   ---purchase of farm animals

4. The Federation has provided effective leadership and support to constituent credit unions. Significant points include

   ---stress on organization of larger economically viable credit unions rather than mere number of credit unions.

   ---establishment of regional offices and regional meetings to bring support closer to member cooperatives.

   ---effective management training, particularly of well-selected and competent indigenous personnel.

   ---effective use of Peace Corps volunteers

   ---an excellent public relations image throughout the country

---effective working relations at national and local levels with independent agricultural cooperatives.

5. Mobilization of $4.3 million of capital and savings (larger than the $800,000 loaned to FENACOAC through 1974 by AID and others. Amounts being mobilized are growing rapidly each year (1975 alone could add $1,500.000).

6. Organization of an effective system of fertilizer distribution.

7. Some excellent ancillary services such as insurance benefits to cooperative and individual members.

8. Better diversification in its lending than either FECOAR or BANDESA (Government agricultural bank) in that less than 35% of the portfolios (carteras) of its cooperatives are in credit for annual farm inputs.

d) The weak points of FENACOAC, some of which are at least partially external or owing to insufficient financial resources, are the following:

1. No program of agricultural technical assistance at national level or (with a few notable exceptions) by constituent local cooperatives.

2. Partly as a consequence of (1), inadequate assistance to members in the selection and best use of fertilizer.

3. Limited activity in agricultural marketing.

4. No program at national level of encouraging agricultural diversification and little at local levels.

5. Little activity, particularly at national level, in supply of agricultural inputs other than fertilizer.

6. Lack of managerial skill and aggressiveness in a number of weaker cooperatives--resulting in failure of such cooperatives to realize their potential to organize and serve small farmers of their areas.

7. Much of FENACOAC's success in achieving a high rate of capitalization and full self-sufficiency in

1974 was the result of high profits on fertilizer sale. This windfall is unlikely to be repeated.

8. While efforts to control delinquency and bad debts in member cooperatives merit much praise, there is a need for greater attention to this problem and more thorough reporting and analysis of delinquent accounts.

9. FENACOAC does not have an adequate statistical reporting system on the objects for which funds are lent by constituent credit unions either generally or with respect to AID funds.

10. Limitation on its growth potential and risk of possible membership loss owing to difficulties in competing with a Government bank (BANDESA) lending money to small farmers with subsidized interest rates (5%) and subsidized costs of loan administration.

(2) FECOAR (Regional Agricultural Cooperative Federation)

a) FECOAR has achieved, and in some respects, exceeded AID's projections in terms of growth and progress toward institutional viability and self-sufficiency. While continuing to receive diminishing AID subsidies, the ability of the federation and the regional cooperatives to be self-sufficient appears assured.

b) The AID contractor, ACDI, has designed and organized an efficient agricultural cooperative system composed of a federation, six regional cooperatives, and within each region, sub-regional assemblies and fully structured local village groups. Outstanding features of the organization are the following:

---efficient plan of organization and administration
---effective professional management
---economy of scale
---capability and interest of the regional cooperatives to reach outlying groups rather than only farmers close to city centers.
---democratic organization in accordance with Rochdale principles at national, regional, sub-regional and local levels--while avoiding the administrative expense and burden of creating and sustaining individual cooperatives with legal personality in each of the 300 localities served.

c) The strong points of FECOAR (together with its affiliated regional agricultural cooperatives) are the following:

1. With over 7,000 members, it ranks second to FENACOAC in number of small farmers served.

2. It does an excellent job of providing short-term credit for annual crop production and modest amounts of credit for other agricultural purposes.

3. It devotes considerable attention to the organization and cooperative education of its members at the grass-roots village level.

4. Despite serious shortcomings, its agricultural technical assistance program reaches substantial numbers of small farmers.

5. It has done a good job in marketing wheat.

6. It has organized an effective system of fertilizer distribution to members, and competently handles supply of some other inputs in demand by its members.

7. It is doing a respectable job of providing threshing machinery services to members; purchases and use of tractors and other equipment is more questionable but not a serious problem.

8. It is mobilizing rural capital and savings at a rate which over the long run may nearly approximate (proportionally to membership) that of FENACOAC.

d) The weak points of FECOAR, some of which are at least partially external or the consequence of the organization's youth and limitations of financial resources, are the following:

1. FECOAR and the regionals have suffered from a poor image within the cooperative movement and with some observers of rural cooperative development. While there has been some improvement, it is important to take positive actions to improve FECOAR's relationship with other elements of the cooperative movement.

2. FECOAR has operated very largely in isolation both at national and local levels from other cooperative groups rather than in active collaboration with them.

3. FECOAR personnel policy has placed inadequate stress on the selection and training of indigenous staff even in areas in which indigenous language capability would be important to effective communication with members and understanding of cultural factors. However, the great majority of elected officers of FECOAR cooperatives are indigenous.

4. No program at national level of encouraging agricultural diversification and little at regional level.

5. No significant marketing programs aside from wheat.

6. No credit provided for longer-term purposes such as land purchase or improvement.

7. Over-dependence upon one important though narrow line of business-sale of fertilizer and provision of credit therefor. Much of FECOAR's progress toward self-sufficiency in 1974 was the result of windfall profits in this business, which are unlikely to be repeated.

8. Stagnant membership growth in one regional-- San Andrés-- apparently because of inadequate effort to organize and serve the less socially and economically developed small farmers of its region.

9. While FECOAR's delinquency and bad debt records (except at San Andrés) have been good, there should be more thorough and continuing reporting and analysis on delinquent loans.

10. Limitation on growth potential and risk of possible membership losses owing to difficulties in competing with a Government bank (BANDESA) lending money to small farmers with subsidized interest rates (5%) and subsidized costs of loan administration.

(3) FUNDACION del CENTAVO

a) The Fundación del Centavo fully conforms to the program purpose of improving the income of the rural poor through the medium of a private institution.

b) The Fundación is efficiently administering a program which is providing credit for agricultural inputs to over 4000 small farmers, many of whom

--- have not reached a level of social and economic development which would enable them easily to undertake membership in a cooperative and/or

--- would not be considered suitable candidates for recruitment by cooperatives in their area.

c) On an experimental basis, the Fundación is assisting groups of marginal farmers to buy land of good quality. This program has great promise of substantially lifting the economic status of the groups involved, rather than providing only a temporary palliative.

d) The Fundación has been unsuccessful in raising its annual income from private donations above a level of $40,000 a year. In consequence, the ability of the Fundación to expand its program significantly will depend upon assurances of somewhat more substantial Governmental and international support.

e) Strong points of the program of the Fundación del Centavo are the following:

1. The Fundación is reaching some of the poorest farmers of Guatemala, including many landless campesinos who till small tracts in exchange for providing labor to their landlords.

2. The Fundación has excellent staff with good skills in working with groups of marginal farmers.

3. The Fundación's record of collection on loans under its current program of lending to groups to finance inputs is commendable.

4. The Fundación's programming of quality on-going technical assistance to enable land-purchase groups to establish efficient farming operations is praiseworthy.

5. While disappointment may be warranted that the Fundación is unable to raise larger sums from private donations, there is a reverse side to the coin: The $40,000-odd that it does raise each year is a significant contribution to the assistance of the rural poor, and expands on what could be achieved through public and international funds alone.

f) Weak points of the program of the Fundación del Centavo, to some of which limited resources is a contributing factor, are the following:

1. While the Fundación's objective is to provide only temporary assistance to small farmer groups, there is no clear plan as to what the destiny of these groups is to be.

2. There are no arrangements between the Fundación and cooperatives to enable the groups eventually to enter into cooperatives and share the broader services they provide. (CAP 1080 states the purpose of the 024 loan is to "stimulate economic activity among small farmer groups in a pre-cooperative (emphasis supplied) stage.") The Fundación has not yet found a use for the "pre-cooperative" concept.

3. The Fundación's program of assisting small farmer groups to obtain credit for inputs does not include agricultural technical assistance, marketing, or any other form of complementary service. The relative importance of credit is overrated.

4. The Fundación is supporting the basic institutional overhead for a program several times the size of what it is now operating. To achieve efficiency it should either expand operations or reduce overhead.

5. The Fundación's easier terms and lower rate of interest to small farmers give it some competitive advantage over cooperatives in attracting members. There is some potential inconsistency in AID's supporting a lending program with subsidized administrative costs which undercuts the interest rate of cooperatives which are required to cover their administrative costs from interest receipts and other operating revenue.

6. The Fundación's program of providing credit to farmer associations to purchase agriculture inputs does not provide for mobilization of capital and savings in farmer institutions, like cooperatives, which contribute to a fuller development.

(4) Independent Cooperatives Supported by DIGESA

a) This program represents an important and valuable shift from previous Government policy of encouraging formation of new independent agricultural cooperatives to one of strengthening selected existing cooperatives with above-average prospects for survival and growth.

b) The program involves cooperatives with approximately 2000 members. The primary emphasis is on basic grains cooperatives, although a portion of the program concerns cooperatives of vegetable and other farmers who can be considered, by Guatemala standards, relatively prosperous.

c) In sharp contrast with federation - affiliated cooperatives, the cooperatives in this program have not achieved any membership growth. The membership, however, is on average more active and a wider range of services is being received.

d) The AID technical assistance --consisting of one technician-- has conformed to its purpose of assisting the Department of Agricultural Cooperatives of DIGESA to organize a program based on technical assistance teams and to train the personnel involved. The quality of service provided by the contract technician (from California State Polytechnic University) has been both efficient and appreciated by DIGESA.

e) The AID 018 Loan funds used in the program could have had greater impact if used in a more dynamic program.

f) The strengths and weaknesses of the program are intermingled in the same program elements, and it is frequently a matter of close judgment to determine how each element should be categorized:

1. The program involved very heavy assistance per farmer to a small number of farmers $57 in administrative costs per farmer and $537 in loans per borrowing farmer in 1974. This seems to us disproportionately high compared with resources available in Guatemala in the cooperative federations and other groups to assist small farmers. It will, however, be interesting to study results of the small farmer survey to determine whether investments per farmer at this level produce proportionately greater results. 1/

2. The program attending cooperative groups through technical assistance teams composed of persons of different skills is highly useful experience for DIGESA in connection with the design of programs to shift extension work from emphasis on individuals to work with groups (both cooperatives and other types). The system has been of limited effectiveness, and better program models and techniques can be devised.

3. While the rendering of substantial technical assistance is a strong point of the program, it has shortcomings both in scope and quality of personnel.

4. We question the rationale whereby members of independent cooperatives receive loans for basic grains at an annual interest rate of 5% through BANDESA, with BANDESA and DIGESA respectively subsidizing the interest rate and the lending costs. FENACOAC and FECOAR receive no subsidization of their administrative costs in lending, and such costs must be met by their members in such forms as higher interest charges. Further, while they have access to AID loan funds at a concesional rate of 3%, BANDESA receives money from the Central Bank at 2%. The resulting penalization of federated cooperatives (and their members) appears inconsistent with public policy and not justified by results achieved.

1/The survey shows that the sample of members of independent cooperatives in the altiplano earned less per manzana than members of FENACOAC and FECOAR or of a match group of their own neighbors. While they did relatively well in animals, none of the eight groups surveyed achieved a lower net income per cultivated manzana.

5. The program is lacking in any real system of control over delinquency and bad debts despite the unusually heavy level of lending.

(5) Supplementary Projects

a) AID participant training has been highly useful, well appreciated by participants, and well directed toward individuals with continuing important positions in the cooperative movement.

b) We are not convinced that USAID's implied writing off of its investment in the EACA school as a poor investment is justified. We believe that with an improved atmosphere of cooperation among elements of the cooperative movement, including design of courses for which there are specific needs, EACA can play a continuing significant role in rural cooperative education. There is a need for a fresh look at Guatemala's total requirements, not only for cooperative education per se, but also for agricultural training for cooperativists and for training of agronomists and students of agronomy in working as extensionists with cooperatives and other groups of small farmers.

c) The loan funds under AID loan 018 for handicraft cooperatives remain largely unprogrammed, despite an urgent need for working capital by the recently formed handicraft federation to carry out its program and receive the full benefit of extensive volunteer support being provided by both the United States and Sweden.

d) FENACOAC has made good use of Peace Corps Volunteers. FECOAR could make a greater and more imaginative use of this resource, as in the case of the regional cooperative in Jutiapa.

d) Some incidental support to campesino groups for cooperative action has been provided by AIFLD. This could potentially stimulate some significant cooperative development, perhaps drawing on experience in neighboring Honduras.

C. RECOMMENDATIONS FOR CONSIDERATION IN FUTURE COOPERATIVE DEVELOPMENT

We recommend that consideration be given to the following points in the future development of rural cooperatives

in Guatemala, with the particular objectives of improving and expanding services to small farmers and of increasing the institutional viability of the rural cooperative movement.

(1) Agricultural Credit

a) Emphasis should be on the buildup of the quantum of credit available for small farmers and of the mechanisms for delivering it to them efficiently in a manner consistent with the conservation of funds. This will answer to a major demand and need of small farmers which is for access to credit -- and to sufficient credit -- on reasonable terms rather than for too little credit for too few, at low subsidized rates. Guatemala has not the capability to meet all the credit demand at a highly subsidized rate.

b) To the extent, if any, to which the delivery of credit to small farmers is subsidized, efficient cooperative federations and the Fundación del Centavo should share on an equitable basis in the subsidy, giving full weight to their administrative costs and some inevitable bad debts, even with the best of management.

Subjecting national cooperative federations to ever-increasing competition through highly subsidized credit programs can undermine the growth and institutional viability of the major cooperative groups and of their relatively more efficient credit delivery systems. 1/

c) The current emphasis on credit almost exclusively for annual input costs should be balanced by significant supplies of credit for vital long-range needs for land and agricultural diversification into higher income activities. Cooperatives can provide a major channel for effective use of such credit. The notion that too frequently prevails that annual production credit is invariably the best use of credit because it is recovered annually and can be extended over and over again is fallacious; the credit is extended over and over again to the same people for the same purpose, and thus the game is never ending. Further, as our farmer survey (see Vol. III) indicates, a large part of the credit provided to small farmers for annual inputs does not result in corresponding increases in their purchase and use of such inputs. Credit for capital development can significantly lift the income-generating productive base of the farmer borrowers and, upon repayment, be lent to other farmers to repeat the process.

1/ Our farmer survey indicated that, thus far, there is relatively little awareness by FENACOAC and FECOAR members that they are paying relatively higher interest rates than borrowers from BANDESA.

(2) Other Services to Farmers

a) Cooperatives should devote much study and effort to developing and improving their systems of technical assistance to members. There are great opportunities for DIGESA and cooperatives to sit down together to work out imaginative, mutually reinforcing and cost-effective systems for developing appropriate technology packages and bringing them to small farmers through the mechanism of local cooperative groups.

b) Cooperatives should make a special effort, in view of the high cost of fertilizer, to improve their recommendations to members as to the choice and use of fertilizers, both chemical and natural, and to train their membership in improved fertilizer practices. This also involves a greater use of scientific soil testing, rotation practices, green manure and cover crops, etc.

c) Cooperatives (particularly for highland farmers, many of whom lack sufficient land to achieve a minimal standard of living on wheat or corn) need to develop programs with collaboration from ICTA 1/and DIGESA to identify higher income opportunities and to encourage diversification along such lines.

d) The rural cooperative movement has grown to sufficient size that it must begin consideration of the development of marketing programs (leading ultimately to processing and export programs) for an increasing range of farm products. Such a program needs a national focus to service the movement as a whole; spasmodic local initiatives by individual cooperatives or federations will not suffice. Elements of a good marketing effort would include:

-- identification of national and export market opportunities,

-- attention to quality, packaging, transport, and distribution system requirements,

-- close interrelation with projects of agricultural diversification,

-- support through cooperative technical assistance programs,
-- Coordination with existing GOG marketing programs.
-- careful planning and execution to avoid marketing fiascos.

1/ Instituto de Ciencia y Tecnología Agrícolas.

e) Collateral with the development of technical assistance, agricultural diversification and marketing programs, the rural cooperative movement could organize a program of input supply of a range of inputs (in addition to fertilizer) for which consolidated cooperative buying power could secure price advantages and reduce distribution costs.

(3) Institutional Development

a) There should be frank recognition that the two principal rural cooperative groups --FENACOAC and FECOAR-- are each serving similar constituencies of small farmers and each endeavoring to meet the same needs of these constituencies --i.e., credit and agricultural services. It is important that these two groups at least harmonize their developmental programs to avoid the risks of direct and unproductive confrontations, and to achieve benefits that require the concerted effort of the cooperative movement.

b) The proposed Instituto Guatemalteco de Fomento Cooperativo, which will presumably include representation of the major cooperative groups, should provide a forum within which possible models for further development of the cooperative movement can be considered. If this is to be done successfully, we believe that it must be done in an atmosphere in which no one seeks to impose something on someone else. Rather it should be in a spirit of considering alternatives from the standpoint of the interests of small farmers --both those already organized into cooperatives and the many others who can be organized in the future. Ultimate decisions should be made by the cooperative organizations in accordance with their procedures in the exercise of democratic choice.

c) The cooperative movement can also benefit by an open and constructive attitude on the part of the Instituto and the federations (FECOAR, FENACOAC, and FEDECOCAGUA) in involving independent cooperatives (in accordance with their democratic choices) in the mainstream of rural cooperative development. Hopefully, avenues can be found for many of the independents to affiliate with or otherwise gain access to necessary services through the existing federations rather than to establish further and duplicating organizations. 1/

1/ This does not preclude the possibility that certain cooperatives with specialized functions, problems or products may not require some distinctive organizations either limited to or separate from the major federations. The cardamom and Peten coops, for example, may be such special cases.

d) The cooperative movement as a whole should become concerned with the plight of the marginal farmer and how he can be assisted to join groups that will provide the range of services he needs to improve his status. A sound relationship between the program of the Fundacion del Centavo and the cooperatives should be explored. The need for and feasibility of new approaches such as affiliation of joint borrowing groups to cooperatives should be considered.

e) Particular consideration should be given to the development of a national cooperative organization with specialized skill in developing marketing programs for diversified agricultural products. It should have professional management with extensive commercial marketing experience. Such an organization should serve not just one but all of the cooperative groups that need this service -- FENACOAC, FECOAR, the independents and (to the extent their members wished to diversify) FEDECOCAGUA. This perhaps can best be done by the formation of a cooperative marketing union as outlined elsewhere in this report.1/ An alternative would be to convert FECOAR into a purely agricultural organization by divesting it of its credit functions and arranging for dual affiliation of all rural coops with both FENACOAC and FECOAR for credit and agricultural services (including marketing) respectively .2/

f) Renewed consideration should be given by the GOG and the coop movement to educational needs of the cooperative movement. At least one of the two existing cooperative education schools should develop a specialized emphasis on agricultural training, especially to develop local leaders to participate in cooperative agricultural technical assistance systems as agricultural promoters, etc. Barcena, and perhaps other schools for professionsl training, should become involved in developing agronomist and other personnel with skills in working for or with cooperative groups.

D. RECOMMENDATIONS WITH RESPECT TO FUTURE AID PROGRAMMING

AID has been the principal international agency to support the cooperative movement in Guatemala. By hindsight it is possible to see some respects in which the pattern of

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1/ See Annex A to Section II, pp. 82-86

2/ See discussion of possible separation of functions between FENACOAC and FECOAR, Section II p.67-73.

assistance might have been improved. The important point is that there has been an impressive record of achievement. This achievement has been the composite of capable Guatemalan leadership, effective American technical support (from AID and from some private sources); substantial capital investment chiefly from AID and GOG; and a rapidly growing mobilization of capital and savings by Guatemalan rural cooperatives themselves.

AID should continue to provide support to this cooperative movement in order to help it to achieve more rapidly the promise of its auspicious beginning. In offering further support, AID should recognize the changes that have occurred through the rapid growth over the past six years. Whereas five years ago the cooperative movement had limited strength, limited recognition and in many respects only incipient organization, it has now entered into a period not only of rapidly growing numbers but also of growing maturity, and growing recognition within Guatemala of its importance as a force in Guatemalan development.

Under these new conditions, AID's role ought no longer to be one of conceiving and planning projects ab initio in order to promote basic buildup of cooperative strength. Rather, it should be one of encouraging and assisting the development of constructive new initiatives under Guatemalan leadership. Guatemalan planning may well open up areas or mechanisms for future productive AID assistance which we cannot presently foresee.

At this point in time, however, we can suggest that the following areas of possible AID support may be particularly productive for consideration in future planning among GOG, USAID, and the respective cooperative organizations:

(1) Substantial technical assistance and grant support for the development of cooperative programs for marketing.

(2) Some technical assistance and grant support for the development of joint DIGESA-cooperative systems for generating appropriate technologies combined with effective technical assistance to the village cooperative group level and for promotion of agricultural diversification.

(3) An emphasis in future loan programs on medium- and

longer term credit for land improvement, agricultural diversification, and marketing. 1/

(4) A particular openness on the part of USAID to the support of projects involving (a) collaboration among the various cooperative groups along lines which reflect their mutual interest and agreement; (b) provision of temporary subsidization of management for weak credit unions and other cooperatives which have outstanding growth prospects.

(5) A somewhat greater emphasis in consideration of release of 024 funds to the Fundación del Centavo on the merits and potential impact of its program in assisting small farmers and less rigidity on issues of institutional self-sufficiency.

(6) Scholarships (principally local) for the training of promising candidates to work for or with cooperatives as agronomists/extensionists or in para-technical capacities.

(7) Financial support to a carefully programmed study trip by Guatemalan cooperative leaders to other countries in the hemisphere 2/ which have been dealing with the kinds of problems that will face Guatemalan cooperative leadership over the coming five year period.

(8) A study in depth of the causes and cures of delinquency and bad debts in the rural cooperative movement and of techniques of bringing the problem under greater control. 3/

1/ We would also include land purchase by small farmers with inadequate landholdings but this is precluded by AID regulations. AID can, however, provide loan support for development projects associated with land purchase (and/or land sale guarantees) if the purchase funds are provided by GOG or another source.

2/ See Vol. II, Sec. 7, pp. 106-107.

3/ Such a project might be carried out by a Guatemalan Firm of certified public accountants with assistance from agricultural credit and cooperative specialists in designing the project.

SOME HIGHLIGHTS OF THE FARMER SURVEY OF COOP MEMBERS IN THE ALTIPLANO

(See Vol. III for detailed analysis)

Q = Quetzales

	FENACOAC		FECOAR		FUND. CENT.		INDEPENDENT COOPERATIVES	
	Members	Match Group	Members	Match Group	Members	Match Group	Members	Match Group
Average total capital (Q)	3199.8	2537.4	2878.3	2476.3	1882.8	1770.7	2866.6	2715.5
Average farm capital (Q)	2621.7	2100.6	2378.3	2127.0	1486.9	1382.2	2184.1	2081.5
% with farms 5mz or under	75.4%		72.4%		90.9%		75.1%	
Average total income (Q)	847.7	730.9	724.7	727.7	552.0	633.4	758.7	580.0
Average farm income (Q)	534.2	480.8	485.0	490.0	268.0	331.5	420.2	343.3
Average farm income (Q) (after 6% return of capital)	376.9	354.8	342.3	362.4	178.8	247.6	289.2	218.4
Sale per manzana (Q)	118.2	127.0	96.4	134.2	75.1	124.2	76.4	92.9
Average credit received in 1974	249.6	27.0	192.6	29.9	133.8	15.3	159.1	None
% receiving technical assistance in 1974	25%	9%	34%	11%	36%	12%	35%	25%

SECTION II - GENERAL EVALUATION

A. BACKGROUND

(1) Development of Rural Cooperatives in Guatemala

a. Early History

As elsewhere in Central America the development of cooperatives in Guatemala has been an essentially post-war phenomenon. Much of the initial impetus came from Catholic missionaries and local clergy, although other groups, both religious and lay, began to participate. The Government itself, through formation of a Departamento de Fomento Cooperativo in 1945, played a significant promotional role in addition to providing a legal basis for the organization and functioning of cooperatives.

The emphasis in these early days was on the formation of small local cooperatives. Little financing was available either for management or for cooperative business operations. Savings and credit cooperatives were much favored because they provided a basis for accumulating some capital through members' savings and answered to one of the rural area's most evident needs --a source of credit. Even at this early time small farmers were a major concern, though the needs of handicrafters (a large proportion of whom are also small farmers) and the small commercial and professional groups received attention.

Some of these early efforts have survived as well-established cooperatives, though mainly in cases where significant outside support was ultimately secured. The rate of failure was very high.

In the early 1950's the cooperative movement in Guatemala sustained a series of shocks owing to a succession of Governments of varying ideologies. This culminated in a tendency to view cooperativism as something akin to communism. Although the Government began to adopt a favorable policy towards cooperatives in the late 1950's, it has taken time for

cooperatives to achieve full recognition as a constructive force in the development of the nation.

b. Early Period of AID Support

AID support to cooperatives in Guatemala began in the mid-sixties. The main program was support to the credit union movement of Guatemala through CUNA (the United States credit union movement), as a contractor to AID. Under this contract CUNA took over complete management of the fledgling credit union federation (FENACOAC), which had been created in 1963. With financing available for promotion and organization, an active movement began to take form. Still, however, there was little change in the basic philosophy of establishing small cooperatives with weak support; many have subsequently succumbed or have doubtful potential for survival. Nonetheless, by 1969, the credit union federation had grown to some 10,000 members. Furthermore, from the beginning the AID/CUNA program, in contrast to some similar programs elsewhere, placed emphasis on rural development and on meeting the needs of small farmers.

AID made some sporadic efforts to help agricultural cooperatives outside the credit union movement. Most notable was support to the organization and subsequent operation of a cooperative school in Chimaltenango (EACA) and to local agricultural cooperatives in that department, which united to form the marketing cooperative "El Quetzal".

During the period, there was also considerable activity entirely outside the AID program by the Departamento de Cooperativas Agricolas of the Ministry of Agriculture in forming local agricultural cooperatives. By all odds the greatest success was achieved in organizing coffee cooperatives, which have formed a strong federation of their own. A few healthy cooperatives were also established, mainly for other crops or products which involve above average investment and/or are destined for the export market. For the mass of small farmers in the so-called "subsistence sector", whose main products were wheat and corn, success was more limited. Aside from "El Quetzal", the outstanding successes were Santa Lucía and (though later blemished by managerial defalcation) San Andrés, both in the Department of Sololá.

. Expanded AID Program (1969-1974)

In 1969 USAID/Guatemala became interested in developing a strong program to assist small farmers in

Guatemala through the medium of cooperatives. To fashion its program, it secured the services of the former AID cooperative technician in Honduras and of ACDI (Agricultural Cooperative Development International), an AID contractor in Honduras. The outlook of the new AID cooperative officer and the ACDI group was doubtless strongly conditioned by their experiences in Honduras. It is useful, therefore, to outline what had transpired in Honduras to assist in understanding their strategy in Guatemala.

To begin with, the credit union program in Honduras had not developed a small farmer emphasis. Its strength lay in urban areas and among salaried plantation workers. Many of its small town cooperatives were failing or faltering, and the strongest of them considered the smallest farmers dubious credit risks.

On the agricultural cooperative side, the AID/ACDI program in Honduras had involved grouping together a large number of small cooperatives (some of larger and some of smaller farmers) into a national agricultural cooperative federation and the formation of a considerable number of new village level cooperatives and pre-cooperatives at scattered points throughout the country. The result was a structure that was not organizationally effective and exacted disproportionate effort in coordination, administration and support of weak cooperatives lacking in professional management. Further, the project was begun without loan funds for agricultural credit or other capital development so there was no effective program to administer. When a moderate amount of loan funds finally became available for lending through local cooperatives to members, an ensuing poor harvest resulted in massive delinquency and the insolvency of most of the borrowing cooperatives. At this point, AID withdrew further support to the federation, which at last report was under the custodianship of the Government of Honduras and considering plans to restructure itself through consolidation into regional cooperatives.

In Guatemala, as in Honduras, it was not supposed that credit unions would provide an adequate means to reach substantial numbers of small farmers. Despite this conclusion, AID did consider that FENACOAC's potential to serve small farmers was sufficient to play a significant role. AID, therefore, made substantial provision for additional support to FENACOAC in both grant and loan funds. It also arranged for turnover of administration of FENACOAC from CUNA to Guatemalans.

In order to achieve substantial additional impact in its major goal of helping small farmers in the altiplano, AID also established, in accordance with recommendations of ACDI, a program to develop regional agricultural cooperatives with economies of scale. At the outset, the plan for doing this was flexible. It was thought that in some cases it would be possible to work with existing cooperatives to develop them into regional institutions. In other cases, it was thought it might be possible to consolidate existing cooperatives to form a regional base. In still other cases, it was thought that the organization of a new cooperative to serve a region might be necessary. In any case, the basic strategy was to concentrate on developing a limited number of cooperatives of substantial size rather than replicating the unsuccessful Honduran model of federating and organizing scattered village level cooperatives.

As the project developed, AID/ACDI did in fact work initially with one existing wheat cooperative (San Andrés), which was interested in becoming a part of the new regional system. Shortly after beginning to operate with San Andrés, however, it was found that the manager had absconded with funds, leaving the cooperative saddled with considerable debt. This initial setback seemed to have crystallized AID/ACDI thinking in favor of the organization of new cooperatives as the most promising course. In addition, there were conflicts of philosophy and organizational approach between ACDI and agricultural cooperative leaders that might have collaborated in regional organization. These differences in approach revolved around such issues as whether a cooperative should be organized from the top to the bottom or from the bottom to the top, and whether a regional cooperative should be a cooperative with individual members or a service center for local groups.

d. Other Cooperative Development, 1969-1975

The AID/ACDI decision to begin a system of regional agricultural cooperatives was not a popular one with other cooperative groups in the country. FENACOAC, though receiving greater support from AID than ever before, viewed the program with some misgivings as it was developing growing confidence in its own ability to work with increasing numbers of small farmers. The two principal independent grain cooperatives in the altiplano (El Quetzal 1/ and Santa Lucía) mistrusted both the program and the AID/ACDI personnel who designed it. AID and ACDI, for their part, appeared to feel that the new program was being continually and unjustifiably maligned.

1/ A regional agricultural marketing federal of grain cooperatives in Chimaltenango.

During the period, the AID/ACDI program of establishing regionals proceeded substantially according to plan, with the result that by the beginning of 1975, five regionals were functioning with aggregate membership of nearly 7,000 farmers, all of them very well on course toward financial viability, and with organization of a potentially viable sixth cooperative well advanced. In addition, the regionals had been organized into a federation (FECOAR), which has taken over administration of the program from ACDI. (ACDI remains in an advisory capacity until the end of 1975).

Meanwhile FENACOAC progressed with equal and, in some respects, greater success under Guatemalan leadership. It exceeded the growth projected for it by AID, having achieved a membership of over 54,000 in 1974 compared with a projection of 38,000. Like credit unions in other Latin American countries that faced the problem of having too many small and weak units, FENACOAC mainly concentrated on strengthening and organizing larger and more viable units. Thus, its spectacular growth in membership was achieved with a net increase in number of member cooperatives of only 12 --from 71 to 83-- with practically all of the strength concentrated in the 50 largest.

There also has been much impressive progress on the part of independent cooperatives. The most notable has been the organization by El Quetzal of a credit union (Kato Ki)in Chimaltenango, which has now unified with El Quetzal under a common management to form one of the largest agricultural cooperatives in the altiplano. A somewhat similar result has been achieved in Santa Lucía, where the agricultural coop and a credit union exist side by side with distinct but cooperating managements, both with substantial overlapping membership.

Thus the organization of strong cooperatives with economy of scale has progressed much further and faster than AID or ACDI had originally anticipated. Organization of farmer cooperatives with 500 to 2000 members did not remain the exclusive strategy of FECOAR. Other cooperative groups responded effectively with organization of large cooperatives of their own.

Many of the independent cooperatives have received loans under the GOG/USAID Rural Credit and Cooperative Development program. The two Santa Lucía's, for example, have received substantial loans of AID 018 funds through BANDESA and FENACOAC respectively. El Quetzal has received a loan of the entire Q500,000 GOG contribution of loan funds to the program. El Quetzal has also secured significant loan funds from Europe, together with technical assistance from World Neighbors, a private American organization whose agricultural programs in the altiplano are highly regarded.

The coffee cooperatives, which have their own federation, appear to have made excellent progress, though we have for reasons of time and non-involvement of AID in their development, not examined them in detail. 1/ The Cooperative Development Department of DIGESA has wisely adopted a policy of refraining from the organization of new village level cooperatives and instead is concentrating on strengthening cooperatives already in existence. AID has supported this project to the extent of providing a cooperative advisor and agricultural credit from loan funds through BANDESA.

(2) Present Composition of Rural Cooperative Movement

The current composition of rural cooperative movement in Guatemala is shown in Table GEN-1. From this it will be seen that about 50,373 families engaged in farming (on a full or part-time basis) are members of rural cooperatives, or Fundación del Centavo groups, providing agricultural credit and/or other agricultural services. If we assume 5.5 persons per family, this indicates that somewhat more than 276,000 people are being reached. This represents over 10%

1/ The Coffee Federation is receiving support from Inter-American Foundation, another organization funded by the United States Government.

TABLE GEN-1

RURAL COOPERATIVES IN GUATEMALA AS OF JANUARY 1, 1975 1/

Type of Cooperative	No. of Coops	Total No. of Members	Farmer Members
1. FENACOAC credit unions	83	54,109	27,000
2. Independent Basic Grains Cooperatives affiliated with credit unions	12	1,632	1,632
3. FECOAR regionals	5	7,096	7,096
4. Other basic grains	79	5,208	5,208
5. Coffee	48	4,902	4,902
6. Other Cultivated Crops	28	1,562	1,562
7. Cardamon	3	546	546
8. Livestock, milk, fowl and bees	12	378	378
9. Artisanry, fishery, forestry, etc.	24	373	---
Cooperative Gross Total	293	75,806	48,324
Less estimated duplication in membership 2/		2,000	2,000
Cooperative Net Total	293	73,806	46,324
10. Fundación del Centavo farmer groups	99	4,059	4,059
GRAND TOTAL	392	77,865	50,383

Sources: Data adapted from reports of Departamento de Cooperativas Agrícolas of DIGESA and records of FENACOAC and Fundación del Centavo.

1/ Most of the data for cooperatives other than FENACOAC, FECOAR, and Fundación del Centavo are as of 1974 but are not believed to have changed significantly.

2/ Three kinds of duplication are eliminated on the basis of partial

(turn to next page)

TABLE GEN-1 (Cont.)

data and estimates: (1) cases of two members of same family (frequently man and wife) members of the same cooperative; (2) two members of same family members of different coops; (3) same individual member of more than one coop (e.g. credit union and agricultural cooperative.

of the farm families in the country. 1/ In the highlands departments, where most activity is centered, it reaches 18%. 2/

There are also a number of organizations in addition to the Fundación del Centavo working with groups of campesinos not legally organized as cooperatives, chiefly on the basis of providing them with annual production credit. Organizations such as campesino leagues and CARITAS in the aggregate probably attend to a significant number. (A new development is the provision of credit directly to small farmer groups by BANDESA and at least one private bank; it will be necessary to wait until the end of the spring planting season to form any estimate of its scope.)

It is statistically important to note that the 4,059 families attended by the Fundación del Centavo all received loans. Cooperatives, on the other hand, include many inactive members and new members who have not established loan eligibility.

a. Geographical Distribution

Table GEN-2 shows the distribution of cooperatives (and of Fundación del Centavo farmer beneficiaries) according to region and department. From this table, it is evident that the greatest strength of all the cooperative group lies in the

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1/ Projections based on the 1964 Agricultural Census and other data suggest there are now about 480,000 farms in the country.

2/ Other organizations operating similarly to the Fundación del Centavo but not included in this study would probably bring this figure to 20% or slightly higher.

TABLE GEN-2

PARTIAL DISTRIBUTION OF FARMER MEMBERS OF COOPERATIVES AND FUNDACION DEL CENTAVO ASSOCIATIONS ACCORDING TO REGION AND DEPARTMENT

Note: Data for FECOAR and Fundación del Centavo are as of Jan. 1, 1975. Data for FENACOAC and "other cooperatives" are partially incomplete as of Jan. 1, 1974. A complete updated total for FENACOAC would probably show about 30,000 farmers, with most of the increased strength in the highlands. Data on other cooperatives would not change significantly.

Region and Department	TOTAL	FENA-COAC	FECOAR	FUNDA-CION DEL CEN-TAVO	Other Cooperatives	
					Coffee	Grain & Misc.
TOTAL	38,365	15,004	7,006	4,290	4,902	7,163
Western & Northern Highlands:	18,155	8,819	2,938	1,410	2,892	2,096
Huehuetenango	5,005	2,107	-	-	2,040	908 1/
Quiché	1,896	345	1,152	269	-	130
Totonicapán	1,724	640		856	-	228
San Marcos	4,423	1,984	1,786	22	573	158
Quezaltenango	1,847	1,040	-	197	130	480
Alta Verapaz	1,982	1,627	-	66	149	140 1/
Baja Verapaz	1,128	1,076	-	-	-	52
Central Highlands:	12,568	3,157	3,726	2,221	687	2,777
Sololá	3,791	682	1,416	-	327	1,366
Chimaltenango & Sacatepequez	6,624	654	2,310	1,993	328	1,355
Guatemala	2,137	1,821	-	228	32	56
Oriente:	5,610	2,986	342	467	814	1,001
Izabal	403	-	-	-	-	403
Zacapa	2,299	1,379	-	-	599	321
Chiquimula	1,252	1,160	-	26	-	66
Jutiapa	604		342	183	79	
Jalapa	460	50	-	258	136	16
El Progreso	592	397	-	-	-	195
Coast:	1,507	22	-	192	509	784
Retalhuleu	188	-	-	-	134	54
Suchitepequez	479	22	-	-	20	459
Escuintla	410	-	-	-	192	218
Santa Rosa	406	-	-	192	163	51
Peten:	525	20	-	-	-	505

1)Mostly cardamom coop. members

altiplano. Of total membership of 38,365 classifiable by department, 30,723 (or 80%) are in the highlands departments. It should be noted, however, that many of these departments include areas of the piedmont, particularly important for coffee, and some areas in the coastal plains. A number of strong cooperatives are situated in these areas. Aside from these departments there is some significant cooperative strength in the Oriente Departments, while the coastal departments have relatively little.

The main reasons for the concentration of cooperatives in the altiplano are (1) this is where most small farmers are and (2) most cooperative organizers as well as AID and other assistance programs, have had a particular interest in trying to help the largely indigenous population in this heavily populated underdeveloped area of the country. The Oriente, however, appears to offer promising prospects for cooperative development that have been little exploited. There are also significant coastal areas where cooperatives could be useful for small farmers, though the areas generally are characterized by large farms which obtain seasonal labor from the altiplano.

b. Competition Among Cooperatives

The concentration in the altiplano by most groups of organizers of cooperatives and farmer associations creates a degree of rivalry. This has been held in check to a certain extent by the fact that the altiplano is sufficiently large and populous to accomodate varied organizational efforts, and to a considerable extent the different groups have carved out different zones of influence. Huehuetenango is a historic stronghold of FENACOAC and, in the coffee zones of that department, of the coffee cooperatives. FECOAR and Fundación del Centavo have gone into various areas of Quiché, Quezaltenango, and Totonicapán, where FENACOAC has not become established or only is peripherally involved. In Alta and Baja Verapaz, FENACOAC and the independents operate with distinct groups. In Sololá there is an uneasy border between FECOAR's San Andrés and FENACOAC's Santa Lucía, which collaborates with the agricultural cooperative of the same name. Nonetheless, fairly distinct zones of influence can be discerned.

In San Marcos FENACOAC is strong in the south and FECOAR in the center. There is, however, an area of major overlap in the north (Tejutla area), where a large new credit union exists which almost rivals the FECOAR regional in size. The credit union, however, appears to have come about largely through local initiative rather than planned FENACOAC expansion. To better serve and hold its membership in the north, FECOAR has organized a branch in Tejutla.

The area of greatest overlap is in Chimaltenango in which it is possible to find communities in which FENACOAC, FECOAR, independent cooperatives, and the Fundación all have members and some communities in which two or three have either headquarters or branch offices.

Thus far, there has been considerable restraint, even in areas of overlap, in avoiding direct confrontations. Each group tends to organize the unorganized rather than to attempt to win over allegiance. There are, however, a growing number of claims and counter-claims of proselytizing. In many cases, this appears to be based either on suspicion or on one of the following circumstances. In some cases, groups of farmers affiliated with one group seek out another, apparently to consider whether it offers better services. This leads sometimes to speculation that some large blocks of farmers might switch over. The similarity of services among the co-operatives, however, apparently acts as a check on changes in allegiance. To the national coop federations, the greatest threat is BANDESA and occasionally Fundación del Centavo, with their lower interest rates (subsidized) rather than each other. Some disgruntled members of one or another cooperative group do change as individuals, apparently on their own initiative. Also, in some cases, farmers join both a FENACOAC and a FECOAR cooperative. (Under the law, a person can be a member of only one cooperative of a type, but a credit union and an agricultural cooperative, though they provide the same services to farmers, are legally two different types.)

As a rule there are no conflicts between FENACOAC and independent agricultural cooperatives since the two can complement each other in providing credit and agricultural services respectively; thus, they may help each other to gain members to a much greater extent than theylose members to each other.

(3) AID Goals and Purposes

a. Goal

The AID goal of these projects has consistently been "increased rural income". This expression is used in the principal PROPs prepared in 1971 and is to be found in identical or substantially identical form in subsequent program documentation.

b. Purposes

The major AID purposes have been the following

1. FENACOAC credit unions: "...to develop a viable, effective and producer-oriented Guatemalan savings and credit cooperative federation principally servicing rural communities..." 1/ There has been no significant change in purpose during the life of the project.

2. FECOAR Agricultural Cooperatives: "...to develop a viable, effective and farmer-owned Guatemalan agricultural cooperative system integrated into a federation in the highlands area." 2/ There has been no significant change in purpose during the life of the project except to broaden it to include one area outside the highlands.

3. Fundación del Centavo: The original purpose in 1970 was to "increase the private sector participation in rural development", in part by assisting the Fundación "to provide credit" to farmer "pre-cooperative associations" 3/ CAP 1080 added the further purpose "to stimulate the Fundación's capacity of sustaining the development lending program without being unrealistically dependent upon grants, private sector donations and concessional lending."

4. Independent Cooperatives Supported by Agricultural Cooperatives Department of DIGESA: "...to increase the capability of the Ministry of Agriculture to provide key inputs of technical assistance to public institutions whose performance is critical in serving the small and medium-sized farmer." 4/ This was elaborated in AID's agreement with its contractor to assist DIGESA's cooperative department to create "administrative and financial viability in a controlled group of cooperatives..."

1/ PROP for Project No. 520-15-150-200.1, submitted Sept. 10, 1971
2/ PROP for Project No. 520-15-150-200.2, submitted Sept. 10, 1971
3/ PROP "Rural Community Leadership and Modernization, Dec. 21, 1970
4/ PROP

All of the statements of purpose have in common the objectives of establishing viable institutions for helping the rural poor through a system of cooperatives and quasi-cooperative groups providing credit and agricultural services. 1/ These purposes can be said to be complementary in that the respective institutions assisted by AID included two systems of rural cooperatives, a private foundation and a Government agency all working along parallel lines.

Program purposes were limited in that they never moved beyond the concept of parallel development to a more comprehensive purpose of establishing logical and mutually-reinforcing interrelationships.

The two cooperative federations --FENACOAC and FECOAR- developed so as to provide substantially the same services (credit and fertilizer) to essentially the same type of people (small farmers) in primarily the same area of the country (highlands). While AID at one point, recognizing the duplication, tried to effect a merger of the two projects, the effort was unsuccessful owing, among other things, to lack of mutual sense of purpose among USAID personnel and the directors of the two projects.

The program of the Fundación del Centavo, while considered as one of working with "pre-cooperative groups" was not at any time related to a cooperative federation or movement. Since there was no provision for progressing from pre-cooperative to cooperative affiliation, development of the Fundación's groups has been arrested at the pre-cooperative stage. There is no program for realizing the excellent economic development potential of the groups that the Fundación brings together and serves.

1/ The program with respect to FENACOAC was somewhat broader than the others in that it was related not only to farmers but also to other rural inhabitants. There also was a small program element which was concerned with providing credit and related services to rural cooperative groups engaged in handicrafts rather than agriculture. Thus, the purposes of the projects, while aimed primarily at small farmers, were consistent with the broader goal statement of "increased rural income".

The project of the Agricultural Cooperative Department of DIGESA involves work with still another separate group of rural cooperatives --those independent of the cooperative federations Neither the involvement of such cooperatives or their members with federations nor their relation to pre-cooperative groups formed any part of project purpose.

In the sense that the program purpose concentrated on a broad and steady build-up of cooperative and quasi-cooperative organizations with sufficient small farmer membership and institutional viability to have significant impact, it was well-conceived. There was, however, a lack of vision as to how the rural cooperative movement as a whole should evolve and as to what its logic of internal coordination might be.

(4) Program Inputs

Table GEN-3 presents a summary of inputs that have been made in the cooperative program both by AID, other sponsors, and the cooperatives and their members.

TABLE GEN-3

SUMMARY OF AID AND OTHER INPUTS INTO COOPERATIVE DEVELOPMENT, GUATEMALA, 1965-1974

Destiny by Type / Source	AID 1/	GOG	Member Capital & Savings	Private Sector	Panamerican Dev. Foundation	Inter-Amer. Found.	Misc.	Totals
A Grants - Total	2,688,237	573,000	-	167,000	21,000	45,000	93,000	3,587,237
1 FENACOAC	879,760	125,000		n.a.	-	-	-	1,004,760
2 FECOAR	1,195,477	-	-	-	-	-	-	1,195,477
3 Fund. del Centavo	135,000	150,000	-	167,000	21,000	20,000	93,000 10/	586,000
4 DIGESA Coop Program	76,000	173,000 11/	-	-	-	-	-	249,000
5 Other Ind. Coops	-	125000		n.a.	-	-	-	125,000
6 EACA	244,000	n.a.	-	-	-	25,000	-	269,000
7 Participant Trn.	158,000	-	--	-	-	-	-	158,000
B Loans + Member Savings	3,786,875	2,064,300	4,488,616	-	106,000	-	625,000	11,070,791
1 FENACOAC	,900,000 3/	-	3,849,000 4/	-	-	-	600,000 5/	5,249,000
2 FECOAR	1,857,300	911,500 5/	144,616	-	-	-	-	2,913,216
3 Fund. del Cent.	200,000	-	-	-	106,000 8/		25,000 9/	331,000
4 DIGESA Coop Pr.	394,334 3/	570,000 3	75,000 7/	-	-	-	-	1,039,384
5 Other Ind. Coops	535,191 3/	533,000 3/	420,000 7/	-	-	-	-	1,538,191
6 EACA	-	-	-	-	-	-	-	-

Footnotes on following page

NOTE AND FOOTNOTES TO TABLE GEN-3

This table excludes inputs for cooperative and quasi-cooperative programs without close relation to the AID loan program or the four institutions given special study. Principal exclusions are: (1) coffee cooperatives; (2) cooperatives of Petén; (3) Germial Nacional de Trigueros; (4) quasi-cooperative groups affiliated with various campesino, religious, charitable, and developmental organizations other than Fundación del Centavo; (5) urban cooperatives except those affiliated with FENACOAC.

1/ Includes contract services.

2/ Estimated at about 50% Agricultural Cooperative Department budget not utilized in the cooperative technical assistance team program covered in line 4. Remaining 50% would relate to FECOAR, artisanry coops, etc. but is not allocated

3/ Figures are incomplete since BANDESA does not segregate loans to cooperatives from other loans in its cartera.

4/ Includes $408,000 in savings accounts.

5/ $500,000 from COLAC; $100,000 from European lender to one credit union (Kato Ki)

6/ Including $150,000 loan by BANDESA to San Andrés regional coop.

7/ Paid-in capital, partially estimated.

8/ Loan for $200,000 in 1967; $106,000 implemented. (from Pan American Development Foundation).

9/ From Guatemalan Private Bank

10/ Interamerican Development Bank - $27,000
Heifer project - $66,000 in animals.

11/ Estimate of Department of Agricultural Cooperatives from early 1973, including team cost and pro-rata overhead and cooperative school expenses.

B. PROGRAM ACHIEVEMENTS

1. Achievements in Benefits to Small Farmers

a. Description of Farmers Benefitted:

The cooperative program in Guatemala is extremely well targeted to reach the poorest farmers in greatest need of economic assistance. It is highly concentrated in the heavily populated altiplano. This area is characterized by small farms, a large proportion of which are less than one hectare. The altiplano cooperatives draw practically all their strength from these small farmers. Medium[1/] and large-size farmers (as well as professional people who own smaller farms) have a small representation. They rarely join cooperatives and still more rarely for the purpose of borrowing money, inasmuch as ample bank credit at lower interest is available to them.

Most beneficiaries of the Fundación del Centavo program compare with those of the cooperative members. They appear to be more uniformly at the bottom of the economic and educational scale.

Almost all of the program beneficiaries produce a cash crop--usually wheat or corn. Except for wheat, much production is sold locally, often directly to the consumers.

The great majority of members of the target group speak indigenous languages though almost all can carry on basic conversation in Spanish and a good proportion are relatively proficient. Illiteracy is extremely high though many have a little schooling. Catholics predominate, although Evangélicos are strong and some times refrain from affiliating with cooperatives identified with Catholic clergy; individuals of acknowledged Mayan religious beliefs appear to be exceptional, although many are only nominally Christian.

A fuller description of cooperative and farmer association members will result from the small farmer survey.

b. Credit:

The programs covered by this study had grown to the point that in the year 1974 they provided credit as follows:

1/ As a rule of thumb, we regard over 30 manzanas as a medium farm and over 100 as a large one.

Groups	Total loaned for Agric.	No.of farmer members	No.of borrowers	Average loan per mem.	Average loan per borrower
FENACOAC 1/	Q2,200,000	27,000	14,000	81	157
FECOAR (1974-75 crop year)	779,000	7,096	5,061	110	154
FUNDACION DEL CENTAVO	410,000	4,094	4,094	100	100
IND. COOPS. (DIGESA)	500,000	1,990	932	251	537 2/
TOTALS	3,889,000	40,180	24,087	96	161

These figures show a rough comparability in the average amounts loaned to farmers by FENACOAC and FECOAR. In terms of providing credit to small marginal farmers, the Fundación del Centavo probably has more impact relative to the amount of its agricultural lending for the following reasons:

1. All members of its groups receive credit. None is left out because he has not been a member long enough, was unable (or failed) to contribute sufficient capital ("aportaciones"), or did not file a loan application. (On the other hand, some individuals probably were totally excluded from the group for a variety of reasons, some of which -e.g., failure to show up at a meeting when the annual borrowing group was formed- are roughly analogous).

2. Unlike FECOAR and FENECOAC, which have many medium-sized farmers ("above average small farmers" may be a more apt term) the Foundation's efforts are more concentrated on the smallest farmer.

The members of DIGESA- assisted independent cooperatives are most liberally provided for. To some extent the average is high because of the inclusion of a number of vegetable and coffee cooperatives of comparatively large farmers.

1/ Data for FENACOAC are subject to somewhat greater margin of error owing to complications in analysis of available data, as explained in Sec. III of this study. Figures in the first three columns are smaller than sometimes believed, though larger than appear in the light of a recent COLAC study. In our opinion, a margin of error of more than 20% would not be possible.
2/ $360 in the case of basic grains only.

There is considerable variance in the rates of interest charged among the various cooperatives and other institutions lending to small farmers. Nominal rates of interest can be misleading because of the variety of lending requirements and charges. Table GEN-4 presents calculations of rates of "true annual interest" paid by small farmer borrowers to the various lending institutions and cooperatives. 1/

This table shows true annual interest rates as follows:

FENACOAC credit union members	17.9% (16.4) 2/
FECOAR regional coop members	15.2%
Fundación del Centavo group members	11.5%
Individuals borrowing from BANDESA for basic grains	5.6%
Individuals borrowing from BANDESA for other crops	8.6%

All of these rates are calculated on the basis of 12 month loans. Shorter term loans would pay "higher true interest" in the case of all lenders.

These figures have been calculated in such a way as to determine the cost of money to a farmer who is interested only in obtaining credit and who receives no other valuable service from the institution providing the credit. Thus they do not take into account benefits that may accrue to members of FENACOAC and FECOAR by virtue of their membership in any respect other than obtaining credit. 3/

Members of most FENACOAC affiliates receive some insurance protection which permits cancelling their loans and doubling payment of share capital to their heirs in case of death.

1/ We use the term "true interest" to describe these calculations since we use true interest computation methods as the analytical tool for comparing costs and benefits. In the case of cooperatives, the figures might be more precisely defined as "true total cost of credit and other services expressed in terms of the true interest cost of the credit service alone." We do not intend that "true interest", as used here, should be interpreted in any moral or legal sense.

2/ After deducting cost of insurance benefits to members in most cooperatives.

3/ A factor in considering the significance of the "true interest" rate to a member is the extent to which he receives valuable non-financial services from his cooperative, such as technical assistance, ability to buy inputs and/or consumer goods at reduced prices, marketing, etc. If the cooperative member uses such services and benefits significantly from them, he may receive something of value which could equal or exceed his "true interest" cost. If this occurs, his "true interest" cost of credit alone could be viewed as zero compared with those of a borrower from an institution supplying no valuable services ancillary to credit.

Table GEN-4 COST OF BORROWING Q100 BY SMALL FARMER FOR AGRICULTURAL PRODUCTION FROM VARIOUS CREDIT INSTITUTIONS, GUATEMALA, 1975.

ITEM	FENACCAC AFFILIATE	FECOAR AFFILIATE	FUNDACION DEL CENTAVO	BANDESA (BASIC GRAINS)	BANDESA (DIVERSIFIED CROPS)
a. Beginning Share capital of Borrower	Q20.00	Q20.00	--	--	--
b. Borrowing limit for this Borrower					
i. Rate	5 times a.	5 times a.	--	--	--
ii. Amount -(b.i.Xa.)	Q100.00	Q100.00	ave.Q94.00		
c. Amount Requested by Borrower (b.ii.)	Q100.00	Q100.00	Q100.	Q100.00	Q100.00
d. Obligatory Share purchase	--	--	--	--	--
i. Rate	10% of c.	10% of c.	--	--	--
ii. Amount (d.i.Xc.)	Q 10.00	Q10.00	--	--	--
e. Face amount of loan	Q110.00 1/	Q100.00 2/	Q100.00	Q100.00	Q100.00
f. Commission or fee	--	--	--	--	--
i. Rate (%of e.)	2 %	1% 6/	2.0%	--	--
ii. Amount (f.i.Xc.)	Q2.20	Q1.00	Q2.00	--	--
g. Insurance Contribution or premium					
i. Rate	--	--	.5% 5/	--	--
ii. Amount (g. i.Xc.)	--	--	Q0.50	--	--
h. Other charges					
i. Item or Rate	--	--	--	Signature Approval	Signature Approval
ii. Amount (b.i.Xx.)	--	--	Q.40 7/	Q0.50	Q.50

(continued next page)

TABLE GEN-4 (Concluded)

ITEM	FENACOAC AFFILIATE	FECOAR AFFILIATE	FUNDACION DEL CENTAVO	BANDESA (BASIC GRAINS)	BANDESA (DIVERSIFIED CROPS)
i. Net cash to borrower /c.-(f.ii.+g.ii.+h.ii.)/	Q97.80	Q99.00	Q100.00	Q100.00	Q100.00
j. Net amount borrowed (i-a)	Q77.80	Q79.00	Q100.00	Q100.00	Q100.00
k. Interest	--	--	--	--	--
i. Rate per month	1%	1%	0.67%	0.42%	.67%
ii. Term of loan(months)	12	12	12	12	12
iii. Amount (e.Xk.i.X k.ii.)	Q13.20	Q12.00	Q9.00	Q5.00	Q8.00
l. Gross cost of loan (f.ii.+g.ii.+h.ii.+ k.iii.)	Q15.40	Q13.00	Q11.50	Q5.50	Q8.50
m. Amount repaid by borrower (e.+k.iii)[3]	Q125.40	Q113.00	111.50	Q105.50	Q108.50
n. Dividend paid on beginning share capital[4]					
i. Rate	5%XQ30.00	5%XQ20.00	--	--	--
ii. Amount (n.i.Xa.)	Q1.50	Q1.00	--	--	--
ñ. Other dividends or rebates paid to borrower					
i. Rate		--	--	--	--
ii. Amount		-- --	--	--	--
o. Net cost of loan to borrower /l.-(n.ii.+ ñ.ii.)/	Q13.90	Q12.00	Q11.50	Q5.50	Q8.50
p. True monthly interest rate /(o÷j)÷k.ii/	1.5%	1.27%	0.96%	0.46%	0.7%
q. True annual interest rate (p.X12 months)	17.9%	15.2%	11.5%	5.5%	8.5%

(footnotes next page)

TABLE GEN-4 (Concluded)

1/ The obligatory share purchase amount is added to the face amount of the loan.
2/ The obligatory share purchase amount is not added to the face amount of the loan, but is paid at the due date.
3/ Plus d.ii. in the case of FECOAR.
4/ Many cooperatives of FENACOAC have not reached this level of distribution, nor have any of FECOAR with one possible exception.
5/ Borrower pays 50% of Fundación's payment to OPIC.
6/ Charge to be utilized toward cooperative payment to FECOAR disaster fund. (Fondo de Protección).
7/ Registration fee based on average loan of Q6,551, (fee of Q27), average size group of 69, and average amount received by individual of Q94 (equals Q 0.40 each).

c. Savings and Insurance

FENACOAC and FECOAR also provide their members with an opportunity to save. This is largely compulsory in that a borrower must capitalize an amount equal to 10% of his borrowing (5% in the case of some FECOAR coops; 10% in most with proposed ultimate reduction to 5%).

Savings enable the cooperatives to capitalize themselves. Thus FENACOAC and its affiliates can meet their members' annual lending requirements about 50% from their own capital; over the course of time, the newer FECOAR group should be able to achieve similar results (though quantitatively less if it follows a 5% capitalization rate instead of FENACOAC's 10%).

Savings have several values from the standpoint of the individual small farmer, in addition to providing him with access to cooperative services. Probably the most important to many is that they are building up nest eggs that enhance the security of their families. In the case of FENACOAC, the benefit to heirs can be substantial since FENACOAC carries insurance whereby the member's debt is cancelled upon death and the heirs are paid double the value of the aportaciones. A member can, of course, also cash in his aportaciones at any time by withdrawing from the cooperative. It is also possible that, after aportaciones have reached a certain point, it may be decided to permit a member to borrow without increasing them. In the course of time, many will be able to save sufficiently so that they could operate on a cash basis without need for credit. Finally, if the cooperative operates at a profit, the member will receive small annual dividends; these can amount to around 5%, though a smaller rate is more usual. Some cooperatives may never reach the point of paying dividends.

d. Supply of Inputs

Most credit from federations to affiliates is used for purchase of fertilizer. In addition, FENACOAC and FECOAR affiliates sell fertilizer to their members, either against the credit extended or for cash. The price at which they sell to members has been slightly lower than to non-members.

The rising price of fertilizer, together with the shortages experienced in 1974, make it difficult to determine the extent members benefit from the ability to buy fertilizer from their cooperatives. It is clear that in 1974, many cooperative members would have been unable to obtain fertilizer from other sources or would have had to pay significantly more. Nevertheless, the coops did sell at prices which enabled them to make substantial profits; by the same token, however, since the cooperatives belong to their members, the latter benefited indirectly through the strengthening of the finances of their organizations ,and in some cases, more immediately, from cooperative dividends. In any case, the big problem in 1974 was that neither the cooperatives nor anyone else had enough fertilizer.

In late 1974, FENACOAC and FECOAR made a joint purchase of 5,000 tons of fertilizer in Europe. Upon arrival in port, some problems developed in the storage and transport of the fertilizer to the FENACOAC and FECOAR warehouses.

FENACOAC decided to bring their share (2,500 tons of fertilizer) from the port to their warehouses by truck. Later, when FECOAR began to bring their share from the port, they found that some had been damaged, and some appeared to be missing. Estimates of losses range from $50,000 to $100,000. A controversy developed between FECOAR and FENACOAC as to who should assume the losses that might be involved. The controversy developed to the point of a lawsuit being filed by FECOAR against FENACOAC. The matter still has not been resolved.

For AID, the controversy and resulting lawsuit is incongruous. Two cooperative institutions, both of which have received substantial AID grant and loan support, are expending legal fees and staff time over a controversy that at best can be described as immature. For the sake of cooperativism in Guatemala, and the conservation of U.S. taxpayers' contributions to it, these two institutions should feel a moral duty to seek a rapid and definitive arbitration of their dispute.

A further problem exists in 1975 with regard to fertilizer. In reaction to the 1974 scarcity of fertilizer, FECOAR, FENACOAC, BANDESA, the Gremial of wheat growers, and the non-cooperative private sector (esp. Fertica) made special efforts to import adequate supplies of fertilizer for 1975. Estimates indicate that existing inventory may exceed demand at present prices by 20% to 30%.

The private (non-cooperative) sector is offering fertilizer for sale at or near cost, a price lower than FENACOAC and FECOAR costs. (Fertica has some in country fertilizer manufacturing facilities that lower its costs below imported prepared fertilizer prices). This creates a problem for FENACOAC and FECOAR, who must charge a price to cover higher costs (plus the losses involved in the joint shipment). Recently, BANDESA, FECOAR, FENACOAC, and the Gremial agreed to a uniform price for retail sale of fertilizer. This price is lower than FENACOAC and FECOAR costs for some formulas, but higher than the private non-coop sector is charging in some cases.

The agreed uniform prices and the present (March 1975) comparable non-coop private sector prices are as follows:

FORMULA	Agreed Uniform Price	Non-coop Private Sector Prices
15-15-6-4	13.85	14.01
15-15-15	13.95	From 14.00 to 16.50
21-0-0	11.35	From 10.15 to 13.75
20-10-10	14.96	- -
26-0-0	15.00	15.85
18-0-18	14.20	- -
13-10-12	13.00	- -
10-30-10	16.25	From 16.50 to 16.55
20-20-0	14.95	From 15.00 to 16.00
16-20-0	14.85	From 13.46 to 16.25
Urea	19.95	From 19.50 to 22.00
26-14-0	14.95	- -
12-24-12	16.50	From 16.50 to 17.25
33-0-0	15.85	- -

Since both FECOAR and FENACOAC are expected to lose money at the agreed prices, while at the same time losing some of the walk-in cash market for sales, the economic results of the 1975 fertilizer sales could be disastrous for the cooperative movement in rural Guatemala. Recognizing this problem, the GOG has agreed to pay to them the difference between their fertilizer costs and the agreed uniform sales price. The exact method by which this arrangement will be implemented is not yet clear. Even with this "break-even" arrangement,[1/] the cooperative federations will not have fertilizer sales as a source of major income, and may well find themselves with inventories of unsold fertilizer for holdover into the following crop year.

This situation points up the need for a fertilizer pooling system between the major sales outlets (including Fertica, the largest non-coop private sector dealer), in order to assure full utilization of national production capacity and adequate stocks in the country, without "oversupply", especially in the hands of the cooperative federations.

In addition to providing credit for fertilizer and actually supplying it, cooperatives can perform an important role in helping farmers to use it more effectively. This is particularly important in the light of today's high fertilizer prices. Unless he is prudent in his selection and use of fertilizer, the small Guatemalan farmer runs a serious risk that the increment to production made possible by the fertilizer will not equal the cost. This is a point of serious concern to very large numbers of farmers.

1/ It is possible that the GOG will allow a nominal addition to "cost" to cover overhead and allow a "small positive margin."

Cooperatives have been making an apparent contribution in this respect. By working with farmers in groups and usually working out with each farmer the amounts and types of fertilizer he will buy per hectare for each crop, the cooperatives can be helpful in improving the general level of individual judgments made in the use of fertilizer.

This is not, however, good enough. The common wisdom in the various localities concerning the use of fertilizer is based on little more than general opinion and trial and error. While some cooperatives do some soil testing, in most cases scientific knowledge is limited to very general DIGESA guidelines as to fertilizer needs in broad regions of the country, within which soil conditions can vary markedly. Possibilities of utilizing soil and fertility conservation and improvement practices are receiving scant attention. The problem is further complicated by the fact that the supplies of fertilizer being distributed by cooperatives, both generally and in the respective localities, do not bear any exact relationship to fertilizer needs. Quite obviously, the cooperatives are going to sell that which they have, and small farmers (whose belief in the importance of fertilizer is immense) are going to buy what they can get. For the coming crop year there is probably not much that can be done about this. Neither does there exist on the horizon the outline of a long-term solution. Since fertilizer is the single largest cash input expenditure of small farmers and the main agricultural business of cooperatives is to supply fertilizer and/or the credit with which to buy it, this is a situation requiring the urgent attention of all concerned - the GOG, AID and the cooperatives themselves.

With respect to inputs other than fertilizer, regional cooperatives are helping to make some useful items available to small farmers at favorable prices. The effort is not yet very significant. However, it is seemingly responsive to current demand.

The FECOAR regional cooperatives are equipped with tractors and some other farm machinery such as harvesting equipment. Short seasonal use of most machinery, distances between members, bad roads, hilly terrain, and the small size of farms all conspire to make such equipment difficult to employ economically. Nonetheless, we believe that the regionals will get enough use out of their equipment over the long run to avoid losses. There are also possibilities for making more intensive use of some equipment

through arrangements with cooperatives on the coast, whereby equipment could be used there when not needed in the highlands.

e. Capital Investment in Agriculture

Many affiliates of FENACOAC are making substantial numbers of loans to small farmers for the purchase of land. The aggregates are unknown, and we hope in the future that FENACOAC (or COLAC, if it sponsors another survey) will produce separate statistics on this rather than again lump such loans into a miscellaneous non-agricultural category.

It is, however, very clear that a good amount of land in the altiplano (more in some areas than others) can be purchased and that cooperative lending programs could play a very useful role in getting such land into the hands of small farmers who need it and are good credit risks. Most loans made to date for the purpose are 18 months or less although it is apparent that in granting such loans credit unions often anticipate that they will have to give at least one extension in the due date. The very fact that a good many loans are successfully given on short term basis is highly encouraging. We also were favorably impressed with experiments by the Fundación del Centavo in land purchase loans to marginal farmers. 1/ It should be economically feasible to assist numerous groups of marginal farmers to acquire and successfully operate tracts of land thereby providing them the opportunity to achieve a quantum jump in their incomes and living standards.

FENACOAC affiliates, and to a lesser extent those of FECOAR, grant some short term loans for other capital development purposes such as the acquisition of animals. The effort, however, is small compared to what, in our opinion, is a considerable potential.

f. Marketing

Aside from a few independents of small membership, FECOAR is the most active in marketing, though its effort is almost entirely confined to wheat. The regionals make it easier for the small farmer to get his wheat to market and receive a full market price. Since corn in the highlands is mainly sold locally, there is more limited scope for marketing services.

1/ We particularly commend the Fundación for incorporating in this land project (as opposed to its input credit program) continuing technical assistance to assure that farm production plans suitable to the potential of the land are developed and implemented.

though some regionals are involved in this to a small extent.

Outside basic grains, cooperatives have done very little. Some of the independent cooperatives deal effectively with vegetables and other products. One independent cooperative, Santa Lucía, deals in rabbits and rabbit fur, though it has not yet achieved financial viability with its rabbit project. FENACOAC has made some brave marketing efforts, particularly in garlic and apples.

g. Technical Assistance

The most developed program of providing technical assistance to small farmer cooperativists is that of the DIGESA program with independent cooperatives. It is, however, expensive on a per farmer basis and the quality of technical assistance is not high. Every participating cooperative has the continuing attention of an agronomist. But most of the agronomists are young, relatively inexperienced, and have little back-up support from other elements of DIGESA. Some, nonetheless, have real promise, which could be increased with better support and professional supervision.

FECOAR makes a significant effort to provide technical assistance. Each cooperative has two agronomists (extensionists) and its local village groups have agricultural committees to promote better agricultural practices. The system is not working as well as might be hoped. The extensionists are too much involved in credit and administrative matters. Conversely, many groups are not strongly enough organized. The cooperatives complain that, as their membership grows to 1000 and 2000, two extensionists cannot cope with technical assistance requirements in addition to other duties. The income of the cooperatives, will not permit employment of larger numbers of extensionists without serious budgetary strain.

The AID Capital Assistance paper (024) states that each FECOAR extensionist is "capable of reaching 1500 farmers through local group meetings organized by local village committees and center around the topics of credit, agriculture and coop education." This rationale needs some further thought. A ratio of one agronomist burdened with varied duties to 1500 small farmers organized in some 50 local groups, many in areas of difficult access, does not seem to us to be the best

that can be done. There probably needs to be (1) some increase in the number of extensionists; (2) some redefinition of the extensionists' duties; (3) some utilization of lower cost technicians (or member-assistants, as in Movimiento Campesino) as intermediaries between extensionists and the local groups or to perform administrative tasks; (4) stronger organizational efforts with the local groups; and (5) a greater input of technical knowledge from external sources such as DIGESA. The program also needs the amalgam of well-defined technical assistance objectives such as the achievement of more optimal use of fertilizer suggested above.

The Fundación del Centavo makes little effort to provide technical assistance to its clients under its farm input lending program, but is making good provision for this in its land purchase program.

It is impossible to generalize with respect to FENACOAC affiliates. Many provide no technical assistance whatsoever. Others make varying efforts. We were particularly impressed with the Cooperativa Movimiento Campesino in Tejutla, San Marcos. This large cooperative of small farmers has shown imagination in designing a system by which some of its best farmers are paid nominal amounts to work part-time as agricultural promoters. The cooperative makes considerable efforts to provide them with training and resources. This internal system of Movimiento Campesino should work very well with an external support system -- if an effective one were available from DIGESA, FENACOAC or some other source.

FENACOAC, as a federation, has no agricultural technical assistance program and no agricultural technical assistance department, and can offer only incidental services to its cooperatives in this respect.

DIGESA has made a limited effort to help the cooperative federations and the Fundación del Centavo by assigning several extensionists to work as members of their organizations. This arrangement has not generally worked well. Cooperatives complain that the personnel assigned are often not of high quality, consider themselves as still working for DIGESA and not subject to cooperative discipline, and consequently are of little use. DIGESA finds that the personnel are not always used properly. For example, agronomists were assigned to Fundación del Centavo to provide agricultural technical assistance, but what the Fundación wanted was a sociologist for another purpose.

h. Agricultural Diversification

A few cooperatives are making some effort (at least considering plans) to encourage diversification by their members into crops and animals that may offer superior profit potentialities in their area. An example is the nursery of the FECOAR regional in Chimaltenango for providing fruit trees to members. The aggregate effort to date in the highlands has been relatively insignificant. Such programs require an integrated approach of technical assistance, credit, and marketing plans and know-how. This is difficult or impossible for most local cooperatives to do without strong support of their national federations, which none (except the coffee federation) is in a position to provide. The federations, in turn, need the collaboration of the Ministry of Agriculture and other specialized agricultural organizations in the conduct of practical experiments in the various ecological areas, selection of seed and stock and preparation of a technical assistance package and a program format for its extension to member for use.

FECOAR is making a promising effort to encourage diversification into grain sorghum by farmers in Jutiapa, a department in the Oriente. The possibilities of successful production of grain sorghum in this area was one of the major considerations leading to the establishment of regional cooperative in that department. It is very encouraging that there has been excellent cooperation on this project between FECOAR and ICTA, with the latter reportedly providing excellent technical assistance to the extensionists and members of the FECOAR regional.

(2) ACHIEVEMENTS IN INSTITUTIONAL DEVELOPMENT

Principal objective measurements of institutional development, wherever possible compared with PROP forecasts, are presented in TABLE GEN.- 5

These data show a very rapid rate of growth in membership, in income, and capital, but a slower growth rate in loans and fertilizer sales. These developments fit the economic facts of 1973-1974, during which a shortage of fertilizer helped to boost growth in cooperative membership, but there was not enough fertilizer to go around.

Our detailed conclusions with respect to institutional achievement have been set forth with respect to each project in Volume II of this report and our summary conclusions appear in Section I of this volume.

TABLE GEN-5

INDICATORS OF INSTITUTIONAL DEVELOPMENT

Project	Achievement Factor	Achievement Indicator (1974 or end 1974)
FENACOAC	1. Relevance to program goal: serving rural cooperatives to increase rural income	70 of 83 coops are rural and account for about 90% of membership. PROP forecast of 80% of loans made in rural areas has been exceeded.
	2. Viability	
	a. Percentage of self-sufficiency	70% compared with 59% PROP forecast
	b. Own capital (net worth) of federation	Q463,000 compared with Q237,000 in PROP forecast
	c. Member savings (system wide)	Q3,848,000 aggregate in all member credit unions compared with PROP forecast of Q3,000,000
	d. Annual bad debt rate (system wide)	PROP target of ½% per year by 1974 was not realistic and certainly has not been achieved. Insufficiently detailed data on delinquent debt is program weakness.
	3. Effectiveness	
	a. Affiliated families	57,000 compared with 38,000 forecast by PROP
	b. Total loans outstanding by credit unions	Q3,647,000 compared with $4,587,000 forecast in PROP

1/ With substantial supplies of fertilizer now available, the PROP forecasts should be met or exceeded in 1975.

TABLE GEN-5 Indicators of Institutional Development (continued)

Project	Achievement Factor	Achievement Indicator (1974 or end 1974)
FENACOAC (concluded)	c. Percent of loans for production purposes; percent in rural areas	Our most conservative estimate indicates PROP forecast of 65% in production loans and 80% in rural loans by 1974 have been met.
FECOAR	1. Relevance to program goal: serving rural communities to increase rural income	Cooperatives composed 100% of farmers-mostly small, some medium.
	2. Viability	
	a. Percent of self-sufficiency	Federation reached 72% self-sufficiency and regional 100% compared with forecasts of 53% and 72%, respectively.
	b. Operating income of federation	Q322,214 compared with PROP forecast of Q109,200
	c. Operating income of regionals	Q400,380 compared with PROP forecast of Q242,500
	d. Loan delinquency bad debt rate	Zero from coops to FECOAR; 8% over 60 days delinquent members to coops.
	3. Effectiveness	
	a. Affiliated families	7096 (7600 including 6th regional awaiting legal charter) as of Dec. 1974 compared with 7200 forecast in PROP
	b. Total loans outstanding to coop members	Q 724,588 as of Dec. 31, 1974 compared with Q1,021,700 forecast in PROP (see foot note page 55).
	c. Total loans granted to coop members	$725,000 in 1974 (no PROP forecast)

TABLE GEN-5 Indicators of Institutional Development (continued)

Project	Achievement Factor	Achievement Indicator (1974 or end 1974)
FECOAR (Concluded)	d. Fertilizer sold	164,000 cwt., compared with PROP forecast of 201,000 cwt. (see footnote, page 55).
	e. Produce marketed	119,000 cwt. compared with PROP forecast of 230,000 cwt.
FUNDACION DEL CENTAVO	1. Relevance to program goal: providing credit to pre-cooperative groups to increase rural incomes	Over 4000 small farmers in about 100 village associations receiving average $100 annual credit to buy agricultural inputs. Program lacks methodology for further progress of associations to cooperative or other affiliation for wider benefits. Project also includes very good and relevant experiments for land purchase for marginal farmer groups followed by technical assistance.
	2. Viability of Fundación	
	a. Own capital	Q 215,000 capital at end of 1974 compared with Q 134,000 at end of 1971
	b. Loan funds utilized	Q 200,000 as of end 1974 from AID; Q131,000 other sources
	c. Adequacy of financing	Fundación lacks any investment income and receives limited donations to support a growing program. Adequate loan funds available through AID Loan 024 ($500,000 not yet released) for considerable program development

TABLE GEN-5

Indicators of Institutional Development (Continued)

Project	Achievement Factor	Achievement Indicator (1974 or end 1974)
FUNDACION DEL CENTAVO (Concluded)	d. Annual bad debt and delinquency rates	Low on basis of program activities of past three years; good records.
	3. Effectiveness	
	a. Affiliated families	Over 4,000 low-income families, all receiving farm production loans.
	b. Total loans granted	$ 404,661 in 1974 for production inputs; $ 30,885 land and other purposes.
	c. Percent of loans for productive purposes	99% (including purchase of land)
Independent Agricultural Coops supported by DIGESA (Ministry of Agriculture	1. Relevance to program goal: increase in rural incomes.	Project deals entirely with agricultural cooperatives. mostly lower income families though significant minority middle-income

TABLE GEN-5

Indicators of Institutional Development (Continued)

Project	Achievement Factor	Achievement Indicator
Independent Agricultural Coops supported by DIGESA (Ministry of Agriculture) (continued)--	2. Viability	
	a. Improve capability of DIGESA to operate program	USAID advisor assisted in training more personnel than projected by PROP. However, program suffers from lack of clear lines of authority and coordination within DIGESA, and coordination between DIGESA and BANDESA with respect to loan practices and recuperation.
	b. Administrative and financial	Some indications of improved cooperative organization and bookkeeping. (Also see next two items.)
	c. Bad debts and delinquency	No overall program records but much evidence of major problems and lack of control
	3. Effectiveness	
	a. Affiliated families	Nearly 2000 throughout program life. No growth in membership.
	b. Total loans outstanding	$1,000,000 at end of 1974 ($500 per member)-- an indeterminate part delinquent or refinanced.

TABLE GEN-5 Indicators of Institutional Development (concluded)

Project	Achievement Factor	Achievement Indicator
Independent Agricultural Coops supported by DIGESA (Ministry of Agriculture) (concluded).	c. Total loans granted	$500,000 in 1974 ($250 per member)--an indeterminate part consisting of loans refinanced.
	d. Percent of loans for production purposes	100%

C. MAJOR ISSUES IN FUTURE PROGRAMMING

(1) Promotion of Cooperative Membership

Despite substantial growth, rural cooperatives have only begun to achieve their potential in organizing and servicing small farmers of Guatemala. As indicated above, cooperatives (plus Fundación del Centavo) are now serving over 10% of farmers in the country as a whole and 18% in the altiplano. In the Department where cooperative organization has been strongest -- Chimaltenango -- cooperative penetration has reached 25% (6000 of 24,000 farmers). If we apply this percentage of penetration to the entire country, the movement could unite some 125,000 farmers or more than 250% of current membership of 50,000 farmers.

There is no obvious reason other than superior promotion (by more organizations over a longer time period with greater intensity) why the potential in other departments should not be as great as in Chimaltenango. Many areas of the altiplano have formed new cooperatives that have reached memberships of 500 or better within a year of formation, and there remain many areas totally neglected or only served by older and weaker cooperatives that make little or no promotional effort.

There are some indications that, outside the altiplano, cooperatives might not achieve such rapid success. The average farmer in the Oriente and elsewhere tends to be somewhat larger, more prosperous and more bankable. Along the coast there is much latifundia. Nonetheless, even in coastal areas, two thirds of farms have under five manzanas and most of the remainder under 30. Even if we discount heavily the prospects of cooperative organization outside the altiplano, the national potential for rural cooperative membership could hardly be less than 100,000 if the level of promotional effort in Chimaltenango were applied nation-wide.

The further observation needs to be made that the cooperative potential is still far from being realized even in Chimaltenango. Some of the cooperatives in Chimaltenango are, in fact, trying to control their rate of growth so as to consolidate their positions. Our study of cooperative institutions suggests that existing cooperatives could at least double their memberships with moderate promotional efforts. The small farmer survey will provide further indications of non-member interest in cooperative affiliation throughout the altiplano.

1/ 78% of non-members surveyed indicated interest in joining a cooperative. Principal reasons for wanting to join were to obtain credit and purchase inputs.

Our discussions both with national and local leaders suggest that throughout the country the level of effort in promotion of cooperatives has been moderate because of organizational constraints in accomodating growth.

Fundación del Centavo does little to promote groups but concentrates on serving groups that come to them. Further, it concentrates its efforts in certain areas such as Chimaltenango and Totonicapán rather than dispersing effort uneconomically over widely scattered areas. FECOAR so far has organized in only six departments and maintains a deliberate pace of only organizing new regionals at the rate of about one per year. FENACOAC is concerned more with strengthening and consolidating the cooperatives it already has. Although new strong credit unions are organized with FENACOAC assistance, this is the result of sponsors coming to FENACOAC rather then FENACOAC's beating the bushes to initiate new projects. DICESA also concentrates on working with cooperatives already in existence; in fact, it tends to discourage organization of new cooperatives, particularly if they lack real growth potential. Under these circumstances, much of the growth of cooperatives is taking place through expansion of membership of existing units. This is healthy in contributing to the institutional viability and future capabilities for service of the cooperatives, as well as of the federations.

Given the need, described below, to concentrate much attention on broadening the scope of services of cooperatives, we do not believe that it would be desirable to accelerate the pace of cooperative development. As things are one can expect a net growth of about 7000 farmer coop members a year 1/, which is a manageable absorption rate.

The foregoing conclusion is based, of course, on the assumption that the Government through BANDESA will not break the back of cooperative growth by persisting in policies of providing subsidized credit to small farmers at interest rates with which cooperatives cannot compete. A government policy of making credit widely available to small farmers at 5% (or at 8%) unless accompanied by a policy of subsidizing cooperatives to enable them to do substantially the same thing, can have a devastating effect on the major rural cooperative groups, FENACOAC and FECOAR, whose primary service is the supply of credit.

To achieve the projected growth rate over the next five years, we do not believe it would be necessary for AID to provide additional loan funds of the type provided in 024--

1/ Plus perhaps 1500 a year of non-farmers in FENACOAC.

namely, funds for annual production credit. This is true for several reasons: (1) a large proportion of these funds have not yet been utilized; (2) the cooperatives are rapidly building up their own funds through aportaciones; and (3) the GOG has been increasingly providing funds to cooperatives particularly for this purpose.

Neither do we think the cooperative federations need additional subsidization of operating or promotional expenses to accomodate the membership growth contemplated. Their current finances are good and expansion on present terms actually contributes to financial strength by bringing in more aportaciones from member cooperatives. The Fundación del Centavo, as pointed out in Section V of this report, does require some accomodation if it is to be able to support adequate direct project administration expenses (as opposed to general overhead, which it can satisfactorily finance).

We also believe it would be useful if, as indicated below, FECOAR and FENACOAC would endeavor to harmonize their growth policies, In this connection, AID could consider modest support to FENACOAC for temporary subsidization of managers to merge, consolidate and/or regionalize currently weak coops that have high growth potential. In some departments such as Huehuetenango, this could probably achieve greater cooperative growth relative to cost than the introduction of a FECOAR regional.

(2) Need to Expand Range of Cooperative Services

Encouraging as the growth of small farmer cooperatives has been, it has been growth in very narrow terms. The major business of the major cooperative groups is the supply of fertilizer and credit to buy it. Beyond that the range of service offered is disappointing. It does not, as indicated in the previous subsection, meet either the needs or desires of small farmers.

The typical small farmer in Guatemala has very little land and limited possibility to earn even a minimal living from the land by growing only traditional crops, primarily basic grains. Growth of population exerts steadily increasing pressure on the land so that the amount available becomes smaller with each generation.

As of the 1964 agricultural census, 20% of all farms were micro-fincas of less than one manzana, and 68% were fincas "subfamiliares" of one to ten manzanas. These figures roughly indicate the situation which exists today. Further, as of 1970, it was estimated that the approximately 420,000 small farmers operating less than 10 manzanas accounted for

only 18% of the farmland of the country. About two out of three of the small farm operators own all or some of their own land; the balance are chiefly renters and share-croppers, although there are some other forms of tenancy such as communal farms. There also are estimated to be about 175,000 rural workers who are completely landless.

Aside from farming, the rural worker has limited opportunities to earn money. He can work on large fincas and to some extent on the farms (terrenos) of other small farmers, where he earns somewhat less than one quetzal a day although some fringe benefits may be received, particularly by permanent workers on large estates. However, the amount of work available is limited, while the supply of labor is almost always and everywhere plentiful.

A few rural workers have handicraft skills which provide either a major or supplementary source of income, but the size of the market for such products is not readily expandable. There are few opportunities in public worksand other rural occupations. While there is considerable migration to the cities, particularly Guatemala, it is not easy for a man to get a job if he has no education and cannot function well in the Spanish language.

For the majority of small farmers and their families, therefore, there is no real option except to look to their limited landholdings as their main, if not only, source of livelihood. While a few of the more fortunate raise coffee and other higher paying crops, most small farmers depend upon basic grains -- chiefly wheat and corn. Even a good farmer in a good year, however, will be lucky if he can produce a net income of 150 per manzana in either of these crops, or 450 on a typical farm of three manzanas. This is not enough income to support an average family of five to six persons.

The main hope for these farmers is to obtain more land, to make a more efficient use of the land they have, or some combination of the two. Cooperatives can perform important roles in these respects to help small farmers to break the bonds of extreme poverty. If they fail to conceive of this as their primary mission, other vehicles will have to be found as primary instruments for achievement of economic progress by small farmers.

Cooperatives, and quasi-cooperatives such as the Fundación del Centavo, have a considerable potential in assisting marginal farmers who own little or no land to acquire sufficient land to provide them with a base for farming operations that will yield satisfactory family incomes. Even in the highlands there are

under-utilized tracts of land that owners will sell if they can be paid in cash or on other acceptable terms. These range from small tracts sufficient for single farmers to fair-sized tracts that can be operated in common or subdivided to provide enough land for several or even a considerable number. There are additionally an abundance of opportunities to acquire substantial tracts in the coastal plain. While most highland people prefer to live in the highlands, large numbers will move if they have the opportunity to acquire land.

Rural cooperatives need explicit programs to grant long term loans (5 to 12 years) to credit-worthy small farmers and groups of small farmers whose landholdings are "subfamiliar" (too small to support a family) to purchase reasonable amounts of land. Such programs also must be associated with effective provision of technical assistance, production credit, and other services that will assure success.

The provision of support to such programs should be of interest to the GOG, AID, and perhaps other international lending agencies, if the cooperatives plan and organize them effectively. From an economic development point of view, the cooperative provides an ideal mechanism for carrying out such activities because of its abilities to match land purchase opportunities with deserving farmers at the local level and to provide a continuing structure to monitor the credit and provide associative technical assistance in farm development. For the cooperative, there is the advantage of diversifying its loan portfolio, now heavy in fertilizer, into loans with real estate security and of building up its own economic viability by dramatically improving the economic bases of some of its members.

With respect to helping farmers to produce more with the land they already have, cooperatives need to take initiatives along a number of lines. As already indicated they should improve their systems of rendering technical assistance to members. They need also a program with DIGESA for the development of effective technical assistance packages. Conversely, DIGESA needs cooperatives and their local village groups as means of reaching small farmers in groups rather than an impracticable one-by-one basis. Much of this technical assistance, of course, must be directed toward basic grains and to the associated use of land development, fertilizer and other technologies.

The program must have the further thrust of helping small farmers to diversify some of their production into more intensive crops (and in some measure into animal products) that will make it possible for them with limited land resources to earn a decent income. This cannot be done all at once. Again it requires a

partnership between Government and cooperatives to identify area by area the best diversification opportunities consistent with technical possibilities and market demand. This in turn involves follow-through with credit, technical assistance, input supply (e.g., seed and stock) and marketing services. This is not easy. However, on whether it is done or not largely hinges the issue of whether Guatemalan small farmers will remain forever poor or have realistic prospects for a better future. On this also largely hinges the question whether over time cooperatives will enjoy the support of increasingly prosperous memberships.

Good programs of agricultural diversification mean also that cooperatives should get more heavily into the field of modern agricultural marketing. As in countries which already have achieved more developed cooperative movements, Guatemalan cooperatives can aspire to deal with numerous products, -- purchasing production from members, sorting, grading, packaging, processing, distributing nationally and exporting. Again, not everything can be done at once, but the rural cooperative movement has achieved sufficient size and maturity at least to make the first decisive move.

That first move should be to establish at the national level for the service of all rural cooperatives a cooperative organization that will start the process of identification and exploitation of market opportunities. Such an organization, while it necessarily must begin on a modest scale, should be sufficiently well-financed to attract and utilize experts with practical commercial experience and demonstrated ability in planning and executing agricultural marketing businesses. While the emphasis of such an organization must be on diversified crops, we by no means exclude the possibility that marketing experts could also provide the cooperatives with much good advice and some useful services in connection with the marketing of some basic grains. A highly skilled marketing organization also can contribute with respect to the purchase of inputs.

The Guatemalan rural cooperative movement, despite its great advance, is not ideally structured for the mounting of a concerted marketing effort. However, Guatemala is not the only country to have that problem, and viable organizational solutions can be found. Under present conditions, the probability is that the best organizational structure would be an Agricultural Marketing Cooperative Union, to be composed of all interested federations, independent cooperatives, and quasi-cooperatives such as groups of the Fundación del Centavo.

Of possible interest to Guatemalan cooperativists as a model for consideration, there is presented in Annex A to this section of the report, a prospectus for such a union outlining how it might be organized and function.

(3) Models for Future Rural Cooperative Development

(a) The present system: The Competitive Model

In a legal sense FENACOAC and FECOAR are two types of cooperatives - one savings and loan, the other agricultural. In an economic sense they fulfill the same roles in meeting the small farmer's needs. Both provide production credit. Both require savings (aportaciones). Both sell fertilizer. Both hope to provide technical assistance to farmers. Both try to provide some marketing, machinery, and other services. Both operate, with some geographical overlapping, principally in the altiplano. There was initially a difference in that FECOAR cooperatives were regional. To an increasing extent, however, FENACOAC cooperatives are expanding to regional and sub-regional dimensions, enabling many to rival FECOAR regionals in size.

FENACOAC and FECOAR have become more and more competitive in recruiting small farmers in large sectors of the altiplano. With continued expansion this competition will become more intense. While each has exercised considerable restraint in proselytizing, it is uncertain that this will continue.

Competition also will gain a new dimension at such time as FENACOAC or FECOAR is able to expand its services, particularly in the critical areas of agricultural diversification and marketing.

It does not appear that, in starting FECOAR, USAID consciously visualized a competitive model of agricultural cooperative development. At that time, there was enough room for two organizations without getting in each other's way. Then, too, USAID underestimated the growth potential of FENACOAC, and probably no one visualized that FENACOAC would soon be developing regionals on a scale to rival FECOAR's and engaging in the sale of fertilizer and other agricultural services.

USAID did, however, as early as mid-1971 become concerned because of the overlap between the two organizations. In the words of an AID advisor: "USAID initiated activities leading to the creation of FECOAR at a time when FENACOAC was a weak credit union movement with limited resources and no agricultural services. Subsequently, FENACOAC showed rapid growth and began offering agricultural services. (FENACOAC initiated fertilizer sales in the spring of 1971.) The alternative of unifying both cooperative movements under one federation was then considered in order to avoid duplication of costs and possible conflicts." 1/

A series of meetings involving AID, ACDI, and FENACOAC took place from July 1971 to April 1972 to discuss merger of FENACOAC and the regionals (which had not yet formed FECOAR). Neither

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1/ Memorandum to Files by Stephen Wingert, October 13, 1973.

FENACOAC nor ACDI was enthusiastic about possible merger of the two programs. Principles, politics and personalities apparently precluded any meeting of minds. FECOAR was then organized as a separate federation.

There are clearly some advantages to the competitive model of rural cooperative development that is now proceeding. Perhaps a great deal of what FENACOAC is accomplishing would have occurred even if the FECOAR regionals had not entered the field. But surely also, the emergence of the regionals acted as a spur to FENACOAC's development, as well as fostering also growth-generating collaboration between FENACOAC and some of the independent agricultural cooperatives.

Whether or not it will be productive to continue a competitive model indefinitely is another question. It is useful to explore the alternatives:

(b) Complete Merger

A complete merger of the two organizations would clearly eliminate rivalry and competition. It also would create a single large cooperative body with the potential to exercise considerable buying and marketing power and to develop varied agro-businesses of economic scale.

It would also have a number of drawbacks:

1. Merger would be substantially tantamount to absorption of FECOAR by FENACOAC as the larger of the two and with 83 votes against 6. Before FECOAR was organized, AID might have negotiated a merger on these terms. It is now doubtful in terms of cooperative politics.

2. Since the regionals are composed 100% of agriculturalists they are not likely to feel that they will receive comparable support in agricultural development from a federation that also must attend to the interests of a substantial non-farm membership.

3. A merger would obviously upset the farmer/non-farmer balance in FENACOAC, leaving non-farmer credit union members as a small minority. This would probably not matter if credit remained the major business of the merged organization. However, if the merged organization proceeded further, as it should, with development of agricultural multi-services, the net result would be to convert a credit union federation into an agricultural federation with a dangling non-farmer savings and credit program.

4. The concentration in a single federation of all problems of cooperative promotion, education, input supply, marketing, technical assistance, agricultural diversification, savings, credit and cooperative financing may be more than can be handled with optimum effectiveness by a single management.

(c) Separation of Functions

This alternative would involve the specialization of FENACOAC and FECOAR in two distinct fields. In brief, FENACOAC would concentrate on financing, savings, credit, and general cooperative development. FECOAR would concentrate on the development and operation of agricultural services.

Under this plan, all affiliates of FENACOAC and FECOAR would be eligible for dual membership in both federations. Further, independent cooperatives would be eligible to affiliate if they meet reasonable conditions.

The following are outlines of the respective functions of the two federations if they agreed upon a separation of function. (The outlines are of course suggestive only -- many variations would be possible.)

Possible functions of FENACOAC:

1. Financial
   a. Loans to cooperatives for credit to members for production.
   b. Medium and long-term loans to small farmer members for land purchase, land improvements, other capital development.
   c. Loans to cooperatives for capital investment and organizational developments.
   d. Loans to cooperatives for purchase of inputs.

2. Technical Assistance in:
   a. General cooperative administration
   b. Financial management, savings and credit
   c. Small business and handicraft

3. Cooperative education for affiliated cooperatives and local farmer associations.
   a. Directly through education department
   b. Indirectly through agreements with cooperative schools and other institutions

4. Organizational and Membership Promotion including
   a. Organization of new regional cooperatives
   b. Mergers and consolidations of smaller cooperatives (subject to approval of their memberships)
   c. Organization of local farmer groups (associations organized as democratic units of the regional or area cooperatives)
   d. Campaign to expand membership of existing coops

5. Insurance
   a. On savings and loans
   b. Life insurance
   c. Crop insurance fund
   d. Fidelity bonding

Possible functions of FECOAR

1. Marketing promotion and investment.
   a. Development of marketing programs for constituent coops.
   b. Development of national and regional (involving several coops) integrated marketing programs.
   c. Construction and operation of national and regional marketing facilities.
   d. Development and operation of export marketing programs.
   e. Negotiation and implementation of marketing arrangements with Government agencies and the private sector.
   f. Development of cooperatively owned processing facilities.
   g. Capital investment.

2. Input Supply
   a. Supply of agricultural inputs to member cooperatives.
   b. Import and distribution through cooperatives of agricultural equipment.
   c. Warehousing.

3. Technical Assistance to Farmer Members
   a. Development of effective programs of technical assistance for application by constituent cooperatives and their local groups.
   b. Cooperation with Ministry of Agriculture and other agencies in providing technical assistance support for small farmers to and through cooperatives.
   c. Design and implementation of programs for diversification of cooperative member production.

4. Agricultural Services
   a. Assistance to member cooperatives in operating machinery pools.
   b. Maintenance of area machinery pools and repair facilities to serve several cooperatives.
   c. Distribution of production and marketing information.
   d. Development of programs in animal husbandry, supply of improved stock, etc.

5. Agricultural Education.
   a. Directly through Comités Agrícolas of cooperatives and constituent local groups.
   b. Indirectly through agreements with agricultural schools and other institutions.

The plan has obvious advantages. Each federation could concentrate in its own field of expertise. The total range of services available to farmers could be extended because they would be complementary rather than duplicating. The two federations could work together rather than compete in attracting members.

There also are disadvantages. It can be argued that a body with two heads would not know which way it is going. It also will not be easy at this point to make major structural changes to achieve separation of function. And, of course, if there does not exist at the moment sufficient rapport between FENACOAC and FECOAR to enter into further limited joint arrangements (such as joint purchase of fertilizer), it becomes difficult to think of major joint efforts. Nonetheless, it should be pointed out that the two cooperative associations would have substantially the same constituencies. 1/ Joint meetings of the two boards of directors, both responsible to primarily the same cooperatives and both interested in assuring that the system worked, should assure effective cooperation between the two managements.

(d) Harmonization of Activities

An arrangement to harmonize the programs of the two federations would accept the fact that the two cooperative groups do the same things. Thus, to some extent it would accept a degree of competition as a good thing or at least as unavoidable. It would, however, endeavor to minimize points of friction and to build some necessary bridges of collaboration.

In order to minimize friction, there should be some agreement as to the priorities each federation should give to promoting new coops and expanding membership. Such an agreement might include such points as the following:

1/ FENACOAC's would be larger because of urban credit unions; on the other hand FECOAR could have some agricultural cooperative members that do not deal in credit.

1. For the future, FENACOAC would give particular attention to promoting in Huehuetenango, Alta Verapaz, and Baja Verapaz -- all areas where it is strong but in which more effort is needed to develop cooperatives of larger size and wider geographical scope. FECOAP would agree not to enter these departments.

2. FECOAP would give priority attention to organize regionals in Jalapa, Santa Rosa, and El Progreso. FECOAP would further agree not to locate a regional within 25 kilometers of an existing FENACOAC affiliate. FENACOAC would agree not to promote in these departments, though it may strengthen and support existing affiliates.

3. Other departments would be considered in the future.

In building bridges of collaboration we would suggest three areas to which they could give joint consideration:

1. The development of improved systems of providing technical assistance to their members. While each would operate independently, they could benefit by exchange of experience. They could also work together in approaches to DIGESA for the support of joint DIGESA-cooperative technical assistance programs described elsewhere in this report.

2. The development of marketing and input supply programs of national scope that would be available to cooperatives affiliated with both federations. This could be along the lines of the marketing union described elsewhere (Annex II, pp. 82-86).

3. The development of programs of agricultural diversification for small farmers linked to the technical assistance and marketing programs described above.

A suitable forum for such collaboration would be the proposed Instituto Guatemalteco de Fomento Cooperativo. Independent cooperatives and the Fundación del Centavo also could be represented in the study of these problems.

(e) An experimental approach

As an extension of the harmonization approach suggested above, FENACOAC and FECOAP could consider the possibility of selecting one or two departments of Guatemala for a joint program in which they would combine to form regional cooperatives with joint affiliation to both federations. In effect this would be a testing in miniature of the feasibility of the

"separation of function" approach described above. If the experiment succeeded, it could be used as a pattern for further development.

(f) Conclusion

We believe the position of AID should be to encourage FENACOAC and FECOAR to consider all of these alternatives but not to attempt to force particular solutions. AID can, however, play a constructive role by contributing to better understanding between the two federations. In particular, it should use its good offices to encourage a solution of the current fertilizer controversy through a mutually acceptable Guatemalan arbitrator. The important thing is not that the two federations work together at anycost but that they develop a mutual capacity to work together effectively.

(g) Independent Cooperatives and the Fundación del Centavo

The above discussion has been essentially in terms of FECOAR and FENACOAC. There are, of course, other aspects of the coordination of rural cooperative activities. The potentialities for complementing programs of the Fundación del Centavo with those of cooperatives are discussed in Volume II, Section V, pp. 76 77. Potentialities for coordinating programs with respect to independent cooperatives with those of cooperative federations are discussed in Volume II, Section VI, pp. 102-104.

(4) Proposed Instituto Guatemalteco de Fomento Cooperativo

(a) Description

The Government of Guatemala is currently giving consideration to the establishment of an Instituto Guatemalteco de Fomento Cooperativo (Guatemalan Institute for Cooperative Development).

Functions proposed for such an Institute include:

1. Promote the creation of all classes of cooperatives.
2. Confer legal personality (personalidad jurídica) on cooperatives.
3. Promote cooperative education.
4. Supervise cooperatives, audit their books and supervise their liquidation.
5. Provide a means for coordination between the public sector and the cooperative movement.
6. Coordinate internal and external assistance programs for the cooperative movement.
7. Promote the integration of the cooperative movement.

The Board of Directors of the Institute would include both representatives of the public sector and the cooperative movement. The presumption is that the Government would have a majority of one but would not necessarily vote as a block. The cooperative movement, however, is proposing that it be given a majority.

It is anticipated that legislation to establish the Instituto will be enacted during the course of 1975.

(b) Commentary

We believe that the proposal to establish a cooperative institute is a good one for three reasons.

1. It will bring together in one place the existing functions of GOG in promoting and regulating cooperatives, which are currently scattered among the Ministry of Agriculture, Superintendency of Banking, and Ministry of Economy. This will make it possible to deal with the problems of rural cooperatives (which are partly credit unions and partly agricultural coops, though performing almost identical functions) as a whole rather than on the basis of arbitrary divisions.

2. It will provide a framework within which the various cooperative federations and other groups will meet regularly to discuss common problems. This should tend to promote collaboration among the cooperatives in the achievement of common ends.

3. It will provide a forum in which cooperative organizations and Government agencies can work together rather than at cross-purposes in developing effective programs of promoting and regulating cooperatives. In many countries in Latin America there is little or no cooperation among Government agencies and cooperative federations in the promotion and development of cooperatives; indeed, there is often a silent if not open warfare between the two. Working together in a common promotion and regulatory agency offers considerable promise of complementary and more effective use of both public and cooperative resources.

We appreciate that an objection could be made that participation in a quasi-governmental organization could compromise the character of the cooperative movement as democratic organizations independent of Government control. However, Governments invariably regulate cooperatives, and the participation of the cooperatives themselves in the regulatory organization would not subject them to a more rigorous form of regulation. Further, to the best of our knowledge, the formation of quasi-Governmental organizations of this kind has nowhere been used by a Government to subvert or destroy a cooperative movement; in our experience the methods chosen are either repressive or involve Government sponsorship of rival cooperatives or similar organizations under the government's exclusive control.

The greatest danger in a quasi-government promotional and regulatory agency probably lies in the risk that established cooperatives might use their positions of shared power to frustrate the organization of cooperative rivals. It is not likely, however, that cooperative groups -- which generally have strong differences of opinions among themselves -- would make common cause on such a matter.

(c) Problems that an Institute could help to Resolve

We believe in particular that a Cooperative Institute could be effective in contributing to solution of some of the problems we have identified in this study as relevant to the future development of rural cooperatives in Guatemala. In this respect, we would suggest the following as important items that the Institute might place on its agenda:

1. Encouragement of the integration of small independent agricultural cooperatives into the mainstream of the cooperativemovement through affiliation in one way or another, on mutually agreeable terms, with one of the federations.

2. Redirection of the current program of DIGECA to provide technical assistance to cooperatives along lines that would serve the best interests of cooperative development generally.

3. The working out with the Ministry of Agriculture of a joint Government-cooperative program of providing technical assistance to local groups of cooperative members.

4. Coordination or harmonization of the cooperative development programs of FENACOAC and FECOAR along lines that will expand the availability of services to greater numbers of farmers rather than exhaust efforts in fruitless direct competition.

5. Development of transitional program whereby beneficiaries of the temporary support programs of the Fundación del Centavo and other organizations can pass into a system of permanent multi-service support.

6. Rationalization of the programs of CENCACOOP and EACA and other measures to improve cooperative agricultural, and agribusiness training for cooperativists and for

professional managers, extensionists and others employed by or working with the cooperative movement.

(d) Possibilities for AID Assistance

We would not recommend that USAID offer to provide the Institute with a general cooperative advisor. This would serve only to further embroil USAID in the politics of the Guatemalan cooperative movement, which we believe can best be resolved by Guatemalan cooperatives themselves.

We do believe that there are several respects in which specific types of help from USAID could be particularly helpful. The two most important respects are technical assistance and marketing.

With respect to technical assistance, we would suggest that USAID offer to provide the services of one technician for a period of two years to work with the Institute (and through the Institute with the Ministry of Agriculture and the respective cooperative federations) in the design and organization of efficient cost-effective systems of providing technical assistance to cooperative group small farmers.

With respect to marketing, if the Instituto were to take the lead in fostering the development of an agricultural marketing cooperative union, the assistance from AID could be along the lines suggested in Annex A to this section of the report. 1/

USAID could make some significant contributions to programs of the Institute to further cooperative and related education. This could in particular include the provision of scholarships, if a suitable program is developed for study at Barcena, by youths selected by cooperatives on the basis of their capability and interest in working with or for the cooperative movement.

(5) Guatemalan Credit Structure

There is a serious weakness, external to FENACOAC and FECOAR, in the Guatemalan policy structure related to small farmer credit. The cooperative credit systems are private sector in nature and, as such, must pay their own way. They must cover administrative costs of lending, collection and bad debts from earnings on interest rate spreads. It appears that the federations' spread will need to be at least 3% even as volume increases, and affiliates must receive 6% or more to cover all administrative costs and reserves for bad debts. Thus, the total spread over cost of money to them must be 9% and the total "cost" of the money to Small Farmers will run 12% to 17%.

1/ pp. 82-86 below.

The GOG and AID have made relatively huge investments in small farmer credit programs executed by BANDESA, a GOG owned development bank. BANDESA is a highly subsidized organization that lends money directly to small farmers at concessional interest rates of 5% and 8%. This signifies a subsidy of 50% to 75% of the real cost of money under Guatemalan conditions.

The public treasury of the GOG presently is investing ever-increasing amounts in expanding BANDESA personnel and installations to provide more and more small farmers with access to this subsidized credit. The history of development bank small farmer lending in Latin America is one of high bad debt levels that also require public treasury subsidies.

Furthermore, the DIGESA extensionist service staff is being increasingly utilized to perform loan administrative work for BANDESA, including preparation of farm plans. BANDESA small farmer borrowers receive their services free at substantial cost to GOG, whereas members of nationally federated cooperatives pay for such services in higher interest charges.

The cooperative federation credit programs may find it extremely difficult to hold and expand their membership in the face of a public credit subsidy policy. If the GOG and AID seriously wish to assist the cooperative credit movement in Guatemala, they will examine their concessional lending policies to assure that the burdens and benefits of that policy fall equitably, and that what provides a temporary slight cost savings to the small farmer in one instance does not destroy the infrastructure by which that small farmer has continued access to credit, and, more importantly, to other needed agricultural services which a cooperative movement can provide.

There are adequate documented analyses demonstrating the false benefit derived by small farmers from public subsidized interest rate policies. It is important that the GOG, the coop movement, and AID use these analyses as a base for a substantive reexamination of existing BANDESA policies. In any event, to the extent the Government subsidizes interest and loan administration costs through BANDESA and DIGESA, it also ought to subsidize on an equitable basis lending done through the cooperative federations. Although there is no information available on the total costs to the Government, including bad debts, of BANDESA direct lending to small farmers, we are convinced that the federations are considerably more cost-effective. This is not intended to imply that GOG agencies are or have to be less cost-effective

than their counterparts in other developing countries of the hemisphere; the problem is one that exists almost everywhere. 1/

The Fundación del Centavo is also lending money to small farmers at rates that moderatly undercut those charged by FENACOAC and FECOAR cooperatives. The reason it is able to do this is not that it is more efficient than the cooperatives (though we do rank it as equally efficient), but rather because it relies on donations to cover the administrative costs of lending.

We do not suggest that all interest rates to all small farmers in all places for all purposes should be identical at all times. But we do believe that there should be reasonable and equitable relationships among rates and levels of subsidy so that efficient lenders are able to compete.

We are already receiving indications in our small farmer survey that most FENACOAC, FECOAR and Fundación del Centavo members do not yet realize that lower interest is charged by BANDESA. Among those who do, however, there is great discontent and both actual and prospective loss of membership. Some indications of intentions to switch from cooperatives to the Fundación were also noted.

(6) Delinquency and Bad Debts

Most cooperatives throughout the hemisphere that are engaged in the provision of credit would agree that their major problem is to control the rate of delinquency on their debts and to reduce to a minimum the percentage of loans that must ultimately be written off as uncollectible. Cooperatives in most developing countries have been under a cloud for years because of the large numbers that have not handled their own indebtedness, nor their loans to members, in a responsible businesslike manner. This has resulted in adverse attitudes on the part of both national and international lending agencies towards cooperatives. Unfortunately, this attitude has been prejudicial not only to cooperatives that do not merit credit but also to those that have acted responsibly.

FENACOAC, FECOAR, and Fundación del Centavo all fall within the responsible group. There are also some independent cooperatives in Guatemala with equivalent responsibility; with respect to others there is evidence that loans can be extended only at great risk.

1/ We do know that DIGESA administrative costs in its program to assist independent cooperatives are 23% (exclusive of costs of services provided by AID) of the total amounts loaned.

Development banks in Latin America have similar problems of controlling delinquency and bad debts in their loans, both to rural cooperatives and to small farmers. Few have satisfactory records in these respects.

To the extent practicable, we have collected available information on the debt collection records of the various institutions lending to rural cooperatives and small farmers in Guatemala. This information is presented in Table GEN.-6.

From this table it is evident that the Fundación del Centavo has succeeded in achieving the best record. It is entitled to high praise for this, particularly when it is considered that it is lending to the most marginal farmers with least ability to repay. The fact that it does not reduce its delinquency rate by extending due dates, a common practice among other lenders, should also be noted. The Fundación's methods, including the techniques of lending to joint borrowing groups, which has also proved successful in other countries, merit study.

The statistics also show that FECOAR has a good record and FENACOAC (whose number and variety of affiliates involves a greater problem), a controllable one. Their results are somewhat better than the statistics show because both the federations and their affiliates maintain sufficiently high rates of interest to cover a reasonable proportion of bad debts and have established some reserves for bad debts. We fear that these reserves for bad debts are inadequate but not to the extent that the viability of either cooperative system is threatened. We would, nonetheless, strongly urge both FECOAR and FENACOAC to develop more comprehensive systems for the analysis and continuing review of delinquent accounts and the adequacy of bad debt reserves, both at national and cooperative levels.

BANDESA shows the highest overdue rate 1/. It does not have, as cooperatives do, an intimate relationship with its borrowers.

1/ The BANDESA figures represent all amounts past due while those for Fundación del Centavo and FENACOAC are 60 days past due. This does not make as much difference as might appear since few cooperative farm loans became due before the end of the year. BANDESA is also believed to be the most liberal in granting extensions on loans -- certainly than in the case of Fundación del Centavo, which grants none.

TABLE GEN-6 COMPARATIVE DELINQUENCY RATES for SMALL FARMER PRODUCTION LENDERS, GUATEMALA, 1972, 1973, and 1974

INSTITUTION	1972 Amount loaned during year (A) (Q)	1972 loans outstanding (B) (Q)	1972 Amount overdue* (C) (Q)	1972 Overdue rate (D) (C) ÷ (B) (%)	1973 Amount loaned during year (A) (Q)	1973 Loans outstanding (B) (Q)	1973 Amount overdue * (C) (Q)	1973 Overdue rate (D) (C) ÷ (B) (%)	1974 Amount loaned during year (A) (Q)	1974 Loans outstanding (B) (Q)	1974 Amount Overdue (C) (Q)	1974 Overdue rate (D) (C) ÷ (B) (%)
1. FENACOAC 5/	N/A	481,000 8/	11,060 8/	2.3% 8/	N/A	884,000	27,400 8/	3.1% 8/	N/A	1,630,000	123,486 8/	7.6% 8/
2. FENACOAC 5/ AFFILIATES	1,946,000	1,723,000	N/A	N/A	2,827,000	2,814,000	168,800 8/	6.0% 8/	4,794,000	3,647,000	291,760 8/	8.0% 8/
3. FECOAR	-0-	-0-	-0-	-0-	228,000	228,000	-0-	-0-	968,392	968,392	-0-	-0-
4. FECCAR AFFILIATES	1971/72 143,722	175,000 3/ (238,637) 2/	15,404 2/ (79,041)	8.8 2/ (33.1)	1972/73 352,302 1/	352,000 (415,637)	3/ 37,551 2/ 2/ (101,188)	10.7 2/ (24.4)	1973/74 514,801	1,373,000 3/ (1,436,637)	66,316 2/ 2/ (129,953)	4.8 2/ (9.1)
5. FUNDACION DEL CENTAVO 4/	101,000	104,000	18,500 6/	17.8%	169,000	161,000	10,500 6/	6.5%	406,000	394,000	11,238 7/	2.9%
6. BANDESA (FONDOS ESPECIFICOS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5,007,228	1,356,848 9/	27.1% 9/
7. BANDESA (AID TRUST ACCOUNT	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12,053,080	2,446,548 9/	20.3% 9/

* overdue amounts are cumulative to end of previous lending period.

1/ Cumulative Volume of loans 1971/72 and 1972/73.

2/ The upper figures do not include Q63,637 in overdue loans in previous years before assistance began. The figures in parentheses (-) do include that amount. Overdue amounts are those outstanding as of 12/31/74

3/ End-of-year figures

4/ Agricultural part of lending program.

5/ Data are for all lending

6/ More than 90 days overdue

7/ More than 60 days overdue. Of the existing overdue loans, the Fundación considers that over 90% are fully recoverable.

8/ Delinquency is based on more than 60 days overdue.

9/ One day or more overdue

Neither does BANDESA, as an organization pressed to expand lending to cooperatives and small farmers and able to rely on the Government to make good its losses, have the resources or incentives to operate highly efficient cooperative and small farmer lending programs. BANDESA's safest loans are those it makes to responsible cooperative federations that carefully monitor their subloans. Under these circumstances, it is anomalous that BANDESA competes with federations by highly subsidized soft lending. If the GOC wishes to achieve optimal use of its resources for the benefit of small farmers, it should alter its lending and associated policies to make more equitable use of the most efficient lenders to small farmers which are the cooperative federations and the Fundación del Centavo.

A N N E X A

Prospectus for a Cooperative Agricultural Marketing Union

Purpose:

The purpose of an agricultural cooperative marketing union would be:

a) to study the feasibility of projects for the marketing of fruits, vegetables and other diversified products of the members of rural cooperatives and farmer associations in both internal and external markets;

b) to study the feasibility of cooperatively owned packaging, shipping, canning, freezing, dehydrating and other facilities to further purpose (a);

c) to establish and operate projects and facilities of demonstrated feasibility which can be most efficiently carried out by the union as a national organization to serve the rural cooperative movement as a whole;

d) to provide assistance as desired to individual cooperative federations, cooperatives, and rural farm federations and associations in developing and managing marketing projects that can be most efficiently carried out at federation or local levels;

e) to work with rural cooperative and farmer organizations and other Guatemalan institutions in order to increase the production and improve the quality of agricultural products for which outstanding market opportunities have been identified for small farmer cooperative and association members.

Legal Organization

A cooperative union under cooperative laws of most Latin American countries is a second degree cooperative, which cooperatives can join in addition to their primary affiliation with a federation in their economic sector. Such unions are usually formed to provide specific services, of which marketing is one of the more important. The member cooperatives of a union may be either first or second degree cooperatives or a mixture of the two. Guatemala's cooperative law does not specifically provide

for unions but does not preclude them (neither does it provide for or preclude federations).

The membership of a marketing union in Guatemala could be expected to include FENACOAC, FECOAR, possibly other agricultural federations, and independent cooperatives (the latter probably with one vote amongst them or representation through a federation of independents). (Direct membership by local cooperatives affiliated with federations could also be permitted in addition to their indirect affiliation through the federations. This has advantages--particularly in raising capital and achieving greater grass roots participation.) Arrangements presumably also could be made to accommodate participation by quasi-cooperative groups such as those of the Fundación del Centavo.

Membership would be voluntary, and the union would have to earn continuing support by providing services of recognized value. It would have, however, the normal cooperative features of contributions (from member coops), capitalization out of income, payment of dividends, etc.

Since its membership would consist only of other cooperatives and quasi-cooperatives, a union would not have to recruit individual members or engage in the substantial organizational work that such an activity would entail. The existing cooperative groups would provide the membership base; the union's function would be to serve these groups.

Method of Operation

During its initial one or two years, a marketing union would have to operate primarily as a study group searching out marketing opportunities. However, it would have the very specific mandate to give priority to the identification of the soundest available marketing opportunities for small farmers for immediate development. Its success, therefore, could be measured in terms of its ability to conceive and establish successful business operations in cooperative marketing.

As the marketing union progressed in establishing business operations, it would be expected to show a net income (*excedentes*) which, as the organization gained strength, would be expected increasingly to finance additional development costs in identifying further business opportunities.

The marketing union would probably also have some income in assisting individual coops to develop local marketing projects.

Since a major initial objective would be to create a cooperative enterprise that would be financially viable and within a reasonable time self-supporting, it would not be possible or appropriate to pre-establish the commodities to which it should give initial attention. However, the following are likely products for its attention:

1. Apples, peaches, pears and avocado for marketing fresh, in Guatemala and Central America, and the U.S.

2. Canning of fruits and juices for domestic and export market.

3. Garlic and spices particularly of quality for export sale. (Possibly also garlic powder.)

4. Asparragus for fresh sale in Guatemala and Central America (fresh white asparragus has good tourist potential) and for export fresh and canned.

5. Lentils for domestic sale and export. (Possibly expandable into packaging and marketing of a line of dried beans and similar products under a coop brand name.)

6. Honey for domestic sale and export. (Requires no land and would complement an emphasis on fruit production.)

Personnel Requirements

The staff of such a union should be individuals with specific commercial experience in the marketing of food products--especially individuals who have been identified with highly profitable and successful private firms (and/or cooperatives).

For the initial year, it is suggested that the staff should include on a full time basis one foreign technician and two Guatemalans (or third country nationals). All three should have the type of experience described above, at least a part of which should have been in or with Latin America. The full-time staff should be assisted by short-term consultants (preferably of their own selection) to provide more specialized expertise in conducting feasibility studies on specific projects.

The permanent staff would gradually (though not entirely) phase out of the feasibility stage of the project into actual

business management as projects were developed. Permanent additions to staff would also be made as dictated by the requirements of business operations.

Financial Requirements of Project

a. Technical Assistance

The following is a preliminary estimate of probable technical assistance needs over the first five years of the project. The figures include salaries and related costs, including secretarial and office expenses.

	YEAR 1	2	3	4	5
1 U.S. Technician	Q60,000	Q60,000	Q60,000	Q30,000	Q ---
2 Guatemalan or 3rd. Country Tech.	30,000	25,000	20,000	15,000	10,000
Short-term consultants	50,000	40,000	30,000	25,000	15,000
	140,000	125,000	110,000	75,000	25,000

In the above estimates the following assumptions are made:

(1) that one full-time American advisor can be phased out in the fourth year;

(2) that a part of the cost of Guatemalan technicians will begin to be paid out of business operations beginning in the second year;

(3) that a part of the cost of short-term consultants can begin to be charged against business operations (i.e., as business organization or operating expenses) beginning in the second year.

b. Development Funds

Funds for the development of marketing projects of the union would largely be supplied by AID and the GOG through loans on concessional terms. These loans should be subordinate to commercial loans for at least some portion of working capital, which should be sought from normal commercial

sources.

It is not possible to estimate at this early stage the quantum of loan funds that should be available for development of marketing projects over the next five years. Clearly, substantial funds should be available; however, the marketing union should not be "under the gun" to use them at a more rapid rate than the development of a successful business would permit.

Accordingly, it is suggested that the best procedure under a new AID loan would be to provide for the financing of marketing union projects out of the same fund that would be provided for medium and long-term credit for cooperatives to finance agricultural production developments such as land improvements, planting of fruit trees, etc. This would give greater flexibility in use of funds according to need. (What we have in mind is something like a Q1 or Q2 million fund to be administered by BANDESA's cooperative department to loan to coops for medium and long-term projects, including marketing, of the cooperatives and their small farmer members.)

c. Equity Capital

A marketing union should be provided with some initial equity. A reasonable plan could be the provision of Q35,000 each by AID, GOG, and the member cooperatives--or a total of Q105,000. Income from business operations, collection of further aportaciones according to volume of business conducted with cooperatives, and the spread between normal and concessional rates of interests on developments loans should provide adequate opportunities for continuing capitalization.