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9. ABSTRACT

The project established regional cooperatives in Guatemala, and a national federation to provide support services to those cooperatives. These activities produced a large and growing small farmer cooperative movement which has shown the potential for sustained growth and long-term viability. This report describes the formation of the cooperatives, the services they provide, their membership, growth, and achievements. Establishment of these organizations represents the project's goals -- to supply the small farmer with means to improve production of basic grains and food crops, to increase his income, and to generally improve the quality of life in rural areas of the country.

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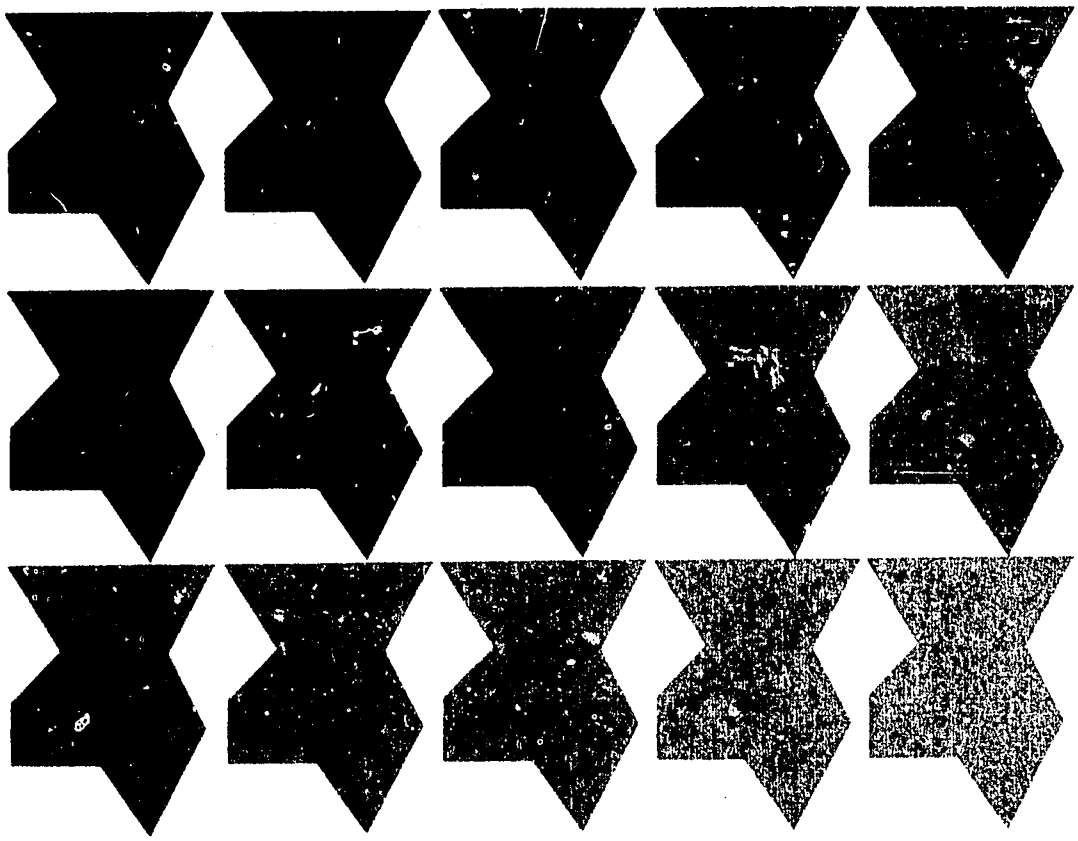

Agency for International Development
Washington, D.C. 20523

THE RURAL CREDIT AND COOPERATIVE DEVELOPMENT PROJECT IN GUATEMALA

by

John R. Davidson

A case study prepared for the Administrator's Development Seminar and the Development Studies Program, Manpower Development Division, Agency for International Development, Washington, D. C., October, 1976.

PREFACE

The purpose of this case study is to familiarize AID personnel with the Rural Credit and Cooperative Development Project in Guatemala, a rural development project that reflects the intent of the "New Directions" mandate contained in the 1973 Foreign Assistance Act. Over the past six years the Rural Credit and Cooperative Development Project has reached a significant portion of the small farmers in Guatemala through the development of an effective cooperative movement which a recent Inter-American Development Bank study called the "most dynamic" element of all the public and private sector programs being undertaken in Guatemala to reach the small farmer.[1]

Given the importance of the cooperative mechanism as a tool for fostering rural development in the thinking of those concerned with these problems, this project bears our close examination. The experience of this project, it is hoped, will contribute to our knowledge of how to design and implement more effective rural development projects aimed at the hard to reach small farmer.

This case study was researched and written between August and October, 1976. Five days were spent in Guatemala talking to project personnel and reading the project files in the USAID Mission. The assistance and information provided by the contractor's field staff and the USAID Mission was most helpful and is greatly appreciated.

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1 See Inter-American Development Bank, "Project Report: Guatemala - Program of Credit for Agricultural Cooperatives and Small Farmers," December 15, 1975, IDB Project Committee, PR-718-A. Original: Spanish.

I. INTRODUCTION

The USAID Mission in Guatemala has placed the highest priority on rural development since the latter part of the 1960's. Recognizing that the rural population was not benefitting from existing development programs, and that increasing pressure on the land due to population growth was exacerbating the already extreme conditions of rural poverty, the mission undertook several studies of the rural sector during the middle and late 1960's. These studies (the major one performed by the Iowa State University) were used as the basis for developing a series of projects that focused on increasing basic food production and improving the quality of life in the rural areas. The culmination of this process, which began in 1967, was the approval in 1970 of a 23 million dollar rural sector loan. This loan supported, and was part of, a comprehensive five-year (1971-75), 143 million dollar Agricultural Development Plan that was adopted by the Guatemalan government in the same year. This loan financed several types of projects, all of which were meant to attack problems facing the small farmer. These included: (1) Basic grains production and marketing; (2) Diversified crops production, research, and technical assistance; (3) Development of the handicrafts industry (artisanry) (4) Infrastructure development; (5) Human resources development; and (6) Cooperative development.

The Guatemalan Agricultural Development Plan which this loan helped finance - and shape - represented a major shift in emphasis on the part of government development programs. In place of more traditional infrastructure type projects, this plan emphasized projects which were meant to directly benefit the rural poor and the small farmer. In addition, for the first time significant resources were allocated to the Indian Highlands, an area that had been traditionally neglected by the government. The Plan also called for major changes in the approaches and structure of the public agencies involved in agricultural development, changes which would hopefully improve the government's limited capability to deliver services and implement programs in the rural sector.

The Rural Sector Loan and the government's Agricultural Development Plan represented a major effort to reach the small farmer of Guatemala (particularly in the Highlands) with programs that would immediately and directly improve the quality of life in the countryside. The challenge that faced the Mission and the government was the knowledge that designing and implementing programs capable of reaching this difficult to reach target group would not be an easy task. The government possessed a very limited capability to deliver services to the rural areas, and neither the Mission nor the government had had much experience operating in the Indian Highlands.

II. BACKGROUND CHARACTERISTICS OF THE TARGET GROUP

Guatemala is a small, poor, agricultural country of about 5.8 million people, about half of whom are Indian. About two thirds of the population lives in rural areas, and about 860,000 people are economically active in agriculture. A majority of the 650,000 families in the rural sector have a net income of less than $400 a year, and the average income per adult laborer in the Highlands is about $117 a year. The Rural Credit and

Cooperative Development Project is being implemented primarily in the central Highlands, where 80% of the 1.6 million population are Indians who have retained much of their traditional cultural heritage, including their own language. Only about 20% of these Indians speak Spanish and they have historically been exploited by the Spanish-speaking Ladinos[2] (or mestizos) and - until recently - bypassed by government development efforts. Cooperatives have also, however, been organized in southeastern Guatemala - the Oriente - which is populated by Spanish-speaking Ladinos.

Guatemala's growing rural population lives on a limited arable land base under conditions of extreme poverty, and suffers from high unemployment rates and low levels of food production. The agricultural sector in Guatemala consists of between 420-450,000 farms, the majority of which are small "minifundias." Small farms - defined as seven hectares or less - constitute 365,000 of the total number and middle-sized farms (between 7-45 hectares) account for fewer than 50,000 of the total. Over 185,000 farms in Guatemala are less than 1.4 hectares in size. Land tenure statistics reveal that 2% of the farmers own 72% of the land, while 88% of the farmers own only 14% - usually the poorest quality, most hilly land. The small farmers grow primarily corn, beans, wheat, vegetables, some fruit, and to a lesser degree, potatos and sorghum. The small and

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A "Ladino is generally defined as a Guatemalan of whatever racial origin, generally of Indian or mixed Indian and Spanish descent (mestizo), who speaks Spanish, wears western dress, and does not belong to a traditional Indian community. An "Indian" is generally defined as one who uses one of the Indian languages, wears traditional Indian dress, and belongs to an Indian community. The distinction is thus ethnic and cultural, rather than racial.

medium farmers produce nearly all of the food and basic grain crops that are meant for domestic consumption. The small farmers do not use modern production methods, achieve low yields, and have little access to the institutionalized credit system. Most credit goes to export crops, and only 6% of public and private institutionalized credit finances basic crops such as corn and beans, etc. Fertilizer use is low in Guatemala, where only 32 Kg. per cultivated hectare is used, compared to 81 and 132 Kg. per hectare in Costa Rica and El Salvador, respectively.

Over the past two decades, the growth of the agricultural sector has averaged about 5%, barely keeping pace with population growth. Increases in production have resulted from expanding the area under cultivation rather than changes in production methods. Food production has not grown fast enough to keep pace with domestic needs, and since 1971 Guatemala has had to import large amounts of basic grains. In 1974, corn imports rose to a record 57,000 tons.

III. ORIGINS OF THE PROJECT

The cooperative movement in Guatemala has evolved within a difficult environment and has had to overcome a number of problems deriving from a history of poor performance and political unacceptability. In 1945, a Department of Cooperatives empowered to grant legal charters was created in the Ministry of Agriculture and by 1952, 61 cooperatives had received charters. As a result of events during the period of leftist rule under Arbenz, however, cooperatives became associated with communism and in 1953, the Department of Cooperatives was abolished. By 1959, the political climate had again changed. A new cooperatives office was established, and cooperatives could once again obtain legal charters. A decade later there were over 150 legally chartered cooperatives in Guatemala, but all but a handful of these (about 12) were little more than "paper" cooperatives which were not providing services to their members. The cooperative idea, therefore, has had to prevail against the perception held within the Guatemalan government that cooperatives were ineffective, non-viable, politically suspect institutions.

Previous Cooperative Development Projects

The Rural Credit and Cooperative Development Project begun in 1970 was not the Mission's first effort in this area. During the 1960's, three projects dealing with cooperatives were supported and an evaluation of these projects in 1969 led to the incorporation of a new cooperative development project in the 1970 loan. Since 1964, the mission had supported the development of credit unions through a contract with the Credit Union National Association (CUNA), which was undertaking projects in many Latin American countries during the 1960's. CUNA founded a federation of credit unions in 1964, but after six years of operations it remained largely ineffective and did not provide many services to its affiliates. Its manager and staff were paid by CUNA, which continued to dominate it in 1969. It was not, in short, becoming a viable, self-sustaining, effective institution and in 1969 its largest affiliate withdrew from the federation.

The mission also was supporting a cooperative training school which was having a limited impact and was not turning out many effective cooperative leaders. The mission also contracted with the International Development

Foundation in 1968 to have them organize a series of "pre-cooperatives" or farmers associations among a group of farmers on the coast who had received government-owned land through an agrarian reform project. IDF, utilizing some Peace Corps Volunteers, was to help these farmers market their produce. A variety of problems were encountered, however, and the project never really got off the ground. The Chief-of-Party was ineffective, and IDF refused to work with the Guatemalan government, which also affected its effectiveness. After two years of discouraging performance, the contract was allowed to expire in 1970 and it was not renewed.[3]

The outcome of the 1969 evaluation of existing cooperative development programs was a series of recommendations that led to an expanded effort in this area. The evaluation concluded that the credit union federation - FENACOAC - was receiving just enough assistance to stay alive but not enough to become viable. It was, therefore, decided to significantly increase financial support to the federation and at the same time reduce CUNA's dominant role. Funding of the cooperative training school continued, and a new project was designed to establish a series of agricultural cooperatives in the Indian Highlands.

IV. GOALS AND ASSUMPTIONS

The goals of the Rural Credit and Cooperative Development Project are to increase the production of basic grains and food crops, increase the small farmers' income, and generally improve the quality of life in the countryside so as to discourage migration from rural to urban areas.

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[3] IDF also refused to integrate its project with the new agricultural cooperative project planned as part of the 1970 Rural Sector Loan.

These goals are to be achieved through the development of agricultural cooperatives and credit unions capable of mobilizing local savings and extending credit and other services to small farmers. Creation of economically viable, full-service, democratically representative agriculutral and credit cooperatives will help "effect a fundamental reordering of the essential economic relationships in rural Guatemala."[4]

The key assumption underlying this project is that the cooperative is an effective instrument for reaching the small farmer and promoting rural development. The credit unions make a significant contribution to rural development by reversing the flow of capital from rural to urban areas - i.e., they mobilize new capital (savings) and re-lend it for local production and consumption purposes, thereby counteracting the tendancy for branches of urban banks to remove capital from rural areas to invest in urban areas. Using credit and other services extended to him by the cooperative, the small farmer can purchase fertilizer and other modern inputs which will increase his production and his net income. Several studies have shown that the Guatemalan small farmer can easily triple his production through the use of fertilizer. The positive effect of credit on small farmers' production and net income has been well established.

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4 See AID Capital Assistance Paper, "Guatemala: Rural Credit and Cooperative Development," AID-DLC/p-1080, February 21, 1973 (Loan No. 520-L-024) p. 55.

A study performed by the Latin American Bureau's Sector Analysis Division, for example, found that credit significantly increased small farmers' production, net income, and also increased rural employment.[5] Indeed, farmers cultivating less than three hectares exhibited the most dramatic increase in net income - from $75 for non-credit farms to $324 for credit-using farms. In the Indian Highlands, which is the primary target area for this project, the study found a 63% average increase in net income among farmers using credit.

The study also found the most dramatic increase in production among farmers cultivating less than one hectare - a 147% increase. The magnitude of the increase in production decreased with farm size. Farms in the one to three hectare range averaged a 37% increase in production, while larger farms averaged only 11-17% increases. The average increase in production for all credit-using farms in the study was 32%.

While credit has been shown to be an effective means of increasing the small farmer's production and income, the extremely limited capability of public sector agricultural agencies to reach the small farmer with credit and technical assistance (In the early 1970's government agencies were reaching about 3% of the small farmers with credit and had a total of 70 extension agents for the entire country) led the mission to turn to a strategy of fostering cooperatives in the private sector. The mission

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[5] See "Guatemala Farm Policy Analysis: The Impact of Small Farm Credit on Income, Employment, and Food Production," April, 1975, Sector Analysis Division, Bureau for Latin America, AID/Washington (study performed by Samuel Daines, Senior Economist, LA/DR).

concluded that the only way they could reach the Highland Indian with significant resources within a reasonable period of time was to by-pass the government and go directly to the farmer with farmer-owned cooperatives. The cooperative development project is thus viewed as a supplement to - and partial substitution for - public sector programs which have had a very limited impact.

V. THE DESIGN OF THE PROJECT

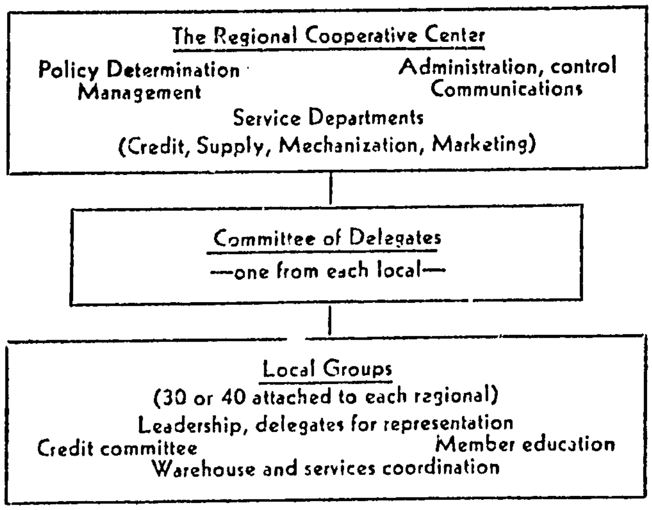
A small portion of the Rural Credit and Cooperative Development project continued existing activities - such as funding of the cooperative training school. The CUNA credit union development project was redesigned and expanded. The Mission decided to finance the federation (FENACOAC) directly instead of through CUNA, and the CUNA manager of the federation was replaced with a new CUNA representative brought in from another Latin American country, who would now play only an advisory role. The purpose of these changes was to remove direct CUNA control over the federation and to foster a separate institutional identity.

A major new undertaking that became a component part of this project was the effort to create a series of agricultural cooperatives in the Indian Highlands. The design of this project evolved out of a study of the cooperative movement in the Highlands by Dan Chaij of the USAID Mission and David Fledderjohn of Agricultural Cooperatives Develop ment International, which received the contract to establish the cooperatives in late 1970. In February, 1970, they began to study 16 existing cooperatives in the Highlands which had 475 members among them. All but one - the San Andres Semetabaj cooperative - was non-viable at the time. It was decided to "adopt" the San Andres cooperative, which would serve as the first prototype for the project. In December, 1970, ACDI signed a contract with this wheat-growing cooperative by which it agreed to rebuild its administrative and economic structure. The experience acquired during this first effort greatly affected the design of the remainder of the project. They quickly realized that the financial statements of the cooperative were virtually worthless, that it had never made any money, and that it had received $300,000 in public credit that was overdue. They also had to absorb a sizable embezzlement by a previous manager. They found it very difficult to alter the existing norms and operating procedures of the cooperative, and the entire rebuilding effort proved to be extremely expensive, time-consuming, and difficult.

As a result of their experience with the San Andres cooperative, ACDI decided not to "adopt" any more existing cooperatives. They feared that if they undertook similar rebuilding efforts among the other cooperatives that were asking for help (which were smaller than San Andres), they might slip back to their previous state once ACDI withdrew from the scene because they would not be operating with sufficient economies of scale that would allow them to hire and retain competent, professional managers. Instead, they decided to create new institutions from scratch which would be large, regional cooperatives permitting economies of scale, which would allow them to hire professional, expert staff from the very beginning. The plan was to establish regional cooperatives capable of serving from 3,000 to 5,000 farmers living within a radius of about 20 miles from the administrative headquarters. To be effective, such a cooperative would have to be able to combine the high volume and professional management needed to operate an efficient enterprise with the flexibility and responsiveness needed to reach many farmers in numerous, small and scattered communities.

The cooperative idea of local cohesion and democratic rule would be preserved in the organizational structure of these regional cooperatives. Local informal groups (not requiring individual legal charters) are formed at the village level. Farmers organized into 30 to 40 such groups constitute the membership of the regional cooperative. Each local group elects a set of officers and a president who represents the local group in the Committee of Delegates, (one from each local group) which acts as a consultive council to management. Each local group also elects committees on credit, agricultural information and education, etc. All members of the regional cooperative, meeting as a general assembly, elect a board of directors and a vigilance committee. This structure allowed ACDI to avoid the problems they believed they would have encountered if they had established many small community cooperatives, each with its own legal charter. Obtaining a legal charter is an extremely costly, time-consuming, and difficult process due to the complex legal requirements involved and they also feared that the community cooperatives would not have been efficient, viable, enterprises. Direct, individual membership is preserved in the regional cooperative (a farmer joins by purchasing a $10 membership share) and the local groups (which have no legal standing) function in many respects as do legal community cooperatives.

Organization of a Regional Cooperative



Source: ACDI

Using this organizational model, ACDI proceeded to organize regional cooperatives in the Highlands, calculating that about six would provide coverage to most farmers in the area. In early 1971, ACDI began talking to the farmers. Once 300-400 farmers in an area became interested, they applied for a legal charter. After this was obtained, general membership meeting was held at which a five-man board of directors was elected, which in turn hired a manager, who in turn selected an administrative staff. Approximately one year after farmers were first contacted, the cooperative was staffed and functioning.

Once these regional cooperatives were formed, the project plan called for the creation of a federation of these regional cooperatives. Such a federation (FECOAR) was formed in June, 1973, and now consists of six regional coperatives - five in the Highlands and one in southeastern Guatemala in the Department of Jutiapa (see map). The function of this federation is to act as a "wholesaler" of credit to its affiliates, and to provide various services, such as internal auditing and some marketing services. In addition, it purchases and distributes on a wholesale basis inputs such as fertilizer and seed, etc.

The success of these cooperatives would be determined, clearly, by their ability to provide effective and reliable services to the member farmers scattered over a relatively large area in many small communities. Successful operation would require active and effective local groups as well as effective and responsive management. The challenge presented by this project was to create large, regional cooperatives capable of establishing effective communication and feedback processes between members and management (in order to provide effective and reliable services) while maintaining democratic processes within a farmer-owned organization.

X FECOAR (Guatemala City)

1. "San Andres Semetabaj" - founded in 1960, restructured in 1971.
2. "Flor Chimalteca" - founded in August, 1971.
3. "Justo Rufino Barrios" - founded in January, 1972.
4. "Rey Quiche" - founded in January, 1973.
5. "Cuna del Sol" - founded in December, 1973.
6. "12 de Octubre" - founded in October, 1974.

The Role of the Guatemalan Government

The government's initial attitude towards the cooperative development project was one of cautious tolerance mixed with deep skepticism. The government of General Arana, elected in 1970, was conservative. It viewed cooperatives as "socialist" institutions that had a poor record of economic performance. They usually failed, defaulted on their debts, and were politically opposed to the government. The cooperative movement had been dominated largely by the Christian Democrats, who tended to view them as an important political instrument for mobilizing support for their party in the countryside.

The Minister of Agriculture was initially neutral towards the project. He wished AID well, but did not believe that the cooperatives would succeed. While he felt they were a poor mechanism for pursuing rural development due to their political and economic performance history, he was willing to allow AID to undertake the project - which did not rely on any contributions from the Guatemalan government. In addition, the Arana government did support the five-year rural development plan that had been adopted by the Planning Council in 1970, and it basically accepted the findings of the Iowa State University study. Since it was not contributing its own resources for the project, it was willing to allow AID to proceed, but it did not really expect to see much impact from a cooperative in the Indian Highlands. At the same time, however, the Ministry of Agriculture warned AID that they did not want to see the development of a potential "pressure group" that would become "broadly representational" in nature and begin to apply political pressure on the government.

ACDI, the contractor which organized the agricultural cooperatives, believed in non-political, economically viable cooperatives and consciously tried to instill a non-partisan, non-political ethic among the leadership of the cooperatives. Since two elements of the cooperative development project - the cooperative training school and the credit union movement - were identified with the Christian Democratic Party (which opposed the government), support of the agricultural cooperative allowed the mission to foster a non-political cooperative movement to balance their support of those identified with the Christian Democrats.

IMPLEMENTATION AND ACHIEVEMENTS - FENACOAC

We will recall that in 1970, when AID began providing direct - and substantially increased - financial support to FENACOAC, it was a weak organization dominated by CUNA, which had founded the federation in 1964. The increased assistance provided to FENACOAC under the 1970 Rural Sector Loan led to a reduction of CUNA's role and a shift in emphasis in the goals of the federation. Until 1970, the federation had concentrated on providing managerial and advisory services to its affiliates and on increasing the number of credit unions affiliated with it. Indeed, much of the federation's managerial services capability went into the formation of new credit unions. These services inlcuded administrative, accounting, and auditing services to its affiliates and short-courses for affiliate managers, directors, and members in the areas of accounting, credit, and administration.

After 1970, FENACOAC shifted its emphasis to improving the variety and quality of services provided to its affiliates, concentrating particularly on credit unions in rural areas. Creation of new affiliates was deemphasized and greater emphasis was placed on increasing the membership of existing affiliates. In 1971, FENACOAC began to provide agricultural services to small farmers through its rural affiliates. Over the following three years, FENACOAC initiated services in the areas of agricultural production credit, education, bonding and insurance, publications, and the supply of agricultural inputs - particularly fertilizer. The federation has also begun to experiment with the marketing of some agricultural and handicraft products. Its attempts to market garlic, apples, and various handicrafts have met with limited success and are still experimental. FENACOAC also finances a variety of small business enterprises and handicraft industries which generate part-time employment in rural areas.

In order to better serve its affiliates with this expanded array of services, FENACOAC began establishing regional offices in 1972. It now has three regional offices in Huehuetenango, Quezaltenango, and Solola, which also contain storage facilities for agricultural inputs, etc. Six regional consultive councils have also been formed to improve communication between the federation management and the affiliates. These councils meet with the administrators of FENACOAC on a monthly basis, but they do not possess any direct administrative authority. Their creation, however, reflects the federation's recognition of the need to decentralize its operations in order to be more responsive to the needs of its affiliates.

The federation began selling fertilizer to its affiliates in 1971, and by 1973 was supplying 156,000 cwts annually to its rural credit unions. This level dropped sharply in 1974, due to scarcity and high prices, but in 1975 fertilizer sales increased to over 170,000 cwts. The primary weakness of the federation's efforts to provide inputs and services to small farmers is the lack of technical assistance to go along with the inputs. A recent evaluation of the credit union program performed by the American Technical Assistance Corporation (ATAC) pointed out that the federation does not have the trained staff available to provide reliable technical recommendations to farmers on how to use the fertilizer they are purchasing. Small farmers cannot rely on government extension services for this advice, as their presence is extremely limited. The ATAC report thus concludes that while the federation has succeeded in making fertilizer and other inputs available to the small farmer, the effective and appropriate use of this fertilizer is often doubtful.[6]

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6 See American Technical Assistance Corporation, "Rural Cooperatives in Guatemala: Volume II - Evaluation Team Study Papers on Specific Projects," by William Rusch, Fred Mann, and Eugene Braun, November, 1975. The lack of extension services cited by the ATAC report is being confronted in a different manner through another AID-funded projec' the Basic Village Education Project, which utilizes educational radio programs to disseminate agricultural information, including advice on how to purchase and apply fertilizers. Preliminary results of a pilot project in the Highlands indicate that knowledge about the recommended practices is being absorbed by the farmers in the listening areas, and that significant numbers of farmers are following the advice broadcast over the radio. Thus cooperative members in a portion of the Highlands are now receiving useful advice on fertilizer use through this educational radio project, which is fulfilling a portion of the role normally performed by government extension agents.

Growth and Membership Characteristics

FENACOAC presently has 86 affiliates, over 75% of which have full-time managers. The recent evaluation performed by ATAC found that about 20 to 25 of these affiliates are of doubtful viability. Total membership has grown from 16,000 in 1970 to 63,000 as of January 1, 1976. As Table I indicates, the average size of the membership of the affiliates has risen from 213 members per affiliate in 1970 to over 650 in 1975. The total number of credit unions, on the other hand, increased only moderately during this period - from 75 in 1970 to 86 by 1975.

The volume of loans outstanding to members has increased from $500,000 in 1970, to 5.5 million dollars by the end of 1975. The total value of member shares and savings has increased from $534,000 in 1970 to 5.1 million dollars in 1975. The total value of the federation's share capital and savings has thus kept pace with, and at times surpassed the volume of loans outstanding during the period of rapid growth. These figures reflect the fact that an individual must contribute some share capital to the cooperative in order to become a member. FENACOAC now has the ability to attract in excess of 1 million dollars a year in savings, including share capital.

FENACOAC makes loans to its affiliates for up to five times the net worth of the affiliate, and charges them eight, nine, or ten percent interest depending on the source of the funds lent. These funds are then re-lent to members of the affiliates on terms of 1% per month for six, ten, twelve - or in some cases - eighteen months. The ATAC evaluation estimated that more than 25,000 of FENACOAC's members have borrowed from

TABLE 1

FENACOAC - Indices of Growth - 1969-1975 (end of year figures)

Indicator	1969	1970	1971	1972	1973	1974	1975
Number of Members:	13,000	16,000	23,000	32,000	42,000	54,000	63,000
Number of Affiliated Cooperatives:	71	75	75	79	80	83	86
Average Number of Members per Cooperative	183	213	306	405	525	650	N.A.
Value of Member Savings and Shares (in Dollars)	358,000	534,000	924,000	1,520,000	2,652,000	3,849,000	5,138,000
Member loans Outstanding:	478,000	503,000	1,234,000	1,723,000	2,814,000	3,647,000	5,584,000

Source: ATAC Report: Rural Cooperatives in Guatemala and FENACOAC Monthly Report, Jaunary, 1976, USAID/Guatemala.

its affiliates. In 1974, the average loan extended was for about $150. In the Highlands, the average was significantly higher - about $224.

The ATAC evaluation found a delinquency rate of 8% for all affiliates outstanding loans, but only about 3% were more than six months overdue. A FENACOAC monthly report for January, 1976, on the other hand, reported an overdue rate of 11% for 22 of its affiliates.

ATAC also performed a cost/benefit analysis of the FENACOAC project. The total cost of the project to the U. S. up to 1975 has amounted to 2.3 million dollars (1 million in grant funds, the rest in loan funds). ATAC found that the subsidy cost per dollar loaned over the life of the project is six cents per dollar loaned. Looked at in another way, the subsidy cost per dollar of savings generated (over 5.5 million dollars thus far) is less than 14 cents per dollar saved. (It costs BANDESA, the government agricultural credit bank, an estimated 95 cents for every dollar it lends).

The ATAC study concluded that FENACOAC is reaching the small farmer in the Highlands. Their sample survey of FENACOAC members found that 23% were Ladino and 77% were Indian. About half (46%) of the members of FENACOAC's rural affiliates are farmers, while about 14% are small businessmen and artisans. In absolute numbers, ATAC estimated that about 30,000 farmers belong to FENACOAC and that in 1974, about 17,500 farmers borrowed from their local credit union. Viewed from a different perspective, 86% of the members who borrowed from rural affiliates in 1974 were farmers. Other farmers no doubt purchased fertilizer or other inputs through their credit union even though they did not borrow from the credit union in that year. The ATAC survey also found that 46% of the farmer members owned two manzanas or less (one manzana = 1.73 acres), and that FENACOAC members have somewhat smaller farms than do members of FECOAR. A large portion of FENACOAC's loans are clearly reaching the intended target group - the Indian small farmer in the Highlands.

Over the past five years FENACOAC has exhibited a high rate of growth and since 1972 it has been managed entirely by Guatemalans. The ATAC evaluation concluded that FENACOAC's management has demonstrated an ability to deal effectively with the administrative, managerial, and cooperative aspects of the federation while it was undergoing rapid expansion, and that they have handled very well the administrative and managerial complexities encountered in maintaining and expanding credit and fertilizer supply activities.

FENACOAC has changed greatly since 1970 and is no longer a conventional federation of credit unions. As a result of the reorientation of the federation's activities during the past five years, it has become a multi-purpose services cooperative built around the cooperative principle of the savings and credit union system. It is now helping small farmers improve their simple technology through the provision of improved inputs which will allow them to produce more from their land. FENACOAC is a healthy organization that has good growth potential, and will no doubt become more active in marketing and processing activities in the future.

GROWTH AND ACCOMPLISHMENTS - FECOAR

The process of establishing the six regional cooperatives and their national federation (FECOAR) must be viewed in the context of several problem areas - or challenges - that confronted those undertaking this project. First, the internal organizational structure of the regional cooperatives meant that effective communication and services would have to be maintained among a large number of small groups scattered over a wide area. As the regionals grew and the number of local groups proliferated, effective management might be difficult to maintain. Another danger was that the cooperatives would become dominated by Ladino managers and not effectively serve the intended target group - the small Indian farmer. The Ladino has historically dominated the Indian, and Ladinos have often dominated the cooperative movement in Guatemala.

Also, as the regionals grew over time they had to confront an increasing amount of competition from both government agencies and from FENACOAC. In 1970, when the mission and ACDI evaluated the potential for establishing agricultural cooperatives in the Highlands, they found that services to farmers from either government or from private sources were practically non-existent outside of a few major towns. A few hardware stores and truckers sold fertilizer in the major towns, and a handful of moneylenders loaned money to farmers at high interest rates, while the government's limited credit operations were directed primarily at larger farms. The project was thus viewed as one which would create new mechanisms for reaching the small farmer rather than one which would compete with others. But other elements of the 1970 Rural Sector Loan also directed resources to the

Highlands. AID increased its support for FENACOAC and encouraged it to offer more services to small farmers through its rural affiliates. Also, as part of the 1970 reorganization of public sector agricultural agencies, BANDESA - a government credit bank - was founded and partially financed by AID. It began to undertake programs to extend credit to small farmers growing basic food grains, and for the first time government credit agents became active in the Highlands. By 1973, BANDESA was distributing fertilizer and other agricultural inputs in the Highlands, and in 1975 BANDESA began making credit available to qualified small farmers at a 5% interest rate (compared to FENACOAC and FECOAR's 12% rate). BANDESA's presence did not extend to the outlying areas of the departments in the Highlands, however, and its administrative procedures proved to be cumbersome to many farmers.

Finally, the appearance of ACDI and the type of cooperatives they were establishing generated a great deal of hostility towards the project on the part of existing cooperative groups which were predominantly Christian Democrat in their political orientation. In 1970, when the AID Mission and the government were developing joint priorities for the rural development plan and it was becoming clear that AID would support cooperatives as an element of the Rural Sector Loan, an air of expectation developed among the existing cooperative groups. Many, no doubt, saw in AID's desire to fund cooperatives a means of obtaining resources for their own cooperative organizations. Once ACDI arrived and the existing groups saw that it was not going to use its resources to revive existing (but weak) cooperatives, criticism began to increase. Furthermore, these Christian

Democrat groups bitterly criticized ACDI for creating apolitical cooperatives which they felt violated important cooperative principles. They viewed it as a "foreign" model which was being imposed on them from the outside, and felt that these regional cooperatives threatened their own prospects for future growth. The ACDI project director, David Fledderjohn, reports that nearly every aspect of the project has been criticized by various groups, which sometimes charged that ACDI had come to Guatemala to destroy te existing cooperative movement.

Establishing the Regionals

The first undertaking of this project, we have noted, was the rebuilding of the San Andres wheat-growing cooperative, which turned out to be a difficult and expensive task. After much effort it was turned into a viable cooperative with a growing membership well distributed throughout the department where it was located. Significant improvements in wheat production were recorded, and the ACDI project director reported that Indian-Ladino relations within the cooperative were satisfactory.

As a result of their "internship" at San Andres, the ACDI project team developed the concept of the large, direct-membership regional cooperative and decided that they would create future cooperatives from scratch - no more existing cooperatives would be "adopted." They decided to establish their first new regional cooperative in the area of Chimaltenango, which had been the scene of extensive cooperative organizing for many years. Chimaltenango was also the site of the AID-funded cooperative training school (EACA) and more than a dozen weak, semi-functioning cooperatives could be found scattered throughout the area. Both the cooperative training school and the other cooperatives in the area were dominated by Christian Democrats, and they strongly resented the appearance of the ACDI organizers, since they felt that the ACDI organizing activities threatened their own potential growth. As a result of this opposition, the organizing efforts of the ACDI team (consisting of two Guatemalans and two Peace Corps volunteers) were significantly hampered. Rapid success was achieved in two areas of the department, however, and in August, 1971, the "Flor Chimalteca" cooperative was founded. This process involved the holding of a constituent assembly which adopted a set of by-laws and formally applied for a legal charter (it took an average of seven months to obtain a legal charter from the Department of Cooperatives in the Ministry of Agriculture). The cooperative's membership soon spread throughout the Department, and good geographic distribution was achieved. While this cooperative produced some excellent elected leadership, the quality of the management and administration was rather poor. The proliferation of local groups over a wide geographic area contributed to this situation. Eventually, over 100 local groups were sponsored by the cooperative, some as far as two and one-half hours away from the central office. Forty local warehouse depots were established to serve these groups (whose membership totalled about 3,000). Administering a regional of this size soon became a difficult task, for the cooperative's two field agents could not regularly visit all 100 groups to monitor effectively the distribution of inputs and the administration of credit.

After this early experience with Flor Chimalteca, ACDI attempted to prevent similar situations from developing in the other *regionals*. It soon found, however, that the anticipation of growth and expansion, recognition of limits in services provided, and recognition of other consequences of growth proved to be difficult concepts to impart to the management of the regionals. It was also difficult to say "no" to farmers who wanted services, especially during the initial growth period of a cooperative. Also, anticipating the effects of expansion entails long-range planning, which proved to be a difficult skill for management to learn. Managers were forced to "grow" as fast as did the magnitude and complexities of their job, and not all were able to adapt to the increasing demands placed upon them.

In retrospect, ACDI believes that it was a mistake to begin their organizing activities in an area that had already experienced much cooperative activity, for it generated a great deal of hostility towards ACDI among the traditional cooperative groups. After the experience of competing with existing cooperative groups in the Chimaltenango area, ACDI moved its project next to the Department of San Marcos. This was a remote area with good agricultural potential but practically no assistance was available to the small farmer from either government or private cooperative groups. In January, 1972, the "Justo Rufino Barrios" cooperative was founded as the result of organizing efforts of three Guatemalans and two Peace Corps volunteers. This cooperative grew rapidly but serious problems in the administration of production credit proved to be difficult to overcome. The manager of this regional had to be fired at the insistence of FECOAR in 1975, and he left the cooperative in a poor state which necessitated a rebuilding effort not unlike that undertaken with the San Andres cooperative five years earlier.

The organization of the Rufino Barrios cooperative had taught the ACDI staff that they were most successful when they operated in small villages in outlying areas of the departments in the Highlands, where large numbers of small farmers worked their small parcels of land with little or no outside help from the government or from other private groups. Yet, in the area selected for establishing the next regional cooperative, they again encountered opposition from a coalition of local groups. In January, 1973, the "El Quiche" cooperative was organized in the Department of Quiche. During the first year of operations there, their work was opposed by a coalition of cooperative, religious, and political elements. This opposition stemmed from the fact that prior to ACDI's arrival, there was a strong missionary movement in the area headed by a Catholic priest. He had organized a credit union of unknown size and strength which was affiliated with FENACOAC. The priest and the credit union were strong supporters of the Christian Democrats, and as a result these political and religious interests opposed ACDI's activities.

The original intent of the El Quiche cooperative was to re-establish wheat production in this area, where it had once been an important crop of the larger Ladino farmers. Wheat demonstration plots proved to be only moderately successful, however, and it soon became clear that the Indians were more interested in improving their corn production than in shifting their cropping patterns to include wheat. The cooperative, therefore, shifted its emphasis to improving corn production, and the Indians' response to recommended changes in corn production methods was excellent.

The next regional cooperative was originally planned for the area around Huehuetenango. Opposition to this proposed regional on the part of FENACOAC was very strong, however, and FECOAR agreed to its request that they not come into the area. FENACOAC feared that a FECOAR regional would threaten many of its affiliates in this area, even though it was FECOAR's policy not to recruit any farmer who currently belonged to a cooperative, or who used to belong to a cooperative, or who owed any debts to any cooperative or government credit source.

For this and other reasons, FECOAR moved its activities next to the Department of Jutiapa in southeastern Guatemala. In addition to wanting to avoid a confrontation with FENACOAC, FECOAR also wanted to broaden its geographic base. Furthermore, the Guatemalan agricultural research institute (ICTA), which was also an AID-funded project, requested FECOAR's help in promoting a new variety of grain sorghum that it had developed. It needed an organization to promote the adoption of this new seed variety in southeastern Guatemala. The organizational structure of the regional cooperative appeared to be ideally suited for distributing the seed and providing threshing and marketing services. After discussions with ICTA, FECOAR agreed to establish a regional cooperative in Jutiapa and in December, 1973, the "Cuna del Sol" regional was founded. The effort to promote the new variety of sorghum seed proved to be very successful, and two years after its introduction it was a well established crop among farmers in the area.

Ironically, the organization of the Cuna del Sol cooperative aroused suspicion of a new type which FECOAR had hoped to avoid. ACDI and FECOAR had previously been criticized by traditional cooperative groups - who were largely Christian Democrats - for being non-political and working too closely with the government. Coincidently, the organizational and promotional work in Jutiapa coincided with the 1974 presidential election campaign. At the same time that FECOAR was holding meetings with area farmers to promote the new cooperative, government candidates were holding meetings with farmers to ask them for their votes. Given the cooperative movement's traditional opposition to the government, government officials found it difficult to believe FECOAR's explanation that their activities had nothing to do with the presidential campaign that was then underway. However, after many assurances that FECOAR was involved only in cooperative activities and did not express any political preferences during the election campaign, the activities of the regional proceeded on course. Once again, as was the case in the Highlands, the best organizing success occurred in the small villages in the outlying areas of the department.

In October, 1974, the sixth and final regional cooperative was organized in Quezaltenango. Larger Ladino farmers were initially recruited into the cooperative in order to acquire sources of volume during the early formative period. Sustained growth has occurred among Indian farmers in small villages, however, and now new members are predominantly Indian. This cooperative has established a sound administrative record but it has encountered formidable competition from both government agencies and from other cooperative groups.

The Formation of FECOAR

It was part of ACDI's strategy to form a federation of regional cooperatives as soon as possible. The existence of a federation which would provide a variety of services to the regional cooperatives would allow ACDI to withdraw into the background and perform an advisory role to the federation rather than directly participating in the operation of the cooperatives. ACDI also felt that a federation was needed if the system of regional cooperatives was to survive. A federation could provide financing to the regionals and perform useful wholesaling and marketing activities. The federation could, in short, provide a variety of support services - from wholesale purchasing of inputs to marketing crops, as well as a variety of technical assistance services.

In mid-1972, the 3,000 farmers then belonging to the three existing regional cooperatives applied for a legal charter to form a federation. As events turned out, it took one full year to obtain approval of the charter. While a portion of this lengthy time period may be attributed to normal bureaucratic red tape (it took the Department of Cooperatives an average of seven months to issue a charter for a cooperative), it was also clear that opposition to the ACDI project on the part of existing cooperative groups - and the charges they were making against ACDI - was making the Ministry of Agriculture reluctant to grant a charter. For a time, ACDI wondered whether a charter ever would be granted. In June, 1973, however, the charter was finally approved and FECOAR was quickly staffed and ACDI relinquished direct operating responsibility for the project to Guatemalans. By mid-1974, FECOAR was self-sufficient, far earlier than anyone had predicted. This early self-sufficiency was possible, however, because of large revenues obtained from the sale of fertilizer at a time when prices were high.

Once the Guatemalans began administering the project, criticism of the project declined noticeably. The ACDI project director observed that communication among different cooperative groups and between these groups and various levels of the government improved significantly once they had withdrawn to an advisory capacity. This occurrence, no doubt, reflected the fact that the antagonisms generated by the creation of the first regional in the Chimaltenango area, and the bitter criticisms against the "foreign" ACDI technicians, permanently hampered their ability to work with other cooperative groups. Indeed, Fledderjohn had noticed that criticism of the project began to decline soon after they formed the next regional in the Department of San Marcos, where existing cooperative movements did not have a strong presence. The formation of FECOAR and the subsequent appearance of indigenous leadership appears to have accelerated acceptance of the regional cooperatives.

Services Provided

The regional cooperatives provide a variety of services to their members in addition to extending production credit. Farm supplies and inputs such as fertilizer are purchased in bulk and sold to members. All the regionals provide machinery for land preparation and harvesting, and effective machinery services - having it at the promised location at the promised time - has been one of the strong points of the cooperatives.

In addition, each regional has two or three extension agents attached to it to provide technical assistance to the members, although the level of assistance provided is clearly inadequate and does not begin to meet the demand. Also, the ATAC evaluation of FECOAR found that these extension agents spend much of their time making out credit applications and handling other administrative matters. While FECOAR provides more technical assistance to farmers than does FENACOAC, both levels are quite inadequate. Some marketing and transportation services are also provided. All but one of the regionals market wheat, and most market small quantities of corn and beans.

The federation - FECOAR - also performs a variety of services for the regionals. ACDI feels that the financing, wholesaling, monitoring, and representational functions it performs are critical to the survival and growth of the regionals. It purchases inputs, performs marketing services, and provides financing to the regionals. It also operates a disaster fund for the regionals which is financed by a 1.5% charge on all loans made to the cooperatives. FECOAR also monitors the quality of management and administration in the regionals, and intervenes when necessary to improve administrative practices or provide other forms of assistance.

ACDI's (and later FECOAR's) philosophy regarding cooperative operations differed in several respects from that held by existing cooperative groups in Guatemala. Because of the importance they attached to economically viable, self-supporting cooperatives, ACDI resisted pressure to extend easy credit terms and charge artificially low prices for inputs sold to members in order to stimulate new membership and promote the idea that cooperatives give farmers "a better deal." Under the ACDI project, lending to farmers was tied for the first time to the amount of paid in capital. A farmer had to buy a ten dollar membership share in order to join the cooperative. At the outset, the standard ratio of lending to paid-in capital was five-to-one, which meant that a farmer could initially borrow $50. As the cooperatives grew and established a repayment record, the lending ratio was increased to six, and then seven to one.

The interest rate charged farmers by the cooperatives is 12% per annum. Credit is also granted in kind, and repayment is accepted in kind, which is accomplished where possible through marketing agreements. Yet even at these rates, it was clear from the outset that production credit operations were expensive and losing propositions for the regionals. ACDI calculates that the regionals regularly lose about 12 cents on every dollar loaned, but this figure compares favorably with BANDESA's estimated loss of about 95 cents per dollar loaned. The above facts further support a competitive pricing policy for the sale of inputs to members, because it is mainly through the sale of inputs that the cooperatives are able to make up for the losses incurred through their credit operations.

In an effort to fulfill their strategy of hiring professional full-time managers from the outset, ACDI tried to hire the best Guatemalans they could find and paid them salaries that were slightly higher than the going rate for comparable jobs in the government. Nearly all managers were vocational school level agronomists with five years experience in the field. All were young Ladinos who had worked for the government.

Their similar age and background led to the formation of a sort of clique, and ACDI in retrospect believes that they were too slow in firing or replacing persons who could not live up to the demanding jobs they occupied.

Membership Characteristics

FECOAR's six regional cooperatives have grown rapidly during the past five years and are reaching the intended target group - the small farmer - with credit and other services. As Table II indicates, membership has grown from 1,500 in 1971 to 13,300 as of June 1, 1976. The ATAC evaluation study of FECOAR found that a high proportion (83%) of its members were Indians (compared to 77% in FENACOAC). The average farm size in FECOAR is somewhat larger than that found in FENACOAC. About 45% of the farms in FECOAR are between two and five manzanas, while 46% of the farms in FENACOAC are less than two manzanas in size. On the other hand, more of FECOAR's members are full-time farmers while many FENACOAC members work part-time at other jobs (such as making handicrafts, etc.).

The volume of loans extended by FECOAR has also grown rapidly, from $143,000 in 1971 to 1.6 million dollars by 1976. The average size of these loans is small - usually less than $100. The delinquency rate has varied widely, as Table III illustrates. This wide fluctuation is due primarily to poor crop years which have affected farmers' repayment ability. The overall average delinquency rate of about 10% is about the same as that experienced by FENACOAC, and is, of course, far below that experienced by the government.

TABLE 2

FECOAR - MEMBERSHIP GROWTH - 1971-1976 (end of year figures)

	1971	1972	1973	1974	1975	1976 (June 1)
Number of Members:	1,500	2,500	5,600	7,700	11,000	13,300

Source: End of Project Report, David Fledderjohn
Draft, ACDI/Guatemala, August, 1976

TABLE 3

FECOAR - LOAN VOLUME AND REPAYMENT STATUS 1971-1976 Crop Years

	1971-72	1972-73	1973-74	1974-75	1975-76
Loans Granted by Crop Years: (in Dollars)	143,000	209,u00	386,000	864,000	1,600,000
% Loans Overdue:	10.7	9.65	2.69	17.84	N.A.

Source: FECOAR Monthly Report, May, 1976, USAID/Guatemala.

The Evolution of Elected Leadership

The nature of the elected leadership of the cooperatives has changed over the past five years through the workings of the democratic process utilized in the internal governing of the cooperatives. The early elections produced a leadership that was generally fluent in Spanish, successful in farming, largely Ladino, and experienced in leadership positions as a result of participation in the local level committees. Generally, the Indian farmers remained in the background and let the Ladinos run the cooperatives, a situation which generally conforms to the traditional pattern of interaction between these groups. While the early Ladino leaders possessed leadership abilities, they did not always represent the majority of the membership of small Indian farmers. As time went on and the Indians learned how the cooperative operated, they began to assert themselves. The elected leadership is now predominantly Indian and is much more representative of the general membership.

The managers of the regionals and of FECOAR are still predominantly Ladino, but they are hired - and fired - by boards of directors which are predominantly Indian. While the elected leadership cannot make judgements regarding detailed legal, financial, and accounting matters, they do contribute effectively to the overall guidance of the cooperative's operations and are aware of how a manager's actions affects the membership of the cooperative. Perhaps the greatest problem encountered in the area of management-leadership relations has been the tendency of management to keep the elected boards of directors in the dark and not fully inform them of what they were doing. Management's reticence to discuss all matters openly with the boards of directors has not gone unnoticed by the elected leaderships, however, and managers have been called to account for not keeping them informed. One reason the manager of the Rufino Barrios cooperative was fired, for example, was his failure to communicate with the elected leadership. Some of the regionals have produced excellent elected leaders, and while Ladinos continue to run the day to day operations of most of the cooperatives, they do not dominate the indigenous membership. FECOAR has fostered the development of a group of genuine indigenous leaders who are becoming more confident and assertive as they become aware of themselves as leaders of an underprivileged group, and as they recognize the potential for altering the existing situation through the activities of a strong cooperative organization.

The Future of FECOAR

The FECOAR system of regional cooperatives has achieved a substantial degree of success. Six regional cooperatives serve over 13,000 farmers with a relatively efficient credit system, an effective field organization that efficiently disseminates agricultural inputs, advice, and marketing information, an administrative structure which can handle a variety of diversified functions, and a communication and transportation system that is the best in the Highlands. But FECOAR's affiliates are also aware that they lack a dynamic element that would guarantee their future growth and viability. FECOAR's affiliates cannot make a profit from the lines of service currently being offered. Credit operations lose money, and the margin on sales of inputs to members is low. Machinery and trucking services break even, and a small profit is made on marketing operations.

While capitalization requirements have generated an impressive volume of internal capital, FECOAR affiliates are still heavily dependent upon outside financing, which comes from AID through FECOAR. By 1976, FECOAR was was operating with 3 million dollars in AID loans provided at 3% interest, which FECOAR relends to its affiliates at 8%. This interest spread allows FECOAR to operate in the black.

In an effort to increase their long-term viability, the affilicates are now turning its attention to post-harvest activities. Right now 70% of the services they provide are directed at production which is consumed at home or sold in the local villages outside of the cooperative system. FECOAR and its affiliates
recognize that the amount of arable land is limited, as is their ability to increase production and yields. Once these limits are reached, improved income can only come from expanding the range of activities undertaken. FECOAR is now, therefore, exploring a variety of processing, storage, and marketing activities to determine their feasibility. Potato storage and marketing, and wheat milling are being examined, but any efforts along these lines will require additional outside financing.

In turning to these new activities, FECOAR is following a strategy similar to the one they followed in organizing the regional cooperatives. They are concentrating their attention primarily in areas where no strongly entrenched interests currently exist. They are not conducting their marketing feasibility studies with the idea of breaking up existing oligopolies or monopolies. Their hope is to become involved in areas - such as potato storage - where little is now being done. This strategy is simply the result of the realization that the cooperative movement is not strong enough to displace established agribusiness interests.

In sum, FECOAR believes that the small, marginal farmer cannot ultimately escape his plight unless he becomes involved in processing, storage, and marketing. Thus far the emphasis has been on increasing production of basic food crops. But in order to survive and prosper, FECOAR believes that it must move in the direction of vertical integration, and in the future FECOAR will be increasingly involved in crop diversification, processing, storage, and marketing activities.

RELATIONS AMONG FECOAR, FENACOAC, AND THE GOVERNMENT

The reaction of the Guatemalan government to the rapid growth of FENACOAC and FECOAR over the past five years has changed from one of neutrality, tolerance, and skepticism to one of positive support for the role these organizations are playing in the development of rural Guatemala. In the early 1970's the Arana government did little to help or to hinder the activities of the cooperative movement. By 1973, however, the government could see that FECOAR and FENACOAC were accomplishing a great deal with the two million dollars they received from the 1970 Rural Sector Loan, particularly when their performance was compared to that of BANDESA and DIGESA (the government's credit and extension services) which also had received large quantities of funds from the 1970 loan. In 1974, DIGESA still had less than 100 extension agents for the entire country, and BANDESA was reaching less than 5% of the small farmers in the Highlands with credit.

The effect of the cooperatives' impressive growth was clearly evident in the 1974 presidential election, when General Laugerud (who won) campaigned in support of these organizations and the role they were performing. Under the Laugerud administration the cooperatives have participated in dialogues with the highest officials of the government and generally enjoy good access to public policy-makers. With over 50,000 farmers now organized into cooperatives providing agricultural services, they have become a movement to be taken into account in the formation of public policy. Their conduct thus far has made them legitimate participants in the policy-making process as well as a respectable instrument of public policy. This situation represents a major change from attitudes previously held by Guatemalan governments regarding cooperatives.

While FECOAR has gained the respect of the government for its achievements and for acting "responsibly", ACDI realized that as FECOAR grew it would become increasingly involved in defending and furthering its legitimate interests. The ACDI project director, David Fledderjohn, states that they tried to instill an ethic of non-political behavior as part of their belief that cooperatives should be successful economic enterprises and not extensions of political movements. He feels that they have largely succeeded, but he also recognizes that FECOAR must represent itself before the government on such matters as public sector interest rates, fertilizer prices, market prices for food grains, and other matters that directly affect FECOAR's growth and survival. He also feels that FECOAR's interests have been represented rather successfully before the government in a nonpartisan manner. Fledderjohn believes that the predominantly Indian leadership of FECOAR feels comfortable with this approach, and while he observes some signs of increased aggressiveness on the part of some leaders, he does not believe that they will become politicized in a partisan sense or that they will adopt confrontational methods vis-a-vis the government. While they are becoming aware and conscious of themselves as representatives of an underprivileged constituency, they are also aware that their present methods of interacting with the government have been generally effective.

Indeed, many fear that rather than becoming a threat to the government, it is more likely that FECOAR and FENACOAC will become increasingly dependent upon and co-opted by the government, thus endangering the idea of an independent cooperative movement. They are becoming increasingly dependent upon the government, first through the channeling of loans through BANDESA (even though the funds come from AID and other sources) and secondly through the government's extensive controls over the prices of inputs such as fertilizer, and over the market price of food crops.[7] Also, BANDESA competes with the cooperatives by offering small farmers production credit at a 5% interest rate compared to the federation's 12% rate. This interest differential has had little impact thus far (the policy was initiated in 1975) because of BANDESA's limited presence in remote areas and because its complex administrative procedures have limited the number of farmers who can and want to comply with them. In sum, the cooperative movement is still basically at the mercy of the government

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7 As a result of government policy, the cooperative federations are required to sell fertilizer at official prices, which are well below the market price. Only a 5% gross margin is allowed to the cooperatives to cover distribution costs and overhead.

and co-optation is still more likely than confrontation. Ironically, some observors feel that FECOAR may be more able to remain independent of government influence than FENACOAC, whose Christian Democratic origins have originally placed them in opposition to the government.

Perhaps as a result of FECOAR's example, FENACOAC has, since 1970, gradually altered its political orientation in the direction of apolitical values of the type espoused by FECOAR. The Christian Democrats within FENACOAC have drifted away from the more militant Christian Democrat factions and have fought to defend the political independence of the organization. They have gradually arrived at the view that an apolitical cooperative movement is a desirable objective, and along with FECOAR they have acquired access to government decision-makers and have achieved a working relationship with the government, which has been supportive of their activities.

Relations between FENACOAC and FECOAR have evolved over the past five years from an early state of hostility and competition to the present state of peaceful co-existence and -in some areas - cooperation. In the early 1970's, when both organizations were growing rapidly, they came into direct conflict in several areas. ACDI states that it tried to avoid direct competition with FENACOAC but that FENACOAC did not always reciprocate and that it competed directly with FECOAR regionals in San Marcos, Quiche, and Quezaltenango. At one point the AID Mission brought the two federations together to discuss a possible merger, but these talks were unsuccessful. ACDI, meanwhile, tried to direct its efforts to areas where FENACOAC did not have many affiliates and where the farmers' needs were the greatest.

Efforts at cooperation between the two federations have sometimes led to frustrating outcomes. They once jointly purchased a large quantity of fertilizer, but problems in dividing it up led to a lawsuit by FECOAR against FENACOAC.[8] Both organizations are now more mature, however, and their relations are improving. They now work together to defend their mutual interests before the government, and both organizations enjoy good access to high level government officials.

The ACDI project has had a significant influence on the other cooperative movements in Guatemala and FECOAR has gradually seen other organizations - particularly FENACOAC - begin to emulate its operating principles. After seeing the results obtained by FECOAR after five years of operation, FENACOAC has begun to adopt the practices of regional, multi-service cooperatives. It is now establishing large credit unions with branch offices in several villages, which allows for economies of scale and the hiring of professional, full-time management. FENACOAC has also become a multi-service organization, although this occurrence was promoted by the AID Mission after 1970.

THE PENNY FOUNDATION (FUNDACION DEL CENTAVO)

The third private organization working with small farmers which received funds from the 1970 Rural Sector Loan and the 1973 Rural Credit and Cooperative Development Loan was the Penny Foundation. It was founded in

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8 The lawsuit stemmed from the fact that the fertilizer, after it arrived at a coastal port, was stored improperly in a warehouse. FENACOAC arrived first to pick up its share, and took the good bags, leaving FECOAR with the damaged ones.

1963 by a retired U. S. businessman to provide credit and other services to marginal Indian farmers in the Highlands. During the 1960's it relied upon contributions and grants from the Pan American Development Foundation and various private groups. Its activities are directed at the poorest farmers and landless peasants who are presently beyond the reach of existing cooperative organizations. It extends loans only to groups of farmers and to community associations at the village level through a revolving fund.

By 1969, the foundation had made loans to 96 groups (with 4,494 beneficiaries) which totaled $289,000. These funds were used to finance clinics, build rural roads, provide agricultural inputs and technical assistance, purchase land, and for other purposes. Between 1970 and 1975, the Foundation has received about 835,000 dollars from AID and has made a total of 364 loans totaling nearly one million dollars. These loans have benefitted 16,500 persons, 90% of whom were Indians in the central and western Highlands. Its loans go to a variety of community and small farmer associations which have varied antecedents. Many village groups organized by the government's rural community development agency to undertake potable water projects were encouraged to reconstitute themselves as agricultural groups and apply to the Foundation for support. Others were formed spontaneously by farmers who have heard of similar groups in nearby communities. Many of these groups are "pre-cooperatives" which are expected to eventually become fully functioning cooperatives. A few loans have also been made to existing independent cooperatives to allow them to purchase land. The Foundation has recently expanded its program of financing land purchases for landless peasants, and is more active in this area than are FECOAR and FENACOAC.

The Penny Foundation is effectively reaching the smallest, poorest, marginal farmers in the Highlands. The ATAC evaluation of AID-supported small farmer projects found that the Foundation is serving a more marginal group than does FENACOAC or FECOAR (54% of the Foundation's borrowers farm less than 2 manzanas, 37% farm between 2 and 5, while only 9% farm more than 5 manzanas). Also, the individual borrowing from the Foundation does not have to contribute any capital in order to qualify for a loan, which is not the case in FENACOAC and FECOAR. The Foundation loans through groups, however, and each member of the group is jointly responsible for the group's debt - not just his own.

The Penny Foundation presently lacks the capability of becoming self-sufficient, and must rely on subsidies from various donors. AID would like to see this dependency on grants reduced, and has urged the Foundation to increase its interest rates. The ATAC evaluation recommended that they increase their rates to the 12% rate charged by the other cooperatives, but all concerned realize that increased interest rates will not make the Foundation self-sustaining. All concerned also feel, however, that the Foundation is making a valuable contribution to Guatemalan development by serving the marginal farmers and that further support is well justified.

CONCLUSION

The three projects summarized above represent a concerted and ambitious effort to reach the small farmer of Guatemala with the means to improve his production, income, and quality of life. The activities supported through this project have produced a large and growing small farmer cooperative movement which has the potential for sustained growth and long-term viability. Today over 75,000 persons belong to AID-supported cooperatives, and over 50,000 of these members are small farmers. The total penetration rate for most areas of the Indian Highlands is now estimated to be between 18-20%, or about one out of five farmers. By early 1976, FENACOAC, FECOAR, and the Penny Foundation had lent a total of 7.5 million dollars, with the vast majority of it going to small farmers owning less than seven hectares.

Several evaluations of these projects indicate that they are effectively reaching the intended target group and that the funds provided by AID have been well utilized.[9] The ATAC evaluation of these three organizations found that in comparing the original goals and objectives of these projects as stated in the PROP's and loan papers to current achievements, program goals have been met or exceeded in almost every instance, "both overall and in terms of objective indicators."[10]

The principal weaknesses of these projects have already been mentioned. All three organizations provide an inadequate level of technical assistance to the small farmers who receive credit, and these organizations cannot rely upon the government to provide extension services since its agencies are understaffed and have a limited capability. Secondly, agricultural

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9 The total AID investment in these three organizations over the past six years has amounted to ten million dollars, with 2.3 million coming in the form of grants, the remainder in loan funds.

10 American Technical Assistance Corporation, "Rural Cooperatives in Guatemala - Volume I - Summary and General Evaluation," by William Rusch, Fred Mann, and Eugene Braun, March, 1976, p. 2.

diversification and post-harvest activities such as processing and marketing have been neglected. We have noted, however, that FECOAR is now beginning to focus more attention to these areas as it realizes that this is the only way long-term viability and continued improvement in farm income can be achieved. Finally, the ATAC evaluation notes that these three projects have been operating independently of one another, with no overall planning as to how the rural cooperative movement as a whole can best be organized to serve the small farmers of Guatemala. We have noted the reasons why cooperation between FENACOAC and FECOAR has been difficult to achieve, but as both organizations mature and feel more secure, increasing contact and cooperation can be expected in the future. Finally, for the first time in Guatemalan history the cooperative movement has achieved the positive support of the Guatemalan government and has become an integral part of the nation's development strategy.

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