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9. ABSTRACT

This study provides a framework of goals and criteria to apply to cooperatives as a means for rural development and assistance to the rural poor in Nicaragua. It can be used by USAID, the government of Nicaragua, and other agencies. This framework could be used in the development of technically sound and viable projects utilizing the cooperative mechanism; it can be used to evaluate options and requests for assistance in the rural cooperative area as they are identified or received. The study is empirical and is based on firsthand sources of information in the field and in Managua. It is comprehensive, and, with the exception of Atlantic zone activities, almost every cooperative vehicle and system operating in rural areas was contacted. The study is more reflective of real needs in the countryside than many other program building analytical efforts which focus on identified institutional or technical constraints. Other areas of discussion include: (1) government assisted agricultural and production-based cooperatives, (2) credit cooperatives associated with Fundacion Nicaraguense de Desarrollo and Federacion de Cooperativas de Ahorro Y Credito de Nicaragua, (3) private and voluntary agency cooperative efforts, and (4) public sector aspects relative to cooperatives.

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COOPERATIVES AS A VEHICLE FOR RURAL DEVELOPMENT IN NICARAGUA, AN ASSESSMENT FOR THE PURPOSE OF FOREIGN ASSISTANCE STRATEGY FORMULATION

Presented in fulfillment of requirements of Contract No. 524-77099 signed in October 1977 between the Credit Union National Association and the United States Agency for International Development Mission to Nicaragua

By

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January 1978

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ACKNOWLEDGEMENTS

The team was helped so much by so many that it is not practical to acknowledge individual contributions here. (See ANNEX A. for major contributors.) It is important, though, to stress that personnel from all institutions concerned, public and private, in Managua and in the field, bent over backwards to respond in the most candid and helpful manner possible. The same was true of cooperative and group members, boards and staffs. In fact, the team found an extraordinary openness on the part of Nicaraguans everywhere that was invaluable to the information-gathering process.

The team is especially grateful to officials of government and private institutions who spent many long hours, including a number of overnight and after hours efforts, traveling with team members in the field. These same people made every effort to assist team members to obtain the maximum amount of useful data, information, and insight from field visits and interviews.

The team sincerely hopes that those individuals and organizations who worked so hard for the successful completion of this study will also derive some benefit in terms of the utility of the report and other payoffs in relation to their respective institutions. It is also hoped that this study will somehow further general interest and attention on the part of government, national and international donors to Nicaraguan cooperatives and other groups. Such increased attention would be richly deserved and have a high socio-economic return.

THE STUDY TEAM

The study was sponsored by the Cooperative Resources Committee (CRC), a Washington, D.C. based committee representing six major cooperative organizations engaged in overseas development activity. It was carried out by a multi-disciplinary team consisting of representatives of three major U.S. Cooperative Development Organizations:

- The Credit Union National Association (CUNA)
- Agricultural Cooperative Development International (ACDI)
- The Cooperative League of the United States (CLUSA)

Team members included:

. Coordinator	John Heard, Independent Consultant, contracted by CUNA
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	Rupert Scofield, Independent Consultant, contracted by ACDI

GLOSSARY OF TERMS AND ACRONYMS FREQUENTLY USED IN THE STUDY

Only the most frequently used terms are listed here: Others are defined in the narrative itself.

BNN	Banco Nacional de Nicaragua
Campesino	Rural peasant farmer
CEDE	Regional Operations Center established by INVIERNO
CECOOP	Centro de Entrenamiento Cooperativo, Center for Cooperative Training established under FUNDE
CENCA	National Center for Agricultural Training under the Ministry of Agriculture
Club Agricola	Agricultural club, pre-cooperative group assisted by INTA and the BNN
Colono	Colonist, used with reference to settlers on land colonies supervised by IAN
Credito Rural	Rural Credit Department of the BNN
Credomerc	INVIERNO credit and marketing technician
DIPSA	Dirección de Planificación Sectorial Agropecuario, National Agricultural Sector Planning Office under the Ministry of Agriculture
FECACNIC	Federación de Cooperativas de Ahorro y Credito de Nicaragua, National Credit Union Federation
FED	Fondo Especial de Desarrollo, Special Development Fund administered by the Central Bank
FUNDE	Fundación Nicaraguense de Desarrollo, Nicaraguan Development Foundation
GON	Government of Nicaragua

INCEI	Instituto Nacional de Comercio Exterior e Interior, Autonomous government agency functioning as National Grain Marketing Board.
IAN	Instituto Agrario Nacional, National Agrarian Institute
INTA	Instituto Nacional de Technología Agropecuaria, Public institute attached to the Ministry of Agriculture for agricultural research, extension and training.
INVIERNO	Instituto de Bienestar Campesino, Peasant Welfare Institute, autonomous government agency in charge of integrated rural development program in Central Interior and Pacific Regions.
Junta Comunitaria	Community Councils formed by INVIERNO to organize local farmer member participants in the INVIERNO program.
Manzana	Standard unit of land measurement in Nicaragua - 1 Manzana = 1.7 acres approximately
Prestamista	Refers to the local money lender
Quintal	Standard weight unit for agricultural commodities - 1 Quintal = approximately 100 pounds
Socio	Member. The term refers primarily to "member" participants in the INVIERNO program, although it can refer to any cooperative group member
Tienda Campesina	Literally, "Peasant Store." Refers to Regional Multi-Service Cooperative organizations to be established by INVIERNO

PREFACE

Studies like this one often pretend to be something they are not, which frequently goes unnoticed as such works are skimmed and filed away after a few key observations are lifted. The cooperative study team is convinced from experience, however, that some very talented and dedicated people in Nicaragua may actually read and try to use this document in the process of strategy and program formulation. It is felt of great importance at the outset, therefore, to carefully and candidly set forth exactly what the study is, and is not.

Perhaps most basic to an understanding of what this document rperesents is the perception of the Study Group as to what the client, the USAID Mission to Nicaragua, wanted in the first place. This is best expressed by the following series of questions:

- How should AID respond to various pending requests for assistance in the cooperative area?
- What types of cooperative activities of direct and positive impact on the rural poor would be best suited to the history, setting and conditions of the cooperative movement in Nicaragua and to AID congressional and policy directives?
- What are some logical, practical, and realistic goals to strive for in relation to cooperatives as vehicles for rural development?
- What are factors that AID should bear in mind when looking at program and project possibilities in the cooperative area?

How can the government's program of integrated rural development be supported and complemented more effectively through cooperatives and other groups?

The Mission, in early meetings with the team, compounded the scope of work by expressing a keen interest in practically everything from INVIERNO to private and voluntary agencies, from rural to urban areas, from diversification to irrigation, from farm enterprise to employment generation, etc. Finally, the all-important "target group" seemed to elude definition. With the above in mind, and the fact that the Nicaraguan rural cooperative setting is extraordinarily varied, diverse and dispersed over the landscape, the true nature, pros, cons and limitations of the study are as follows.

On the plus side, the study is empirical. It is based on face to face experience with firsthand sources of information in the field and in Managua. Some 42 field sites were visited,and extensive interviews were conducted throughout the country with cooperative and group memberships of every description.

The study is comprehensive. With the exception of Atlantic zone activities, almost every cooperative vehicle and system operating in rural areas was touched directly, one way or another, (excluding electric and housing co-ops). The same is true for supporting agencies, public and private, in Managua, although some were treated in much greater depth than others.

The study is probably more reflective of real needs in the countryside than many other program-building analytical efforts which focus on identified institutional or technical constraints to start with. Often

such efforts are based on preconceived or arbitrarily developed achievement indicators, which may or may not match with the aspirations and needs of the beneficiary group.

The team believes that the analysis reflects as close to an objective approach as was possible under the circumstances. In the first place, the team consisted of a reasonable balance of representatives from various sides of the U.S. Cooperative Movement who continually challenged each other's biases and assumptions. In addition, feedback from AID Mission and Nicaraguan professionals was continuously sought and incorporated in the analysis. Finally, while the team consisted of what could be described as an advocate group for cooperatives in general, based on institutional affiliation, it was frequently and strongly stressed that the study was to view the co-op as a vehicle and not an end. If anything, the team bent over backwards to be skeptical, as both Mission and Nicaraguan personnel will testify.

On the negative side, the study is not backed up by statistical analysis, although data was gathered and utilized where possible. Solid economic, financial, and social analyses are obviously desirable in a number of areas, however, and recommendations for additional research are made throughout the study.

In summary, the study represents the best effort of five experienced observers of Latin American cooperatives. Among them, the team members probably received as much exposure to various forms and patterns of

rural organizations in Nicaragua as the average foreign technician would obtain in a full tour. The team believes it achieved a solid understanding of the cooperative situation in the country. As usual, the biggest challenge of all was getting this understanding down on paper in such a way as to provide a useful instrument to the Mission and others. If feedback indicates that a quarter of what was learned in fact has been communicated in this document, the team will be very satisfied indeed.

CHAPTER I

INTRODUCTION

A. Purpose of the Study

As stated in the scope of work, the purpose of the study is to develop a realistic framework of goals and criteria with respect to cooperatives as a vehicle for rural development and assistance to the rural poor in Nicaragua which can be utilized by the USAID, the GON, and other agencies to:

- assist in the development of technically sound and viable projects utilizing the cooperative mechanism, and
- evaluate options and requests for assistance in the rural cooperative area as they are identified or received.

Left out of the Scope of Work, however, were some key definitions which are most important to an understanding of what this study is all about. After much initial consideration, the team adopted the following definitions of critical words in the purpose statement, taking into account the national rural development plan of the Government of Nicaragua and the needs of the USAID as interpreted by the team (see Preface):

- "Cooperative:" The broadest possible sense of the word was adopted. In the context of the study, any organizational form qualified as long as it was basically "cooperative" in nature. This included traditional cooperatives, credit unions, agricultural clubs ("clubes

agricolas"), community councils ("Juntas Comunitarias"), land colony cooperative enterprises ("empresas"), etc.

. "Vehicle:" Every effort was made to view the cooperative as a vehicle (means) and not an end in itself, a problem which has plagued countless studies of this nature.

. "Rural:" As with cooperatives, the broadest possible definition was adopted. For study purposes, rural was defined to mean basically everything outside of the capital city. In support of this approach, the team drew from the GON's long range rural development strategy as expressed by the national Agricultural Sector Planning Office (DIPSA). The strategy very clearly includes, as a major program thrust, income and employment activities in secondary, tertiary and other population centers as part of an overall effort to stem the tide of migration to the macro-metropolitan area of Managua. Also, the "market town" intermediate "growth pole" notion played a part in the team's thinking. It was felt, in fact, that opportunities for improvement in the quality of life for the rural poor in Nicaragua, given current agricultural resource constraints, were just as rich and of as high potential in the semi-urban town context as in the rural agricultural setting.

. "Development:" Development was defined to mean the meeting of local needs in the local area. Again, this was in line with national strategy considerations and meshed well with the methodology of the study, which revolves around local needs.

In summary, in the context of the purpose statement, there was virtually no limit to what the study could or could not tackle. As a result, the

following chapters range over the full gamut of models, systems, organizations, and programs to be found in Nicaragua. The one exception was the Atlantic Zone whose activities were beyond the grasp of the team in the time allowed. Also, due to Mission interest and priorities arising from the country program, the study centered to some extent, although not exclusively, on Agricultural Regions II and V where the major rural development effort of both the GON and the USAID is focused. (The heavily populated Pacific and Central Interior regions, respectively.)

B. Methodology

In accordance with the Scope of Work, it was necessary to study each cooperative system component separately. In each case, local needs were determined and weighed against constraints and resources in order to come up with net needs or gaps which could logically serve as a goal framework for strategy or program formulation purposes. This was done somewhat differently in each case as needs, constraints, and resources varied by system; and each system presented its own special set of limitations with respect to information and data availability. Also, much greater stress had to be placed on some systems than others in accordance with USAID and GON priorities.

With respect to each system studied, the team member responsible began with needs of the cooperative or group member as personally expressed by groups of participants in field interviews throughout the territory of the study. Sample survey methodology would have been preferable, but time and resources were not available. The approach used by team members was basically free flow discussion during which the interviewer directed the conversation

back and forth over key areas in an attempt to sift out elements of priority, insight, and reality with respect to real felt needs as well as cooperative and other system responses to those needs.

In each case, team members spent long hours in Managua and traveling with officials from both public and private sector organizations who were concerned with assisting the groups studied in order to obtain a clear understanding of exactly how the institutions in question were responding, and what the various limiting factors were with which they had to contend. In addition, both field personnel of national institutions and base level cooperative officials and boards were interviewed on every possible occasion. Existing literature also was reviewed.

As a distinct but valuable deviation from the norm above, one team member dedicated himself exclusively to national public sector questions in order to get the "view from the top" (See Public Sector, Chapter VI). He and the rest of the team related constantly to provide a mutually reinforcing perspective with respect to findings and information from both ends of the systems studied.

Finally, needs, constraints, resource availability, and other factors were all combined to come up with lists of criteria with respect to factors which should be taken into account in reviewing cooperative program possibilities in general, as well as specific projects in distinct areas. In two specific cases these criteria were used to evaluate and make recommendations to the USAID concerning pending requests for assistance (See Credit Union Chapter, IV.)

C. Policy Planning Framework

As mentioned under the "Purpose" section above, the team drew in part from the national rural development plan of the GON as expressed and explained by DIPSA, the National Agricultural Sector Planning Office. The principal elements and steps of the plan played an important role in the development of the team's conceptual framework for the analysis that followed. The principal elements of the National Strategy are as follows.

1. Consolidated, Integrated Rural Development

The basic operational activity at present under the GON strategy is the integrated rural development program of the Institute for Campesino Welfare, INVIERNO, currently the prime mover and by far the most dynamic public sector institution in the rural development area. It is fully financed, and staffed with strong AID and GON backing (see Chapter III, Section C.2. for program details). The strategy calls for continuing expansion of INVIERNO's battery of agricultural and social services, primarily within the heavily populated agricultural regions of the Central Interior and Pacific zones (V and II, respectively). As will be seen, the INVIERNO program aims to eventually establish regional integrated cooperative support systems designed to replace government subsidized services and allow for continuing expansion of the program to new areas of rural poverty.

2. The Agricultural Frontier

Generally to the East of Regions V and II, lies a huge roughly oblong territory of approximately 4,000,000 manzanas which is programmed for gradual "spontaneous colonialization" as minimal infrastructure and ecological testing permit the opening of pieces or sub-regions of the area.

Total population of the region is approximately 5,000 at present. The proposed colonialization will take place over a ten-year period with government services moving in at a similar pace. A land distribution and titling program, which is to accompany colonialization and production, is expected to be organized through specialized (principally by commodity) community groups and regional cooperatives, or other facilities with centralized processing and marketing capability.

3. Income and Employment in Urban Centers

As stressed under "Purpose" above, the GON intends to focus in the long term on developing income and employment generation activity in secondary and tertiary cities as a fundamental and practical means of stemming migration to the capital city area. Agro-industry, small business, artisan, and other enterprises will be pushed in line with the "market town" concept of modern rural development theory. The hope is to absorb much of the landless excess labor in the countryside, for a higher economic return to such labor, as well as to provide these groups with opportunity for economic and social security.

D. Content of the Study

Study observations, findings, and recommendations are broken down and presented in the following manner, which is believed to be consistent with a logical categorization of systems and issues requiring treatment.

1. Chapter II consists of a detailed summary of findings and recommendations starting with the general and then working through the various systems and issues analyzed. For the reader with no time, this is the place to go, although for supporting evidence, one must refer to appropriate sections in later chapters. Findings and recommendations are cross referenced with their respective supporting sections.

2. Chapter III includes an analysis of existing government-supported agricultural production based cooperative and other group systems. Institutions and corresponding group areas covered include the Institute for Campesino Welfare (INVIERNO), the National Bank of Nicaragua (BNN), the national extension service of the Ministry of Agriculture (INTA) and the National Agrarian Institute (IAN). The focus of the chapter is on the BNN and INVIERNO as they represent the areas of highest priority with respect to USAID involvement in the sector.

3. Chapter IV deals with credit unions under two separate private sector supporting systems: a) the Nicaragua Federation of Credit Cooperatives (FECACNIC), and b) the Nicaraguan Development Foundation (FUNDE).

4. Chapter V is a treatment of various other (excluding FECACNIC and FUNDE) private and voluntary agency activities in Nicaragua. These are felt to be candidates for GON, USAID and other donor interest because of their potential as independent delivery systems and linkages between grass roots organizations and sources of support, or because of other unique capabilities. In addition, the Food and Agriculture Organization program of the United Nations (FAO) was included in this section because, while not a PVO, its activities and scale of operation make it most appropriate for inclusion in this chapter. Besides the FAO, the following organizations are covered:

a) The Evangelical Committee for Development Assistance (CEPAD).

b) The Institute for Human Promotion (INPHRU).

c) Technoserve Inc.

d) Cooperative for American Relief Everywhere (CARE).

5. Chapter VI relates to Public Sector questions in general, specifically dealing with:

a) The Department of Cooperative Promotion in the Ministry of Labor (MOL)

b) The Cooperative Law and its regulation

c) National Coordination Mechanisms

d) Training questions at the National level

The chapter also attempts to respond to the key question of Government commitment to cooperatives in general.

CHAPTER II

SUMMARY OF FINDINGS AND RECOMMENDATIONS

This chapter draws the entire study together in summary form. It is organized as follows:

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Section A is presented in this chapter only. The others are drawn from in-depth coverage in their respective analyses in later chapters. Because of the volume of findings and recommendations, in each case supporting material is kept to an absolute minimum. Each point is cross referenced with its respective back up material in the full report.

A. Overall Findings and Recommendations

1. General

a) Cooperative Organizational Structures in Nicaragua

(1) Findings

Rural cooperative and cooperative type organizational

structures in the Nicaragua countryside are much more varied, developed and rich in opportunity than had been anticipated. Stereotypes about Nicaragua call cooperatives "orphans of the movement," "totally neglected," "non-existent" and so on. These are simply not true. There is fertile organizational ground in Nicaragua for fuller exploitation by both the GON and the donor community. Even with the breath of coverage of this study, there were organizations and areas that were missed entirely. There are high potential organized groups throughout the country in totally rural and semi-rural settings which, in the opinion of the team, represent one answer to Nicaragua's "development problem." They provide to the rural poor the means for the all-important "graduation" from government subsidized services.

(2) Recommendations

Existing rural cooperative and cooperative type structures should be encouraged and assisted in every practical and feasible way by both the GON and external donors. Existing cooperative delivery systems should be more fully exploited and strengthened as self-help instruments of development. New systems do not need to be created. They are already there; outreach and new groups, yes; but systems, no.

b) Member Needs

(1) Finding

Cooperative and other group members know what they want. All one has to do is ask. In general, the team found "socios" very articulate. It was clear that members responded to supporting and cooperative system initiatives only when a real need was being addressed.

(2) Recommendation

The most important criterion to be supplies to the evaluation of any project or program proposal is member/beneficiary participation in the design process as a means of assuring that perceived needs are being addressed one way or another.

c) Universal Need: Credit

(1) Finding

While the team found that needs varied considerably from one group to another, depending on local conditions and circumstances, one need above all remained consistent. This was for credit in a variety of forms. In many cases production credit was available. Often it just served to maintain the status quo in a "proverty production system." The larger need was for longer term credit for improvement, investment, land growth, etc. Also, credit was badly needed for general needs such as consumption, working capital, and emergencies. This was especially true in the credit unions.

(2) Recommendations

Any project or program designed to assist the rural membership of cooperatives and other groups should address the need for credit. It is also important that projects adernately reflect or respond to the real demand profile for credit.

d) INVIERNO

(1) Findings

The team was universally impressed with INVIERNO's aggressive,

professional and singleminded pursuit of outreach in the target group. It also concluded that "socios" were satisfied, as evidenced by the fact that INVIERNO came in for solid praise from beneficiaries. With respect to the issue of "graduation"(a departure of beneficiaries from subsidized services to allow for program expansion) the team had some concerns which are elaborated in the following chapter. These had to do mainly with the techncal feasibility of the proposed regional cooperative structure ("Tienda Campesina") which is INVIERNO's answer to the gruaduation issue. The team is convinced, however, that with the further analysis planned by INVIERNO, potential problem areas will be resolved.

(2) Recommendation

On-going analysis by INVIERNO of critical factors relating to the proposed "Tienda Campesina" plan should be encouraged and supported by AID (see Chapter III, Section C.2.c) (2),

e) The Subsidy Issue

(1) Finding

If the team understands the issue, it is apparently the most critical one facing the Mission and the GON today. It is the team's firm belief that in Nicaragua, and other developing countries, if real outreach is to occur; i.e., coverage of a growing percentage of the target group with eventual total coverage in mind, direct sustained subsidies to the beneficiary do not make sense. Such subsidies are basically unfair. Subsidies to some, mean exclusion of others. This is happening in Nicaragua. When subsidies are passed to the farmer, they benefit that farmer, but are lost to the program and its effort at outreach. When subsidies are applied skillfully to a delivery or outreach system, coverage is increased. This thinking is reflected throughout the study.

More specifically, this commentary is directed to subsidized credit and lending policies of the GON; i.e., the National Bank (The BNN), INVIERNO,[1] and those private sector cases (primarily FECACNIC credit unions) where unrealisticly low rates of interest are established which are believed to be retarding system growth and expansion.

(2) Recommendation

Wherever possible, a viable cost-covering, competitive rate of interest should be charged which allows for capitalization and expansion of services of the cooperative and its supporting system. In general, subsidies should always be clearly identified, together with a convincing and analytically justified rationale.

f) Poverty Agriculture

(1) Finding

The team found that time and again "campesino" are caught in a familiar vicious-circle, subsistance agriculture. Unfortunately, cooperatives not being magical, one can't put a co-op on top of a non-viable farm enterprise situation and expect it to solve the problem. Something new must be added; a marketing innovation, an employment activity of some kind, small industry, diversification, intensification, something! Excellent examples of this thinking are demonstrated in the two FAO-assisted projects visited by the team which combined basic agricultural production with small industry. (See Chapter V, Section F)

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1 As INVIERNO credit goes to the farmer at 18%, the degree of subsidy is debatable. It is subsidized to the extent of the cost of the free battery of services that accompany it, which are formidable. (See Chapter III, Section C.2)

(2) Recommendation

Any project dealing with cooperative small farm production, especially basic grains, should address the need for innovation in order to make the operation viable and profitable. This can be an income and employment producing activity apart from the production process, or an innovation in marketing or production itself, but it must be addressed.

g) Innovation

(1) Finding

A number of innovations involving cooperatives were found during the course of the study. It is important to look for these everywhere. Opportunities for replication are good in a variety of cases. Examples include:

- Low income rural housing through credit unions (Estelí, "San Antonio," a FECACNIC cooperative.)
- Commercial radio communication between a co-op and its members (Bocaycitos, "La Perla," a FUNDE cooperative.)
- Henequen rug producing shop in an agricultural cooperative (Santa Lucia, Boaca, an FAO/INTA-assisted cooperative).
- Lateral Integration between a market credit co-op and a commercial buying facility for agricultural produce in Matagalpa (a FUNDE cooperative).
- Small land colony cooperatives for communal farming with good technification. (BNN cooperatives "La Esperanza" and "El Esfuerzo" near Matagalpa and Masaya, respectively.)

(2) Recommendations:

A clearing house of information is necessary to distribute information concerning innovation, along with other efforts at better communication, between systems and organizations. Innovation should be looked for and recorded at every opportunity.

2. Potential Program Goals

Part of the purpose of this study was to develop a framework of goals for cooperatives as vehicles for rural development. As expressed in the Scope of Work, the goals are essentially the gaps found between existing needs and resources. They also depend on how one defines development. As explained in the introduction, the team chose to define development as meeting local needs in the local area. In the case of Nicaraguan cooperatives, the major gaps (at the highest level of generality) are listed as goals under the recommendation below. The team believes that these can serve as a realistic framework for the program suggested in the following strategy. Within the analysis of each system in the following chapters, a number of lower level gaps were also identified which could serve as project purposes or outputs for distinct activities.

Recommendation

In analysis and planning for the development of a program utilizing cooperatives and other groups as vehicles for rural development, the following suggested goals should be used as a conceptual framework. Also any one of the goals below could serve as the basis for a meaningful project addressing real constraints and truly benefiting the rural poor of Nicaragua.

a) A viable mechanism for land acquisition through cooperatives or other groups.

b) Self-capitalizing cooperative systems capable of tapping external resources on their own account in response to member needs.

c) A sound "graduation" mechanism from government subsidies for small farmers through cooperatives or other viable group forms.

d) Upgraded technical and financial absorptive capacity of cooperative structures to the point where local demand can be met, given available external resources to be applied.

e) Effective cooperative mechanisms for conversion from small farm poverty agricultural (subsistence basic grain production) to profitable production enterprises.

f) Basic community social needs in the areas of housing and health are adequately addressed on a cost covering and cost effective basis through the vehicle of local cooperatives.

g) An effective mechanism for meaningful collaboration and sharing of scarce human and financial resources and innovation between cooperatives and supporting systems.

h) Effective savings mechanisms for the rural poor through cooperatives.

i) Overall credit needs of cooperative members are met through the vehicle of the co-op. (Including long term and ordinary consumption needs.)

3. A proposed Strategy for USAID/Nicaragua

Given the wealth of opportunity for cooperative action in Nicaragua, an action oriented strategy is in order. But, the cooperative movement in

Nicaragua consists of a number of distinct systems moving on distinct tracks. Government is the same way, by and large. Unique interests and policies mesh on some occasions and not on others. This is amply demonstrated in the report. With this in mind, and in the interest of being able to respond meaningfully when needs and opportunities present themselves, the following frame of reference for a strategy is suggested.

a) Flexible Approach

The USAID should not line up with one system or model as opposed to another. This would be counterproductive. There is no one way Neither should it attempt to create some sort of organizational super- structure (after the model of INFOCOOP[2] in Costa Rica, for example). It is too early for this and there are too many competing interests. Rather the Mission should be prepared to move simultaneously and consecutively on various separate opportunities and activities as these arise or become identified.

An interesting implementation model for such a strategy can be found in what the World Bank calls the Rural Development Fund in West Africa (Chad and Niger), or what AID calls Co-financing in Indonesia and Bangladesh. Essentially the idea is the creation of a fund of approved money which can be drawn on flexibly in response to viable and worthy "sub-projects" that are identified over time, without having to go back to Washington for a major review in each case. (Same principal as the autonomous approval authority of Mission for OPG's up to $.5 million.) The amount of the project would be based on estimated absorptive capacities of existing cooperative or other

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[2] The National Cooperative Development Institute, a semi-autonomous institution serving the entire cooperative movement in Costa Rica with credit and technical assistance, originally a spin-off from the Co-op Department of the National Bank.

PVO structures over time as well as an analytical justification of need. A comprehensive set of project evaluation and approval criteria would also be approved in advance. The Mission then would have local autonomy to implement "sub-projects" within the global amount as they were identified and developed. (The criteria presented in this paper would be a start, although it would undoubtedly have to be modified, refined, and quantified to some extent.)

b) Experiment with Innovation

New approaches to old problems should be actively sought and then replicated through cooperative systems, both in terms of economic activity and social action. Cooperative medical dispensaries and services are one possibility. (See Credit Unions, Chapter V.) The BNN's two land colony co-ops could be replicated as success models (Chapter III,Section C.1.b). Some of FUNDE's activities should be tried elsewhere. (Note examples listed in No. 1.g. above.)

c) Broad Definition of Rural

Just as this study was not limited to traditional rural cooperative activities, neither should the strategy be limited. Income and employment activities in semi-rural or small urban settings are just as acceptable now in development thinking as the pure rural agricultural production oriented approach. Opportunities are often richer in the "market town" setting than they are in the countryside. For example, to the extent that employment opportunities can be created in the rural town context for landless agricultural workers, obviously this is a step toward solving rural poverty. Cooperative development opportunities abound in secondary and

tertiary cities. (There is a list[3] available, for example, of some 1,495 artisan shops in Nicaragua, each one of which, through a cooperative program, could probably employ more of those in need of a steady income.)

d) The Importance of the Base Level

Generally speaking, regional and national structures should grow from the bottom. This is one reason why the team was so skeptical about vertical integration plans encountered in the study. The focus, first and foremost, should be at the community level in terms of local needs. Often regional and national cooperative structures can drag down member cooperatives due to the needlessly added cost of an additional layer in the delivery system. There are exceptions, of course, where local groups simply cannot become viable in their own right, and a national or regional integrative structure is essential early on. (The "Tienda Campesina" may well be such a case. FECACNIC is another exception for reasons discussed in Chapter IV.) Nevertheless, one should never assume a higher order organization is necessary or desirable, and base level needs must always be kept uppermost in terms of priority. Otherwise, the danger is run of creating the base to support the top.

e) Mission Staff Capability

At present there is no one in the Mission directly responsible for rural organizations. Someone should be devoted to the area full-time if this strategy is to be properly implemented. A significant action component of the strategy would be project identification. Somebody should be watching what's going on and be prepared to act on opportunity. (An

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[3] "Situación de la Artesania Nicaraguense," Banco Central de Nicaragua.

Ag/Econ/MBA background with experience in finance and agro-industry would be ideal.) Essentially, this person would be project manager for all Mission activities with rural cooperative organizational forms, with the exception of INVIERNO which is in a class by itself.

4. Overall Criteria for Project Evaluation

As with goals, part of the purpose of this project was to develop a set of criteria for evaluation of alternatives for action (proposals, projects, etc.) concerning cooperatives as vehicles for rural development. Such criteria were developed in the case of each major system category; i.e., agricultural production based organizations and credit unions. Criteria relating to certain project types within each major category were also elaborated, such as capital financing, training, agricultural credit, technical assistance, etc. Finally, certain special criteria were developed for the somewhat unique cases of IAN and the PVO's.

The reader will notice in each list that under the heading, "General Minimum" certain items are almost standard, which is only logical given that all cases are of a "cooperative" and "developmental" nature. The most important of these "repeat performers" are listed below in abbreviated form. They are drawn, by and large, from findings and recommendations throughout the report. (See criteria sections of Chapters III, IV, and V for more detail and explanation of individual items. Also, Chapter IV includes illustrations of the application of the criteria in the case of actual pending requests for assistance to the AID Mission.)

a) Direct participation: Project beneficiaries should participate in project design, at least to the extent that perceived needs of the members are addressed.

b) The Equity Consideration: Equal participation of lower income members of beneficiary group in the distribution of project benefits should be demonstrated as well as an expansion of system coverage over a greater percentage of the target group.

c) Detailed Realistic Implementation Planning

d) Internal Resource Generation: Particularly savings and capitalization.

e) Project Contribution to Viability: of the cooperative or cooperative system.

f) Feasibility: Technical, financial, and implementation capacity. (Absorptive capacity).

g) Least Cost: As compared to other possible alternatives

h) Subsidies: Candid identification, explanation and rationale for all subsidies.

B. Specific Findings and Recommendations

1. Government-Assisted Agricultural Production Based Cooperatives and Related Systems: BNN/INVIERNO/INTA/IAN (Chapter III)

BNN, INVIERNO, and INTA groups are treated together in response to the same basic needs while IAN is covered as a special case due to unique characteristics.

a) Member Needs (Chapter III, Section B)

The following needs were consistently stressed by members as being of high priority.

(1) Credit: Production credit was available. The gap was more in long term credit for investment and improvements.

(2) Land Security: No continuing access to land was guaranteed. Rents had risen.

(3) Input Delivery and Marketing Systems: The primary gap was in marketing.

(4) Alternatives to Poverty Agriculture: An escape from small farm basic grain (subsistence) production.

(5) Technical Assistance: Production, co-op management, feasibility studies, etc.

(6) Water and Roads

(7) Community Organizations for Local Problem Solving: Primarily social needs (health, education, etc.).

(NOTE:) Also used in the review of agricultural system responses were other key criteria drawn from national rural development strategy considerations such as lowest possible cost, the creation of self-sufficient member-controlled structures to replace subsidized government services, equity for the poor majority, and the need to stem urban migration.

b) System Response

(1) The National Bank of Nicaragua (BNN)

(See Chapter III, Section C.1.b and c)

(1.1) Findings

(1.1.1) Credit: Smaller cooperative memberships are relatively satisfied. The larger co-ops, especially the regional departmental types, had major unmet needs for long term investment credit for fixed assets. Individual borrowing from the bank (production credit) is costly to the member due to the number of trips necessary as well as delays. (In all co-ops but one, the Bank grants production credit on a direct basis to the individual farmer.)

(1.1.2) Land Security: Although in two unique cases successful cooperatives had been formed by the Bank to purchase and settle on foreclosed land, as a matter of policy the BNN is not in a position to finance land acquisition. Seventy-five percent of BNN cooperative members are landless.

(1.1.3) Input Delivery and Marketing Systems: The BNN and its co-ops have provided good farm supply services and have been singularly unsuccessful in marketing.

(1.1.4) Alternatives to Poverty Agriculture: The BNN is very much aware of the small farm basic grain problem and is trying to break the cycle through assistance to cooperatives in a variety of other production areas such as coffee, cattle, cotton, vegetables, etc. Expertise is lacking, however.

(1.1.5) Technical Assistance: The BNN has six agronomists to attend 16 cooperatives and seven more co-ops are to be formed in the next five years. There is a real lack of expertise, especially in cash crops, cooperative management, accounting, and large investment feasibility analysis.

(1.1.6) Roads and Water: The BNN finances well and river-fed irrigation in a limited way. More is needed.

(1.1.7) Local Organization for Community Problem Solving: BNN co-ops are involved in community action activities in only isolated instances.

(1.1.8) Least Cost: The BNN is a relatively efficient lender by Latin American Development Bank standards. Low cost, in part, is attributed to combined large and small farmer lending.

(1.1.9) Self-Sufficiency: BNN cooperatives are doing well, with some exceptions, in the capital formation process, mainly through acquisition of fixed assets. The same applies to operational viability. There are some noticeably weak performers, however.

(1.1.10) Equity: The majority of members qualify as "rural poor," although there is a small and relatively affluent group. Research is needed concerning participation in benefits.

(1.1.11) Vertical Integration: (A special category due to the proposed agricultural cooperative federation, FENICOOPA, which is legally constituted but not operating.) The volume, strength, and commitment, at the base cooperative level, does not appear to be in place yet to support an additional layer in the system. Economies of scale are questioned.

(1.2) Recommendations, The BNN System Response: (Chapter III, Section C,1,e,)

(1.2.1) Credit: The bank should expand lending for medium and longer term credit for land, irrigation, fixed assets and other improvements. Experimental group lending is encouraged.

(1.2.2) Land: The bank should conduct an inventory of its own land holdings with a view toward distribution in the manner of its two small land colony cooperatives. Long term credit for land acquisition to both cooperatives and individual members should be studied.

(1.2.3) Marketing: Both an agricultural cooperative marketing study and long term technical assistance are recommended.

(1.2.4) Diversification: More experienced agronomists are needed. Special incentives for diversified production should be considered.

(1.2.5) Technical Assistance: The BNN's Cooperative Section is in serious need of long term technical assistance in marketing, cooperative management and accounting skills. There is also a need for short term skills in a number of specific technical areas; i.e., cotton, agro-industry, coffee, import/export, etc. Additional basic staff capability is required.

(1.2.6) Least Cost: Group production credit could reduce costs and should be tried on an experimental basis. Further incentives and possibly management loans to cooperatives could reduce BNN supervisory costs.

(1.2.7) Equity: A study is recommended to determine if small farmer membership growth is keeping pace with system incorporation of larger producers. Also, the study would look at small farmer participation in benefits.

(1.2.8) Member Education: A concerted effort is needed to improve member education concerning rights and obligations under co-op statutes. Capitalization and savings systems are also not understood by many of the small producers.

(1.2.9) Proposed Federation: Prior to any substantive move toward vertical integration, a feasibility study should be carried out. Federation operations should be delayed until cooperative strength and volume justify centralized services.

(2) The Institute for "Campesino Welfare"(INVIERNO)

(See Chapter III, Section C.2.b,)

(2.1) Findings

(2.1.1) Credit: Socios are highly satisfied with INVIERNO's credit program. A thorough job is being done of eliminating bad loan risks. The complex repayment formula may cause some confusion concerning socio responsibility over time.

(2.1.2) Land Security: The Land Sale Guarantee component of the Sector Loan should help substantially. In the meantime, land insecurity persists, although rent credit is available from INVIERNO, which in itself may be driving up rent costs. The area should be studied.

(2.1.3) Inputs and Marketing: INVIERNO's farm supply service is excellent. In marketing, Credomercs have been able to arrange for 98% purchasing of socio production from private intermediaries at better than government support prices.

(2.1.4) Alternatives to Poverty Agriculture: There has been some limited departure from basic grain financing. The approach is to improve general farming practices first and then strive for greater diversification. A variety of technological packages have been developed.

(2.1.5) Technical Assistance: The intensity of technical assistance to farmer groups is extraordinary (often visited once a week). As the program expands, this will have to be cut back. Exclusive dedication to small farmer groups by a Government extension service is unique in Nicaragua, probably in Latin America.

(2.1.6) Water and Roads: Road improvements are limited thus far. Some work has been done with wells and mini-aqueducts.

(2.1.7) Local Organization for Community Problem Solving: INVIERNO's "concientización" training teaches community leaders to create

socially viable groups oriented toward self-help. Forty of 300 organized "Juntas" have received training. Groups learn to prioritize problems. The greatest progress so far has been in the health area.

(2.1.8) Least Cost: Cost per socio is very high due to the nature of the program. Costs are being reduced wherever possible. Socio "graduation" is a cost issue and is treated under the "Self-Sufficiency" analysis. (See following paragraphs.)

(2.1.9) Self-Sufficiency: The team directed special attention to three critical elements of INVIERNO's plan to establish "campesino" organizational structures which will eventually assume responsibility for agricultural services. (See Chapter III, C,2.,c), (2),

- Local Savings: There appeared to be no established mechanism or practice with respect to savings at the community level.
- Role of the "Junta Comunitaria:" Thus far the Juntas appear to have only minimal functions in the core production and marketing processes. It was felt that a valuable opportunity may be being missed to build local management experience and capital.
- The "Tienda Campesina" Plan: This regional cooperative scheme is innovative and conceptually attractive. The team had some concern, however, concerning technical feasibility especially in the areas of competition and member capitalization. (It is important in this case to go to the full report Chapter III, Section C.2.c),(2),

pp. 110-115 for proper understanding. INVIERNO is aware of and is studying all potential problem areas indentified by the team.)

2.1.10) Equity: All figures indicate INVIERNO is totally focused on the rural poor target group.

(2.2) Recommendations: (See Chapter III, C.2.d)

(2.2.1) Credit: INVIERNO should consider the following measures:

- Development of a formula more easily understood by the "campesino" for clear repayment responsibility.
- Small scale, experimental group credit as a means of building experience and capital at the "Junta" level.
- An increase in interest rates to cover a greater percentage of the true cost of the program, provide additional incentive for "graduation," and prepare the campesino for the Tienda Campesina plan.

(2.2.2) Land: Once the land sale guarantee mechanism is in place, INVIERNO should consider lending for land acquisition (the down payment). The concern over rising rental costs in response to small farmer liquidity should be studied.

(2.2.3) Marketing: INVIERNO's marketing activity is excellent and should be left alone.

(2.3.4) Community Action: A more clear understanding should be worked out with the Ministry of Health concerning activities with INVIERNO groups. (See Chapter VI, "Public Sector," Section C.4)

(2.2.5) Least Cost: (See second and third recommendations under credit above.)

(2.2.6) Self-sufficiency: A local savings generation program should be developed along with a means of giving more meaningful responsibility to the Junta over the production and marketing process. Concerning the Tienda Campesina plan, the team urges caution and further study in the areas of competition and member capitalization. (See Chapter III, Section C. 2., d), (6))

(3) The Extension Division of the Agricultural Technology Institute (INTA)

(The INTA Program, as a distinct activity, was studied in much less depth than the other agricultural systems covered.)

(3.1) Findings: Two field activities are of particular interest apart from technical support activities with INVIERNO, the BNN and IAN.

(3.1.1) Mixed Agricultural Production and Small Industry Cooperatives

(Covered in FAO section of Chapter V, Section F. Recommendations are shown below under FAO, 3.g.)

(3.1.2) Agricultural Club ("Club Agrícola") program.

The club agricola program seeks to identify high potential farmer groups and prepare them for a later, more mature and profitable relationship with the BNN or INVIERNO. In the credit area, first year loans are advanced experimentally by the BNN to cover one manzana's inputs. Credit expansion is based on satisfactory repayment. The clubs are viewed as pre-cooperatives.

(3.2) Recommendation: The club agrícola program should be carefully monitored as a potential model process for cooperative information.

c) Criteria Relative to Evaluation of Proposed Projects for Agricultural Production Based Cooperatives and Other Farmer Groups in Nicaragua

(See full list in Section D of Chapter III,) .

(1) General Minimum (all projects)

(1.1) Direct Participation of beneficiaries in project design and implementation. Responsiveness to perceived needs of members.

(1.2) Equity: (a) Equal participation of smaller or lower income members of the group in distribution of benefits and accrual of capital over time, and (b) the manner in which proposed activity will lead to expansion of outreach of the cooperative or group system (greater coverage and impact with reference to low income members).

(1.3) Planning: Detailed and realistic implementation planning showing defined phases with concrete, measurable or determinable achievement indicators over time.

(1.4) Resource Generation: Generation of new resources, especially internal to the group or system (savings and capitalization).

(1.5) Viability: How the project will contribute directly to increased financial and technical viability.

(1.6) Feasibility: Degree of difficulty and complexity vs. administrative, technical, and financial capacity.

(1.7) GON Strategy: That project goals and activities are in accordance with current GON rural development strategy considerations.

(1.8) Least Cost: That the project represents the least cost approach to the goal in question as opposed to other more expensive alternatives.

(1.9) Subsidies: A candid description and rationale for all subsidies from whatever source.

(1.10) External Inputs: That potential contributions or collaboration from external institutional sources has been taken into account.

(1.11) Economic Advantage: Exploitation of a clear economic advantage or opportunity.

(1.12) Land: That the land constraint question has been adequately addressed.

(1.13) Mixed Membership: That a viable mix of small and larger farmers is present in the cooperative, or if not, a clear demonstration of how necessary volume and management considerations will be addressed.

(1.14) Conversion from Poverty Agriculture: That the need for conversion from subsistence (basic grains) agriculture has been addressed through diversification, technification, small industry, or some other means.

(1.15) Tangible Benefits: That the need for short run tangible benefits, especially for smaller producers, has been taken into account.

(1.16) Local Investment: That the project involves investment of locally or internally generated capital.

(1.17) Technical Absorptive Capacity: That the necessary capacity exists on the part of either cooperative management or boards, or that the provisions have been made for the upgrading of required capacity through training or other means.

(1.18) Role of the Primary Level: That the need for a true intermediary role for the cooperative or group; i.e., management of resources, has been adequately taken into account.

(2) Agricultural Credit Projects: In addition to the above, agricultural credit project proposals should address the following:

(2.1) The need for longer term improvement or investment credit.

(2.2) The need to provide for management responsibility of the group or demonstrate why this is not advisable.

(2.3) The manner in which the credit process will contribute to the capitalization and strengthening of the group or cooperative.

(2.4) The need for a full justification of any subsidies to be passed on to the producer in the form of low interest rates or by other means.

(2.5) The matter of delinquency control and how delinquency will be handled in the event of a bad crop year.

(2.6) The need for a clear (cost/benefit) projected return to the producer in the micro (farm/budget) sense, especially in the case of production credit for basic grains.

(3) Training Projects or Activities

(3.1) Any general training project should demonstrate an on-going multiplier effect at the cooperative level (training of trainers).

(3.2) Proposals for general membership awareness ("concientización") type training should be evaluated to assure that they are not simple substitutes for sound management or a viable production enterprise.

(3.3) The need for improvement of director skills ("consejos de administracion") should be addressed.

(4) Technical Assistance: Proposals should be evaluated to insure they provide for sufficiently highly qualified and specialized skills in marketing, business management, agro-industrial feasibility, and financial management and analysis. The big need is for specialized skills, not so much for generalized cooperative development expertise.

d) Agrarian Colonies Administered by the National Agrarian Institute (IAN) (See Chapter III, Section E)

IAN was treated as a special case by the team and assessed in a manner distinct from the earlier BNN and INVIERNO sections due to unique characteristics of the IAN program. Only colonies in the Pacific zone were studied because of lack of time.

As of 1972, 22 co-ops had been organized in colonies, but only four were legalized. In general, neither management skills nor capital had been accumulated, and farmer interest was low. IAN is now experimenting with a new organizational form consisting of a junta and various committees for distinct functions.

The team visited two colonies: Angélica de Schick (near Leon) and San José de Tonalá (near Chinandega). Angélica de Schick is mainly cotton based, while Tonala depends on subsistence agriculture plus a venture in sugar processing. While needs and system responses were analyzed only in terms of these two colonies, from available literature and discussions with IAN personnel, they are felt to be representative of the overall program.

(1) Needs: Both economic and social needs were severe. The most outstanding was land, primarily due to population growth and

pressure on old circumscribed colony areas. At Tonalá, land was marginal. Angelica de Schick had good cotton land plus an AID financed, CARE supported, irrigation system. Both groups received credit from the BNN on an individual basis, but complained of delays, hassles, limited amounts, etc. Sufficient technical assistance in technification and diversification was lacking.

Both groups were disillusioned and fatalistic. They had great trouble articulating social needs. Angélica de Schick colonists, in spite of much that had been done for them (irrigation system, community center, health services, etc.) lacked a sense of cohesiveness and purpose as a group. Half of the members lived in Leon and commuted.

(2) System Response: The greatest benefit derived from the farmer organizations appeared to be in the area of organization of the work load. In general, groups were not happy with services received from IAN, the BNN and INTA. IAN officials felt that the program was having little impact on growth or improvement in the lot of the colonist for the following reasons:

(2.1) Lack of research into what colonists want and what motivates them.

(2.2) IAN is overextended and cannot supply a sufficient concentration of human and financial resources to make a difference.

(2.3) IAN is faced with a marginal land constraint in the Pacific zone.

(2.4) IAN concentrates more on production than on profit.

(2.5) IAN is confused about its present and future role in the long range planning context.

(See separate section on CARE, Chapter V, Section E.)

Other gaps observed included a total lack of leadership and management capability at the group level and no savings or capitalization mechanism. IAN also lacked authority and resources to address the land constraint.

(3) Recommendations:

(3.1) Further study is required as to key social and cultural factors bearing on IAN colonies. It is suspected that there are certain unique characteristics which remain to be defined and explicitly dealt with in the colony setting.

(3.2) A greater effort on the part of the National Agricultural Council should be made to spell out with and for IAN exactly what its role and functions will be in the future.

(3.3) Budget and staff should be expanded for adequate colony administration, group formation and training.

(3.4) International donor inputs, outside of the area of research and irrigation, should not be made until the above areas are treated by the GON.

(3.5) Criteria: Any project proposal in the land colony area, in addition to those criteria elaborated above for the other agricultural systems, should include the following:

(3.5.1) Solid social soundness analysis (needs survey).

(3.5.2) Persuasive treatment of marginal or limited land constraints.

(3.5.3) Treatment of need for short run tangible benefits.

(3.5.4) Cost benefit analysis of any innovation introduced into production/marketing process.

(3.5.5) Means of upgrading local leadership and managerial capacity including how IAN eventually will be able to withdraw from direct administration of the project if such is the case.

(3.5.6) Clear delineation of roles and responsibilities of IAN and other supporting institutions in relation to each other, primarily INTA and the BNN.

(3.5.7) Either a family planning element or some means of assisting sensible out-migration from the colony as population pressure grows.

(3.5.8) Measures to combat illiteracy, malnutrition and health problems in general.

2. Credit Cooperatives Associated with FUNDE and FECACNIC

a) Overview: As an initial analytical cut, the cooperatives were assessed from the standpoint of traditional credit union development criteria. Findings were:

(1) Mobilization of Local Savings: (See Chapter IV, Section B.1) Savings generation capacity was clearly demonstrated, but a number of additional measures are necessary: (See c), (1),(1.1) below.

(2) Simplicity and Outreach of Credit Delivery Mechanism: (See Chapter IV, Section B.2) Nicaraguan Credit Unions are lending at reasonable cost in a relatively efficient form to sectors of the population which would not otherwise have access to conventional, institutional credit. Average loan values indicate that the majority of resources are being directed to the "rural poor."

(3) Self-Sufficiency at the Cooperative Level

(3.1) Financial: Most Credit cooperatives are covering costs, although often badly needed services and administrative capacity are foregone due to low income. Much more forceful measures need to be taken in the area of external capital mobilization in order to meet existing and future credit demand.

(3.2) Technical: Often sufficient for present low levels of operation, but capacity for expansion is limited. There are exceptions.

(4) Self-Sufficiency at the National Level

(4.1) FECACNIC is not capable of meeting technical assistance needs of members nor of necessary improvement in its own systems due to lack of budget and staff.

(4.2) FUNDE is strong in most technical areas (particularly in accounting and financial control). Mid and long term planning is lacking.

(5) Member Control/Self-Help: Most credit unions are committed to addressing community and member perceived needs - economic and social. The cooperatives are democratically controlled.

b) Member Needs: (Chapter IV, Section C,)

Needs were primarily expressed in terms of credit and non-credit related categories. The credit category related mainly to economic objectives of the socios (security, income, growth, etc.) while non-credit needs reflected both economic and social sub-categories.

(1) Credit Needs

(1.1) Small Industry: Production Credit

(1.2) Small Commerce (merchant): Working capital

(1.3) Agricultural Production

(1.4) Long-term Investment Credit: (Normally viewed as part of production credit package).

(1.5) Consumption Credit: (Much is for "subsistence")

(1.6) Housing Credit: (Often for home improvements)

(1.7) Emergency or Provident Credit

(1.8) Other Credit: Most frequently education and debt consolidation.

(2) Non-Credit Needs

(2.1) Bulk purchase of goods for resale by "comerciante" members. (Primarily FUNDE co-ops)

(2.2) Direct sale of basic goods to members at lower prices. (Commissaires, mainly FECACNIC co-ops).

(2.3) Health Care: Direct role for co-op in resolution; dispensaries, etc.

(2.4) Improved sanitary conditions.

(2.5) Education programs.

(2.6) Running and/or portable water

(2.7) New or improved access roads.

NOTE: Prioritizing of these credit unions proved impossible given differences from co-op to co-op. A significant variation was found between FUNDE and FECACNIC credit unions, however, the former

invariably placing a much higher priority on needs related to the "small business" group).

c) System Response to Member Needs: (Chapter IV, Section D, pp.164-201) System response was treated by various types and levels of existing constraints.

(1) Cooperative Level Constraints: (Chapter IV, Section D.2, pp 166-177).

(1.1) Financial: While most credit unions were "viable"in the literal sense, in many cases income was missing for essential services due to the lack of simultaneous, well planned attention to: growth promotion (membership), savings generation plans (internal capitalization), external capital mobilization, and the importance of adequate margins on lending (realistic rates of interest).

(1.2) Technical: As a general rule, technical capacity was not adequate with respect to the following areas:

Planning: (A serious deficiency) Growth strategies and targets were missing. Clear alternatives were not being presented to directors.

Financial Management: Although the FUNDE cooperativês were very strong in accounting procedures, it was doubted that effective use was being made of financial statements by managers and boards of directors. FECACNIC cooperatives tended to be weak in this area as well

- Credit Management and Delinquency Control: Approval procedures were cursory and loans were granted on an "impulse of the heart". Delinquency was a continuing problem, and information was often lacking. Most of the co-ops visited had rates over 10%.
- Human Resource Constraint: The trained manpower base was relatively weak. 12 of 14 cooperatives had full-time management, however, and probably 50% were capable of assuming expanded responsibility. There was a special weakness noticed at the board level.

(1.3) Recommendations, Cooperative Level Constraints:

(1.3.1) Financial Viability: (See Chapter IV, Section D.2.a, p. 170.) This problem should be addressed through a balanced program of membership promotion, increased savings generation, mobilization of a balanced mix of external capital inputs (including commercial) and adoption of realistic rates of interest. Promotion of savings and internal capital mobilization should be sought through mandatory capitalization on all loans received and automatic deposit of interest and dividend payments into share capital accounts of members.

(1.3.2) Technical Self-Sufficiency: The following measures are recommended: (See Chapter V, Section D.2.b.,)

- Management loans are recommended at the outset of cooperative operations.
- Special emphasis should be placed on the introduction and utilization of short, medium and long-term planning methods which give due consideration to member needs and priorities.

- External capital financing should be phased to account for the development of technical absorptive capability
- A special effort in the area of manager and director training, particularly to upgrade decision making skills and understanding of financial statements
- The credit review process should be converted to a more systematic, analytic approach.

(2) Integrative Structure Constraints (FUNDE and FECACNIC)

(2.1) The Issue of Dual Structures: (Chapter IV, Section D.3.a,)

(2.1.1) Findings: At present there is adequate justification for the existence of two credit unions programs in Nicaragua. Though there are a number of areas in which joint efforts or services would lead to a more effective utilization of available resources, substantive collaboration between FECACNIC and FUNDE will be difficult to accomplish in the near future. Discussions between FECACNIC, COLAC and FUNDE representatives which the team felt might lead to some collaborative agreements did not produce this result.

(2.1.2) Recommendations: Resolution of differences and future collaborative efforts should evolve from FUNDE and FECACNIC without attempts to introduce externally defined solutions. Existing and spontaneous opportunities for collaboration and sharing of scarce resources should be pursued where comfortable and appropriate, such as open training sessions, and periodic meetings to exchange experience, approaches and technical information. Longer range possibilities for collaboration include mutually supporting services in credit and insurance, technical training programs, and joint strategies for capital mobilization.

(2.2) Financial Viability at the Secondary Level (Chapter IV, Section D.3.b.,)

(2.2.1) Findings:

. FECACNIC: FECACNIC's financial condition is weak. The organization is in a "vicious circle", i.e., no income to supply services to generate income to supply services, etc. At present (without the proposed AID grant), FECACNIC does not have the financial or technical capacity to become viable in the short or medium term through lending. In this case, a direct operating cost subsidy appears the only answer. Notwithstanding the AID grant, FECACNIC must face up to the need to develop a "business minded" strategy for viability (realistic interest rates and service charges, aggressive internal and external capital mobilization, etc.)

. FUNDE: 85% plus of FUNDE's budget is covered by donations. The major questions are how long will such support continue, and will FUNDE be able to follow through adequately on activities now being initiated. Concerning capital mobilization, FUNDE cannot come close to meeting the demand of its affiliates, but does act as a facilitating agent for private bank lending. It is also estimated that

$3 to $4 million may be made available over the next few years through "SOLIDARIOS" (Regional Association of National Development Foundations).

(2.2.2) Recommendations:

- FECACNIC: A direct operating cost subsidy should be provided to the federation. (For detailed rationale, and analysis of the FECACNIC proposal, see Chapter IV, Section F). Federation leadership must also adopt realistic income generation measures (interest rates, service charges, etc.)
- FUNDE: FUNDE should develop and make available a medium to long range plan which identifies how its present and projected activities will lead to a viable and self-sufficient service delivery system.
- Concerning External Capital for Both FUNDE and FECACNIC Systems: External capital assistance from COLAC, the FED (Special Development Fund administered by the Central Bank) Private banks, and elsewhere should be supported. To the extent feasible, resources should be channeled through the supporting institutions, FUNDE and FECACNIC, in order to assure complementary services, effective programming and strengthening of both systems.

(2.3) Technical Viability at the Secondary Level: (Chapter IV, Section D.3.c.,)

(2.3.1) Findings:

- FECACNIC: In relation to established functions and goals, FECACNIC is deficient technically and administratively. A number of priority challenges face the organization concerning urgently needed internal system restructuring and preparation of cooperatives to receive COLAC loan funds. On-going demands on present staff preclude effective focusing on critical areas. There has been substantial progress from a "low point" a year ago, however, thanks, in part, to the excellent work of the current long term resident COLAC advisor.
- FUNDE: FUNDE is operating very effectively in most areas, both in terms of staff and systems. Cooperatives receive valuable continuing services. The most deficient area appears to be in planning, where a number of questions should be asked concerning the future, i.e.,
  - With new co-ops to be created, will FUNDE be spread too thin?
  - Will not FUNDE face a liquidity crisis with its credit unions unless capital mobilization keeps pace with growth?
  - Will FUNDE co-ops ever reach a point where they can pay for FUNDE services?
  - Though capable of providing the effective support services required at present, has FUNDE given sufficient thought to and planned for the provision of the additional types of support which will be required once their credit unions have developed to a credit extent?

(2.3.2) Recommendations

. FECACNIC: Grant support should be provided. Rigorous planning in FECACNIC is essential, based on clear priorities. New staff should be recruited as soon as possible. Management should be more demanding of staff performance. Leadership is needed now more than ever, and the Board of Directors should take a more active role in overseeing the work of the federation and in addressing critical questions.

. FUNDE: The medium/long range plan recommended earlier should show: how services will expand to meet the increasing need for more specialized technical assistance as cooperatives grow and experiment in new areas; how FUNDE will be able to assure the continued provision of services; and a medium to long range capital mobilization strategy for the tapping of external capital markets, required to generate the income for complementary service expansion.

(3) Agricultural Credit Constraints - A Special Case (Chapter IV, Section D.4,)

(3.1) Findings: Credit Unions feel a certain justified reluctance to move too fast into agricultural production credit. Often the experience and technical expertise is not present, and risks are high. Subsidized credit from government sources makes it difficult for credit unions to charge cost covering, competitive rates. COLAC's full-scale integrated production credit approach may be too rigorous at this time for Nicaraguan cooperatives.

(3.2) Recommendations:

(3.2.1) While agricultural credit should be encouraged for Nicaraguan credit unions, they should be allowed to move at their own pace.

(3.2.2) Improvement in straight credit management rather than "integrated" production credit should be emphasized for the time being.

(3.2.3) Higher, more flexible rates of interest should be charged for agricultural credit (particularly FECACNIC's co-ops).

(3.2.4) Longer term credit is in demand but should be accompanied by appropriate knowhow re feasibility and return of agricultural investments.

(3.2.5) Specialized technical assistance should be encouraged from the GON. (Ideally, personnel could be seconded to FUNDE and FECACNIC.)

(4) External Constraints

(4.1) Capital Availability (Chapter IV, Section D.5)

(4.1.1) Findings: For the time being there probably is not an absolute shortage of capital available to credit cooperatives, mainly thanks to COLAC and the FED. There do appear, however, to be lending capital shortages in specific areas like housing, commerce, and consumption credit.

(4.1.2) Recommendations:

- A credit demand survey by category is advisable both among credit unions and cooperatives as a whole. Technical and financial absorptive capacity would have to figure in the calculations. Such a study could be very useful for any capital mobilization campaign among external donors and lenders.

- Ways and means of expanding FED or FED backed lending to credit co-ops should be explored in the following areas:
  - Direct FED lending to secondary level cooperative intermediaries (The Production Credit Guarantee Program could not be used in this case.)
  - Co-op lending through "other" specialized FED "windows," i.e., small industry, cattle, coffee, etc.
- Methods of freeing lending resources from whatever source should be pursued in areas of high demand like housing, commerce, and consumption.

(4.2) Coordination

(4.2.1) Findings: The credit unions appear to be working in isolation with little or no contact with relevant government agencies. Both INVIERNO and the BNN could benefit from being able to refer clients to viable credit unions. Credit unions represent one sensible vehicle for "graduation" from subsidized government services. In the PVO area, FUNDE, FECACNIC, and organizations such as CEPAD, INPHRU, and CARE have not really taken advantage of each other's presence. Technoserve is another untapped resource.

(4.2.2) Recommendation: FUNDE and FECACNIC should meet periodically, both with appropriate government agencies, and with the other PVO's to share experience, resources, and otherwise assist each other.

(4.3) Legal Constraints

(4.3.1) Recommendations:

- Bylaws of cooperatives that have unnecessarily restrictive interest rate limits should be revised to provide needed flexibility.

. need for Co-op Department (MOL) review of loans and grants not clear. The proposed review of the cooperative law should evaluate the utility of this provision. (See Chapter VI. Section C).

d) Criteria Relative to Evaluation of Possible Credit Cooperative Projects

The following summary is in a highly abbreviated form. (See full detailed list in Section E of Chapter IV.)

(1) General Minimum (All projects)

(1.1) Direct Participation of Beneficiaries in project design and implementation. Responsiveness to perceived needs of member.

(1.2) The equity consideration. a) Equal participation in benefits, and b) "spread effect"

(1.3) Realistic implementation planning

(1.4) Generation of new resources, especially internal and savings.

(1.5) Contribution to financial and technical viability

(1.6) Potential collaboration from other institutions

(1.7) Feasibility in respect to implementation and technical capability

(1.8) Compatibility with GON rural development strategy

(1.9) Least cost criterion

(1.10) Candid description and rationale for all subsidies

(1.11) Replicability

(2) Desirable but Non-Essential:

(2.1) Community action

(2.2) Internal rate of return

(2.3) Balanced membership

(3) Capital Financing

(3.1) Absorptive capacity

(3.2) Impact on viability of recipient

(3.3) Reflect accurate demand profile

(3.4) Treatment of delinquency

(3.5) Realistic interest rates

(3.6) Phased disbursements contingent upon accomplishments of target indicators

(4) Ag Production

(4.1) Risk minimization

(4.2) How will delinquency in a "bad year" be handled?

(4.3) Maximum use of government T.A.

(4.4) Analytical justification of economies of scale

(5) Training

(5.1) Thorough justification of "concientizacion" elements

(5.2) Multiplier effect

(5.3) Priority of manager and director skills

e) Evaluation of Pending Grant Requests (Chapter IV, Section F)

Two credit cooperative grant requests are currently pending approval in the USAID, one each from FUNDE and FECACNIC. Each request was evaluated by the team, point by point, utilizing the foregoing criteria. Brief summaries of these evaluations are shown below.

(1) The FECACNIC Proposal (Chapter IV, Section F)

(1.1) Findings:

- In general, given needs and the credit demand profile observed by the team, the proposal appears to focus too heavily on integrated agricultural production credit (IAPC). The rapid growth of the system projected on the basis of the IAPC approach is believed to be overly ambitious, especially given FECACNIC's lack of experience in the area. Finally, much basic institution and system building must occur concurrently with such a technically demanding, high risk and large scale activity.

- The proposal appears shaky in implementation planning. The degree of difficulty of establishing a complex, demanding a relatively sophisticated production credit management capability is not taken into account sufficiently.

- The three-year time frame of the project for viability is seen as unattainable. It is doubtful that FECACNIC can become "viable" in 5 years. The $2.8 million soft loan assumption is also risky, at least on the time table completed. Project costs may be underestimated.

- Technical and financial absorptive capacity within the project period is not demonstrated. Projections concerning new co-ops per year, annual increment of members, pace of borrowing, willingess of co-ops to run on a 4-year deferred deficit, managers to be hired and trained, are all felt to be too optimistic. The training, technical assistance, analysis and promotion to be accomplished is felt to be beyond the projected capability of FECACNIC under the proposal.

(2.2) Recommendations (FECACNIC)

(2.2.1) The proposal must be modified in order to serve as the basis for a USAID project. Nevertheless, budget support to FECACNIC is urged because:

- FECACNIC is the only legal federation of credit unions and the only established channel to reach its rural membership (19 co-ops - 6,000 members)

- Though it has fallen on hard times, its potential is unquestionable if due consideration is given to its previously demonstrated capability of establishing the existing credit union movement under very adverse conditions.

- If support is not provided, FECACNIC will possibly collapse. Valuable momentum, time and experience will be lost.

- Support is necessary in order to assure proper handling of the $1,000,000 COLAC loan.

- There is a greater percentage of actual farmers in the FECACNIC system than in FUNDE's case.

- With proper assistance FECACNIC can play an important role in the development of an effective credit co-op outreach system through representation, resource mobilization, promotion of new co-ops, technical assistance and other services.

- COLAC is committed, aware of FECACNIC's problems and acting forcefully to help resolve them. An excellent advisor is with the federation on a long-term basis.

- Major improvement has occurred over the past year.

(2.2.2) FECACNIC should prepare a more realistically phased self-sufficiency strategy. The strategy should be long term. Continuing support in this case must be assumed. The proposal should emphasize achieving excellence in credit administration along with establishment of an integrated production credit program. The above issues and other issues specified in the full report should be treated in the revised proposal.

(2.2.3) FECACNIC should be assisted in preparation of the new analysis and proposal by COLAC.

(2.2.4) Project management should be with COLAC which has the necessary experience and capability. Responsibility should be in Panama in order not to place the resident COLAC advisor in an untenable position.

(3) The FUNDE Proposal

(3.1) Findings: In the areas of response to need, feasibility, technical and absorptive capacity, the proposal is generally acceptable. Lacking is adequate coverage in the following areas:

- Justification of amount and breakdown of the grant
- Measurable and meaningful phased output and progress indicators
- Technical capacity in agriculture and housing
- Savings and capitalization
- The subsidy issue (see full report)
- Contribution to financial self-sufficiency of co-ops

(3.2) Recommendations:

- The OPG to FUNDE should be approved because: it responds to obvious needs; FUNDE has proven capability; replicability is promising.

- FUNDE should prepare a supplement responding to issues raised in the evaluation of the proposal (see full report).

- Prior to second phase or second year disbursements under the grant, FUNDE should develop a medium to long range plan for the future which will show:

- How services will be expanded to meet the increasing need for more specialized technical support as cooperatives grow and experiment in new areas.

- How its present and projected activities will lead to a viable and self-sufficient service delivery system.

- A medium to long-range capital mobilization plan for both the cooperatives and FUNDE on which can be based the pace of complementary service expansion and campaigns for tapping private capital markets.

4. Private and Voluntary Agencies (PVO's) (Excludes FUNDE and FECACNIC. Also, although FAO is not a PVO, it is treated here as by nature and size it is most appropriate in this category.) (See Chapter V, Section F.)

a) General Finding:

The study found fertile ground in the PVO area for a variety of innovative approaches to the use of co-ops and other groups as vehicles for rural development. PVO's are experimenting and rapidly learning from experience. The majority of their programs are new and are just scratching the surface of high potential areas of opportunity in the cooperative sphere. PVO's are enthusiastic and dedicated to constructive self-help measures for

greater impact on the rural poor. They are flexible and generally free from bureaucratic convention.

b) General Recommendations:

PVO Programs merit careful study and encouragement. PVO capability and experience should be more fully exploited by national and international agencies.

c) Comite Evangélico Pro Ayuda al Desarrollo (CEPAD)

(1) Findings:

CEPAD is one of the most valuable private organizational resources in the area of group and cooperative development observed in Nicaragua. It represents an exceptional reservoir of knowledge and experience in both urban and rural community development. Recently it has been applying this experience with excellent results in the formation of cooperatives (7 each credit and consumer co-ops) capable of generating, receiving and managing resources on their own account. There is an overlay of evangelical spirit, but this is seen as positive, as it appears to contribute to a higher level of constructive group motivation and cohesion necessary for the sacrifices that must be made for long term economic and social improvement. The predominent thrust of the program is for rural production related services with small and often landless farmers.

The team visited one credit union and one consumer cooperative. Needs in the consumer co-op were for land, employment and long term credit. The group was dynamic and highly motivated. It was saving regularly for land acquisition. In the credit union, the main need was for basic consumption credit (subsistence) and commercial working capital.

In both co-ops, professional management was lacking. Also, credit for land and general lending was urgently needed in the consumer and credit co-ops, respectively. CEPAD, while possessing effective organiza-

tional and motivation skills, appeared to be lacking in long range technical and financial support capability.

(2) Recommendations

CEPAD's organizational capability should be tapped by government agencies, as well as by FUNDE and FECACNIC and vice versa. Linkages are needed with additional technical and financial resources. AID should consider assistance.

d) Instituto de Promoción Humana (INPHRU)

(1) Findings:

INPRHU, like CEPAD, represents a valuable organizational resource in the area of low level, self-help group development. In the past year, INPHRU has begun forming cooperatives with high potential groups. Four cooperatives are legally constituted and are benefitting some 170 rural families. In general, INPRHU appears focused on small infrastructure and agro-industry, and has a pragmatic approach, following no particular model except that goals must come from the group.

The team visited three cooperatives (2 potable water and a broom sorghum co-op) all with membership in the extreme poverty group. Land, credit, employment, and other social needs were severe. Awareness and enthusiasm were high in the co-ops. None of the groups received any government services. Small innovations were being pursued with imagination (day care,communal raising of small animals, handicrafts, etc.). Obvious gaps included lack of capital and experienced management.

INPRHU, while it demonstrated strong organizational skills, like CEPAD, lacked linkages to long term technical and financial support resources. The organization is stretched very thin.

(2) Recommendations

INPRHU's approach and experience should be studied. The organization should seek long term support and linkages for technical and financial follow-up. The pace of new co-op development should be carefully phased. AID should consider assistance.

e) Technoserve

(1) Findings

Despite its relatively brief history in Nicaragua (1974), Technoserve has amassed a considerable store of experience and talent primarily in the area of agro-industrial feasibility analysis. The approach is in line with one of the general conclusions of this study which is that for cooperatives or other groups to effectively contribute to the resolution of the vicious circle of poverty, something must be added over and above the straight production and marketing function, something which adds value, provides employment, or otherwise breaks the circle. The quality of analysis performed thus far by Technoserve speaks for itself. The studies are excellent and complete by any standard.

(2) Recommendations

AID and other agencies should look to Technoserve for specialized assistance regarding new ways to assist the small farmer through agro-industry and marketing innovation. (See full report, Chapter V, D)

(f) Cooperative for American Relief Everywhere (CARE)

(1) Findings

In the course of the study, CARE was looked at primarily in relation to its irrigation activities on IAN colonies (see Chapter V, Section E). Beyond this, CARE is not working with cooperatives in Nicaragua and claims to have no particular expertise or insight.

(2) Recommendation

CARE should be looked to for guidance concerning small farmer irrigation systems housing and land colony possibilities.

g) The Food and Agriculture Organization (FAO) of the United Nations

(1) Findings

The FAO office in Nicaragua is concerned with farmer organizational aspects of agricultural production and has become heavily involved in the cooperative area in general. The office has sponsored cooperative field projects on its own initiative and also has assumed a vigorous role in the establishment of a national coordinating mechanism for cooperatives. Over the past two years, the FAO, together with INTA personnel and the rural credit department of the BNN, has promoted, administered, and financially assisted the development of two experimental production/employment (small industry) cooperatives, both of which were visited by the study team.

- "Chiscolapa" Agricultural Cooperative in Santa Lucia, Boaco, combining basic grain and henequen production with a shop for the production of henequen rugs (employs approximately 30 wives and children of producers).

- "Pacayita," an agricultural cooperative in the Masaya area combining agricultural production (communal farming) with clothing manufacture.

Each of these efforts represents an innovative attempt to overcome the vicious circle of small farm poverty agriculture through the combining of production with low level labor intensive industry. (It was hard to draw detailed conclusions from the two projects without further study as they had each received continuing and relatively intense technical and financial assistance from FAO, INTA, the BNN and the French Mission.)

Concerning employment activity in each cooperative, there was one common lesson in hindsight, which was that a more thorough feasibility analysis should have been carried out, particularly in relation to marketing strategy. Also lacking was treatment by qualified specialists with respect to such areas as the comparative advantage of one small industrial production model vs. others.

(2) Recommendations

(2.1) Evaluations should be conducted of both the Chiscolapa and Pacayita projects with a view toward replication and improvement of the approach while assisting the two groups to work out current obstacles. (Technoserve could provide relevant expertise for such evaluation.)

(2.2) The FAO office should be encouraged to further develop the combined production and employment model, perhaps with more specialized assistance in the areas of appropriate technology and market analysis.

NOTE: (The FAO effort with respect to the Inter-Institutional Committee on Cooperatives is covered in the Public Sector Chapter)

h) Criteria PVO Projects

With the exception of Technoserve, PVO's working with cooperatives in Nicaragua tend to be very strong in organization and motivation while

lacking depth in important technical areas relating to production, marketing and other specialized areas. Also, PVO's in general are stretched very thinly over ambitious programs. With these thoughts in mind, the following criteria were developed for use in addition to (rather than in lieu of) general criteria developed by the study.

(1) Any PVO proposal attempting to incorporate an innovative employment or marketing element as an alternative to subsistence agriculture should be analyzed by a specialist in the given technical area, external to the organization (except Technoserve).

(2) Any PVO proposal should be analyzed with particular attention to back up staff support and/or essential linkages with third party suppliers of support or technical assistance.

(3) The question must always be asked; does the necessary follow-through capacity exist on the part of the PVO over the time required for the project to become self-sustaining?

(4) What provisions are made to either abort proposed projects in light of overriding negative factors identified in the course of development or to make necessary changes in mid-stream.

(5) As Nicaraguan PVO projects tend to aim at the poorest of the poor (except Technoserve) the risk factor for participants should be analyzed in particular depth.

4. The Public Sector (Chapter VI)

a) General Findings: (Chapter VI.A.)

Concerning the important question of whether a true government commitment exists for support and utilization of cooperatives and other groups, the team found:

1) That the GON is entirely committed to a "group" approach to development. The preferred model varies.

2) That cooperative type groups are envisioned as primary vehicles in the long range agricultural planning context.

b) General Recommendation

For the purpose of general program planning, it is safe to assume that no national policy constraint exists to the use of cooperatives and similar models as primary organizational vehicles for rural development initiatives.

c) The Cooperative Promotion Department of the Ministry of Labor (MOL)

(Chapter VI, Section B,)

(1) Findings

Under cooperative Law, the Department is charged with promotion, direction, coordination and planning of cooperative activity in addition to regulatory functions such as registration, dissolution, audit, etc. The Department may inspect cooperatives at any time tc review accounts and investigate legal infractions.

The Department is not able to perform any of the above functions well, and a number of them not at all, due to extreme limitations of budget and staff. In fact there is no budget, and the office depends on the Minister for all costs that are not straight salary items. Highly qualified personnel are not recruited or cannot be retained because of low salaries. The Department is almost non-functional.

(2) Recommendations (See full report, Chapter VI, Section B.3)

(2.1) The MOL should upgrade the capability of the department by allocating an adequate operating budget, including adequate salaries, plus transportation and other essential costs for effective operations.

(2.2) The Department should be limited in its role to cooperative legalization and audit review, with inspections on an as-needed basis.

(2.3) The USAID should consider providing one (accounting and finance) or possibly two advisors on a long term basis, but only with a prior commitment from the Ministry to provide the essential staff and budget.

e) The Cooperative Law (Chapter VI, C.1)

(1) Findings

The law is generally satisfactory and similar to many others in Latin America, but it is too explicit in some areas (types and characteristics of co-ops) and not enough in others (no mention of co-op banks or insurance). The following problem areas were encountered:

(1.1) Consumer co-ops must sell only to members

(1.2) Each co-op must specify interest rates in its statutes.

(1.3) Functions and duties of Boards and Management are too rigid.

(1.4) Although co-ops have duty and tax exempt status, this area is not covered adequately in regulations and complementary legislation. In fact, most co-ops are paying taxes. (As dividends or patronage refunds can be taxed, a number of co-ops are retaining and capitalizing earnings for an initial period of five years.)

(1.5) A co-op cannot receive loans or grants from a non-GON source unless channelled through its officially recognized federative structure without prior approval of the Co-op Department. (Affects FUNDE in particular.)

(2) Recommendations

(2.1) A legal review by a Nicaraguan Commission should be carried out and revisions recommended to the appropriate GON entity. At least one expert versed in interrelated laws of Nicaragua should participate. (Corporate Law, tax law, etc.). An overall expert in Latin America cooperative legislation would be helpful.

(2.2) The revised law should be sparse in details, leaving fine points for regulation. The law should focus on the special legal status of co-ops and on penalties for abuse of the mechanism.

d) Coordinating Mechanisms in the Public Sector

(1) The Inter-Institutional Committee

(1.1) Findings

The committee has only met twice and has not really defined its role yet. At first it was to be public sector only. Now it includes FUNDE, FECACNIC, and CEPAD, in addition to the MOL, the BNN, INVIERNO, IAN, and the Banco Popular. The potential role of the committee could be very important, at least as a forum for comparing notes and programs.

(1.2) Recommendations

(1.2.1) Each member should produce and distribute to other members an inventory of activities in the cooperative area.

(1.2.2) The committee should aim at better communication,

information exchange, and improved coordination between members before taking on more substantive initiatives, joint or otherwise.

(1.2.3) The committee should be open to all institutions such as a representative of the co-ops themselves, the Ministry of Health (PLANSAR) and others.

(1.2.4) Working groups should be formed for specific problem area treatment.

(1.2.5) The committee should resist a temptation to come to grips with a national unified strategy for co-ops, on which it could become bogged down.

(2) The Committee for Community Development and Farmer Organizations

(Chapter VI, C.2.)

(2.1) Findings

The committee's focus is broader than the above inter-institutional committee in terms of organizational types represented. Membership includes DIPSA, INVIERNO, IAN, MAG, INTA, the BNN and CENCA. Its first task is to develop a recommended joint training program. CENCA is to be charged with implementation (See "Training" below.)

(2.2) Recommendations

The larger inter-institutional committee should invite this committee to be one of its working sub-committees. The Community Development Committee could contribute much useful material and insight to the larger group, and, conversely, feedback from the inter-institutional committee would be valuable with respect to plans and initiatives of this committee, especially in the training area.

(3) INTA/BNN Agreement

(3.1) Findings

The BNN and INTA have signed an agreement to combine efforts on the "club agrícola" program. (See Chapter III, Section C,3 and Chapter V, Section F.) INTA provides orientation and technical assistance to the club while the BNN finances on a trial basis leading to a more permanent relationship as the group grows in viability and maturity. The program is experimental but may have a high payoff in terms of the development of a model cooperative development approach.

(3.2) Recommendation

The BNN/INTA program with agricultural clubs should be carefully monitored for possible replication on a broader scale.

(4) Ministry of Public Health and INVIERNO

(4.1) Findings

The Ministry of Health (integrated community health program) and INVIERNO often work with the same community groups. This appears to be confusing to the "juntas." An understanding is being developed. Coordination is critical. Half of the Ministry of Health groups (60) are in INVIERNO communities.

(4.2) Recommendation

Either the Ministry of Health or INVIERNO should be responsible (in a supervisory sense) for each given community to avoid confusion and assure needed coordination.

e) Training

(1) Findings

A number of training programs and mechanisms currently exist. In the Public Sector, the Center for Agricultural Training (CENCA) under the Ministry of Agriculture, is charged with developing training programs for the Ministry and its dependencies. Its approach is flexible and innovative. It is the logical entity to coordinate cooperative training activities at the national level.

(2) Recommendations

(2.1) A new training entity or master program should not be developed.

(2.2) Existing training programs should be strengthened and coordinated.

(2.3) CENCA should coordinate training initiatives in the public sector.

(2.4) AID may wish to consider technical assistance to CENCA in identifying and filling gaps in the training area.

(2.5) The most serious training needs appear to be:

- Board and Management skills
- Bookkeeping, accounting and financial management
- Marketing and supply operations
- Specific technical areas relating to agricultural production and marketing.
- Awareness training, " concientizacion" (as long as not a substitute for sound management and a viable enterprise.

5. Potential Areas of Collaboration Between Systems

a) Findings

There is a wealth of opportunity in Nicaragua for highly productive collaboration between cooperative support systems, both public and private. Many excellent opportunities are being missed.

b) Recommendations

Below are suggested a number of avenues of potential collaboration which the team believes should be explored by the institutions concerned. With the activities, needs, and constraints outlined in this report in mind, it is suggested that meetings be held as appropriate to discuss the following possibilities.

(1) INVIERNO with:

(1.1) The BNN: The BNN's experiencé in the following areas could be valuable to INVIERNO:

- Capital formation at the cooperative level
- Cooperative Education
- Legal and statutory considerations re co-ops.
- Coopeative accounting and financial controls.

INVIERNO could advise the BNN with their experience in relation to:

- Concientizacion for local problem solving
- Large scale input distribution
- Information and data systems
- Joint services with promotors from both organizations

could be programmed to share and capitalize on experience.

Over time, INVIERNO socios, groups and systems might "graduate" to BNN financing. Depending on the region, groundwork could be laid for this in advance. Given the BNN's cost of lending, this would represent a substantial savings to the GON.

(1.2) INVIERNO with Private Sector Organizations

- Where viable or potentially viable, small cooperatives exist in INVIERNO areas of coverage (i.e., FUNDE, FECACNIC, CEPAD, and INPRHU co-ops), INVIERNO might consider working directly with these with a view toward achieving greater efficiency in credit and input distirbution, as well as graduation of members of such groups from INVIERNO's subsidized program.

- INVIERNO could meet with the above supporting institutions to discuss ways of taking advantage of each other's structures.

- Technoserve could provide valuable feasibility analysis and guidance. They already have in the case of one henequen project for INVIERNO.

(2) The BNN

(2.1) The Bank could consider working with and financing credit unions and other co-ops where warranted. The BNN should take advantage

of existing structures. Discussions could be held with FECACNIC, FUNDE, and other PVO's along these lines.

(2.2) In the training area, the BNN and CENCA could develop cooperative management and other courses of benefit to the Bank's co-ops and the movement as a whole.

(3) Private Sector

In general, PVO's are missing opportunities for collaboration with each other. FUNDE and FECACNIC are discussed later in the report, but in a number of other ways, limited only by imagination, the PVO's could help each other out:

- Technoserve can advise on feasibility.
- Joint training sessions.
- Lobbying for lending and other policies favorable to cooperatives.
- Joint strategies for capital mobilization.
- Divisions of functions by special skills, experience, etc.
- International travel opportunities for training or observation.
- General sharing of lessons learned.
- An experience bank (FUNDE is working on this within its own system.)
- Clearing house of information.

The PVO's should meet to discuss the above and other opportunities for mutually reinforcing activity.

CHAPTER III

GOVERNMENT-ASSISTED AGRICULTURAL PRODUCTION BASED COOPERATIVES AND RELATED SYSTEMS

A. Introduction

This chapter focuses on GON assisted cooperatives and other local organizations (community councils, agricultural clubs, land colony associations, etc.) based on agricultural production and related activity as primary reasons for being. Supporting structures and systems for these organizations, virtually all governmental, include INVIERNO, the BNN, INTA and IAN. As with the study as a whole, the investigation sought to identify group member needs first and then proceeded to analyze various system responses at local and national levels in order to identify gaps and develop success criteria. Other key considerations in line with the national rural development strategy such as cost, equity, the need to create alternatives to subsistence agriculture, provide for "graduation" from government subsidies and stem urban migration also were taken into account and applied to the systems studied.

As a matter of convenience, the following analyses are presented by supporting structure. The format and approach are not exactly the same in each case as varying situations called for different tactics; and some systems, by their nature relative to the cooperative focus of the study, required more attention than others.

In the course of the field portion of the exercise, the farmer organizations shown below were visited. In each case general members, boards of directors and, where existing and available, management and staff

were interviewed. In all cases the team was accompanied by representatives of supporting government organizations, who in no apparent way detracted from the candor and free flow of discussions held.

Cooperative or Other Farmer Organization	Location or Area	Agricultural Region[1]
BNN		
Cooperativa Rio Grande	Matiguas	V
Cooperativa La Esperanza	Matagalpa	V
Cooperativa El Esfuerzo	Masaya	II
Cooperativa Departamental Masaya	Masaya	II
Cooperativa de Caficultores de Oriente	San Marcos	II
Cooperative Departamental Esquipulas	Leon	-
Cooperativa Departamental Santa Ana	Chinandega	-
INTA (FAO assisted)		
Cooperativa Pacayita	Masayá	II
Cooperativa Chiscopala	Boaco (Santa Lucia)	-
Club Agricola Pilas Occidentales (Pre-Cooperative group)	Masaya	II
INVIERNO		
Cooperativa de Paperos	Jinotega	V
Grupo Comunitario y Junta	San Ramon	V
2 Grupos Comunitarios y Juntas	Masatepe	II
IAN		
Colonia Angélica de Schick	Leon	-
Colonia Tonalá	Chinandega	-

[1] Regions V and II correspond to current INVIERNO areas of operation: Central Interior and Pacific zones, respectively.

In addition, the following Government field offices were visited where discussions were held with regional staff concerning operations in the area:

- BNN Branch in Chinandega
- INVIERNO Regional Office in San Ramon
- INVIERNO Regional Service Centers (CEDES) in Jinotega, La Trinidad and Masatepe
- IAN Regional Office, Leon

Finally, the team spent considerable time with central office (headquarters) personnel for data collection and discussior. Everywhere, collaboration was complete, open, and candid.

Material and findings of this chapter are organized as follows:

		Page
1.	Member Needs and Other Strategic Rural Development Criteria	73
	(This is the core element of the analysis. Everything that follows relates to the elements presented here.)	
2.	System Response - and Recommendations	76
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3.	Criteria (Factors to be taken into account in the weighing of various options)	122
4.	Agrarian Colonies and the National Agrarian Institute (IAN)	126
	(IAN was treated as a special case and slightly differently from BNN and INVIERNO systems due to unique factors relating to the land colony setting and to the supporting institution.)	

B. Member Needs and Other Strategic Rural Development Criteria

1. Needs

In the course of discussion with groups listed above, a great variety of needs was expressed with varying degrees of urgency and priority. This was only natural, as group responses were conditioned by regional charactistics, differing income levels, production profiles, and problems. As a result, and as with other components of this study, it was impossible to arrive at an absolute classification of needs by degree of priority.

The following descriptions concern those needs which, in discussions with members, "came to the top," in one form or another, most of the time As a group they represent a set of priority constraints to be overcome by supporting institutional structures. It should also be pointed out that the following are primarily economic needs and represent those constraints to security, income, and growth which most of the members believed could be addressed by or through their cooperative or association. Other needs, mainly in the social area, such as improved health services, education, etc., were expressed but not in any consistent pattern. In a number of cases, however, members saw themselves or their co-op as a pressure group for community action or to secure more resources or services from corresponding government agencies.

a) Credit

Members most invariably expressed a need for more credit. This included short-term credit for production, medium-term credit for land improvement, equipment, and fixed assets, and long-term credit for land purchasing. In all cases but one, existing production credit was being provided directly to the member from the governmental source, INVIERNO or

the BNN. The need was frequently expressed for longer term credit which would assist the member to somehow break out of the vicious circle of poverty agriculture, in which he often found himself, through some form of "improvement" or "investment," beyond simple continuation of the same production practices year after year.

b) Land Security

A widespread complaint among farmers interviewed was that they had no guaranteed access from year to year to the amount of land necessary to feed their families. Since rental contracts had to be renegotiated and renewed yearly, farmers consistently found themselves unable to control the cost and availability of one of the three vital factors of production. Furthermore, land rents appeared to have increased sharply over the last five years due to a number of factors including speculation pressures, replacement of basic grains with more valuable cash crops, increased land accessibility through development of access roads, and increased productivity.

c) Input Delivery and Marketing Systems

While farm supply needs of the majority of the members interviewed were being met satisfactorily one way or another, it nevertheless was a major expressed need. An effective marketing system, on the other hand, was an especially serious need that frequently went totally untreated by the corresponding cooperative or group. In general, inroads toward solution of the marketing problem have been meager.

d) Alternatives to "Poverty" (Basic Grains) Agriculture

In some areas of Nicaragua, notably the Pacific region, the introduction of large scale cash crop farming has driven up land rents to the point where basic grain production is no longer viable. Elsewhere,

scarcities of land, water and marketing opportunities have set limits on production potential for basic grains, assuming no marked improvement in applied technology. The need was expressed in a variety of forms; i.e., "better prices," "lower costs," "improved economic situation," "diversification," etc.; but it normally came down to the fact that basic grain production in Nicaragua does not seem to be a viable small farmer enterprise, and members know it. What they want to do about it, of course, depends on a host of other variables.

e) Technical Assistance

Members consistently voiced the need for more and better information concerning production practices, cooperative management, use of inputs, price, storage and other marketing information, feasibility of possible investments, irrigation, etc. The type of technical assistance required varied widely by local conditions.

f) Water and Roads

The drought of the past two years has made a convincing case for water to be elevated to the status of the fourth factor of production in Nicaragua. New or improved irrigation was an expressed priority need in the great majority of cases. Often what was indicated was not only credit and technical assistance for locating and developing water sources, but also legal and administrative help in negotiating with government agencies presently in control of such resources. Concerning roads, many groups interviewed expressed a major need for either improvement of existing roads or new roads to facilitate transport and lower both agricultural input and marketing costs. In isolated communities, improved access became an overriding need.

g) Community Organization for Local Problem Solving

While members interviewed expressed this need in a number of different forms, there appeared to be a growing realization among "campesino" groups that the solution to many of their health, education, housing, and other social and community problems was through some kind of "self help" and/or pressure group action.

2. Strategic Rural Development Criteria

In addition to the needs described above, the criteria below was utilized in the analysis of system responses in the sections to follow. These are generally in line with the GON's rural development policy and strategy objectives, and are really just common sense guidelines given the general shortage of human, financial, and technological resources with which the government must operate.

a) Provision of services at the lowest possible cost.

b) Creation of self-sufficient, member-controlled, private sector structures to replace costly services presently provided by the government.

c) An equity concern - to reach the poor majority as directly as possible with the least amount of spillover (of subsidy) into non-target group areas.

d) Development of secondary and tertiary population centers to stem rural to urban migration.

C. System Responses and Recommendations

1. The Banco Nacional de Nicaragua (BNN)

a) The Rural Cooperative Program

The program is administered by the Cooperative Section of the BNN's Rural Credit Department[2] ("Crédito Rural"). The section presently serves 16 agricultural cooperatives involving approximately 3,000 families. It accounts for about 11% ($1.75 million in 1976) of the Bank's rural credit activity as a whole. Crédito Rural, in turn, accounts for 7.8% ($13.6 million in 1976) of the total BNN loan portfolio.

The full-time staff of the co-op section consists of 6 promoters (field men/agronomists) and 4 "accountant managers." For secretarial support the department relies on the clerical staff of Crédito Rural. There are no set assignments among the promoters, although an attempt is made to fix responsibilities on a regional basis. Though exact figures are not available, it is obvious that a good percentage of the department's human resources and $100,000 operating budget go to support the four large departmental cooperatives in Leon, Chinandega, Rivas, and Masaya.

The work of the Co-op Section consists mainly of promotion, technical assistance, auditing, and credit analysis for loans to cooperatives. The loan analysis for individual farmer members takes place in 21 branch banks ("sucursales") located in rural population centers around the country. The branches also handle all disbursements and provide agricultural extension assistance to both cooperatives and individual clients through some 200 agronomists stationed in the field. (In all, over 33,000 families were attended in 1976, including the 3,000 cooperative members). Only one

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[2] The IDB financed rural credit program of the BNN, administered by its Rural Credit Department, is described in a number of public documents and need not be repeated here. The IDB loan in question also finances the cooperative lending "sub-program" of the Bank.

cooperative, Esquipulas, the large departmental organization in Leon, receives both operating capital and production credit for its membership from the BNN. Thus, it functions as the only true rural intermediate credit institution served by the bank.

b) Response to Member Needs

(1) Credit

The Cooperative Section of the BNN makes two types of loans directly to cooperatives:

i "Global" Loans ("Préstamos Globales") for passing on to members as production and investment credit. The interest rate is left to the discretion of the Cooperative Section, the only stipulation being that the borrowing co-op may not charge more than a 3% spread when redistributing the loan to its socios. (Esquipulas, see above, is the only recipient.)

ii "Direct" Loans ("Préstamos Directos") for working capital and investment needs of the cooperative itself. Short-term capital is available at 10% for up to 18 months while long-term lending can be up to 10 years at 12%.

With respect to the effectiveness of the BNN's response to cooperative credit needs and those of their socios, several observations can be made based on field experience.

In general, members from the smaller co-ops - La Esperanza (25 members) and El Esfuerzo (18 members), for example, seemed pleased with the credit service they had received from both the Co-op Section and from the Crédito Rural Sucursales. (In the case of the two co-ops mentioned, all "préstamos directos" had been paid on time, and in one case ahead of time.)

The larger cooperatives, while not critical of the BNN's service, almost universally expressed an unmet need for long-term credit. The Leon departmental co-op wanted several hundred thousand dollars to buy helicopters for fumigating and mixers to blend insecticides. The cattle cooperative in Matiguas needed $170,000 for a milk chilling station and a truck to carry its products to the central market. These and other major credit needs cannot be met by the Co-op Section of the BNN since the IDB restricts long-term borrowing for the rural credit program to $6,000. The co-ops may, however, borrow from other windows at the BNN, notably the section for small industry ("Pequena Empresa"). The "problem" with this procedure is that once the co-op is out from under the protective wing of the Cooperative Section, it is treated as any other commercial BNN borrower. This implies tougher standards and often liens on the personal property of individual members. This is not such a serious problem in the big established co-ops like Esquipulas and Santa Ana (both departmentals) but the smaller struggling co-ops of the BNN family have difficulty meeting the higher standards.

Another factor limiting credit availability is that the original IDB Rural Credit seed capital is now fully committed. To accommodate new borrowers, the Co-op Section will have to re-order its priorities, and perhaps "graduate" prematurely some of its present clients to other BNN windows.

There seems ample evidence that borrowing from the BNN as a small individual farmer is a relatively costly proposition.[3] Some of

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[3] Although, as will be seen later, the BNN itself is a rather efficient lender by Latin American Development Bank standards, administrative cost is approximately $.09 per dollar.

the INVIERNO socios interviewed, themselves former clients of Crédito Rural,[4] stated a preference for INVIERNO over the BNN despite the fact that the latter lends at 10% and the former at 18%. The INVIERNO socios felt that the real cost of BNN loans (including trips to and from the "sucursal," delays in disbursements, etc.) was much higher; plus, the bank did not provide the complete farm supply, marketing and technical package as did INVIERNO. (See INVIERNO program description and analysis under 2 below.)

(2) Land Security

The BNN has two cooperatives which have served as direct vehicles for the distribution of land to formerly landless "campesinos." Though each co-op was organized under rather unique circumstances, they provide interesting illustrations of one possible solution - via cooperatives - to the land security problem of the rural poor in Nicaragua.

La Esperanza, formed in 1970 near Matagalpa with 25 members, was originally organized with the intent of lobbying to protect its members from the importation of foreign onions. At the time, all of the members were farming on rented land. An opportunity to buy land was presented when a medium-sized cotton operation in the vicinity failed, and the BNN foreclosed on the mortgage to recuperate payment. La Esperanza was then offered the chance to buy the land on a ten-year mortgage, at a price slightly below its market value. The total area of the "finca" was 150 manzanas plus several hundred acres of variable range land. The land is worked both collectively and individually, with each member possessing his own family plot of 1.5 manzanas. An irrigation

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[4] Approximately 10% of INVIERNO's socios are former BNN clients.

system has been put in and a tractor purchased, both with loans from the BNN. The co-op has been able to meet its repayment schedule without problems thus far.

The 18 socios of El Esfuerzo, like those of La Esperanza, were landless day laborers in the Masaya area when the cooperative was organized in 1970. The opportunity to buy land arose when a large landowner in the area defaulted on a BNN loan and opted to let the bank foreclose on 50 manzanas of his farm rather than pay off the debt in cash. (Apparently it was his intention that the land be transferred to the co-op.) Again, the land was "sold" to El Esfuerzo on a ten-year mortgage at a price slightly under the market value. The mortgage was paid 7 years ahead of schedule and El Esfuerzo now owns the land free and clear. A tractor has been purchased and a warehouse/meeting house constructed, both with loans from the BNN. The co-op is not behind on any payments, although it has been obliged to rent a part of its own land to resolve a cash flow problem.

Both El Esfuerzo and La Esperanza are impressive as examples of small cooperatives which seem to be succeeding economically. The socios themselves appear secure and optimistic in their attitude towards the future. The attrition rate was low in both co-ops, though potential growth was restricted by the land factor.

Despite the encouraging examples of those two co-ops, the prospects for carrying the model elsewhere are uncertain. In the first instance, land values appear to have risen sharply throughout Nicaragua; in the area of El Esfuerzo, some 470% in the past 5 years. Second, neither the BNN nor its source of financing in this case, the IDB,

normally lend for land acquisition. (The BNN was able to get around the regulation for the two co-ops described by using lands the bank had acquired through foreclosure.) There is a physical constraint as well; the BNN at present holds only 3,058 manzanas, perhaps enough land to benefit some 500 additional farmers.

Elsewhere in the BNN co-op family, land security continues to be a problem. Landless socios comprise 50% to 70%, respectively, of the Departmental Co-ops of Leon and Chinandega and 75% of BNN cooperative members as a whole. The socios of the Masaya departmental cooperative, mainly basic grain farmers, are being gradually moved off the land by rapidly rising cotton land rentals. The Masaya co-op used to provide a large tractor for the use of its members, but has been forced to abandon that service because of the land rent situation. Despite limited possibilities, however, there were widespread indications that BNN members viewed their co-op as a potential instrument (sometimes indirect) for acquiring more land. Several Santa Ana members, for example, had been able to purchase additional lands with profits they had been able to achieve through patronizing the cooperative.

(3) Input Delivery and Marketing Systems

The BNN co-ops have done well in farm supply and have been singularly unsuccessful in marketing. The Masaya Departmental was the only co-op visited which seemed to have problems with its supply operation; and this was due more to poor communication between management and membership than lack of opportunity in economies-of-sale purchasing. The other co-ops, especially the large cotton oriented departmentals,

claimed to be able to hold member loyalty even through periods of underpricing by the competition. The reason cited for this success was that the membership had learned to appreciate the need for capitalization and growth of the cooperative's assets and was willing to be slightly overcharged on purchases as long as profits were credited to member accounts at year's end. Smaller farmer members, however, with more immediate cash needs, were more skeptical.[5]

Marketing problems have plagued the big co-ops as well as the small. The Leon Departmental, for example, suffered a spectacular loss when its members refused to honor a cotton future delivery contract with Japan. The co-op owns a cotton gin, but only 40% of the membership makes use of it. The other 60% sell to commercial houses because they receive immediate cash payments, whereas the co-op makes them wait until the end product has been marketed.

In another case, the Masaya Departmental has suffered from corruption in its marketing process with the result that only 45% of the members presently use the co-op's services. The smaller land colony co-ops visited, La Esperanza and El Esfuerzo, had both made early attempts to circumvent intermediaries in selling their crops and discovered they could not compete profitably at their present level of volume. Inquiries into the possibility of joining informally with other producers in the area drew blank stares. (One member commented, "We are producers, not merchants.")

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[5] See IAN, Section E below on the Angélica de Schick land colony. Some colonists, former members of the Leon Co-op, had withdrawn because of lack of a short-term tangible gain from both input and marketing operations.

(4) Alternatives to Poverty Agriculture

The BNN co-ops which deal in cash crops have been considerably more successful t an those working in traditional crops. It is always difficult to determine whether administrative and management difficulties grow out of economic problems or vice versa. A sophisticated analysis is not necessary, however, to determine that a fundamental reason for the impoverished state of the Masaya Departmental cooperative as compared to the relative health of the other three departmentals is that the former deals largely with small basic grain producers and the latter with cotton growers. Though an obvious solution to the Masaya problem would seem to be a changeover to cotton production, high land rents, stiff competition and member inexperience with the crop makes such a shift unlikely.

To its credit, the BNN is very much aware of the basic grain problem and the great need for diversification to break the cycle. The bank recently organized a coffee growers co-op in Masatepe, for example, which has aspirations of eventually purchasing its own processing plant. In Matiguas, the bank finances a large meat and dairy cattle cooperative. Even with the smaller co-ops such as La Esperanza and El Esfuerzo, BNN promoters have an ear tuned to the possibilities of new crops with a higher return ("rentabilidad"). Cash crops require larger investments, of course, as well as higher quality technical assistance. The bank is limited on both counts, funding plus a real "gap" in expertise and manpower. (See following section)

(5) Technical Assistance

The BNN has only 6 agronomists to attend to its 16 cooperatives. To the team's knowledge, there are no other agronomists working directly with these groups with the exception of the Leon

Departmental which has its own full-time specialist in cotton production. As implied above, the co-op section's agronomists face a more technically challenging job than does the average BNN Crédito Rural extension agent due to the more complex and varied needs of co-op management and production. In some cases, the bank agronomists admitted openly to team members that the farmers knew more about specific crops than they did.

The expertise gap is perhaps more serious, however, in the management/accounting dimensions of the work. The larger co-ops in particular, have become big businesses with big business problems. In two cases, for example, the Chinandega Departmental and the Matiguas cattle cooperative, specialized assistance for the carrying out of large fixed asset investment feasibility analyses have had to be sought elsewhere.[6]

(6) Roads and Water

While the BNN is unable to attack the road problem, in certain instances irrigation systems have been financed. I the case of La Esperanza, both well and river fed irrigation systems have been purchased with bank loans. The Co-op Section professes, however, a lack of both capital and experitse in this area. In the Pacific region especially, well irrigation is a very expensive proposition due to natural limitations.

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[6] Technoserve performed the studies (See PVO Chapter, Section D)

(7) Local Organization for Community Problem Solving

In general, the BNN cooperatives seem to have a sound grasp of how their organizations could be used to solve local economic problems, although their ability to bring the structure to bear on non-economic needs has thus far been fairly limited. Instances of economic problem solving include two examples of genuine, non-directed, indigenous inspired cooperation to achieve an objective. In the first instance, the president of the Esquipulas co-op organized a group of cotton producers on his own initiative to take advantage of a higher bulk rate at the local commercial gin. In the second, onion growers of La Esperanza, while still a pre-cooperative, organized and sent a lobbying group to the Ministry of the Economy which succeeded in closing the border to foreign imports.

In the social area, the one example encountered where decisive group action had been taken was again with La Esperanza. As an alternative to a badly needed medical dispensary for their isolated community, members had contracted a private doctor to make two visits per month to the co-op and had established a medical fund as a means of paying him. La Esperanza also had hopes of finding a school teacher and was being assisted in the endeavor by INVIERNO.[7]

c) Rural Development Strategy Considerations

(1) Least Cost Provision of Services

The BNN's ability to combine small, medium and large borrowers allows it to be a fairly efficient rural lender. In 1976 Crédito Rural lent a total of $13.6 million at a net cost (after deduction

[7] This was the only case encountered where INVIERNO was actively collaborating with one of the BNN cooperatives.

of interest income) of $1.27 million or 9 cents per dollar. The cost per client served came to $37.86. Although cost of rural lending figures for other National Banks in Latin America are not readily available, it is known that BANDESA, Guatamala's agricultural development bank, spends over a dollar for each dollar loaned.

Arriving at a total cost figure per cooperative borrower is difficult due to the fact that co-ops are served by three different sections of the bank. A very crude estimate may be obtained by treating the cost of servicing the co-ops as consisting of two components, a co-op section component and a combined small business and branch bank, direct-to-member lending component:

$$\frac{\text{Co-op Section Budget}}{\text{Total Co-op Members}} = \frac{\$96,000}{2,824} = \$33.99$$

The amount of money destined for co-ops and their members handled outside the department (in branch banks and the Small Business window) is estimated at $1,428,571 (10 million Cordobas) per year. The cost of handling this money is assumed to be the same as that of handling other Crédito Rural Loans; i.e., 9 cents per dollar. This leads to a total cost of $128,571 and a cost per member served of:

$$\frac{128,571}{2,000}^{8} = \$64.28$$

or a total cost of $98.27 ($33.99 + $64.28) per co-op member per year. Two factors make these estimates suspect, but it is believed that they partially offset each other.

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8 The 2,000 figure excludes Leon members, all of whom are handled through the Cooperative Section.

- Co-op loans by the Small Business Section are larger, entailing lower overhead and, thus, inflating the second component of the cost figure.

- The Co-op Section draws upon personnel and facilities from the larger Department of Rural Credit which would make the first component a conservative estimate. Also, other contributions from branch bank personnel are not taken into account here.

The team was tempted to compare the BNN cost per socio served of approximately $100 with the INVIERNO figure of approximately $400. Such a comparison would be unfair, however, in view of the fact that the INVIERNO program includes a number of services which the bank does not, and because some of the higher figures may result from "start up" expenses. (INVIERNO is only two years old.) Also, the BNN enjoys an initial advantage over the INVIERNO program in that it combines large and medium loans with target group (small farmer) loans under the same roof, thus lowering the nominal cost of its loans to the individual borrower. The implications of this will be explored further below in the INVIERNO Section.

(2) Self-sufficiency of Member Controlled Groups

A key element of any strategy for financial self-sufficiency is the capital formation process. By this standard, the BNN sponsored co-ops are doing exceptionally well. The smaller cooperatives visited had built up significant amounts of capital through reinvestments of earnings in fixed assets such as tractors, irrigation equipment, and warehouses. Not the least of La Esperanza and El Esfuerzo capital

resided in land, which has more than tripled in value over the past five years. The large departmental co-ops visited had accumulated impressive amounts of member capital, chiefly through a statutory ban on distribution of cash patronage refunds for the first 5 years of co-op operations.

As a sign of financial health, some co-op experts look for a 1 to 1 or better net worth to fixed assets ratio. By this criteria, the Departmental cooperatives performed as follows:

	Net Worth/Fixed Assets
(1976) Santa Ana (Chinandega)	5.9 to 1
(1976) Masaya (Masaya)	1.49 to 1
(1977) Esquipulas (Leon)	0.93 to 1

The situation of Masaya and Esquipuals is favorable under this criterion. The case of Santa Ana is perhaps extreme. The ratio of the latter may have changed recently, however, due to several significant investments including the purchase of two helicopters.

There were exceptions to the generalization advanced above. Some of the smaller cooperatives, notably Los Laureles in Tipitapa and Santiago in Jinotepe, have accumulated less than $25 capital per member in 10 and 5 years of operation, respectively. Two of the Department Cooperatives, Rivas and Masaya, also have low average capital per member ratios. It also should be noted that a cooperative may present a favorable image upon cursory examination of the balance sheet; but if the benefits are not being distributed evenly within the organization or are not large enough to induce a high percentage of member participation, forces can be unleashed which will eventually

undermine the financial health of the organization. (Unfortunately, time did not permit a more exhaustive investigation into the true financial positions of these organizations.)

Another index of self-sufficiency is the ability of the organization to hire and pay its own professional management. Santa Ana and Esquipulas both began with subsidized management and now pay a staff of 17 and 12 professionals, respectively. The manager of Santa Ana is a former BNN employee and earns close to $10,000/yr. The Matiguas cattle co-op has its own full-time bookkeeper, warehouseman, and veterinary store manager. El Esfuerzo, a co-op of only 19 members, has its own accountant at a salary of $115/month. La Esperanza currently enjoys the benefit of a BNN-paid accountant/manager but hopes to take over his salary in the near future.

The outlook for BNN co-op self-sufficiency is generally good but not free of problem areas. The communication and long-run viability problems of the Masaya co-op have already been mentioned. There are hints of big versus small farmer divisions within the Leon Departmental. A final judgement on the prospects of the system regarding self-sufficiency must await a more complete analysis. (See d) "Vertical Integration" below with respect to the potential viability of FENICOOPA, the proposed agricultural cooperative federation sponsored by the BNN.)

(3) <u>The Equity Concern</u>

Although no complete profile on the economic status of BNN co-op members is currently available, it is obvious that a number of them fall outside of AID's conventional "target group" criteria.

A knowledgeable Co-op Section employee, however, estimated the average BNN member income to be $1,000 per year, which is not that much with a family of six or eight to feed. Co-op Section statutes themselves allow considerable leeway. A cooperative can have members with a net worth of $71,000 and still be eligible for a BNN 10% loan, but it is not clear that even these broad limits are enforced. The cattlemen of the Matiguas co-op jolted the interviewers with the statement that, if necessary, they could raise between them $30,000 in two weeks. Many of the Matiguas members were, in fact, the "Patrones" of INVIERNO's socios living in the same area.

On the other hand, 74% of the Bank's co-op members do not own land. The 50% of the members of the Esquipulas co-op that do own land reportedly hold only between 5 and 25 manzanas. 70% of the Chinandega members are landless, and of the 30% who aren't, the average size farm is 8 manzanas. The average capital of all BNN cooperators is $167. While the average capital per member of the Esquipulas co-op is $300, 85% of the members have less than that amount. Furthermore, using the "eyeball test," i.e., mode of dress, presence or absence of gold teeth, wrist watches, etc., it is apparent that a good number of members can be classified as "target group" farmers. In fact, though solid proof would require a rigorous analysis, the team had the impression that the preponderance of the newest members in the Departmental co-ops visited were from the lower end of the economic scale.

(4) The Urban Migration Question

The general approach of the BNN is to strive for large regional cooperative organizations with true economies of scale and diversified services. To the extent that a cooperative can enter into a "value added" function in processing or marketing, local area employment and income is generated. In the Chinandega departmental cooperative, for example, after the new proposed cotton ginning operation is established, a total of 1,250 jobs by 1982 will have been generated benefiting a total of 7,452 people in the aggregate,[9] including co-op members, employees, construction workers, field labor, and families.

From most reports, the drop-out rate from BNN cooperatives is quite low, and overall membership is growing every year. Total membership is expected to grow to over 6,000 by the end of 1981 from approximately 3,000 today. It is admittedly a small portion of the total rural population, but the co-ops are definitely contributing their part to stemming the tide of urban migration - at least to the metropolitan area of Managua.

d) Vertical Integration

Although not listed earlier as a criteria for this assessment, one final element of the BNN response should be at least touched on. This has to do with the initiative, sponsored by the bank, for an agricultural cooperative federation which would provide centralized supply, marketing services and, eventually, credit to its members.

While the federation, FENICOOPA, has been legally formed, it has yet to actually function and is totally lacking in operating capital.

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[9] Technoserve, Inc. Project Study for Cotton Ginning and Agricultural Services Enterprise, Santa Ana Cooperative, June 1977.

Unfortunately, the team was not able to study the federation plan in any real depth. Based on the field experience in general, however, and past experience with such plans, a few observations can be made.

In the first place, the team has reason to doubt that the necessary economies of scale exist over and above what the co-ops are already realizing in procurement and distribution of inputs. The concern is especially strong with respect to fertilizer. In fact, adding a federation with substantial administrative and fixed costs could seriously increase the cost of both inputs and marketing to members, provided they used the federation, which the team likewise finds questionable

In addition, the BNN co-ops probably should wait, become stronger, and resolve individual internal problems before attempting to support the cost of a federation out of narrow operating margins. The Masaya co-op, for example, is in no position to make higher level commitments when it has yet to satisfactorily service its own members. Nor has there been developed a convincing and clearly demonstrated economic rationale for the federation with respect to marketing. It is true that the BNN co-ops have a common need for credit and inputs, but their production operations and hence marketing needs are quite diverse (Masatepe - coffee, Leon and Chinandega - cotton, Masaya - basic grains, Matiguas - cattle, La Esperanza - onions, etc.). Most of the BNN co-ops have been pursuing independent courses with considerable success and should not now burden themselves with a secondary level organization where advantages are not immediately apparent.

e) Findings and Recommendations: The BNN and its Cooperatives. (Also see Criteria, Section D)

(1) Credit

i. Additional Lending Capital

The team was not able to determine if there was or wasn't an absolute shortage of capital. It was felt in general that the gap between what was wanted by the co-ops and what the Bank could provide through its cooperative program was more one of policy than of actual resources availability.

ii There does appear to be a substantial gap in the area of medium and longer term credit, both to cooperatives and individual members, for fixed assets, land, irrigation, and other improvements. Lending should be expanded in this area.

iii. In all but the case of the Leon Departmental cooperative, the BNN is lending directly to socios for production credit. The team felt that the BNN should experiment more with group credit, in a carefully controlled and advised approach, to test whether some of the other cooperatives could not handle production credit prudently and realize a savings, both to members and the Bank. According to the Bank's regulations, co-ops are allowed to receive up to a three percent margin on lending and could also borrow at a lower rate.

(2) Land

i. The BNN should consider conducting an inventory and analysis of its own land and potential land holdings, from foreclosure, with a view toward distributing these, on a credit basis, to groups similar to La Esperanza and El Esfuerzo.

ii. The BNN should analyze the possibility of extending long-term credit for land acquisition both to cooperatives and on an individual basis to members when appropriate criteria can be met in terms of production experience, capability, credit worthiness, etc. Possibly, an arrangement could be worked out under the proposed Land Sale Guarantee Fund. (See INVIERNO Land Security section below 2.b) (2).)

(3) Marketing

The BNN and its cooperatives need considerable assistance in the marketing area. This was found to be universally true with cooperative structures in Nicaragua. Two initiatives should be considered:

i. A full-scale cooperative oriented agricultural marketing study which would indicate where real opportunities may lie for co-ops in specialized or processed production of whatever type.

ii. The hiring or contracting of a long-term highly qualified and experienced advisor in the marketing area.

(4) Diversification

The BNN is working hard in this area but needs help. Conversion from basic grain production is an arduous process. More experienced agronomists are needed over the long term to make real inroads. Possibly the Bank could develop special incentives for diversification through the cooperatives affected.

(5) Technical Assistance

i. The BNN Cooperative Section is in serious need of technical assistance in the following areas:

- Long-term marketing expertise (Ag/Econ or M.B.A. background).
- Long-term co-op management and accounting skills.
- Capability to hire short-term specialists/ consultants in a variety of areas, i.e., cotton, coffee, various agro-industrial and processing fields, import/export, etc.

ii. The Co-op Section is also in need, as claimed, of an expanded basic staff capability with which to directly assist their cooperatives, especially given the number of new cooperatives which they expect to form over the next five years.

(6) Least Cost

Although the BNN is a relatively efficient lender, there are measures which could be studied for further cost reduction.

i. Lending to and through cooperatives for production credit (like Esquipulas).

ii. Assistance and incentives to cooperatives to hire their own qualified managerial and technical people so that the Bank would be able to reduce its own management and technical inputs. (The Bank might consider management loans as practiced in the case of the FUNDE cooperatives.)

(7) The Equity Concern

A study should be carried out to determine the extent to which the smallest farmers have benefited through their affiliation

to the large departmental cooperatives. Several specific questions should be addressed, including:

i. Are the incomes of the smallest farmers rising at the same rate as those of the larger farmers in the co-op?

ii. Has the co-op absorbed a larger percentage of small farmers as it has grown, or has it become more "big farmer" oriented?

iii. Do all socios have equal access to all the services of the co-op, or are there some services which only the larger farmers can take advantage of?

This study would serve the dual purpose of revealing the effectiveness of the BNN's co-ops as a vehicle for small farmer development as well as serving as a trouble-shooting tool for individual co-op managers.

(8) Member Education

The BNN should make a concerted effort to improve member education programs in the individual cooperatives with special emphasis on the area of member rights and obligations under the statutes. There is also a need to explain capitalization systems and to spell out exactly where and how much of the individual member's capital has been invested.

(9) The Proposed Federation

It is not recommended that establishment of formal operations of the federation be attempted until cooperative membership and the volume of operations justify such a move, which is not expected

to occur in the short or medium term future. Also, prior to any action toward vertical integration, a thorough feasibility study should be carried out.

2. INVIERNO

a) The Program

The INVIERNO Program represents the GON and AID answer in Nicaragua to the need for a dynamic, self-contained, integrated, rural development institutional mechanism. It has made extraordinary progress in outreach during its first two years of life by any standard. The team was universally impressed by the dedication, professionalism, detailed knowledge, and action oriented enthusiasm of its staff, both in central and field offices.

The details of the INVIERNO program are amply described in a number of readily available AID and GON documents, and it is believed unnecessary to cover them again here except as certain elements relate to the study. To begin with, it is sufficient to point out that INVIERNO is presently active in some 300 localities throughout Regions II and V (Central Interior and Pacific zones) and services an estimated 7,000 plus farm families. Recently, approximately 40 community councils, "Juntas Comunitarias," have been formed and have begun general awareness, "concientizacion," training in a series of four day courses. (Similar training is programmed for the remaining 260 "juntas.") The personnel attached to each of the present six regional centers (CEDES) have been organized into teams with specific area responsibilities, each

team consisting of a supervisor, plus agricultural ("agromoc"), ("Credomere") credit and social promotion technicians.

b) Response to Member Needs

(1) Credit

INVIERNO's direct small farmer finance system utilizes a line of credit approach which strives to cover all socio[10] needs related to the production operation, including land rent, inputs, hired labor, and family subsistence. The main criteria for loan eligibility are access to land (maximum 99 mz.), positive character references within the group, and a clean record with other lending institutions. INVIERNO uses a somewhat esoteric formula for determining repayment schedules and default penalties which makes allowances for bad years and other extenuating circumstances influencing the socio's ability to pay. Thus far, all credit has been provided direct to the socio along with other inputs through INVIERNO's unique mobile team delivery program. One hundred percent of the socios interviewed expressed satisfaction with INVIERNO's handling of credit operations, and former clients of the BNN testified as to the swifter, less troublesome application process of their new lending institution.

INVIERNO's first year of credit was characterized more by outreach effort than by rigorous enforcement of lending standards resulting in an "unjustified" delinquency rate of 11%.[11] In their

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[10] INVIERNO recipients are also known as "socios" or "members."

[11] As explained above, INVIERNO distinguishes between ordinary delinquency and justifiable delinquency.

second year of lending they have tightened controls, and, though it will be several months before final results are in, INVIERNO's staff expects to even improve this "respectable" delinquency rate. The team found impressive evidence of tighter controls in the Masatepe CEDE, where 33% (500) of all initial credit applications were rejected. Also, through cooperation with the BNN and other lending institutions in its area of operations, INVIERNO has done a thorough job of weeding out double borrowers and bad loan risks, although only 16% of the current socio group had had access to institutional credit prior to the program.

On occasion the complexity of INVIERNO's repayment formula has taxed the socio's ability to comprehend. This is only a problem, of course, if it affects the viability of the program. In one of the communities visited near Matiguas, all of the socios had had their repayments postponed, and as a result none of them paid off any of their outstanding balances. Though climatic conditions had certainly warranted concessions in the repayment schedule, the team was concerned that, as a first experience with credit, the local group might come away with an erroneous impression concerning the seriousness of their repayment responsibility in general. During questioning, the Matiguas group reinforced this impression by expressing that the future was an unknown quantity and that they were simply grateful to be affiliated with any "campesino" organization giving credit. On the other hand, in the case of the La Trinidad and Masatepe communities, repayment seemed to be less of a problem. Socios who had had their repayments postponed

had often cancelled their debts voluntarily. The Masatepe regional manager stated that he was expecting 100% recuperation.

One curious development in the credit operation has been the large gap between authorized loans and actual loans, a situation which as had the effect of raising the cost of credit per dollar loaned. One possible explanation, advanced by the Masatepe Manager, was that socios "don't like to be in debt." (The more likely reason may be that socios don't like to spend any more than they have to on production inputs.) In any case, INVIERNO's "complete coverage" approach to credit probably should be reexamined with this factor in mind with a view toward keeping the cost element per dollar lent within reasonable limits. (see "Least Cost" section below.)

(2) Land Security

As part of the AID loan project supporting the INVIERNO program, a national land sale guarantee mechanism is being developed by DIPSA through the Ministry of Agriculture and the Central Bank for initial implementation in early 1978. It will be available for use by INVIERNO and other institutions such as the BNN to facilitate small farmer land acquisition. DIPSA is also working on tax incentives. Hopefully, this activity will contribute much toward aleviating the land constraint problem. Farmers have certainly indicated a willingness to borrow for land, and experience elsewhere has shown that "campesinos" will organize and participate effectively for land acquisition[12].

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[12] Tendler, Judith, "Inter-Country Evaluation of Small Farmer Organizations, Final Report," November 1976, p. 15.

In the meantime, land insecurity persists for the majority of INVIERNO's socios; although since credit is virtually guaranteed for the immediate future, their position - in one sense - is more secure in that they know they will have rent money available. Large land owners know this, too, of course, and there is suspicion on the part of some INVIERNO socios and personnel that rent hikes may be directly precipitated by this government financed increase in small farmer liquidity. Although at present there is not enough evidence to substantiate such a theory, competition for land, the scarce factor of production in this case, conceivably could increase due to the pressure of new working capital in the countryside. The effect such a phenomenon could have on expected increases in return to the farmer from INVIERNO financed inputs is worth studying.

(3) Inputs and Marketing

INVIERNO's agricultural supply system has been successful in delivering fertilizer, insecticides, and other inputs directly to the farmer in his community at a price generally on a par with the competition. Beyond this, supplies arrive at the farmer's doorstep with only the actual cost of transportation added. When one considers the battery of services that comes with both the supplies and credit, however, it is no wonder that the farmer is happy to pay the 18% interest rate. He is still receiving a substantial subsidy in the form of free technical assistance, training, and marketing assistance.

Marketing services to date are limited to two principal activities: a) the government may act as a buyer of last resort through

its national marketing institute (INCEI), and b) INVIERNO provides information and liaison services putting socios in contact with buyers when the market price is superior to the support price. The program can be judged a success in that during the project's first year, the credit and marketing technicians (Credomercs) were able to market 98% of the socios' production through private sector buyers at prices superior to the INCEI support price. This year, because of INCEI's relunctance to purchase socio production due to above normal production nation-wide, INVIERNO has apparently backed away from an earlier decision to enter into a large scale speculative storage program with INCEI and opted instead for exploring the promotion of inexpensive on-farm storage facilities to be purchased and maintained by individual socios.

Socios in the Masatepe CEDE seemed pleased with the marketing and information service they had received and echoed a refrain heard often throughout the week, that the extra 8% (over BNN/IDB subsidized credit) paid for INVIERNO money was a worthwhile investment, given the other services offered.

(4) Alternatives to Poverty Agriculture

INVIERNO has argued, quite reasonably, that it must begin to service the socios in the crops they know and have a desire to grow. (For a good portion of INVIERNO socios, this is their first exposure to modern agricultural technology.) The first two years, then, have seen no radical departure from the basic grain financing which has characterized attempts to aid subsistence farmers elsewhere in the

developing world. INVIERNO, however, has initiated some demonstration plots and, under the AID loan, has contracted with INTA, the technical arm of the Ministry of Agriculture, for the development and introduction of new crops of higher return, "rentabilidad." To date, this work has been limited to the establishment of a series of experimental trials consistent with small farmer objectives in Region V. In Jinotega, particularly, substantial work is being done with vegetables. In Masatepe, research is being carried out by INTA in tobacco, independent of the INVIERNO financed small farmer research program. In addition, almost 15 non-basic grain technological packages have been developed for use in the INVIERNO program.

(5) Technical Assistance

The team had little basis for judging the technical quality of assistance provided by INVIERNO, although their field personnel on paper appeared thoroughly qualified. One problem voiced by the manager of the regional office in San Ramon was the high price and scarcity of improved seed varieties. More important from the team's view, however, was the tremendous dedication observed on the part of field agents. It is probably a new first in Latin America, and certainly in Nicaragua, to see an entire institutional corps of extension people singlemindedly pursuing the better economic condition of the small farm group exclusively and with such obvious enthusiasm and intensity. (Farmer groups were often visited once a week.) As INVIERNO expands its coverage toward the eventual goal of some 40,000 families, however, intensity will obviously have to decrease. Hopefully, the enthusiasm element will not.

(6) Water and Roads

In 1976, INVIERNO promoted the reparation of 88 Kms. of road which benefited an estimated 5,300 people living in 14 communities. Road improvements of the type attempted by INVIERNO are of very low cost with the socios supplying both labor and materials. Much of INVIERNO's planned expansion, however, will have to wait for further road construction and improvement, especially in the mountainous areas of Region V. (AID Loan financed road construction is expected to commence in February 1978.) INVIERNO's policy is not to work with a community unless it is served by an all weather road and is within 25 kilometers of one of the regional offices (CEDES and Sub-CEDES).

Concerning water, two mini aquaducts and one well have been constructed so far, benefiting an estimated 520 people in three communities.

(7) Local Organization for Community Problem Solving

A unique aspect of the INVIERNO program is its awareness "concientizacion" training designed to teach local leaders how to direct their communities toward the solution of local problems such as lack of educational or health care facilities. As the activity is understood by the team, it is intended to create socially viable and cohesive groups oriented both toward community action in the "self-help" sense as well as obtaining assistance and resources from government and other services in the "pressure group" sense.

Training, which only began in August 1977, has been provided to 40 of the 300 organized "juntas." It is too early to assess with any validity, therefore, the current or potential impact of the training. Nevertheless, the team believes that social benefits from the training will be substantial. At a regional training session in Matagalpa which was observed by the team, recently formed "Juntas" made lists of projects which they decreed to be of top community priority. They also attempted to lay out steps necessary for project implementation. The team learned of one group, for example, which had raised $3,000 on its own initiative for road repair and maintenance. In another case, the "Junta" visited in Matiguas had identified a need for another teacher (the one they had taught a class of 200) and for a potable water system but was unsure of what additional steps were necessary to address these needs. The leap between problem identification and effective community action is obviously a key element and is being addressed by the program.

Most projects to date in INVIERNO organized communities have taken place in the health area in coordination with the Ministry of Health's PLANSAR program. Over 600 latrines have been installed, 631 houses fumigated, and 21,947 vaccinations administered. In education, 9 schools have been improved. In general, INVIERNO's groups have begun thinking about community problems in a more constructive manner, and some fairly simple projects have been initiated which do not make excessive demands on external institutions. Much of the success of the effort hinges, however, on the extent to which

resources and cooperation can be secured from institutions outside of INVIERNO's immediate span of control. (See Public Sector Chapter discussion of the need for greater coordination between INVIERNO and the Ministry of Health, Chapter VI, Section C, 4.)

c) Strategic Rural Development Criteria

(1) Least Cost Provision of Services

Time did not permit an in-depth cost analysis to determine how efficiently INVIERNO is providing its services, though the ATAC report of October 1976 indicated that the cost per socio serviced was a little over $400, and cost per dollar loaned was approximately 77 cents. This is rather high but not surprising in view of the low economic status of the target group and the high start-up costs associated with a program of this nature. Any program which deals with such a high percentage of small farmers (soliciting loans averaging around $216) is bound to run disproportionately high administrative costs, due to the work involved in developing and processing a large number of small projects. A correspondingly lower level of interest income naturally results. INVIERNO also invests a good deal of time and resources in non-revenue producing endeavors, such as training and social work, which raises the bill still further.

Nevertheless, INVIERNO has adopted a number of cost-cutting measures which demonstrate its appreciation of the need to economize. Its efforts to seek out existing structures in the public and private sectors with skills or resources of which INVIERNO socios could take advantage are indicative of a desire to avoid wasteful duplication of services. Examples of this are INVIERNO's

four-year agreement with INTA for technical assistance, collaboration for integrated community services with the Ministry of Health, and similar arrangements with the Ministry of Public Works, INCEI, and the Ministry of Government. In addition, ATAC reports a savings of $300,000 in administrative costs realized through the creation of a sub-CEDE and a policy of tying the hiring of new personnel to proportionate increases in membership. INVIERNO computerized loan application review, approval, accounting and information systems also undoubtedly save administrative cost, although how much, the team was not able to explore. INVIERNO's slow, deliberate growth strategy of limiting new promotion to areas where roads and community groups already exist have also helped to keep the budget within manageable bounds.

One of the best ways of reducing costs, of course, is for INVIERNO to withdraw from as many services as possible without sacrificing the effectiveness of the organization. This issue is treated separately below.

(2) Self-Sufficiency of Member Controlled Organizations

While INVIERNO has made excellent progress in a very brief period of time (3 months) with respect to the human groundwork for independent "campesino" organizations, there is much yet to be done toward achieving self-sufficiency on the business side of the operation. In the view of the team, three elements in particular merited special attention as discussed below.

i. Local Savings

None of the socio groups interviewed had initiated the practice of saving a few cordobas a month to begin building capital. Admittedly, it is difficult for many of the socios to think about

saving, as any increased income from the program is immediately called upon to meet other urgently felt family needs. Nevertheless, regardless of what organizational model INVIERNO opts for in the long run, it will require member capital. Also, in the team's experience, credit systems which require the participants to invest from internal resources have an easier time commanding member loyalty and effective participation during both prosperous and difficult periods. It is self-evident that for the socios to "grow" economically, they will need to save and invest in their own future through improvements to the production operation or other measures.[13]

ii. Role of the "Junta Comunitaria"

Thus far, the "juntas" appear to have no tangible function in the annual production/marketing cycle. The Agromocs and Credomecs handle all aspects of credit, input distribution, and marketing. The longer this situation persists, the team believes, the more difficult it will be for the members to see the logic of their own participation in the process. INVIERNO plans to initiate, however, some limited support activities on the part of the "juntas" in that they will assist with loan approval and collection activities. This is a step in the right direction. In any event, it is important that the "juntas" not be insulated from more substantive functions.

In addition, while the INVIERNO plan envisions the grouping of the "juntas" under a regional, eventually member controlled, cooperative scheme (the "Tienda Campesina" discussed below) services are obviously needed at the community level and there could

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[13] Apparently socios can deposit savings in an interest-bearing INVIERNO account, although none interviewed had initiated the practice.

be some diseconomies of scale in the regional context. To the extent that viable functions can be found for the community group - in the area of true management of resources one way or another - these should be encouraged. Group credit could possibly be such an element. Another could be local storage or some other function in the marketing chain. Once the "Junta" is able to perform a genuine intermediary role over a needed service, this can be a means for both internal capitalization, by means of deducting a small margin, as well as for the gradual building of local management capability. A more meaningful role could also provide for greater participation, awareness, and pride at the community level as well as counter grumblings from other quarters (public and private) about the "paternalistic" nature of INVIERNO's program. (It would be good "PR.")

At present, it is hard for "juntas" to borrow money or do business on their own account as they do not have legal status "personera juridica." This could be resolved, however, through appropriate legislative initiative. Such a move is recommended by the team. (See Findings and Recommendations below.)

iii. The "Tienda Campesina" Plan

The "Tienda Campesina" Plan is to be the answer to the need for a member controlled, self-sufficient mechanism for the provision of the necessary package of production and marketing services to the socio in the future, which INVIERNO is currently supplying directly at substantial expense per head. According to the feasibility study, the "Tiendas" will first operate as regional stores, with both farm inputs and basic household consumer items, before

eventually moving into marketing and credit operations which are seen as more risky areas requiring greater volume, experience, and administrative capacity than the organizations will have initially. Thus, the "tienda" essentially will be a regional consumer cooperative to begin with. There are several options laid out for member entrance and capitalization of the store, although whatever method is chosen, INVIERNO will probably have to finance the required working capital. Management, at least initially, will be recruited, trained, and provided by INVIERNO.

Feasibility and other groundwork by INVIERNO concerning the "tienda" is still going on with technical assistance from an AID loan financed contract with Servicios Técnicos del Caribe. (The team arrived in October 1977 and has been working on the development of detailed implementation plans.) It is understood that the first store will open sometime in the Spring of 1978 in the area of the La Trinidad CEDE. There was, therefore, no opportunity to study an operating model.

The plan, conceptually, seems eminently logical, and the team was impressed by the developmentally attractive nature of the model. Neither US nor Latin Governmental institutions are known for setting up private sector mechanisms for working themselves out of a job. The model also answers the need, on the face of it, for a sufficient volume of operations for true economies of scale. Nevertheless, the team has certain doubts concerning technical feasibility which it hopes INVIERNO will find useful as it proceeds with further investigation and planning for implementation. (It is only fair to mention

that in feedback sessions with INVIERNO there was nothing brought out that INVIERNO had not thought of one way or another. It may be helpful, though, to have these thoughts in writing as a continuing reference to certain key questions.

. Competition and Economies of Scale

After considerable travel and observation throughout Regions V and II, the team questions whether or not existing and potential competition has been adequately estimated. Projections of socio and non-socio patronage are feared to be optimistic. (As of this writin the projections have been lowered somewhat as a result of further analysis by Servicios Técnicos.) Part of the reason for the team's concern stems from past failures of consumer cooperative programs in Latin America (some AID financed) which have not been able to stand up to private sector competition, which was either there in the first place or moved in, in response to a previously unforeseen opportunity to take advantage of existing demand. In other cases, such as with the cooperative commissary in Santa Lucia, Boaco, the store has the effect of forcing down prices in the area and then ends up loosing money despite the beneficial externality to the community. (With a sufficient subsidy, of course, competition can be driven out of business.) Another consumer cooperative in Masaya, financed by the BNN, is rapidly decapitalizing.

In the case of the INVIERNO plan, the chances of success are probably much greater than normal due to the caliber of management and supervision that will undoubtedly be applied. In

addition, the socios will receive the same farm supply transport service under the "tienda" that they now receive from the INVIERNO CEDE. Finally, "concientizacion" training will help and there is reason to believe that socios will respond favorably because of faith generated by such training that the store represents an eventual way out of the poverty cycle.

In disucssions with INVIERNO concerning the issue of competition and economies of scale, a study by a Peace Corps volunteer attached to the Banco Popular was brought up by the team which discussed an oligopoly in the Managua area at the producer-distributor level, which essentially fixed prices and limited economies of scale in basic food stuffs. It was also pointed out that strong competition existed in both wholesale and retail operations that limited margins. This study may or may not be valid concerning areas away from the "macro-metropolitan" area of the capital city. The team did notice that basic commodities did not appear to vary much in price from one region to another. In response, INVIERNO indicated that they were aware of the study and the situation, but that with a number of "brand name" products there were, in fact, considerable economies of scale to be realized. If this is indeed the case, then perhaps the team's concern in unfounded. In any case, it is important to be on top of the competition factor and deal with it explicitly in the planning process, which INVIERNO undoubtedly will. Of the areas visited, competition was estimated to be especially strong in the Pacific Region II where the model may have to be modified considerably to take the problem properly into account.

. Disposable Income

As a class, the "tienda" will serve people with some of the lowest levels of disposable income in Nicaragua. Projections of increases in disposable income on the part of this group may be optimistic given the fluctuating nature of weather and agricultural market conditions in Nicaragua.

. Capitalization by Members

Notwithstanding the generally favorable responses found in surveys taken during the feasibility study, the team wonders if it was clear to potential socios that they are to capitalize the store through any one of four different alternatives, including patronage. No matter how it's done, it represents a cost to the socio and an active decision to take on the commitment. While the team is totally in favor of member capitalization, one cannot help but speculate as to why the INVIERNO socio would sacrifice to invest in a facility when there is no apparent immediate benefit from such an investment. As the team understands the plan, prices will be the same to socios and non-socios alike. Assuming a successful business experience for the store, there will be eventual payoffs through patronage refunds and/or other services. The team believes, however, that it might be worth considering some sort of more immediate and tangible return through socio discounts or some other means. This is also important, as has been seen in other settings, because small farmer socios sometimes have trouble relating to ownership of a small piece of a large fixed asset in a regional context; i.e., the Departmental Cooperative in Leon. (See Section E, 5 a) (1),

On balance, the team can be described as hopeful, but concerned, regarding the foregoing points. It is confident, however, that the above and other areas relative to the "Tienda Campesina" plan will be checked out and explored further with INVIERNO's characteristic thoroughness.[14]

(3) The Equity Concern

The fact that the majority of INVIERNO's socios are from within the "target group" has never been in question, as the following figures will attest:

- 82% of the socios farm an average of 2.3 manzanas
- 81% farm fewer than 5 manzanas
- 95.5% farm fewer than 10 manzanas
- Only 2.1% have more than 20 manzanas

Although there are isolated instances of target group violations - INVIERNO is indisputably the "poorest" government-managed small farmer organization operation in Nicaragua today, and perhaps in Latin America.

(4) Rural Urban Migration

The advantages of the INVIERNO program are so obvious in relation to this criteria that the team did not feel further comment was necessary.

d) Findings and Recommendations

(1) Credit

i. INVIERNO might consider working on a more easily understood explanation of the repayment formula, not because there is

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[14] A recent update of the Tienda Campesina feasibility study by Servicios Tecnicos shows good chances for success even with reduced volume and staff cost assumptions.

anything wrong with complexity, but rather so that repayment responsibility is as clear as possible to the socio.

ii. INVIERNO might consider experimenting with group credit as a means of providing management experience to the "Juntas" and giving them one means of capitalization. (A modest margin could be deducted.)

iii. INVIERNO should consider raising interest rates even further in order to cover a greater percentage of the true cost of services supplied. This could accomplish two desirable things.

a) Provide a greater incentive for "graduation" so that INVIERNO could expand coverage in other areas and

b) Prepare the socio to more fully support the "Tienda Campesina" plan as an alternative to direct INVIERNO dependency.

(2) The Land Constraint

i. Once the land sale guarantee activity is established INVIERNO should consider lending for land acquisition by community groups (the down payment "prima"). (Again, this may require legal status for these groups.) Experience has shown in both Nicaragua and elsewhere that "campesinos" will organize very effectively around land acquisition projects, although as known from AID programs in Ecuador and Costa Rica, there are other difficulties to be overcome with the land sale guarantee type mechanism.

ii. INVIERNO should study the possibility that land rents and values in part may be rising in response to the complete coverage credit program. If this is the case, there may be compensating disincentives to higher rents that could be introduced through taxes or some other means.

(3) Marketing

INVIERNO's limited marketing activity thus far (primarily information and contact services) is excellent and should be left alone. The team concurs with INVIERNO that attempts to incorporate marketing into the "Tienda Campesina" plan should be discouraged until a series of full fledged feasibility studies have been accomplished. At that point, long term specialized technical assistance in marketing might be in order.

(4) Community Action

A more firm understanding should be worked out with the Ministry of Public Health (PLANSAR and PRAC's) with respect to how the two organizations relate to the same community groups. One organization should be in charge in the field, presumably INVIERNO, although the team could not get deeply involved in this issue.

(5) Least Cost

As mentioned above, the socios could be asked to assume an even greater percentage of the cost of the program through higher interest rates or some other form of charge premium.

(6) Self-Sufficiency of Member Controlled Organizations

i. A means should be found so that community groups can achieve legal status which would allow them to borrow and do other business on their own account.

ii. A local level savings generation mechanism should be developed. "Campesinos" will save if there is something to save for, such as land acquisition or improvement. One cordoba per family per week, collected at the regular meetings, would be a viable start. The fund could be kept in the local branch of Crédito Rural in an account under the name of the community, as INTA does, or with INVIERNO itself, and could be tied, initially, to some specific purpose; e.g. an emergency medical fund or the purchase of a desk for the "Junta." Incentives or prizes could be established for sustained efforts.

iii. As a minimum role, the "Juntas" could be trained to fill out credit applications and be empowered to veto loans to members of their own group, although the rejected socio would have the right of appeal to the CEDE. (The team understands that something along this line is planned for 1978.) The "Juntas" might also be entrusted with a vigilance function to insure proper use of inputs.

iv. Concerning the "Tienda Campesina," the team recommends moving cautiously and:

. Further research concerning existing and potential competition in given localities.

. Another look at the increased disposable income factor in light of two year's experience with the program.

. Further research concerning member disposition re-contribution to capitalize the "Tienda." What will be his benefits in the short and medium-term over the non-member?

3. INTA

a) The Program

INTA is the technical and educational arm of the reorganized Ministry of Agriculture. Among other things, it is responsible for agricultural extension (divulgación técnica) and works both directly with farmers and farmer groups, as well as with BNN and INVIERNO technicians within the context of the GON's overall rural development strategy.

Two of INTA's activities, apart from the on-going "Junta" and cooperative programs of INVIERNO and the BNN, were of special interest to the study team:

(1) Agricultural Clubs (Clubes Agrícolas)

(2) Mixed Agricultural production and small industry cooperatives.

Only the agricultural club program will be discussed in this section as the mixed co-op activity is covered under a special section of the FAO later in this report. (See Chapter V, Section F)

The "Club Agricola" program seeks to identify high potential farmer groups not currently receiving assistance from the bank or INVIERNO and prepare them for a later more mature and profitable relationship with other institutions, hopefully, as cooperatives.(The groups are generally considered to be "pre-cooperatives.") INTA does not provide financing itself, but works mainly through the BNN and INVIERNO. In addition to the "clubes agrícolas," it also works at the

community level with youth and housewife organizations ("Clubes 4-S" and "Clubes de Amas de Casa").

No real evaluation of club programs was possible since the team had the opportunity to visit only one of its projects. Some limited observations can be made, however.

b) System Response

(1) Credit

INTA's policy on credit is to work through groups with the dual objective of reducing the lending institutions' administrative costs, and, from the group's perspective, expediting the loan disbursement process. INTA may form its own groups in virgin territory or pick up existing groups which, for some reason, have lost the support of the original founding organization. In the latter case, INTA likes to see concrete evidence that the group is a responsible borrower. First year loans are sufficient to cover one manzana's input needs per person, with credit expansion being made contingent upon satisfactory repayment.

It is hoped that perhaps INTA, in collaboration with the BNN as recommended earlier, will experiment with the concept of group credit as a means of developing management experience and in order to provide a local mechanism for savings and capitalization. As with the INVIERNO "Juntas," however, this may require legalization of the group.

(2) Land Security

To the team's knowledge, INTA cannot directly address the land problem, although it does arrange for rent security, in the

manner of INVIERNO and the BNN, through credit. The group visited by the team, "Pilas Occidentales" in the Masaya area, which began initially with 70 members, is presently down to 19, partially because the landlords in the area threatened to remove socios from rented plots if they became affiliated with any small farmer organization. This was in striking contrast to the economic circumstances of nearby El Esfuerzo (BNN established land colony cooperative) members. One farmer member of "Pilas Occidentales" had resigned from El Esfuerzo three years before to take advantage of an opportunity to rent 20 manzanas. He had recently been forced to give up this land, however, having been outbid for the rental by a large cotton grower.

(3) Self-Sufficiency

The outlook for "Pilas Occidentales" is not optimistic as long as its membership lacks a solid resource base. The group is located in an area where rapidly increasing land rents have begun to put pressure on basic grain agriculture. Organizationally and administratively, however, the group seems strong. The group apparently has assumed a low level management function with respect to credit administration in that a treasurer from the club keeps separate accounts for each socio and handles collection and disbursement at the community level.

(4) Alternatives to Poverty Agriculture

(See FAO, Chapter V, Section F)

c) Recommendations

The "club agrícola" program bears careful watching as a

potentially highly productive process of cooperative formation in the agricultural sector. In some ways it parallels INVIERNO's work with "Juntas Comunitarias." There are probably lessons from each experience that would benefit the other program.

D. Criteria Relative to Evaluation of Possible Agricultural Production Based Cooperatives and Other Farmer Groups in Nicaragua

The following criteria are drawn from recommendations and observations through the preceding sections, plus experiences of the team in other settings.

1. Minimum Criteria (All Projects)

All project proposals should demonstrate, provide, or otherwise show convincing analysis of:

a) Beneficiary Participation in Design: Above all, the project should respond to perceived needs of the target group. At a minimum, the proposal should show that the membership has been directly and systematically consulted with respect to how the goal structure and outputs of the project mesh with objectives, priorities and aspirations of the member.

b) Equity Considerations: (1) Equal participation of smaller or lower income members of the beneficiary group in the distribution of benefits and accumulation of capital over time, and (2) Expansion of "outreach" of the cooperative system within the beneficiary group, (the spread effect).

c) Planning: Detailed and realistic implementation planning

showing defined phases with concrete, measurable, periodic achievement or progress indicators.

d) Internal Resource Generation: The manner in which project will contribute to the generation of savings, capitalization and/or other resources from the sources internal to the beneficiary group itself.

e) Viability: The manner in which the project will contribute to increased viability (self-sufficiency), financial and/or technical of the cooperative system(s).

f) External Collaboration: That potential collaboration from external institutional sources (both public and private) has been taken into account and taken advantage of wherever possible.

g) Feasibility: That implementation and technical absorptive capacity at both secondary and base cooperative or group levels is in place, or will be, in relation to the nature and magnitude of the tasks to be accomplished.

h) GON Strategy Considerations: That the project goals are in line with one or more of GON rural development strategy considerations (i.e., integrated rural development, the "agricultural frontier," and/or income and employment in urban centers.) (See Policy/Planning Framework of Introduction.)

i) Least Cost: That a "least cost" approach to achieving project objective has been adopted as opposed to more expensive alternatives. (A comparison with other existing possibilities for achieving the same impact. There may be cases, however, where other reasonable alternatives do not exist.)

j) Subsidies: A candid description of, and rationale for, all subsidies from whatever source to either the member or the cooperative system.

k) Replicability: That the project is replicable and will contribute to improvement and/or innovation in the rural development process.

l) Clear Economic Advantage: That the project exploits a clear economic opportunity.

m) Economies of Scale: That necessary economies of scale do, in fact, exist by means of a quantified field assessment or feasibility study.

n) Land:

That the land constraint question has been adequately addressed.

o) Role of the Co-op or Group: That a true intermediary role for the cooperative or group; i.e., management of resources, coming or going, has been incorporated.

p) Balanced Membership: That a viable mix of small and larger farmers will be present in the cooperative, or if not, that necessary volume, management and leadership, financial and other considerations will be addressed adequately by the project in order to make up for the absence of such a mix.

q) Conversion from "Poverty Agriculture: That the need for conversion from subsistence (basic grains) agriculture has been addressed through diversification, technification, small industry or some other means.

r) Tangible Benefits: That small producers will receive short run tangible benefits in addition to longer term benefits in terms of eventual dividends or increased ownership of assets.

s) Investment of Local Resources: That the project involves investment of locally or internally generated capital.

2. Agricultural Credit

Projects involving agricultural credit in one form or another should (in addition to above criteria):

a) Address the need for longer term improvement or investment credit.

b) Demonstrate how the credit process will contribute to the capitalization and strenthening of the group or cooperative.

c) Clearly and convincingly justify any subsidies passed on to the producer in the form of low interest rates or by other means.

d) Demonstrate delinquency controls and how delinquency will be handled in the event of a bad crop year.

e) Demonstrate a clear (cost/benefit) projected return to the producer in the micro (farm/budget) sense, especially in the case of production credit for basic gains.

3. Other Areas

a) Training: 1) Any general training project should demonstrate an on-going multiplier effect at the cooperative level (training of trainers). 2) Proposals for general awareness "concientización" type training should be evaluated to assure that they are not simple substitutes for sound management or a viable enterprise. 3) The need for the development of director skills should be treated one way or another.

b) Technical Assistance: Technical assistance proposals should be evaluated to insure that they provide for sufficiently qualified and specialized skills in marketing, business management, agro-industrial feasibility, financial management and analysis, etc. The big need is for specialized skills and not so much for generalized cooperative development expertise.

E. Agrarian Colonies and the National Agrarian Institute

The study team was asked by the USAID to look at farmer organization activities and possibilities on IAN formed colonies, as they represent considerable land area and "campesino" populations (25 colonies over an area of 30,500 manzanas with some 2,000 parcels and over 1,500 colonists, a total population of over 10,000.[15]) With respect to "campesino" organization, most of the colonies have farmer associations of a pre-cooperative nature. Only four are actually registered as cooperatives with legal status.

1. The Organization

IAN, created in 1963 with the passage of the current Agrarian Reform Law, is charged with land distribution and titling functions as well as various colonization activities. The institute is an autonomous agency under the Ministry of Agriculture and is managed by a board consisting of its director, the Minister of Agriculture, the President of the National Bank, an agricultural worker representative,

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15 This does not include several large colonies in various planning stages in the Atlantic Zone, one of which, Rogoberto Cabezas in Zelaya Department, is quite far advanced with over 2,000 established colonists. Atlantic Zone activities were not covered by the team, although Rigoberto Cabezas was visited when the scope of work was put together.

an agricultural association representative, and two representatives each from the majority and minority parties.

IAN is organized into a number of offices and departments dealing with programming and research, public relations, international coordination, legal and administrative activities, plus agricultural engineering, community development, and "campesino" organization and training. A special department was created for the Rigoberto Cabezas project (see footnote No. 15 on preceding page). As of January 1975, the Institute was staffed with 112 professionals and 185 support people. Professionals included eight lawyers, three agricultural engineers, four graduates in business administration, twenty-seven accountants, five social workers, an architect, a journalist, and fifty-three agricultural technicians. Each IAN colony has its own resident IAN "administrator."

IAN's annual budget (excluding Rigoberto Cabezas) has gradually grown to approximately $1.7 million in 1975. The largest single item, about 30%, goes to maintaining the colonization program -- not including farmer training, infrastructure, studies and credit.[16]

2. Colony Characteristics

The 25 colonies in the Pacific and Central zones of the country support a total population of just over 10,000. Population per colony varies roughly between 50 and 100 families. For the most part, farms are worked separately as family plots with one harvest per year. The

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[16] General operational and program details come primarily from Annex 8 of the 1975 Tripartite (AID/IDB/IBRD) Study of Nicaragua's Agricultural/Rural Sector.

most important crops are cotton, maize, sesame, sorghum, rice and beans. There is some stock raising. Production credit for about 90% of cost is made available by the BNN, including farm labor. Farmer income consists of his labor component plus any profit from the harvest and migratory and outside piece work or employment (cotton and coffee harvests - nearby urban areas, etc.). IAN considers that much of its colony land is marginal (some 19,500 mz.) having been acquired through donation by large land owners wanting to dispose of unprofitable parcels. Some of the land is of high quality, however, having resulted from the settling of a number of "invasion" disputes in the 1960's.

3. Farmer Organizations

Each colony has an agrarian council which includes an IAN administrator, three members of the community, one representative from the BNN, the extension agent from INTA, and a representative from the local co-op or club. As of 1972, twenty-two cooperatives had been organized on colonies, but only four were legalized. Most were of the small consumer variety, with only three active in inputs and marketing. The Tripartite Study reports that, by and large, neither management skills nor capital had been accumulated and that farmer interest was low.[17] As a result, IAN is attempting to test a new type of organization consisting of a "junta" and a series of committees for various cooperative functions; i.e., an equipment pool, education and training, irrigation, etc. The "junta" is advised by the IAN administrator and other staff people from the Community Development

[17] Ibid, paragraphs 31 and 32.

Department and the "campesino" organization and training office.

4. Needs

The project team visited two colonies, both in Pacific cotton growing areas; Angélica de Schick (near Leon) and San José de Tonalá (North of Chinandega). Angélica de Schick is the beneficiary of a $200,000 AID grant administered by CARE for a 218 mz. cotton irrigation project. Tonalá, a pre-cooperative, is being advised by CEPAD (see Chapter V, Section B) in addition to IAN.

The Angélica de Schick association was formed as an "empresa comunitaria" for the organization and maintenance of the irrigation system installed under the CARE project. There are approximately 35 active members in the group, although many more actually benefit from the irrigation project (110 colonists in all). All grow cotton with basic grains on the side for subsistence purposes. The association sells cotton as a group where possible. In the case of Tonalá, a 17 member pre-cooperative (46 families in the colony) was organized around a sugar cane processing project to produce "panela," an unrefined brown sugar bar sold locally. For the most part, the farmers grow basic grains on a subsistence basis plus some cotton, sesame, and sugar on a small scale.

a) Economic Needs (Security/Income)

(1) Land

One of the most serious on-going problems for the colonists was that over the years population pressure had forced an ever larger number of families to subsist on the same circumscribed area.

(According to colonists, Angélica de Schick was established almost 20 years ago, and Tonala is 12 years old.) More and more sons and relatives have had to be sent off to work in urban centers. Also, although the cotton colony possessed good land, Tonalá claimed that most of its land was of marginal quality.

(2) Irrigation

Again, although Angélica de Schick possessed a modern irrigation system set up by the AID grant, which was expected to result in a major increase in yields in the coming harvest, Tonalá was in major need of irrigation inputs such as the reconditioning of wells and a new storage and distribution system. Tonalá had good potential for the production of a number of vegetables if the water problem could be solved. (Tonalá is targeted by CARE for a future irrigation project. (See Chapter V, Section E.)

(3) Price and Diversification

In both cases, farmers complained of price problems in both the supply and marketing operations. Diversification was badly needed at Tonalá. At Angélica de Schick some small improvement had been brought by marketing cotton production as a group. In the case of the "panela" production operation, this was a losing proposition all the way. Production costs were substantially above the market price for the sugar bars.

(4) Credit

Both groups received credit in individual form from the BNN but expressed standard complaints about delays and the hassle of repeated trips to the local branch of the Bank in Leon. A special

point was made about BNN reluctance to lend for cotton plague control.

(5) Technical Assistance

Both groups claimed that sufficient assistance for improved production practices was not available, especially in the area of diversification and particularly at Tonalá.

b) Social Needs

Generally speaking, both groups had difficulty articulating social needs. They had obviously not laid them out in terms of priorities or possible remedial measures. A major problem at Tonalá was in the nutrition and health area. In general, the Tonalá group was much poorer than its counterpart at Angélica de Schick. Both groups could be described as somewhat fatalistic and disillusioned, at least in comparison with other co-ops visited by the team. The Angélica de Schick group lacked a sense of common community purpose since approximately half of the colonos lived in Leon and commuted to their plots. At one point, IAN had tried to establish a nuclear housing project on the land, together with the combined community and health center that had already been built there. The project fell through, however, due to lack of interest by the colonists.

5. System Response

a) Farmer Organizations

(1) Angélica de Schick

In the case of Angelica de Schick, the greatest benefit of the association was in the area of organization of the work load and liaison with external agencies for coordination of the

application of outside services and inputs. "Comisiones específicas" were formed for this purpose and functioned relatively well for things like maintenance of the irrigation system, seeding, and other key activities related to both production and marketing. In no case, however, did the association function as a true intermediary allowing for real responsibility for the management of resources or for capitalization of the group as an entity.

One particularly interesting aspect for the team was that at one time 34 members of the group had belonged to the large BNN supported cotton cooperative in Leon, Esquipulas, R.L. (See Section C. 1. above). At the time of the interview, 17 of the 34 had withdrawn, and others were considering following suit. It seemed that tangible benefits of belonging to the larger regional cooperative eluded them. From what they could see, input prices through the cooperative were no lower than from commercial suppliers. The same was claimed with respect to prices paid for cotton produced. Finally, although the account of each member of Esquipulas was credited with accumulated share capital derived from "aportaciones" and a margin deducted for this purpose from supply and marketing operations, the Angélica members had a very difficult time relating to and appreciating the fact that they owned an ever larger piece of the cooperative's assets (principally a large cotton gin). Long term non-liquid equity accumulation did not impress them. They wanted to see a short run tangible payoff from patronizing the co-op in the form of better prices, dividends or money in the bank. Esquipulas management claimed that this was a lack of "concientización."

For the future, the Angélica group hoped that they would someday gain recognition as a legal cooperative in their own right, primarily for the purpose of obtaining credit as a group. Even if no margin on lending accrued to the group, they calculated that logistically there would be a considerable savings by being able to have one member negotiate production credit loans with the BNN and avoid the cost of repeated trips to the branch in Leon. They also believed they could get a lower rate with joint and several responsibility "responsabilidad solidaria."

Finally, the association had realized some slight return from selling as a group to commercial buyers, and they hoped to pursue this angle further. In general, they were not particularly impressed or enthusiastic about the services they were receiving from IAN, the BNN and INTA. With respect to the irrigation system, they had yet to see the proof in the form of increased yield and return. (The first harvest under the new system is just now coming, as of this writing.)

(2) San José de Tonalá

As far as could be determined, the pre-cooperative at Tonala had as yet to benefit the group in any tangible way except to provide a forum for the airing of problems and frustrations. This appeared to be one of those cases where a group was established in hopes of resolving a basically non-viable farm enterprise situation; i.e., marginal land, over population, illiteracy, isolation, subsistence agriculture, etc. The group was as discouraged as any seen by the team.

They seemed prone to failure. An earlier sesemi project had failed and now the "panela" (sugar bar) project had every promise of doing the same with the co-op ending up further in debt to CEPAD. Considerable emergency food assistance had to be supplied during the drought of the past two years just to keep families from a starvation situation.

For the future, the group wanted to be legalized as a "cooperativa de servicios multiples" with the next project being a "comisariato" which would attempt to meet basic food needs of the group. Where resources for such an effort would come from was unknown.

b) Supporting Institutions

(1) IAN

IAN's approach was admittedly and candidly paternalistic; and the logical question was, "What else can we do, given the situation?" The area where some real success was being recorded was with irrigation projects and others of a small infrastructure nature. "Colonos" had a tendency to rally around such tangible efforts, and the payoff was visible and easy to understand. In general, however, IAN officially admitted to having little impact on growth or improvement on the lot of the colonist through various forms of farmer organization, for the following reasons:

i. Lack of research as to exactly what the "colonos" really want and what motivates them. IAN is searching for a model organizational form but has not yet found it. It is necessary to determine what a "natural" or "indigenous" form of organization

would be and then to exploit it in order to achieve the necessary participation and sacrifice for capitalization, growth and overall improvement in the quality of life.

ii. IAN is overextended. The organization is trying to handle and/or coordinate everything for its colonies and finds itself stretched so thin that it is unable to supply a sufficient concentration of resources for real and lasting impact in any one area. Lack of personnel is particularly felt in the "capacitación" area.

iii. In the area of diversification and the need for more intensive cultivation, seen as a partial and obvious answer to colony problems, IAN itself recognizes that it is faced with a major marginal land constraint (does not apply to Angélica de Schick or Atlantic colonies).

iv. IAN has admittedly concentrated most heavily on the production side of colony operations and not sufficiently on marketing and profit for the producer. This was described as a "falta de actitud empresarial."

v. Talking to IAN officials, one receives the impression that the organization is unsure of its role in the future. This has led to confusion and has had a negative impact on employee motivation. The agricultural frontier plan has IAN responsible for surveying and titling, exclusively, without a substantive role in the development process. Also, IAN does not seem to know what to make of

INVIERNO and worries about how the two organizations will relate in the future. The above factors all seem to combine to discourage initiative and motivation in general.[18]

The team came away with the general impression that IAN represents a dedicated and talented group of professionals working under extremely constrained and frustrating circumstances, and that external resources would have to be applied in large doses in order to break a vicious "treadmill" type circle. (It should be stressed that none of the above comments apply to the large Atlantic colony program which is of a different nature altogether.)

(2) CEPAD

CEPAD had obviously been of great assistance to the Tonalá farmers during the drought by way of the feeding program. They had also helped organize the group in the form of a pre-cooperative. The "panela" project, however, appeared to be a complete failure. In fairness to CEPAD, at the time the project was conceived, the sugar market was in an entirely different phase, and there may be some hope in the future. Faced with the current situation, however, the CEPAD representative appeared at a loss as to which way to move.

(3) CARE

CARE irrigation activities with IAN appear to be on a profitable track given the nature of the situation in most of the

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[18] The above comments are drawn primarily from discussions with IAN's deputy administrator and the chief of "capacitacion campisina." If these represent any distortion of their views, it is the fault of the author, not of the officials interviewed.

colonies. In the case of Angelica de Schick, it had apparently been a "tour de force" to sell the project to the "colonos" and gain their active participation; but once the first harvest comes in with substantially increased yields, and hopefully, profit, the acceptance problem should be a thing of the past. (Also see separate section on CARE, Chapter V, Section E.)

6. Gaps

a) Farmer Organization Level

In general, both groups appeared to be suffering from the following fundamental deficiencies:

(1) Total lack of leadership and management capacity. A noticeable sense of fatalism was observed.

(2) With the exception of the irrigation project, a lack of tangible, short run, realizable objectives.

(3) Lack of meaningful - to the socio - means of savings and capitalization for future investment.

b) Supporting Institution Level

In line with the above system response commentary, IAN appeared to be lacking:

(1) Budget for both necessary R and D as well as "capacitación" activities. Management appeared fully qualified and dedicated, but staff resources were stretched far too thin.

(2) Authority, resources, or both to attack the land question. Most of the colonies in question are between 10 and 20 years old. Population pressure is extreme. Off-colony alternatives for young people are urgently needed, a kind of "out placement" type of service.

(3) A complete understanding of where and how IAN fits institutionally into the public organization structure scheme for the future, particularly in relation to INVIERNO and the Agricultural Frontier Plan.

7. Criteria and Recommendations

a) Criteria (Over and above general minimum criteria in Section D.)

Any proposal to assist IAN colonists through the vehicle of a farmer organization or cooperative should include the following:

(1) Documentation by survey of needs and motivating factors amongst the group to be benefited (social soundness analysis).

(2) Persuasive treatment of the marginal and limited land constraint.

(3) Demonstration of how the farmer organization will address the apparent need for short run tangible economic payoffs to the member.

(4) Cost/benefit analysis of any innovation introduced into production/marketing process.

(5) Means of upgrading local leadership and managerial capacity including how IAN will be able to eventually withdraw from direct administration of the project.

(6) Clear delineation of roles and responsibilities of IAN and other supporting institutions in relation to each other, primarily INTA and the BNN.

(7) Either a family planning element or some means of assisting sensible out-migration from the colony as population pressure grows.

(8) Treatment of the need for more viable farm enterprise in the form of diversification and/or intensification of production.

(9) Measures to combat the following human constraints:

i. Illiteracy.

ii. Malnutrition and health problems, in general.

b) Other Recommendations

(1) As IAN claims, further study is required regarding key social and cultural factors bearing on its colonies. It is suspected that there are certain unique characteristics which remain to be defined and explicitly dealt with in the colony setting.

(2) A great effort on the part of the National Agricultural Council should be made to spell out with IAN exactly what its role and functions will be in the future.

(3) There is an apparent immediate need for more budget and staff for adequate administration of the colonies in question.

(4) International donor inputs, outside of the area of research and irrigation, should not be made until the above issues are treated by the GON.

CHAPTER IV

CREDIT COOPERATIVES ASSOCIATED WITH FUNDACION NICARAGUENSE DE DESARROLLO (FUNDE) AND FEDERACION DE COOPERATIVAS DE AHORRO Y CREDITO DE NICARAGUA (FECACNIC)

A. Introduction

This chapter deals with the rural savings and credit sub-sector of the Nicaragua cooperative movement. For practical reasons and as the vast majority of all rural credit cooperatives[1] are associated with either FUNDE or FECACNIC, this section focuses exclusively on these two structures, both of which are national in scope.

The chapter first provides an overview of the present status of these two credit cooperative systems and then seeks to identify and recommend ways in which they can be utilized more effectively to satisfy needs of present and potential rural members. Also, pending grant requests to the USAID are evaluated, taking into account criteria developed in this component of the study. In general, the course of analysis parallels those of other elements of the study, i.e., commencing with membership needs and working up through system responses at various levels.

During the two-week field study period, fourteen credit co-ops (seven from each supporting organization) were visited. In all cases interviews were held with managers, directors, and members. The selection of cooperatives to be visited was made in conjunction with the

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[1] The terms, "credit cooperative" and "credit union," are used interchangeably in this chapter.

staffs of FECACNIC and FUNDE and sought to provide a representative grouping of weak and strong credit unions. The selection also took into account the need to include several cooperatives within the current INVIERNO areas of operation. (Agricultural Regions II and IV). All co-ops visited were outside of Managua. Final selection was left largely to FECACNIC and FUNDE. The team is satisfied that the choices were made in good faith and that it was given ample opportunity to assess the strengths and weaknesses of both credit union systems.

The following credit unions were visited (shown by supporting institutions):

Cooperative	Location	Agricultural Region
FUNDE[2]		
Cooperative de Ahorro y Crédito Ciudad Darío	Ciudad Dario	V
Cooperativa de Ahorro y Crédito de Pequeña Industria y Comercio de Jinotega	Jinotega	V
Cooperative de Ahorro y Crédito La Moderna	Matiguas	V
Cooperativa de Ahorro y Crédito La Union	Matagalpa	V
Cooperativa de Ahorro y Crédito Juigalpa	Juigalpa	
Cooperativa de Ahorro y Crédito Santo Domingo	Santo Domingo	
Cooperativa de Ahorro y Crédito Avances	Santo Tomas	

[2] The team also visited one of the FUNDE agricultural cooperatives, La Perla in Bocaycitos.

Cooperative	Location	Agricultural Region
FECACNIC		
Cooperativa de Ahorro y Crédito Camoapa	Camoapa	
Cooperativa de Ahorro y Crédito San Antonio	Estelí	V
Cooperativa de Ahorro y Crédito Mateare	Mateare	V
Cooperativa de Ahorro y Crédito San Andres	Condega	V
Cooperativa de Ahorro y Crédito San Bernardo	Palacaguina	
Cooperativa de Ahorro y Crédito Masaya	Masaya	II
Cooperativa de Ahorro y Crédito Humberto Aguilar	La Concha	

The cooperatives listed represent approximately 37% of all credit unions classified as rural by FECACNIC (19), and approximately 25% of the FUNDE group, which also includes three agricultural cooperatives (29 established co-ops; four more are in formation).

Numerous visits were also made to FUNDE and FECACNIC headquarters operations and the following personnel were interviewed at length.[3]

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3 Field trips with most of those listed made possible even more extensive consultation. Also, the presence of key national-level personnel during cooperative interviews made it possible to bring out matters which might otherwise have gone unnoticed. The team is most appreciative for the assistance provided.

Person	Position
FUNDE	
William Baez	Executive Director
Roger Collado	Director of Administration, Finance and Technical Assistance
Roger Fornos	Director of CECOOP (Centro de Entrenamiento Cooperativo)
Ruth Kelly de Zeledon	Director of Social Promotion
Pedro Jose Alvarez	President
FECACNIC	
Jose Maria Rodriguez	Manager
Alejandro Lee	Director of Finance
Napoleon Loaiziga	Director of Technical Assistance
Raul Sanchez	COLAC Advisor to FECACNIC
Padre Andres Weller	President

Discussions were also held with the Managing Director of COLAC (Latin American Confederation of Credit Unions), Rymel Serrano, and with the COLAC Training Specialist, Generoso Nicolas, as well as with the IDB Representative Gonzalo de la Pezuela, and several members of his staff.

The findings of this chapter will be organized under the following headings:

B. Credit Unions as Agents of Development 144
(An overview analysis of credit cooperative structures in Nicaragua based on field visits and traditional criteria.)

C. Member Needs 156
(This is the core element of the analysis)

D. System Reponse, Constraints and Recommendations 164

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E. Criteria
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B. Credit Unions as Agents of Development

A century of experience with credit cooperatives worldwide (25 years in Latin America) has served to demonstrate that certain key characteristics of credit unions are principal factors with respect to their effectiveness as development instruments. Four of these characteristics merit special attention in the rural Nicaraguan context and are used below to illustrate the general status of national structures in the country.

- Credit unions can mobilize local savings, vital to most "self-help" development processes.
- They can extend credit effectively and to sectors of the population not reached frequently through other formal lending institutions and at much lower rates of interest than through other sources of credit available to such groups.
- They can become self-sustaining more rapidly in general than many more complex forms of local cooperative enterprise.
- Member control, a factor shared with other cooperative forms, allows for greater system response to prevailing needs of the community - both social and economic.

The team has found that these general characteristics of credit unions are to a significant extent reflected in the Nicaraguan experience.

1. Mobilization of Savings

Table 1 (following page) shows that the credit unions visited had served as effective mechanisms for savings generation. Unfortunately, it was not possible to find statistics which would allow comparison with national averages. From experience in other countries, however, a significant portion of the savings generated by credit unions would not have been attained were it not for the existence of the mechanism. A portion of the savings mobilized by credit unions may represent a transfer of existing and future savings from other savings institutions. Normally, however, a substantial portion of it is generated due to the local borrowing incentive provided by the co-op to those who have no other access to institutional credit, or who, for reasons of expediency, would rather borrow from a community organization with simple procedures than undergo the more taxing administrative and approval requirements of the nearest bank.

As shown in Table 1, the credit unions visited which had figures available have accumulated C$6,876,478 in savings at a per member average of C$ 825.41 With the exception of one cooperative, which was hard hit by the recent drought, all credit unions visited were experiencing sustained growth in this area. The average growth in savings in 1977 was 45% and 77.7% in 1976 (where figures were available). The growth pattern is clearly skewed by the higher rates of the newer co-ops, however, and

TABLE I

Mobilization of Savings by Credit Unions Visited (In Cordobas)

Location/Date Registered	Last Available Figures 1977	1976	1975	% Increase in in 1977	% Increase in 1976	Average Savings Per Member 1977
Mateare - (1964)	267,000	213,585	147,258	25.0	45.0	996.27
La Concha - (1964)	200,766	197,827	234,222	1.5	- 15.5	375.26
Camoapa - (1966)						
Masaya - (1968)	1,036,036	883,955	521,886	17.2	69.4	1,073.71
Esteli - (1969)	2,293,858	1,227,123	563,605	86.9	117.7	705.80
Condega (1971)	663,957	668,200	598,700	- 0.6	11.6	877.09
Palacaguina - (1972)	140,000	100,208	76,119	39.7	31.6	682.90
Matagalpa - (1974)	512,000	367,000	195,000	39.5	88.2	1,276.81
Santo Tomas - (1975)	813,376	499,687	155,971	62.8	220.4	1,016.72
Darío - (3/75)	150,279	134,477	80,791	11.7	66.4	676.93
Matiguas - (6/75)	258,282	204,832	57,491	26.1	256.3	1,142.84
Jinotega (11/75)	295,924	103,479	38,215	186.0	170.8	867.81
Juigalpa - (7/76)	200,000	142,000	------	40.8	------	784.31
Santo Domingo (4/77)	45,000	-----	------	----	------	319.14
	6,876,478	4,742,573	2,669,258	45.0	77.7	825.41

experience indicates that these rates are hard to sustain. It is also important to note that a matching fund program sponsored by FUNDE with funds donated by the Inter-American Foundation (IAF) no doubt contributed an additional savings incentive to FUNDE co-ops. For a limited period under the grant, FUNDE donated amounts equalling 50% of savings to member co-ops. The program terminated upon exhaustion of IAF funds (the savings figures shown in Table 1, however, do not include these FUNDE contributions). There is a need to adopt additional measures (see Section D.2.a.) below) which will stimulate continued savings increases in the future. Nevertheless, Nicaraguan credit co-ops have clearly demonstrated the savings generation capacity essential for sustained growth and investment at the community level.

2. Credit Delivery

Due to weaknesses in record keeping of a number of the co-ops visited, a complete analysis of credit union lending was not possible. Table II provides what information the team was able to put together combining data from field visits and headquarters records of FECACNIC and FUNDE.

As shown in Table II, in 1977 a total of 940 loans for a total of C$2,309,269 had been issued by the eight credit unions for which data was available. In 1976 a total of 1623 loans for a total of C$4,163,915 were issued by the eight credit unions for which data was available.

TABLE II

Loans Issued by Credit Unions Visited

Location/Year Registered	1977 Loans Issued	1977 Cordobas	1977 Loans/Members = %		1977 Average Loan Cordobas	1976 Loans Issued	1976 Cordobas	1976 Loans/members = %		1976 Average Loan
Mateare (1964)						173	252,965	173/208	83.2	1,462
La Concha (1964)	59	105,569	59/500	11.8	1,789	152	162,669	152/539	28.2	1,070
Camoapa (1966)						68	310,951			4,572
Masaya (1968)	339	738,175	339/965	35.1	2,177	518	1,151,003	518/887	58.4	2,222
Palacaguina (1972)	97	108,607	97/205	47.3	1,119	128	113,596	128/186	68.8	887
Matagalpa (1974)						282	1,255,700	282/241	117.0	4,453
Darío (1975)	88	255,191	88/222	39.6	2,900					
Matiguas (1975)	117	353,200	117/226	51.8	3,019	182	487,838	182/186	97.8	2,680
Jinotega (1975)	115	428,527	115/341	33.7	3,726	120	428,833	120/203	59.1	3,574
Juigalpa (1976)	95	230,000	95/255	37.2	2,421					
Santo Domingo (1977)	30	90,000	30/141	21.3	3,000					
Total or Average	940	2,309,269	940/2855	32.9	2,457	1,623	4,163,915	1555/2450	63.5	2,566

Unfortunately, it was impossible to determine how many members had received loans in either year as very few of the cooperatives visited had such records as opposed to the absolute number of loans that had been issued. An approximation of the percentage of members receiving credit services was generated in the table by dividing the total number of loans issued by the number of members in the credit union at a given time. The results shown may be somewhat misleading, however, due to the short term (six months) lending practice of a number of the co-ops, where a significant number of members may have received more than one loan during the annual time frame. The percentage of members receiving credit services is unquestionably lower than that reflected by the data gathered.

With respect to the implications of the data concerning outreach to the rural poor, the average size loan in 1977 was C$2,457 ($351) and C$2,566 ($367) in 1976. Though average loan values are not absolute indicators of the income of those receiving credit, it is fair to suggest that if we were dealing with credit to upper income groups a much higher average loan value would be found.

Another indication of the outreach nature of credit cooperatives in Nicaragua had to do with the attitude of a majority of the members interviewed with respect to conventional public and private lending institutions. In most cases the problem faced by the socio was not that no banking facility was located in the community (true, in only two of

the visited locations), but rather that he would not be considered as a loan client (reflects the belief of at least 75% of socios interviewed) by the bank. In most cases it was reported that bank collateral requirements were too stringent and that even those who might be able to meet such requirements felt ill at ease in dealing with the procedual formality of a bank. It was also stressed frequently that paper work requirements and delays in approval made such credit mucn more costly in terms of both time and expense, often prohibitively so. Repeated visits to the bank by the loan applicant plus six weeks or more from application to first disbursement were commonly reported. In general, when funds were available through credit unions, socios preferred this source, feeling that they were dealing with an understanding institution with simple procedures, few requirements and a rapid disbursement capability (frequently within a week).

Concerning interest rate implications with respect to outreach, the co-ops visited normally charged rates which were as high or higher than those available through banks. (Bank rates were found to fluctuate between 10 and 13.5% depending upon the type of credit involved.) Of much greater significance, however, given that the only real choice left to 75% or more of the socios interviewed was between their co-op and local money lenders ("prestamistas"), Table III indicates why most felt that the cooperative was the only source of reasonable credit.

In summary, it is clear that Nicaraguan credit unions are lending at reasonable cost in a relatively efficient form to sectors of the population which would otherwise not normally have access to or utilize conventional, institutional credit.

TABLE III

Interest Rates Charged by Credit Unions Visited and Local "Prestamistas"

Location	Credit Union Monthly Interest[4]	"Prestamistas" Monthly Interest
Mateare	1.5% balance	20% flat
La Concha	1% flat	20% flat
Camoapa	1% flat	20% flat
Masaya	1% flat	5-20% flat
Esteli	1% balance	5% flat
Condega	1% flat	5-20% flat
Palacaguina	1% flat	5-20% flat
Matagalpa	1.17% balance	15-20% flat
Santo Tomas	2% balance	3-5% flat
Dario	2% flat	10-20% flat
Matiguas	2% flat	8-10% flat
Jinotega	2% flat	20% flat
Juigalpa	2% flat	5-10% flat
Santo Domingo	2% flat	5-20% flat

3. Self-Sufficiency

Most frequently, self-sufficiency is defined in terms of the ability of the cooperatives to cover operating costs through the margin or income from operations. A second and related feature, the ability

[4] It was not uncommon to hear of "prestamista" rates as high as 20% daily, especially in the case of working capital loans to market stall operators and for personal emergencies. In another illustrative case, the local village store "Pulperia" charged an additional 25% automatically on any credit purchase.

to mobilize lending capital required by demand, is treated less frequently. A third feature, the capability of credit unions to develop the processes and skills required for efficient and effective operation, is addressed in far fewer cases. Yet all three dimensions are important.

The Nicaraguan experience clearly indicates that rural credit unions have the capability to generate sufficient income to cover costs. With a few exceptions, the co-ops visited had reached this point and others were well advanced toward break-even. It is important to stress, however, that self-sufficiency of this type is a relative state. Although in most of the co-ops expenses were or would soon be covered, it was found that many credit unions could not cover the additional expense for critically needed services which severely limited effectiveness, outreach, and impact. For example, several of the credit unions visited were unable to pay a competent full-time manager.[5]

With respect to capital mobilization, although some progress was being made in the co-ops visited through regular and fixed term savings accounts and an increasing amount of share capital was being generated through mandatory capitalization on loans, most important has been the "injection" of external loan capital from FUNDE, FECACNIC and other public and private sources.

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5 Ironically, the national level supporting institutions, FUNDE and FECACNIC are actually much less financially viable than the co-ops which they support. FUNDE is largely operating on grant funding and FECACNIC was close to bankruptcy prior to recent AID assistance. Self-sufficiency of national support structures is treated in Section D.3 below.

As shown in Table IV below, all credit unions visited had received loans for relending from at least one external source.

TABLE IV

Loans to Credit Unions Visited by Source

Location	Bank Loans	FECACNIC Loans	FUNDE Loans	Other
Mateare		X		
La Concha		X		
Camoapa		X		
Masaya	X	X		
Esteli		X	X	X
Condega		X		
Palacaguina		X		
Matagalpa	X		X	
Santo Tomas	X		X	
Dario	X		X	
Matiguas	X		X	
Jinotega	X		X	
Juigalpa	X		X	
Santo Domingo			X	

Despite external capital assistance, thus far, however, cooperatives visited were far from meeting outstanding member demand; and both FUNDE and FECACNIC are being severely pressured for greater

inputs. Alternatives for both groups are in various stages of development and negotiation[6] and will be treated separately below (see Section D.5.a) and recommendations).

Of special note is that FUNDE has been increasingly successful in assisting its cooperatives to tap private bank loans (Bank of America and the Banco Nicaraguense). On balance, however, much more forceful measures need to be taken in the area of external capital mobilizations.

Concerning "technical" self-sufficiency both local and national structures have a long road ahead. A number of the co-ops are technically competent for currently fairly low levels of operation, but capability for expansion is severely limited. At the national level, FECACNIC is unable to deal effectively with the technical assistance needs of its members due to lack of budget and staff.[7] FUNDE is strong in a number of technical areas (particuarly in accounting and financial control) and is presently well equipped to provide the most needed technical services to existing affiliated cooperatives. An additional range of technical capabilities are needed, however, for proposed expansion and experimentation plans. The area of medium and long term planning is probably the most lacking elements at this point. (This may result in part from lack of definition of FUNDE's long range role with respect to its affiliated cooperatives. See section D.3.c(2).)

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6 The COLAC/IDB loan and the recently established AID Production Credit Guarantee Program with the Fondo Especial De Desarrollo (FED).

7 FECACNIC's situation is treated in detail in Section D.3.(c). Through assistance from COLAC and AID the problem is being addressed aggresively.

4. Member Control and its Implications

The director of one of the cooperatives visited (FUNDE co-op in Ciudad Darío) told the interviewer that "before our credit union was established, this was a community without aspirations." This is illustrative of the impact that credit cooperatives have had on the outlook of their members and is also demonstrated by comparing the results of a survey of rural heads of family carried out in 1973 with the observed outlook of the members of the credit unions visited. The survey indicated that 77% of the surveyed sample conceived of the improvement of living conditions as something which was outside of their control.[8] This fatalistic approach was reflected to a very small degree in only two of the credit unions visited.

The self-help concept ingrained in the cooperative movement had led to community development (socially oriented) activities in ten of the fourteen credit unions visited. Interestingly, a definite relationship was found to exist between the stronger and more successful credit unions and the degree of community action commitment and activity of these. Conversely, it was found that the credit unions with the most problems also were prone to have little commitment or involvement in such activities.

In summary, a substantial commitment to the addressing of community and member perceived needs - financial, economic and social - was encountered in the credit cooperatives visited. This commitment

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8 UNASEC, National Agricultural Sector Analysis, (1974), "Marco Social," p. 210. It may well be that the survey cut across a lower income spectrum than that represented by most of the co-ops visited, but the upgrading of local aspirations was found consistently throughout field visits, both with credit, as well as other co-ops and groups.

should be exploited by both national supporting systems and external agencies for greater outreach and impact in rural Nicaragua. With the above in mind, the following section treats perceived needs in more detail.

C. Member Needs

1. Needs Identification

In the field exercise, members were asked to identify the needs that were being met presently by their credit unions. They were also asked what additional needs they would like to see their credit unions meet. Community needs were identified as a result of responses to the questions of what types of community needs had been addressed directly or indirectly by the credit unions in the past as well as what additional needs were crucial for the development of the community. The following list provides a summary of the needs mentioned.

a) Credit Needs

(1) Small industry production credit

(2) Small commerce (merchant) working capital credit.

(3) Agricultural production credit

(4) Long-term investment credit

(5) Consumption credit

(6) Housing credit

(7) Emergency or provident credit

(8) Other credit

. Education

. Consolidation of debts.

b) Non-Credit Needs

(1) Bulk purchase of goods for resale by "comerciante" members.

(2) Direct sale of basic goods to members at lower prices.

(3) Health care.

(4) Improved sanitary conditions.

(5) Education programs.

(6) Portable and/or running water.

(7) New and improved access roads.

The prioritizing of needs in any absolute manner proved impossible given significant differences from co-op to co-op. Also, a significant variation was found to exist between the FUNDE and FECACNIC credit unions; the former invariably placed a much higher priority on credit and other needs related to the "small business" group than did FECACNIC members.

2. Credit Needs, Description

a) Small Industry Production

Members of 11 out of the 14 credit unions indicated a definite need for additional, and frequently longer term, credit for small or cottage industry production. Activities ranged from simple artisan-handicraft production to small concrete block producing facilities. It was apparent that there is a relation between the size of the community and interest in this type of credit. This was

illustrated by the fact that the three smallest communities visited - La Concha, Palacaguina, and Santo Domingo - were those where credit unions expressed the least demand in this area. (Santo Domingo did report a substantial existing industrial production portfolio.)

b) Small Business Working Capital

All 14 co-ops indicated some unmet demand in the small business working capital area. For the most part, such credit was required by small merchants to stock stores or market stalls. As in the case of small industry, it was repeatedly indicated that longer term money was needed. (This response came more often from FUNDE members who generally had access only to very short term credit (3-6 months for this purpose.) Clearly, demand for "pequeno comerciante" credit had a higher relative priority in the minds of FUNDE co-op members than in the case of FECACNIC. Without exception, all FUNDE credit unions listed the need as number one in importance. On the other hand, FECACNIC socios did not seem to feel the need was of a significantly higher priority than other types of credit.[9]

c) Agricultural Production Credit

Twelve out of fourteen credit unions indicated a need for agricultural production credit, although it was not evident that this need was of a high perceived priority in more than half. (In fact, some of the responses may have been generated on the spot by the use of "leading" questions.[10] Twelve of the credit unions visited were

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[9] This may reflect a broader and lower level (less commercially active) profile of members within the rural FECACNIC system.

[10] Every effort was made to avoid such questions, but in some cases it had to be done to get at important areas that would not have been touched on otherwise.

interested, in principal, in being able to issue larger amounts of credit for small and medium farmers; but it is estimated that far fewer would choose to allocate resources in this area on a high priority basis. Again, there was a FUNDE/FECACNIC split noted. Five out of the seven FECACNIC credit unions perceived agricultural credit as an important need while only two of the FUNDE co-ops saw it in this light.

d) Long Term Investment Credit

Although the need for investment credit (fixed assets and other improvement) was stated in several co-ops, it was difficult to get a clear reading on prevalence. In part this was due to a tendency to lump such credit together with small industry and agricultural production credit. In the case of small industry, it was found that minor investments, such as the purchase of a sewing machine, were viewed as an integral part of production credit extended. With respect to agriculture, land improvements were viewed in the same manner. It may be safe to assume, therefore, that in those co-ops with a high priority need for small industrial and/or agricultural production credit, a similar need may be felt for investment capital. In the case of credit for land acquisition, nine credit unions indicated that lack of ownership was a constraint to productivity and income of most small farmers in their areas. In at least four co-ops, it was reported that irrigation techniques would have to be used to lower the risk of agricultural credit to acceptable limits.

NOTE: It is questionable, that any of the credit unions would view agricultural needs as those which should be addressed on a priority basis unless special funds are provided for the purpose by some external source.

e) Consumer Credit

This was one of the more difficult categories for the development of a sound impression of nature and magnitude. Part of the difficulty was due to the multitude of ways in which "consumption" was defined in the field. One thing was clear, however. This was that much of the consumption need was actually basic subsistence in nature and was strongly related to seasonal employment and harvest cycles. A major part of the need had to do with avoiding "prestamista" credit for basic goods and the high cost of credit purchases from the local "pulpero". In general, the demand for consumer credit seemed to rank high in most credit unions.

f) Housing Credit

Ten of the fourteen credit union groups surveyed indicated a need for housing credit. At first this demand appeared somewhat unrealistic given the low level of income available to rural credit union members. Yet, over time, it became evident that housing credit, in fact, may not be that unrealistic in the Nicaraguan context. First, it was noted that many of those who would be served under a housing credit program are already paying monthly rent fees which are equivalent,

if not higher than those which they would have to pay on a monthly basis to amortize housing loans. Second, it was significant that in many cases the demand was as much for home improvement as for new dwellings. The "improvement" concept was applied most frequently to rural population center housing, but some co-ops were also faced with the need to respond to the problem of the isolated "campesino." (As will be covered below, to a surprising degree, external resources did not seem to be available for housing.)

g) Emergency or Provident Credit

This is the one case where a need was evident that was not explicitly stressed by members. It is included in this listing, however, as portfolio reviews indicated that the majority of the co-ops have active lending categories for exactly this need.

h) Other Credit Needs

The team found a series of miscellaneous credit needs which did not appear to fit into any of the areas previously described. The two mentioned most frequently were credit for the purchase of school supplies and debt consolidation. Because there appeared to be an overlap in many cases between these and consumption credit needs, it proved impossible to determine how crucial these areas were as distinct from others.

3. Non-Credit Needs

In general, the non-credit needs expressed amongs the credit unions reflected the needs of a higher socio-economic member group th those of other cooperative systems studied as well as a predominance of the small business/industry member area. (All groups stressed a

need for increased income, which was basically reflected in the credit categories discussed above).

1) Bulk Purchase of Goods for Resale

Four of the FUNDE groups interviewed were anxious to see their co-ops get involved in a bulk purchasing program which would lower prices paid by "comerciante" members for products for retail operations. Theoretically, this would allow them to sell the products at lower prices, thus helping to lessen the impact that the claimed rapid increase of prices has had in rural Nicaragua over the past few years. In the case of the market stall operators, the idea was that of buying produce directly from agricultural cooperatives. In the case of merchants, the idea was to reduce prices via quantity purchases and direct contracting of transportation services which would not entail the onerous commissions which are reported to exist at present.

2) Commissaries

In seeking to address the general need to reduce prices for basic goods, three FECACNIC credit unions indicated member desire to establish commissary facilities. Bulk buying and lower margins were seen as making possible substantially lower prices than those established by local merchants. It is interesting to note that the FUNDE and FECACNIC credit unions are seeking to address the same general need - the lowering of prices for the consumer - but disagree on the best means to reach this end. The FUNDE credit unions seek to benefit the "comerciante" first and the "general consumer" second. The FECACNIC

credit unions, on the other hand, are more oriented toward by-passing the merchant to accomplish the same end.

3) Health Care

For ten of the groups,improving health care facilities was a high priority need, both for delivery of medical services and provision of reasonably priced medicines. In a majority of cases, the groups felt that their cooperatives should play a direct role in facilitating such services through the establishment of special arrangements with doctors in the community and medical dispensaries.

4) Improved Sanitary Conditions

Eight of the groups stressed a priority need for community level improvement of basic sanitary conditions. Adequate latrine facilities were most often emphasized. In general, the socios felt that this area could be addressed jointly by the cooperative and government authorities.

(5) Education

Surprisingly, only four groups spoke of needed educational facilities or programs. It was difficult to tell if this was, in fact, not an important need or whether the area had not been properly probed by the interviewer.

(6) Potable/Running Water

Four groups indicated the need for potable water. Two of these also indicated the relative absence of adequate running water.

(7) New and Improved Access Roads

Four groups also expressed that their communities were in need of new and/or improved access roads. None of these, however, felt that their co-op could play a meaningful role in resolving the problem.

D. System Response: Constraints/Gaps, and Recommendations

The response of the credit union structures studied to the needs of its members is largely conditioned by the constraints with which each is now dealing. These constraints, in the main, relate to the lack of resources - institutional, financial or technical - in addition to certain other key limiting factors discussed below. For analytical purposes, it was useful to focus consecutively on various levels of constraints; i.e.,

- Member constraints
- Cooperative constraints
- Integrative structure constraints (FUNDE/FECACNIC)
- Agricultural credit constraints
- Constraints external to the credit union movement

In this section, each of the above sets of constraints will be reviewed. It is important to emphasize that the analysis is not exhaustive and was based on a limited cut across existing structures in the countryside. Recommendations for further investigation and analysis are made where appropriate and should be pursued prior to formulation of project or activity plans to overcome these problem areas.

1. Member Constraint ("Concientización")

a) Findings

Almost without exception, groups visited indicated that the main constraint was at the member level itself. Most frequently, the problem was explained in relation to a basic lack of cooperative education and understanding, normally referred to as "concientización." In fact, when the subject of training came up, it was this type training rather than technical varieties that the respondents tended to focus on.

As explained time and again to the interviewer,members were not imbued with sufficient cooperative philosophy and orientation for the provision of essential member support while the co-op faced initial stumbling blocks in the course of its development. In going over the issue, the team understood the need during the start-up phase of the organization, but questioned it with respect to those co-ops which had been in existence for a number of years. In this connection, the team noted a marked inclination at all levels to think that, if only members had the right orientation, they would not be so hard to please or would be more helpful. The feeling came through frequently that the viability of the co-op was dependent on a sort of quasi-mystical faith in the philosophy of cooperativism. In brief, the "concientización" issue all too often came across as a "crutch."

On balance, while member education is a vital component of any cooperative effort, it will not solve a host of other constraints relating to quality and impact of services offered.

b) Recommendations

(1) The need for general cooperative education at the member level should not be assumed to be the answer to any given problem. Great care should be taken to analyze such a claimed need prior to acting on it in a program context.

(2) A significant effort is called for to lead credit union managers and directors to the realization that the success of the cooperative depends not so much on widespread commitment to the principles of cooperativism as on the quality and efficiency of services rendered to members and effective management of existing resources.

2. Cooperative Level Constraints

The constraints found at the credit union level may be grouped into two basic categories: (a) those related to financial viability, and (b) those related to technical self-sufficiency; i.e., the capability to carry out processes essential to efficient and effective operations.

a) Financial Viability

The financial viability of a credit union depends on the capability to generate income required to cover costs. This includes not only the operating expenses but also a sufficient margin for bad debts, dividend or interest payments and other required reserves. Potential viability also depends on capital resource mobilization from all sources to meet credit and other demands.

While at present most of the credit unions are "financially viable" in the sense that current costs are being covered, it was noted

in almost all cases that income was lacking for services and functions considered essential in response to the member needs. Viability in terms of desired performance and growth targets, therefore, was lacking. The following constraints and issues were found to have a direct bearing on financial viability at the cooperative level.

(1) Demand vs. Growth

In a majority of the credit unions it was indicated that membership growth was not being actively promoted for fear that this would place even greater credit demands upon the co-op - demands which are already well beyond the capability of the credit unions to meet with existing resources. The problem, then, is manifested in the form of a very familiar vicious circle - no credit availability, no new members; no new members, inadequate savings to generate additional loan capital with which to meet existing and new credit demand, etc.

The breaking of this vicious circle is key with respect to overall system response. The answer in the Nicaraguan context appears to lie in the simultaneous resolution of several additional constraints discussed below plus more aggressive membership promotion.

(2) Savings Generation

Although the co-ops studied had demonstrated a capability to generate increasing amounts of savings, the rate of growth was far from keeping pace with credit demand. Systematic savings plans were found lacking in a number of co-ops.[11] Also, reasonable

[11] Three of the credit unions, however, treated lack of regular deposits as a form of delinquency, exerting greater pressure to maintain a constant flow of savings.

interest rates were not paid on deposits. (In several cases, interest was either very low or not paid at all.) Finally, it was observed that the practice followed commonly in a number of countries of capitalizing five to ten percent of all loans was in practice in only a few credit unions.

(3) External Capital Mobilization

While there obviously exists a critical need for additional external capital to stimulate and accelerate the growth process, great care must be taken to avoid over-reliance on this measure which can tend to undermine continued efforts to generate increased savings. This was the impression received in several of the co-ops visited. External capital inputs should be tied directly, somehow, to savings growth measures and targets. (Capital mobilization is also directly affected by the interest rate issue discussed below.).

External capital availability for Nicaraguan credit unions should increase sharply in the near future with the initiation of lending under the AID/FED Production Credit Guarantee program, as well as through the IDB funded loan to FECACNIC through COLAC for agricultural production and small industry credit. Yet the team detected the absence of external resources to meet other types of credit needs, the most important of which was for housing. It is also believed that the credit unions will be faced with a portfolio balance problem if they do not seek to generate the funds necessary to balance lending in a manner which reflects the existing credit demand profile more accurately. No doubt, agricultural and small industry production credit

is needed in the field. But no credit union can rely on this alone. Until the credit unions and donor agencies address this question squarely, a serious constraint will exist.

(4) Interest Rates - The Margin on Lending

The importance of adequate interest margins would seem to be so obvious that it should not merit any great attention. Yet, a great reluctance to come to grips with the question was found in FECACNIC cooperatives. Rather than viewing the issue in relation to survival, improvement and expansion of services offered, interest rates were often analyzed in terms of what may well be a mistakenly perceived priority "want" by socios. Frequently the argument was made that members would not accept higher rates. Yet it was found that in most FUNDE credit unions interest rates were up to twice as high as those of the FECACNIC credit union and members seemed to be quite content to receive credit on these terms (just as they were in the case of INVIERNO socios). The need for realistic rates is particularly acute in the agricultural production area where both lender operating costs and risks are likely to be higher.

How the interest rate question is treated also has a direct bearing on capability to mobilize crucial external resources. The tendency to restrict the mobilization of such funds to sources that will offer relatively low interest rates; i.e., below commercial rates, is a major constraint to meeting credit demand and growth targets. The team found that when members were asked to make a choice between credit at higher interest rates or limited credit availability, they almost invariably chose the former.[12]

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[12] This was found to be generally true in other cooperative systems studied as well.

(5) The Delinquency Problem

Discussed in the following section as a technical constraint.

(6) Recommendations:

(Financial viability, cooperative level.)

(6.1) The problem of financial viability should be addressed through a balanced program combining:

- Membership promotion
- Increased savings generation
- Mobilization of a balanced mix of external capital inputs from all sources, including commercial.
- Adoption of realistic (cost covering and growth promoting)interest rates.

(6.2) Specifically on savings and internal capital mobilization; where possible, co-ops should consider:

- Mandatory capital contributions from all loans received.
- Automatic deposit of interest and dividend payments into share capital accounts of members.

(6.3) Increased lending to credit unions is recommended for consideration by appropriate sources. Any contemplated input, however, should be tied directly to measures for increased internal savings generation. Also, care should be taken to assure that a balanced mix of credit is stimulated which is responsive to the real demand profile of the membership.

(6.4) Interest rates to the member should be increased to the point where they cover administrative cost plus risk to the co-op, plus a margin for capitalization. Flexible rates should be considered as a means of obtaining and utilizing a balanced mixture of funds from both "development" and commercial sources.

NOTE: See following section for inter-related questions on technical self-sufficiency and absorptive capacity.

b) Technical Self-Sufficiency

Though there were exceptions, in general the level of technical self-sufficiency found in the cooperatives visited was not adequate and represented a major constraint to the fuller utilization of these as development instruments. At present, despite heavy expressed demand for additional lending capital, a marked increase in external funding would impose a serious strain on existing administrative and technical capabilities. This is not to say that steps should not be taken to provide additional capital for the credit unions, but only to stress that such inputs should be carried out in conjunction with institutional development activities which will help to narrow the gap between present and needed technical capabilities. The major techical deficiencies observed are discussed below.

(1) Planning

A lack of planning activities and skills was perhaps the most serious deficiency observed at the cooperative level. Very few of the credit unions visited had identifed or attempted

to implement specific growth strategies aimed at the accomplishment of pre-determined targets. Neither were there indications that the credit unions were attempting to gear up technically to meet specific levels of credit demand. Most seemed to be operating on an ad hoc, day-to-day basis with little thought as to how scarce available human and financial resources could be utilized to maximum effect. Managers did not appear to be providing clear cut alternatives to directors for informed decision making.

(2) Budgeting, Accounting, and Financial Management

Budgeting was found to be a formalistic process in many credit unions. Standard incremental growth approaches were utilized reflecting continuation of past performance rather than incorporation of desired changes for the future. Financial and portfolio management lacked adequate attention in general. While the team found a heavy emphasis on the development of accounting procedures and on the production of timely financial statements (especially in the FUNDE co-ops), a nagging question kept coming up. Had any attention been given to the development of financial analysis capabilities on the part of management and especially directors?

(3) Credit Management and Delinquency Control

In general, credit committees reviewed loan applications in a most cursory manner. As one experience leader put it, "Loan approvals are granted on the basis of an impulse of the heart." In no case did the team find that any effective means existed to determine whether the applicant held credit from another source which

might make repayment difficult. The concern in this area is not so much for the present, as for the future. For the time being it would appear that most credit unions can be true to their maxim that the only collateral required for a loan should be an individual's reputation. But with time and with new types of more complicated credit programs, particularly those related to agricultural production, it will be essential that credit committees and staff members review applications more carefully from a technical view, allowing analyticial determination of the risk factor of a particular loan proposal. At the present time, the credit unions would appear to be ill-equipped to handle such matters. A failure to plug this gap will likely lead to higher delinquency and high bad debt rates in the future.

Specifically with reference to delinquency, in most co-ops visited it was a continuing problem. Rates ranged from 0% in a recently established credit union to 35% in one of the older ones. Several co-ops knew they had a problem but were unable to provide detailed information as to severity. Half of the co-ops had delinquency rates of over 10%. As would be expected, those with the highest rates had poor controls and records, and in most cases bad debt reserves were either depleted or inadequate. It is only fair to state that both FUNDE and FECACNIC are now placing heavy emphasis on development of adequate delinquency control measures, but much still remains to be done.

(4) Human and Management Resources - The Manpower Constraint

As stated above, one of the principal advantages to credit unions in a development context is that they are simple structures

to establish and operate. As more complex programs are taken on, however, simplicy diminishes and demands on scarce trained human resources become heavier and more complex. This is the case with both the FUNDE and FECACNIC systems.

Numerically, there was a solid human resource base to work with in most of the co-ops visited. Twelve, for example, had a full-time salaried manager and eight of these were able to rely upon additional paid staff. It was noted, however, that in several cases managers were simply not capable of running the cooperative, which can be traced primarily to lack of ability or willingness to pay a salary that would attract and hold competent candidates. (This relates to the viability question discussed above. The co-ops in question were covering operating costs, but at a heavy price in relation to growth and effective services.) It's important to stress that at least half of the paid managers appeared fully capable of effectively assuming new responsibilities, assuming adequate training and guidance.

Concerning directors, six of the groups visited appeared to have boards capable of making the transition to a more demanding situation, but in all cases it is essential that well designed training efforts be realized for the development of the necessary skills and understanding.

(5) Findings and Recommendations - Technical Self-Sufficiency

(5.1) If rural credit unions in Nicaragua are to play a major role in the national rural development effort, adequate attention must be devoted to local institutional development. A sound plan for

addressing the needs in this area requires further study. Both FUNDE and FECACNIC are embarked on the effort, which should be supported by AID and other interested agencies. (See following section on integrative structure constraints.)

(5.2) Management loan funds to facilitate hiring competent managers early on are highly recommended. (FUNDE has such a program in effect and FECACNIC plans to establish one under the proposed grant from AID.)

(5.3) Institutional development efforts aimed at the credit union level should place special emphasis on the introduction and utilization of medium and long-term planning methods which give due consideration to member needs and priorities.

(5.4) Any external capital financing should be phased to accompany the growth of technical absorptive capacity

(5.5) Care should be taken to focus skill training on managers and other staff people who are of a level of preparation capable of effectively benefiting from it.

(5.6) A special effort should be made in the area of director training, particularly with reference to understanding and acting upon financial information presented by management. Decision making skills should be worked on in general. Managers should be trained and encouraged to present concrete alternatives and recommendations to Directors.

(5.7) Credit reviews, approval and monitoring procedures should receive special attention in training efforts. Budgeting deserves the same attention.

3. Integrative Structure Constraints

a) Two Structures: FUNDE and FECACNIC

(1) Findings

At present both FECACNIC and FUNDE are servings as integrative structures within the Nicaraguan credit union context. Collaboration at a minimum would seem to offer the promise of more effective member services. But current attitudes based upon past conflicts at national leadership and management levels make such collaboration difficult to attain. Those who are in a position to move toward meaningful collaboration in both organizations tend to operate on the basis of those past experiences. In order to overcome this it will be necessary to create a new experience to replace that of the past. This is made more difficult by the image that each has of the other. FECACNIC leaders view the FUNDE program as being paternalistic and not committed to the development of a member controlled movement. Some also feel that the program is not one which leads to an alternative and independent credit system but sumply to an extension of the private banking system. FUNDE leaders in turn tend to view FECACNIC and the COLAC system as a bureaucratized and unresponsive system controlled by the old leaders of the credit union movement. Both contend that any merging of forces or programs would meet strong opposition from the local credit unions; no evidence was found by the team at the local level in support of this assumption.

The difficulty of bringing the two groups closer together was evidenced during the team visit. During the study period, a meeting between FUNDE, FECACNIC and COLAC representatives was held. The team member responsible for the credit union phase of the study was informed that such a meeting was forthcoming and spent a considerable amount of time with both FUNDE and FECACNIC seeking to identify areas of mutual

interest which both groups might be willing to discuss as promising areas for collaboration. He was of the impression that both had shown some interest in discussing the possibilities of: (1) FUNDE credit unions receiving the loan and savings insurance service presently offered by FECACNIC through CUNA Mutual Insurance Society; (2) FUNDE receiving some of the support services available through COLAC; (3) FUNDE credit unions receiving production credit loans through the COLAC production credit loan and FECACNIC credit unions receiving housing loans through the proposed FUNDE OPG from AID; (4) FECACNIC and its credit unions availing themselves of some of the training courses offered by FUNDE through CECOOP; and (5) collaborating in the design of specific training programs which could be offered jointly or separately. The team felt that discussions in these areas might well lead to initial progress in reaching some inter-institutional collaborative agreements. It is reported that the meeting was a cordial one but that FUNDE indicated that it was able to meet all its needs without the assistance of COLAC or FECACNIC, though leaving the door open to efforts to improve the relations between itself, FECACNIC and COLAC. This response may have been prompted by the fact that FUNDE feels that is has been given the run around in previous attempts that it has made to discuss similar matters with COLAC.

The team bielieves that it would be a mistake to issue any recommendations with respect to the overriding question of wheter a fully integrated movement should be promoted in Nicaragua. It is clear that what is required is an evolutionary process which will lead to a Nicaraguan answer to this question. Until such a solution is reached, it is the team's conviction that both systems can play useful roles in the development of the credit union movement. It is not felt that the existence of two integrative structures should be viewed as a constraint to development at the present time. Certain steps can be taken,

however, to move toward a limited, but productive sharing of existing resources and talent (See below).

(2) Recommendations

(2.1) External organization should not attempt to arbitrarily define a course of action to be followed in resolving the differences that exist between FUNDE and FECACNIC.

(2.2) FUNDE and FECACNIC, to the extent comfortable and appropriate, should take advantage of existing opportunities for collaboration and sharing of scarce resources. Examples might include the following.

- Open training sessions which could be attended by national and credit union personnel regardless of the sponsoring organization.
- Joint attendance at annual cooperative assemblies of local and national personnel to exchange information on approaches, experience, problems, etc.
- Periodic meetings of FUNDE and FECACNIC professional staff to share technical information of general and mutual interest.

(2.3) Longer range and more substantive areas of collaboration which could be discussed include:

- Mutually supporting services in credit and insurance.

- Technical Training Programs with possible third party assistance.
- Joint strategies for external capital mobilization - both national and international (i.e., COLAC, Solidarios, US Credit Union Central, CIDA and the Canadian movement, IDB, etc.

b) Viability

(1) FECACNIC

(1.1) Findings

FECACNIC's financial condition is no secret. As of June 1977, it had an accumulated budgetary deficit of C$750,000, and past management weakness had resulted in loan delinquencies of C$500,000 (50% of entire portfolio). For the past year, FECACNIC has had to live with a situation of extreme austerity, barely able to pay salaries from one month to the next. Without the recently approved "bridge" grant from AID and short-term lending from COLAC the position of FECACNIC would be an extremely precarious one.

At this point FECACNIC finds itself in the same vicious circle as a number of its cooperatives. It does not have the income to supply services that will generate income to supply services, etc. Not withstanding proposed grant support, necessary additional income will have to be generated from some combination of higher dues, service charges, higher interest rates, and a larger loan portfolio. In addition to current technical and

financial constraints to these measures, there are also psychological obstacles relating to charging realistic rates to "poor" credit union members.

The COLAC/IDB $1,000,000 loan package promises to be of significant assistance in improving the financial picture of FECACNIC. But in order for this loan to be administered properly FECACNIC must be provided with the means to improve its technical capabilities substantially. This, indeed, is the basic rationale for the proposed operational program grant from AID. But the federation management and directors must be willing to develop and implement a strategy for financial viability based not only on external loans and grants but also on other elements such as realistic interest rates, higher dues and/or charges to credit unions for most services provided to them. (See criteria, Section E. Also see general recommendations concerning external capital assistance after following section).

(1.2) Recommendation

A direct operating cost subsidy to the Federation to allow it to develop the necessary financial and technical viability. Contingent upon the willingness of FECACNIC to implement those complementary measures required by a realistic self-sufficiency strategy.

(2) FUNDE

(2.1) Findings

FUNDE is capable of covering operating costs and has a large and impressive professional staff. The situation is somewhat misleading, however, as substantial continuing donations are required which cover 85 to 90% of its budget. An undetermined amount

of individual support is also received from regional offices of the National Development Institute (INDE), FUNDE's parent organization.

There is no question that FUNDE has managed to put together an excellent cooperative development program and offers effective services. But the question that must be raised is whether FUNDE will be able to continue to provide these services. The president of FUNDE has stated categorically that the purpose of his organization in working in the cooperative field is that of showing that cooperatives can be established and operated efficiently and how this is done. Once this has been accomplished, it was stated, the experiment should be turned over to some other entity.

One idea put forth repeatedly was that FUNDE would probably seek to establish a successor organization which could carry on with cooperative work independently. If this is indeed to be the case, the question that must be raised is how that successor organization would cover its costs. Though the team was not able to determine what the total costs of the FUNDE program are, it is suspected that it is well beyond the reach of an organization depending largely if not entirely on income from operations. Conceivably, FUNDE might be thinking of transferring donated capital to such a new organization. It is important that such questions be answered so that rational plans and a strategy may be developed for necessary support in the future to the cooperatives affected. This is also important to external donors concerned with the long run payoff from investment in FUNDE and its cooperatives.

Concerning capital mobilization and lending, although FUNDE is not itself capable of coming close to meeting credit demand generated by its cooperatives, the recently established production credit-guarantee program implemented through the FED and private banks offers an alternative. Additional loan capital (up to $3 or $4 million) may be made available to FUNDE over the next few years through the regional organization of Latin American of National Development Foundations (SOLIDARIOS) if proposed loans from AID and the IDB are approved. Finally, the proposed grant project with AID - assessed below - while ostantsibly experimental, should fill a substantial portion of immediate demand. But it is important to assure continuing service for the maintenance, upgrading, and expansion of technical capacity amongst the cooperatives to handle this increase in available credit in an effective manner.

(2.2) Recommendations

(2.2.1) FUNDE should develop and make available medium and long term plans which identify how its present and projected activities will lead to a viable and self-sufficient service delivery system.

(2.2.2) If FUNDE intends to establish independent structure to continue its work, its planning should take adequate consideration of how present activities will contribute to

eventual self-sufficiency of this new organization. It is important to establish what resources, human and financial, FUNDE would transfer to such an organization.

(2.3) General Recommendations Concerning External Capital Assistance

(2.3.1) External Capital Assistance from COLAC, the FED, and elsewhere should be encouraged and supported. To the extent feasible, such resources should be channeled through the supporting institutions in order to assure important complementary services and programming, as well as to strengthen the integrative structure.

(2.3.2) Nothwithstanding the above, private bank lending arrangements with credit unions should be pursued although this will require a very business minded and "going rate" approach on the part of the borrowers, which is all to the good. (Also see 5.a) below, External Financial Constraint, p. 195).

c) Technical Constraints - Federation level

(1) FECACNIC

(1.1) Findings

At present FECACNIC is technically and administratively deficient in relation to established functions and goals. The most important challenges now facing the organization are as follows:

- Improvement/reconstruction of internal systems. Work in this area has been initiated with particular and much needed attention to the reconstruction of the accounting system.

- Provision of substantial technical assistance and training at the cooperative level to increase both technical and financial viability.

- Resolution of serious delinquency problems at both its own and cooperative levels.

- Carrying out of feasibility studies and proposal preparations required for placement of COLAC/IDB money.

- Development of capability and systems for adequate direction and monitoring of production credit programs.

The present staff cannot begin to handle the above tasks adequately in addition to ongoing activities and present demands. It was clear from the field visits, for example, that none of the cooperatives were satisfied with services provided. In fact, in the majority of the credit unions, it was reported that with the exception of visits for COLAC/IDB project identification, few visits had been received from the FECACNIC staff,[13] although there had been some attendance by co-op personnel at useful seminars.

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[13] It's important to note that all but one of the co-ops visited were aware of FECACNIC's continuing state of financial crisis and were supportive, notwithstanding lack of services.

The current on-board staff of FECACNIC is as follows:

. Management	Manager
. Finance Department	Director, assistant, 2 accountants (includes centralized accounting facility for member co-ops.)
. Technical Assistance Department	Director, 1 field agent
. Audit Department	Auditor plus 2 auxiliaries
. Administration	Chief, 2 secretaries, messenger,etc.

To appreciate the magnitude of the problem facing FECACNIC, it is important to understand that in addition to the tasks shown above, the Department of Technical Assistance is charged with all training activities and the Finance Department must handle (a) resource mobilization, (b) credit management, (c) budget, (d) accounting, (e) the insurance program, (f) centralized accounting for credit unions, and (g) miscellaneous other functions such as the preparation of manuals, modifications to regulations, etc. To understate the case, the staff is swamped. It has taken a tremendous effort on the part of the management and the COLAC advisor to maintain morale and momentum in such a situation. Implementation of established priorities has been extremely difficult. Part of the problem has been a lack of board of director awareness and leadership with respect to institutional needs, necessary decisions, and priorities.

During the past year, assistance from COLAC to the federation has been heavy and promises to continue. The long term resident advisor has been there for a year and will continue for at least one more. Short term inputs from COLAC have also been numerous.

From all reports, despite the current state of the Federation, a marked improvement over the past year can be demonstrated in both procedures and decision making. Some priorities have been established; record keeping has improved; valuable services are now being provided in the auditing area. Seminars have been held, etc. The organization is doing tangible things and is trying in a very determined way to reverse its image nad overcome over four years of mismanagement which almost broke the federation.

As usual, it now comes down to dollars and cents. Unless a continuing subsidy is provided, the organization could collapse; it's that simple and that critical. Unless external resources can be provided at this point, all talk and analysis of degree of technical self-sufficiency becomes rather academic.

(1.2) Recommendations

(1.2.1) FECACNIC and potential services it could provide are worth preserving. Grant support should be provided. (See Section F for evaluation of FECACNIC grant request.)

(1.2.2) Rigorous planning by FECACNIC, based on clear priorities, is essential.

(1.2.3) New staff should be recruited as rapidly as possible under the AID "bridge" grant to capitalize on current momentum and pending capital resource availability as well as the presence of the COLAC advisor.

(1.2.4) Management should be more demanding of staff performance.

(1.2.5) The Board of Directors should take a far more active role in overseeing the work of the federation in addressing critical questions. Leadership and supervision is needed now more than ever.

(2) FUNDE (Technical capacity)

(2.1) Findings

Although FUNDE may be operating at a level which would not be possible to sustain without heavy supporting grant funding, there is no question that existing resources are being used to maximum benefit. Without exception, FUNDE credit unions reported that they were being provided with needed technical assistance in a timely and effective form. FUNDE is also sensitive to expressed cooperative needs through a number of feedback mechanisms. This is especially true in the training area.

Currently credit unions are being visited for periods of two to three days per month without fail. The major concentration is in auditing, financial controls and procedures. As a result, most cooperative accounting and record keeping functions are excellent. Verification of accounts is a simple and immediate process. One can find the same figure on five different control sheets within a few seconds, etc. Financial statements are produced accurately within three days of closing of the fiscal period.

Cooperatives are also visited periodically by field agents of the Department of Social Promotion and a variety of

community initiatives have been launched around the focal point of the credit union. It varies depending on local needs and conditions. Examples are day care centers, medical dispensaries, potable water systems, basic education and awareness programs, etc. Social consciousness in general is promoted.

Training has been effective for the most part. Some of the co-ops did indicate, however, that it could be more practically oriented toward the specific functions of managers and directors. More emphasis is also needed in loan approval processes and such technical areas as housing and agricultural lending. FUNDE is engaged in a sustained grant funded effort to upgrade training, particularly on the job training, through its Center for Cooperative Training (CECOOP).

An excellent relationship currently exists between FUNDE and its co-ops, and a high degree of motivation and dedication to tasks at hand was noted. In addition, incentives are provided which have contributed to high morale and motivation such as, a) bi-monthly meetings at FUNDE with managers, b) quarterly meetings at FUNDE with co-op presidents, c) cash awards for best managers, d) citations for the ten best credit unions, etc.

Internal systems, processes, and controls at FUNDE are excellent and more than adequate for present needs, although such areas as planning and delinquency merit more attention (see questions below). The present cooperative program operates with the following staff:

. Management	Executive Director (Estimates he devotes 60% of time to co-op program.)
. Combined Administration, Personnel and Finance	Director plus four professionals
. Technical Assistance	Director plus five field agents (Current director is same for above Administration Department)
. Social Promotion	Director plus four field workers and 11 Peace Corps volunteers
. Training	Center for Cooperative Training: Director plus four training specialists

NOTE: Clerical support is not included in the above nor in shared staff, resources and facilities with INDE.

In general, the FUNDE staff is dynamic and innovative. Questioning is promoted at all levels of the organization. Observed dedication is extraordinary, and management is outstanding by any standard.

Given the foregoing report, the obvious question is: What's missing? Where are the constraints? The answer lies in plans for expansion which are difficult to define sharply at this point. In fact, the principal weakness in FUNDE is in the area of planning, just as at the co-op level. The following questions are asked as a means of expressing the team's concern in this area.

- Is there a danger that FUNDE will spread itself too thin through the creation of new credit unions (7 more are scheduled for next year)?

- Given the effort to channel increasing amounts of private bank money through the credit unions, (no margin for FUNDE), will FUNDE be able to supply increasing amounts of technical assistance and training for proper management of more varied credit activities?

- What are the plans of FUNDE re "Phase 3"[14] of credit union development, which calls for the co-ops to be in a position to pay for all services received (mainly on gratis basis at present). What needs to be done to accomplish this?

- How can the understanding and capability of boards of directors be improved to keep pace with increasingly varied and more complex operations of their cooperatives?

- Given FUNDE's present delinquency rate of 35% (co-ops to FUNDE), will the situation be improved through the "injection" of badly needed new lending capital - as is claimed - or is a greater

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[14] Phase 1 = Promotion, Phase 2 = Ability to pay back loans and cover operation costs, Phase 3 = Ability to pay for all services received.

effort needed in the area of delinquency controls, collection efforts, loan approval procedures, etc.?

- Due to the pace of growth of the cooperative program, will FUNDE be facing a liquidity crisis in the near and medium term future from upward spiraling demand? Should not a greater effort be directed to internal capital (savings) generation?

(2.2) Recommendation:

FUNDE should develop and publish a medium to long term plan for the future which would show, among other things:

- How services will be expanded to meet the increasing need for more specialized technical assistance as cooperatives grow and experiment in new areas. Both technical assistance and training should be covered.

- The manner in which this service delivery system will be sustained.

- A medium to long range capital mobilization plan for both the cooperatives and FUNDE on which can be based the place of complementary service expansion and campaigns for tapping private capital markets.

4. Agricultural Credit Constraints - A Special Case

a) Findings

Although donor agencies (particularly AID) have pushed hard in recent years to move credit union systems heavily into agricultural production credit, cooperative structures have had considerable and justifiable reluctance to move too fast. Often risk and cost factors are perceived as being too high. Necessary complementary services to agricultural production credit are frequently missing, and urban or town based cooperatives fear that non-agricultural members will end up subsidizing the farmers. This was the case in several of the credit unions visited, especially FUNDE cooperatives.

A number of the cooperatives saw themselves as not having the technical expertise to properly manage agricultural credit. Given uncertainty with respect to government support services (extension and marketing assistance for example) risks are hard to assess. Also, there was the recent Nicaraguan drought to take into account. The persistent lack of irrigation in many areas and continued basic grain subsistence production has given the credit unions much apprehension relative to becoming more heavily involved in the agricultural sector. On the cost side, sound project design, follow-up assistance, monitoring, and other activities which make for successful agricultural credit

programs are expensive and hard to program adequately. Then there is the spectre of the "bad" year and the need for refinancing.

Another problem for credit unions moving into agricultural production has to do with low (subsidized) prevailing interest rates charged by the BNN through its Rural Credit Program (IDB financed). For FUNDE cooperatives who have already adopted more realistic rates, the situation is not so difficult. FECACNIC, however, and its co-ops appear to be still preoccupied with a common "image" problem found throughout most of the small farm sub-sectors in Latin America. (The small farmer is poor; he should get a special rate, etc.) The attitude, of course, is encouraged by the standard subsidized credit practice financed by the IDB and AID in most countries. Thinking is gradually changing in this area to more of a cost covering "going rate" approach, but FECACNIC is still very much affected by the prevailing "subsidized" norm.

Again, the vicious circle is encountered. If realistic agricultural credit rates cannot be adopted, costs cannot be covered, and co-ops will resist the push to move more into the area; as long as they are not experienced in the field, however, sporadic lending in the area has a very high cost attached to it.

Despite all the above, Nicaraguan systems are trying to respond. FECACNIC's credit unions appear to be more directly involved than those of FUNDE, although in the latter case the approach is more through the multi-service agricultural cooperative model. (In FUNDE's current grant proposal, $75,000 is requested for agricultural credit.)

It is likely that most early lending from the credit unions will go to the best risks in the agricultural field. There is a further need to spread loan resources in such a way that risk is minimized; i.e., different crops and regions. Finally, longer term credit is required for investment and improvement costs to assist farmer members to diversify, improve productivity, and become better risks. This is particularly true in the area of irrigation.

In summary, while there appears to be real potential for outreach to farmers and the rural poor in general through the credit union vehicle, agricultural lending implies major risks to the systems concerned. The approach must be cautious in Nicaragua where there is still little experience in the movement.

b) Recommendations

(1) Agricultural lending should be encouraged for credit unions, but they should be allowed to move at their own pace.

(2) More flexible and higher rates should be charged by the credit unions (FECACNIC primarily) to cover the higher cost and risk of agricultural credit

(3) Credit Unions should not be pushed to lend to the lowest strata of the "poorest of the poor" in the agricultural area. This conceivably could come later with more experience, reserves and resources.

(4) Longer term improvement type credit is required in the agricultural area, but must be accompanied by appropriate knowhow relative to feasibility and return for specific types of investments (See criteria, Section E.)

(5) Government support to credit union systems should be sought in the form of specialized agricultural technical assistance. Ideally, and to the extent possible, technicians should be seconded to credit union structures to insure vital coordination and complementarity of services rendered.

(6) Also see recommendations re FECACNIC's grant proposal (Section F).

5. External Constraints

Certain other factors totally or partially beyond the control of credit union structures in Nicaragua have a direct bearing on the impact and growth of this system. The most important ones appear to be in the areas of finance, coordination, and law.

a) Financial

(1) Findings

Unfortunately, it was not possible for the team to obtain data relative to absolute external capital requirements of the movements. For this, a demand survey would be required, preferably over the "universe" of the co-ops. Nevertheless, there is obviously substantial unmet demand, both in an absolute sense as well as in specific areas, notably in the areas of housing, commerce, consumption, and for emergencies.

While credit unions have had some success with short-term borrowing from private banks (Bank of America and Banco Nicaraguense - BANIC), progress is very limited thus far. The

big government lenders, the BNN and INFONAC, have not, and do not appear disposed to lend to credit unions.[15] The hope currently is that under the AID financed Production Credit Guarantee program through the Fondo Especial de Desarrollo (FED) under the Central Bank, substantial resources may be made available through private banking systems. FUNDE, apparently, has been negotiating with the FED for the creation of a C$1,000,000 pool between the Bank of America and BANIC, 70% of which would be guaranteed by the FED. All the funds themselves, however, would come from the private banks. The funds are tied to production purposes only with a special exception for community development type investments. Excluded is working capital and other forms of commercial, consumption and otherwise non-directly productive credit.

The FED also has a number of other lending windows outside of the guarantee program in such areas as small business, agro-industry, construction, feasibility studies, cattle, coffee, etc. There are eight categories, all channeled through private banks and finance companies in one form or another. There is apparently no legal or other official impediment to cooperatives qualifying under any of the categories. In practice, however, most co-op operations have been too small, and cooperatives themselves often can't measure up to creditworthy and collateral criteria of the private sector lenders concerned. In part, it is probably simple inertia. In the specific case of FECACNIC and its co-ops, the COLAC/IDB $1,000,000 credit offers a partial solution, but this loan is also restricted to production and related credit.

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[15] The one exception to this is the Banco Popular with its urban credit unions. These were outside the scope of this study, however.

(2) Recommendations

(2.1) A credit demand survey, by category, is advisable in the credit union movement (or better, throughout the cooperative sub-sector), in order to get an accurate fix on the question of the capital constraint generally and in specific areas. At the same time, absorptive capacity could be determined utilizing both financial and technical criteria. (COLAC has developed such criteria under the AID program; i.e., debt equity ratios, technical indicators, etc.). Armed with evidence and projections from such a survey, both sides of the movement would be in a better position to approach public, private, and international sources of financing.

(2.2) Ways and means of expanding the FED program should be explored in the following areas:

- Lending directly to secondary level (FUNDE - FECACNIC) intermediaries, by-passing the private banking system. (This implies new money, over and above the Production Credit Guarantee Program. This is not to discourage private bank lending to co-ops, but rather to open up a new and badly needed source of financing for the co-ops prior to the point at which they can borrow on their own account from private banks.)

- FED/Private Bank lending to cooperatives through a number of their specialized windows. The current

problem appears to be a combination of lack of creditworthiness and simple ignorance. Specific opportunities for some of the stronger co-ops should be explored and promoted in order to gain experience and set valuable precedents.

(2.3) In general, an effort should be made to free up current lending capital availabilities as much as possible for areas of high demand which have been short-changed; i.e., housing, commerce, and consumption. In these areas, credit unions can become stronger and gain valuable volume and experience without doing damage to production oriented goals of other programs.

b) Coordination

(1) Findings

To a greater extent than in the case of agricultural cooperatives and their government (for the most part) sponsoring or supporting organizations, credit union systems are working in isolation. To the extent the team could determine, there is virtually no coordination with government agencies. It appears to be a two-sided constraint; i.e., neither government agencies nor the credit unions appear to have explored meaningful collaboration. Both sides suffer from an "image" problem with the other. The above also applies at the municipal or "alcalde" level.[16]

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[16] In a number of cases it was reported that local government was totally non-supportive and, on occasion, openly hostile.

Payoffs, however, to improved government-credit cooperative collaboration could be high. Both the BNN and INVIERNO, for example, could profit from being able to refer clients to local credit cooperatives and even from lending through them when warranted by administrative and technical capacity. Also, the credit unions represent a vehicle for "graduation" of individual clients and socios of the BNN and INVIERNO so that both institutions could expand outreach to new groups. INTA could achieve wider dissemination of knowhow and materials at low cost by taking advantage of the credit union network. In another area, credit unions represent a valuable mechanism for the development of secondary and tertiary city growth poles. Income and employment alternatives to agricultural production are stimulated by credit co-ops - an expressed goal of the GON under its national agricultural plan.

Totally within the private sector, opportunities for cooperation are rich. FUNDE, FECACNIC, and the other PVO's working with cooperatives, however, have not taken adequate advantage of each other's presence and capabilities. CEPAD, for example, has already formed seven credit unions and its program would benefit immensely from inputs by both FUNDE and FECACNIC. INPHRU also intends to work with credit unions in the future. This could be an expansion mechanism for FUNDE and FECACNIC. Technoserve could provide valuable feasibility study assistance to the credit union movement and assist with moves into more complex agro-industrial endeavors in the future. CARE, with its experience in irrigation programs, could provide valuable advice to the credit unions. Through the FAO office in Nicaragua, FUNDE and FECACNIC conceivably could tap assistance from FAO, the UN, INTA, etc.

The inter-institutional committee (see Public Sector chapter) represents a step in the right direction, but it is slow in coming. Independent initiatives should be launched and pursued by both sides.

(2) Recommendations

(2.1) Both FUNDE and FECACNIC should persistently explore possibilities for Government Assistance. Obvious sources include INVIERNO, INTA, the BNN, Ministries of Health (PLANSAR) and Education, and other service agencies (DENACAL), etc. They should not give up at initial lack of expression of interest.

(2.2) FUNDE and FECACNIC should meet with other PVO's both formally and on an ad hoc basis to develop joint initiatives, share resources and otherwise help each other out.

c) Legal

(1) Findings

According to the Cooperative Law, co-ops are required to specify rates of interest in by-laws and statutes which may only be changed in an annual or extraordinary meeting of the membership (assembly). This was reported by a number of co-ops as a problem. (The extent to which the provision is being observed is not known) Under any circumstances, but particularly in the Nicaraguan context, co-ops need the flexibility to raise and lower rates more easily in response to cost, availability of funds, and risk factors.

Another provision in the law is that cooperatives must have approval from the Cooperative Department in the Ministry of

Labor prior to receiving either loans or grants from a non-goverment source (other than from their officially recognized "federation). This appears an unnecessarily cumbersome procedure and has resulted in delays in the extension of urgently needed credits and grants, expecially from FUNDE.

(2) Recommendations

(2.1) By-laws of cooperatives that have unnecessarily restrictive interest rate limits should be revised to provide for needed flexibility. Also, this stipulation of the law should be reviewed for possible modification. (See Public Sector chapter on Cooperative Law, Section C)

(2.2) The requirement for Cooperative Department approval of loans and grants to cooperatives should be reviewed with respect to its relative utility under cooperative law. (See Chapter VI, Section C.)

E. Criteria Relative to Evaluation of Possible Credit Cooperative Projects in Nicaragua

The following criteria are drawn primarily from recommendations throughout the preceding sections:

1. Minimum Criteria (All Projects)

All projects should demonstrate, provide, or otherwise show convincing analysis of:

a) Beneficiary Participation in Design: Above all, the project should respond to perceived needs of the target group. At a minimum, the proposal should show that the membership has been directly

and systematically consulted with respect to the manner in which the goal structure and outputs of the project mesh with objectives, priorities and aspirations of the member.

b) Equity Considerations: (1) Equal participation of smaller or lower income members of the beneficiary group in the distribution of benefits and accumulation of capital over time, and (2) Expansion of "outreach" of the credit union system within the beneficiary group (the spread effect).

c) Planning: Detailed and realistic implementation planning showing defined phases with concrete, measurable, periodic achievement or progress indicators.

d) Internal Resource Generation: The manner in which project will contribute to the generation of savings, capitalization and/or other resources from sources internal to the beneficiary group itself.

e) Viability: The manner in which the project will contribute to increased viability (self-sufficiency), financial and/or technical of the credit union system(s).

f) External Collaboration: That potential collaboration from external institutional sources (both public and private) has been taken into account and taken advantage of wherever possible.

g) Feasibility: That implementation and technical absorptive capacity at both secondary and base (credit union) levels is in place, or will be, in relation to the nature and magnitude of the tasks to be accomplished.

h) GON Strategy Considerations: That the project goals are in line with one or more of GON rural development strategy considerations, (i.e., integrated rural development, the "agricultural frontier," and/or income and employment in urban centers. See Policy/Planning Framework of Introduction.)

i) Least Cost: That a "least cost" approach to achieving project objectives has been adopted as opposed to more expensive alternatives. (A comparison with other existing possibilities for achieving the same impact. There may be cases, however, where other reasonable alternatives do not exist.)

j) Subsidies: A candid description of, and rationale for, all subsidies from whatever source to either the member or the credit union system.

k) Replicability: That the project is replicable and will contribute to improvement and/or innovation in the rural development process.

2. Desirable, but Non-Essential Criteria (All Projects)

Where possible, project proposals should demonstrate:

a) That they contribute to the promotion of community action activities on the part of the co-op (Health, Education, etc.).

b) An acceptable internal rate of return to investment in the project, both financially (especially at the producer level) and economically. (It is recognized that a number of projects may not be appropriate or will be too small to justify full cost/benefit analysis.)

c) That the need for a good balance between the poorest elements of the community and higher income participants (within reason) has been taken into account.

3. Capital Financing Projects

In addition to the criteria shown above, every project proposal in this category should demonstrate:

a) Absorptive Capacity: That both financial and technical absorptive capacity exist at borrower and sub-borrower levels, or how it will exist in response to the application of other resources or measures.

b) Financial Viability: A clear indication of the current degree of financial viability of the recipient organization, and exactly how the project will either assist the organization to attain viability, or measurably improve its financial condition.

c) Credit Demand Profile: That the existing demand profile for credit has been taken into account adequately in project design. For example, if the greatest demand is for commercial working capital, or for consumer credit, then a project designed exclusively for production will have obvious difficulties unless some provision is made to respond to other higher priority credit needs. It is important to note here that the priorities of international donors, such as AID and the IDB, do not always mesh with those of the cooperative system; and proposals should not be criticized for responding to "donor needs." Nevertheless, if other credit needs are of a higher priority, at a minimum they should be candidly discussed in the proposal and explicitly treated in project design, one way or another. There is also a danger of "portfolio overload" with respect to any credit category, which this criterion is designed to guard against.

d) Delinquency: A clear and quantified description of the current loan delinquency situation at both primary and secondary levels and, if necessary, exactly how the project will improve or deal with the situation.

e) Interest Rates: That the project is based on, or will contribute to, realistic interest rates (cost covering plus growth - capitalization) charged at both primary and secondary levels.

f) Phasing: That periodic disbursements of project capital funds will be tied to specific progress and/or output achievement indicators in such a way as to promote compliance with institution and system-building objectives of the project.

4. All Projects Focused on Credit for Agricultural Production or with Such a Component Should:

a) Demonstrate how risk for the cooperative and secondary level lender will be minimized or spread through avoidance of excessive concentration in specific areas, crops, or activities.

b) Demonstrate how delinquency and or loan refinancing will be handled in the event of a "bad" crop season.

c) Demonstrate how utilization of government, human, and technical resources (agronomists, extension, etc.) will be maximized or why such services cannot or should not be drawn upon as a means of reducing cost and risk.

d) Analytically justify any assumed or claimed economies of scale in the agricultural credit, supply, production, or marketing process.

5. All Projects in the Training Area, or with such an Element, Should:

a) Thoroughly and analytically justify any general awareness, "concientizacion" , element or activity

b) Demonstrate an ongoing multiplier effect at both local and secondary levels (training of trainers).

c) Place a high priority on the development of director skills as well as management and staff capability, or demonstrate why such a priority focus is not necessary.

F. Evaluation of Pending Grant Requests

In this section, pending grant requests from FECACNIC and FUNDE are weighed against the foregoing criteria, and recommendations are made concerning suggested USAID responses to these proposals.

1. The FECACNIC Proposal

In fairness to these two organizations it should be stated that they had no way of knowing that the foregoing criteria would be developed and applied against its proposal. In that sense, what follows is basically "unfair." Nevertheless, the team believes that both will find the observations useful, with respect to improvement of current project design as well as longer range strategy and program formulation.

a) General Minimum Criteria

(1) Beneficiary Participation in Design:

It is understood from FECACNIC that there was extensive consultation with proposed recipients during the design phase of preparation of the grant request. The request is, in fact,

responsive to real needs in the area of agricultural, artisan, and other production.

(2) Equity Considerations

The proposal fulfills both sub-criteria entirely

(3) Implementation Planning

The proposal does contain a chapter on implementation ("Ejecución Del Proyecto"), complete with defined phases and quantified targets. It is felt by the team, however, that the plan is far too optimistic (see "feasibility" below), and lacks sufficient explanation concerning exactly how each phase will be realized, given existing system and external constraints which must be overcome in order to deal properly with the IAPC thrust of the project. (See Constraint analyses in Section D above.)

(4) Internal Resource Generation

The proposal is excellent, especially in the areas of savings and capitalization. The pace and magnitude of growth, however, is seen to be unrealistic (See "Feasibility" below).

(5) Viability

The proposal is excellent if all explicit and implicit assumptions are accepted, a number of which are felt to be very shaky. Also, the magnitude and timing of the "assumed" $2.8 million

loan to follow the COLAC credit is felt to be very optimistic with respect to both potential absorptive capacity as well as to the demanding institutional prerequisites and procedural/analytical requirements for such a loan.

(6) External Collaboration

The project obviously draws on COLAC support services. Beyond this, the integrated production credit program methodology calls on FECACNIC and its cooperatives to depend on substantial collaboration from various local service organizations in the agricultural sector, both public and private, by means of contracts and other arrangements. It does not indicate current possibilities, however, or expressions of interest on the part of government or other sources.

(7) Feasibility

The intricate series of growth and capitalization projections presented in the proposal do not appear to take sufficiently into account the degree of difficulty in establishing a complex and relatively sophisticated integrated production credit management and distribution system.

With respect to the magnitude and pace of system expansion projected, the team felt that a number of estimates were very optimistic in light of current financial and technical absorptive capacities observed at all levels. The following, for example, all appeared serious over-estimates in light of earlier field and headquarters observations; the number of new cooperatives to be

formed annually, the annual increment of new members, the pace of borrowing, and willingness of cooperatives to run on a deferred deficit for four years (possibly longer), and the additional external capital to be mobilized within the project period.

In order to deal adequately with the feasibility question, basic credit process design and system strengthening activities should be stressed in terms of allocation of necessary levels of effort from grant and counterpart resources.

(8) GON Rural Development Strategy

This criterion is fulfilled entirely.

(9) Least Cost

This question is not directly addressed in the proposal, although it is hard to imagine accomplishing the project's goals at lower cost. In fact, the cost of implementing the proposal is probably underestimated. Inflation is not properly taken into account, among other things.

(10) Subsidies

Tha nature of the subsidies contemplated in the proposal are appropriate, in the team's view, and should be encouraged. Subsidies in the proposal are all directed to institutions, primarily to FECACNIC , although indirectly to the socio in the form of cheap technical assistance from and through the cooperative. The

The COLAC/BID loan, unfortunately, will have to go to the socio at a pre-established (by BID) subsidized rate. Given this, FECACNIC may wish to consider some sort of premium on lending which would contribute to covering more of the cost of complementary technical inputs.

(11) Replicability

This criterion is fulfilled

b) Desirable, but Non-essential Criteria

(1) Community Action

This is not addressed. It doesn't necessarily have to be taken into consideration.

(2) Internal Rate of Return

The projections come close to being a financial cost/benefit analysis, although there is no discounting to present value. While a traditional cost/benefit analysis is not felt necessary for the project as a whole, "micro"or farm budget type analyses are recommended and are being carried out for agricultural and other sub-projects to be financed by the COLAC loan.

(3) Balanced Membership

This is not discussed, but probably should be. The project is ambitious enough with respect to new members so that

considerable care should be devoted to assuring that a "viable" membership is recruited in terms of financial condition, access to land, and experience among other factors.

c) Capital Financing Projects

Although the FECACNIC proposal is for grant assistance, some of the criteria in this category are uniquely appropriate and should be applied in this case, as the grant in essence is a "companion piece" to the COLAC loan. Neither the loan nor the grant project could be implemented by itself, and the success of one depends on the viability of the other.

(1) Absorptive Capacity

The major thrust of the grant project is to create the technical capability required to properly manage or absorb loan funds. A host of factors combine to make technical capacity to implement the proposed activities in the manner, volume, and pace contemplated difficult to accept. It is hard to believe, given FECANIC's background and relative inexperience in rural operations, that, even as augmented by the grant, the staff will be able to approach the intensity of technical assistance, coordination, analysis, promotion, and training programmed. It would seem prudent to set more modest targets and count on final financial viability at a later date, making the assumption that additional budget support can be secured when necessary, based on solid performance during the first two or three years of the program.

Concerning financial absorptive capacity, by traditional standards (i.e., debt/equity, current ratio, etc.), neither FECACNIC nor its rural cooperatives have such capacity at present. Also, as discussed earlier, projections of system growth and capitalization are seen as far too ambitious. Again, a more modest growth projection is urged, including external capital mobilization which will have to come in the degree and time frame in which FECACNIC can measure up to "credit-worthiness" and other lending criteria of external donors.

(2) Current Degree of Viability and Projected Viability

Much of this has already been discussed under earlier points. In addition, however, lacking in the proposal is a candid description of the present financial condition of FECACNIC and the co-ops to participate in the program. Projected income statements are shown at both levels,but they are presented in a vacuum. There is no baseline financial starting point. In the case of new co-ops, this is acceptable, but for FECACNIC and initial "model" projects, at least current summary financial statements should be supplied (balance sheet and income statement).

(3) Credit Demand Profile

In this area the proposal is seen as being less than sound. While there is an apparent need for production credit, other categories appear to have a significantly higher, or at least commensurate and more generalized priority (i.e. working capital, consumer credit, housing, etc.). Not only is FECACNIC expected to have a difficult time selling the "integrated" agricultural credit thrust of the program, given current priorities, but it may be that co-ops will

not be able to fully accept the mix of credit to be extended. With respect to the COLAC loan, of course, FECACNIC has no choice. Concerning other external resources for the future, however, FECACNIC should attempt to mobilize a balanced mixture of funds which can be applied to meet the greatest demand categories.

(4) Delinquency

The proposal does not address this area, but it should. Both FECACNIC and its cooperatives has substantial delinquency problems. (See Sections D.2.b) (3) and D.3.b) (1) above.) Delinquency recuperation and control activities should be described in detail in order to provide confidence that the problem will be overcome, and that FECACNIC and its cooperatives will not be dragged down financially in the future by what has become a serious and continuing drain on system resources.

(5) Interest Rates

Projections are based on 6% margins to both FECACNIC and its co-ops. The farmer receives credit at 18% on the total amount. This appears reasonable. The question is, will the IDB approve FECACNIC use of these rates or establishment or the complementary processing charges required to obtain these point spreads? Also, will FECACNIC's own board accept such rates?

(6) Phasing

The grant should be phased by target. (See recommendation 2.e) below.)

d) Agricultural Credit Criteria

(1) Risk Minimization

This is not covered, but should be

(2) Delinquency in Event of " Bad " Crop Year

This is not covered, but should be

(3) Government Technical Resources

The project is to draw on these, but how is not explained nor has there been a clear demonstration of Government interest in helping.

(4) Economies of Scale

These are not claimed by the proposal

e) Training Criteria

(1) "Concientización"

This is not emphasized in the proposal but probably should be. There will need to be a great deal of general member education in the formation of the new cooperatives contemplated. Consequently such a focus would be fully justified.

(2) Multiplier Effect

This is implicit in the project design

(3) Director and Manager Skills

The need to train and orient managers and directors is mentioned. It should receive more emphasis, however, and a specific strategy should be adopted.

2. Findings and Recommendations

a) The FECACNIC proposal requires substantial revision and modifications in order to deal with the issues and problem areas raised above. (Also see guidelines for revision below.) Notwithstanding the changes called for, the team urges support to FECACNIC for the following reasons:

(1) FECACNIC is the legally recognized credit union federation of Nicaragua.

(2) Given the commitment of AID to reach the "campesino" agricultural producer target group, it is relevant to note that FECACNIC:

- Serves 19 rural credit unions with approximately 6,000 members
- Has a much greater percentage of "campesino" members that FUNDE
- Has access to a $1,000,000 loan from COLAC for production credit which will be of direct benefit to the target group in question if its capabilities can be substantially upgraded

(3) Can plan an important role in the development of an effective credit cooperative outreach system through:

- Representation of its membership at national and international levels
- External capital resource mobilization
- Promotion of new cooperatives
- Provision of assistance required for co-ops

to develop adequate skills, processes and systems for improved and expanded operations in rural areas

A variety of other valuable services to credit unions, e.g., auditing, insurance, mechanized accounting and assistance with feasibility studies and project design.

(4) It has the unqualified support and commitment of COLAC, which is fully aware of the needs of its Nicaraguan affiliate and is taking the steps necessary to provide the support and guidance that FECACNIC requires.

(5) It has in the past demonstrated that it is capable of overcoming most difficult obstacles in consolidating the credit union movement in Nicaragua. In relation to this point, it should be recalled that FECACNIC succeeded in creating a credit union movement with limited external support and in a paternalistic environment which made the development of participatory and self-management attitudes and skills difficult. The success of FECACNIC in developing the human resource base required to implement an effective credit union program is well illustrated by the fact that FUNDE has drawn from this base on various ocassions to fill key positions on its credit union program staff.

(6) Previous experience in other countries of Latin America would suggest that the decision taken by AID/Nicaragua in discontinuing its support to the credit union federation may have been premature. AID support to credit union development in

Nicaragua was initiated in 1964 but limited to operational grants and discontinued five years later. In those countries of Latin America where greatest success has been attained, longer periods of support have been provided and usually reinforced with capital projects which have significantly contributed to the viability of the movements in these countries.

(7) Though the earthquake of 1972 should not be viewed as the only or even the principal contributing factor to the difficult situation in which FECACNIC finds itself today, it cannot be questioned that the loss of approximately 25 credit unions as a result of the earthquake undermined FECACNIC considerably. Assistance to the federation at this time can and should be viewed as an effort to assist a system to recuperate from this national disaster.

b) Now that the "bridge" grant to FECACNIC has been approved, there are presumably a few months of time to work with. A reformulation of the grant proposal can be contemplated, therefore, and should be commenced as soon as practical, along the following lines:

(1) First, FECACNIC should prepare a new, more modest and self-sufficiency strategy based on a more realistic analysis of existing conditions and the constraints to be overcome to attain effective and efficient credit administration with present cooperatives and membership. New cooperatives and membership growth should be projected on the basis of a revised, or at least more fully documented, analysis of the professional manpower required to strengthen existing credit unions and to expand the system. (Also, see section D, 3, c), (1) for a listing of a

most important initial system building and improvement tasks facing FECACNIC).

(2) With respect to the AID funding cyle constraint, FECACNIC should assume a second and possibly a third phase of AID assistance in a realistic long-term growth scenario; or assistance from some other donor. Given FECACNIC's current situation, viability within a three-year time frame is seen as all but impossible.

(3) Although the COLAC loan and its criteria must be taken as a "given", FECACNIC's planning should be directed toward achieving excellence in credit administration in general, and not become overly involved in the complexities of "integrated" agricultural credit administration. With respect to production credit from the COLAC loan, a greater emphasis should be placed on risk minimization. In other words, there should be a prudent balance between the development of the unique capabilities required to disburse the COLAC/IDB loan and those required for normal savings and credit system consolidation.

(4) Beyond the above, the revision should specifically address other observations and issues raised in the foregoing proposal evaluation, with the exception of the "desirable but non-essential" category.

c) What is being asked above with respect to a new or revised proposal, is a major analytical job. FECACNIC probably will need outside assistance for this from COLAC, AID, or some other source. Such outside help is encouraged by the team.

d) Notwithstanding all of the above, as soon as possible under the "bridge" grant ; FECACNIC should hire currently proposed staff. At this point a sharp "increase" in trained professional manpower is essential.

e) In terms of an AID strategy for project management, for a variety of reasons, some of which are inherent in AID co-op programs,[17] AID should attempt to avoid direct administration. From AID experience, it is also difficult to imagine a normal contract intermediary - again for reasons inherent in the situation. What does appear logical, under the circumstances, is an arrangements with COLAC for implementation for the following reasons:

(1) COLAC is in a unique position to coordinate and monitor FECACNIC development efforts because of its loan, and is in a strong position to insist on compliance. As a Latin American apex organization, it is in a position to call for actions which neither AID nor a foreign contractor could, due to cultural sensitivities.

(2) COLAC's commitment to the federation would lead to high priority allocation of the resources that would be required to implement the grant.

(3) COLAC has the necessary background and experience.

(4) Grant and loan funds in this case go well as a "package deal".

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17 Tendlre Judith, "Inter-Country Evaluation of Small Farmer Organizations, Final Report," November 1976, pp 16-24.

(5) COLAC already has an excellent man on the scene, although responsibility for final decisions should be retained in Panama in order not to place the resident technician in an intenable position.

f) Finally, the grant should be programmed in annual phases, each tied to its own set of realistic attainable achievement indicators. AID should be prepared to reduce the grant or cut it off entirely for clear non-performance.

3. The FUNDE Proposal

a) General Minimum Criteria

(1) Beneficiary Participation in Design

Although the criterion is not treated specifically in the proposal, the project, as described, is responsive to beneficiary needs observed by the team. Also, there appears to be good vertical communication and feedback practiced in the FUNDE system through a variety of established channels.

(2) Equity Considerations

The project clearly will increase the impact of the credit union system on its membership. What appears to be lacking is the analysis leading up to the numbers involved in terms of people to benefit, loan amounts, etc., in effect, the size of the grant.

More important with respect to equity considerations is the lack of explicit treatment of how smaller or lower income members of the beneficiary group will participate equally in the distribution of benefits. Also, how the project will contribute to expansion of coverage (the "spread"effect) over the target group rather than simply provide a greater benefit for those fortunate enough to be able to borrow designated funds in various "experimental" areas is not demonstrated.

(3) Implementation Planning

Given the nature of the project, FUNDE's track record, and established capability in the participating cooperatives, there is reason to have confidence in FUNDE's implementation capacity. Nevertheless, the execution plan presented in the proposal is very sparse, and lacking in important detail concerning phasing, periodic output, or achievement indicators and specialized technical inputs and activities which should occur over time in the more experimental areas of agricultural credit, education and housing. Also, the overall time frame of the project is not clear, nor is there a complete set of final conditions to be expected upon conclusion of the project. Finally, given earlier analysis concerning the uncertainty of FUNDE's future involvement with cooperatives, use of recuperations (rollover) should be clearly defined and as should replication/expansion activities capitalizing on experience gained.

(4) Internal Resource Generation

It is not clear how the project will accomplish this except in the case of human experience gained. Savings and internal financial capitalization should be covered explicitly. Interest

rates are felt to be far too low as proposed. Again, the subsidy should go to system strengthening rather than directly to project beneficiaries.

(5) Viability

Exactly how the project will contribute to long-term viability at the cooperative level should be treated more explicitly. With respect to FUNDE itself, it should be clearly understood that this project has little to do with FUNDE's viability, and that FUNDE will not depend on it. Where FUNDE's viability will come from in the future remains to be seen in a broader context. What should be questioned is how this project will contribute to the viability of the existing and projected service delivery system.

(6) External Collaboration

This criterion is not addressed. It could be argued that FUNDE is capable of providing most necessary basic support services itself. But there does appear to be a need for some external technical inputs in the housing and agricultural credit areas. If FUNDE is indeed capable of providing all necessary expertise, then this should be demonstrated more clearly in the proposal.

(7) Feasibility

A good case for feasibility is presented based on FUNDE's experience thus far and its staff capability. In fact, it is questionable how much of this project is really "new" or represents innovation over and above what FUNDE has accomplished already. The

cooperatives also appear to be relatively experienced in the indicated areas, although as indicated above, additional knowhow is probably required in agricultural and housing areas.

(8) GON Rural Development Strategy

This criterion is fulfilled, especially in the area of income and employment activity in "urban" centers. (See Chapter I, Section C, 3.)

(9) Least Cost

As all resources in the grant are for lending, administrative cost does not enter into grant amount calculations. It would also be very difficult to separate that part of FUNDE staff and overhead costs to be dedicated exclusively to this project. In an overall sense, however, FUNDE should be asked to show a sufficient degree of operational efficiency to allow for a reasonable margin (retained earnings and capitalization) at the cooperative level for a meaningful contribution toward administrative and support costs.

(10) Subsidies

This area deserves careful treatment by FUNDE, which was not evident in the proposal. The passing on of subsidized credit to members should be justified as opposed to utilizing the subsidy for strengthening and expanding the system itself. Also, FUNDE might set an unfortunate precedent with the contemplated low rates of interest.

(11) Replicability

The ostensible point of the project is to experiment with later replication in mind. This area is covered

adequately in concept, although no replication process mechanism is identified. This can come later, however. An effort should be made to gather comparative (baseline and later "impact") data to support and facilitate later replication initiatives.

b) Desirable, but Non-Essential Criteria

(1) Community Action

The proposal addresses this area

(2) Internal Rate of Return

A cost benefit analysis is not required in this case, although an effort should be made to tailor the project so it will benefit the system financially to a greater degree through higher (cost covering) interest rates and a complementary capitalization mechanism.

(3) Balanced Membership

While this aspect was not discussed in the proposal, it is not viewed as a problem area in the case of FUNDE cooperatives.

c) Capital Financing Criteria

(1) Absorptive Capacity

Neither financial nor technical absorptive capacity appears to be a problem in the case of the FUNDE cooperatives, with the exception of technical aspects of agricultural and housing credit.

(2) Financial Viability

As stressed in earlier comments, it is not demonstrated how the project will contribute to financial self-sufficiency

either through capitalization or realistic rates of interest and other charges.

(3) Credit Demand Profile

Although team field observations certainly confirm the validity of credit needs addressed by the project, lacking is a sufficient analytical justification for the specific breakdown of the grant by category. The need and absorptive capacity is obviously greater in some areas than in others, but this is not really dealt with in the proposal. Particularly questioned is the large amount earmarked for general working capital as opposed to other more specific categories such as housing.

(4) Delinquency

This is not covered in the proposal but definitely should be. (See comments under Section D.3.c) (2),

(5) Interest Rates

FUNDE should respond to the concern expressed under the subsidy issue discussed above.

(6) Phasing

Output (achievement) indicators should be developed. (Loans made by period and by category as well as indicators relative to experience gained and new techniques adopted , etc.) The project should be broken into discrete phases, each with its own set of progress indicators. Also, prior to second phase disbursements, a long-term action plan is recommended in response to concerns registered in the FUNDE section of federation-level technical constraints above. (See Section D, 3, c) (2)

c) Agricultural Credit Criteria

(1) Risk Minimization

This is not covered in the proposal. It should be relatively simple for FUNDE to address, however, in terms of lending and membership criteria.

(2) Delinquency in the Event of a "Bad" Crop Year

This is not covered, but should be.

(3) GON Technical Resources

FUNDE makes a good case for being self-sufficient and self-contained, although as stressed earlier, additional knowhow is probably required in the agricultural and housing areas.

(4) Economies of Scale

None are claimed initially, although some could be realized through "lateral" integration in the case of market cooperatives and commodity buying facilities or branches. ("centros de comercializacion"). Such economies should be analytically verified prior to disbursements of working capital for ventures of this nature.

4. Findings and Recommendations

a) The OPG to FUNDE should be approved for the following reasons:

- It clearly responds to felt needs amongst FUNDE's rural membership.
- FUNDE and its co-ops have proven capability and effectiveness.
- FUNDE and the co-ops can handle the project.

- The project responds to the major constraints within the group at present, lack of sufficient external capital.

- Replicability possibilites are promising.

b) FUNDE should be asked to draft a supplement to its proposal responding to questions raised in the above evaluation. Particularly, specific components of the grant should be justified in terms of relative size and priority.

c) Prior to second phase or second year disbursements under the grant, whichever comes earlier, FUNDE should develop and publish medium to long-term plan for the future which will show inter alia:

- How services will be expanded to meet the increasing need for more specialized technical support as cooperatives grow and experiment in new areas.

- The form and financing of a viable and self-sufficient service delivery system

- A medium to long-range capital mobilization plan for both the cooperatives and FUNDE on which can be based the pace of complementary service expansion and campaigns for tapping private capital markets.

CHAPTER V

PRIVATE AND VOLUNTARY AGENCY (PVO) COOPERATIVE EFFORTS
(Excluding FUNDE and FECACNIC)

A. Introduction

In general, the study found fertile ground in the PVO area for a variety of innovative approaches to the use of cooperatives and other groups as vehicles for rural development. PVO's are experimenting and rapidly learning from experience. The majority of their programs are new and are just scratching the surface of high potential areas of opportunity in the cooperative sphere. Their programs and progress merit careful study and encouragement. Their capability and experience should be more fully exploited by national and international agencies alike. They are enthusiastic and dedicated to constructive self-help measures for greater impact on the rural poor. They are flexible and generally free from convention and bureaucratic limitations.

PVO activities covered in this section are treated in the order shown below. Each sub-section includes its own set of recommendations. Criteria for the group as a whole are listed at the end of the chapter. (Note that while not a true PVO, the FAO and its cooperative program are included here as by nature and size they are more appropriate to the PVO area than other systems covered in this study.)

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B. Comite Evangelico Pro Ayuda Al Desarrollo (CEPAD)

CEPAD is felt to be one of the most valuable private organizational resources in the area of grass root type development observed in Nicaragua. It represents an exceptional reservoir of knowledge and experience in both urban and rural community development and recently has set about applying this experience with excellent results in the formation of higher level community organizations (cooperatives) capable of generating, receiving and managing resources on their own account. There is also an overlay of evangelical spirit; but on balance, this is seen as positive. It appears to contribute to a higher level of constructive group motivation and cohesion necessary for sacrifices that must be made for economic and social improvement in the long term.

1. The Organization

CEPAD was founded just after the 1972 earthquake by the United Evangelical Church as a relief undertaking. (The "D" in CEPAD originally stood for "damnificados.") Now, however, the organization is primarily development oriented and is working through ten regional offices in as many programs. Special note was taken of the following efforts due to their complementary nature to the cooperative program.

a) Urban Community Development

Thirty-two communities in the central and Pacific areas of the country. Activities often lead to cooperative formation in one way or another. Organization and training efforts focus on agricultural

and small animal production, community health, wells, schools, housing and roads.

c) Literacy and Basic Education

Together with a sister agency ALFALIT, CEPAD works in some 58 communities in non-formal literacy activities through both direct instruction and correspondence.

d) Rural Development Program of the Northeast Region of the Atlantic Coast

Working through a network of Protestant churches, the program, which started as a flood relief effort in June 1976, is now focusing on assisting native (Miskitos-Zumos) communities in the areas of land tenancy, agriculture, fishing, and education.

e) Housing

Since 1973 CEPAD has helped build over 800 houses for low-income families in the Matagalpa, Masaya, and Esteli areas using tongue in grove and stack sack methods of construction.

f) Public Health

Working with PROVADENIC (Nicaraguan Vaccination and Community Health Project) CEPAD has been developing a primary health care system that consists of training local leaders and the community on basic health concepts. In 17 communities training, studies, and vaccination campaigns have been carried out.

g) Cooperatives (To be covered below)

CEPAD's income and expense statement for 1976 shows total program and operating expenses in all categories of just over $414,000, of which approximately $340,000 was allocated for program; $74,000

went for general administrative costs (management, administration, services, audit and legal). The Cooperative Development program received $12,340 in 1976. Approximately 99% of all income comes from cash donations, most of which is from international and domestic protestant churches and affiliated organizations. In 1976, the lion's share, $345,000 came from Church World Service.

2. The Cooperative Program

Since the end of 1974, working with a central staff of two professionals and assistance from regional office personnel,[1] CEPAD has organized 14 cooperatives, all with legal status. Others are in formation. Approximately 700 members are participating in two basic cooperative forms (credit unions and consumer cooperatives). The credit/consumer split between the two groups is almost exactly 50/50 both in co-ops and members.

The number of socios per co-op ranges between 25 and 75 with accumulated savings per member running between a high of approximately $125 to a low of $5.00. The average at the end of 1976 was $18.00. The numbers are still very small in absolute terms because of the relatively short time the program has been active. The first co-op was not actually legalized until March 1976.

Notwithstanding the cooperative models employed (credit and consumer), with some exceptions the predominant thrust of the program is rural production with small and often landless farmers and laborers. CEPAD's philosophy is to form whatever type of organization makes sense

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[1] The co-op program also draws assistance from the Community Development staff of 7 agronomists and 6 promoters.

given community needs, but they have found thus far that the credit union and consumer forms are best suited to the needs of their beneficiary group.

The majority of the co-ops are in the Pacific area: Masatepe, Carazo, Leon, and Chinandega; one is in Boaco, and two are in Region V, Matagalpa and Esteli. Only two, both credit unions, are in the Department of Managua. The team visited one each consumer co-op and credit union; La Paz de Oriente (Department of Carazo) and El Carmen, Masatepe (Department of Masaya), respectively.

3. Needs and System Response

While the consumer co-op, La Paz, conformed completely to the general rural/agricultural thrust of the program, the credit union was something of an exception consisting mainly of small business people and local employees (a family income range $500 - $1,200/year was their estimate). The La Paz group consisted primarily of landless day laborers, share croppers and the like. Most income for the group came in the form of day wages averaging between $1.40 and $1.70/day. Also the average member worked both the annual coffee and cotton harvests.

Needs of the two groups are treated separately, below, because of basic socio-economic differences observed. The consumer co-op will be treated in considerably more depth due to several unique characteristics as observed by the team.

a) Needs: The Consumer Co-op, La Paz

The group (almost all of the 110 members were present in the meeting) were very articulate about their needs and had their

priorities well established. They had obviously been through a number of exercises to this end.

(1) Economic Security

(1.1) Land

The vast majority of socios were tenant farmers or renters and wanted a small amount of land of their own, basically for subsistence purposes. Most were renting 2 to 3 manzanas and claimed to be suffering greatly from rent cost increases. They had a plan to acquire land through the co-op and each family was putting C$5/week into a special fund for this purpose, in charge of which a special committee had been formed. At the time of the interviews, $1,400 had been saved. The plan is to buy a sufficient amount of land to meet the basic food needs of the community. The land is to be farmed collectively.[2]

(1.2) Employment

The second major economic need had to do with employment. Only 30% of the socios had steady jobs and the others, when working, made $10 - $12 per week. The group saw the land plan as a partial way out and also as providing access to government services and credit (both INVIERNO and the BNN). Growth potential, as seen by the members, included the entire community of some 300 families, the major limiting factor being the degree of indebtedness of most non-members with local "pulperias." (Local family stores.)

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[2] As an interesting aside, at one point the co-op asked IAN for assistance. The response, according to the group, was that they could immigrate to an Atlantic colony. This they found unthinkable.

(1.3) Credit

The third economic need running a close second to employment, had to do with credit. Most of the socios, it turned out, were substantially in debt already to "pulperias" and other suppliers. The need, basically, related to the desire to get out from under onerous commitments, as they saw them, through refinancing. This would also allow them to fully patronize the consumer service of the co-op. The group planned to start a savings and loan service as soon as feasible.

(2) Social

(2.1) Health

By far the most pressing need related to health care and medicine. The co-op apparently had a serious problem with sick children. A doctor visited the community only once a month. The co-op has a plan to initiate a health and nutrition center with CEPAD's assistance. Nutrition was an integral part of the need as most of the children had no more than coffee up until 1:00 in the afternoon.

(2.2) Housing

With a rapidly growing population and no housing left in the "pueblo," the group wanted to start a colony on a piece of land they planned to acquire. They are currently living in shacks throughout the area. They also saw the housing plan as a means of becoming more solid and cohesive as a group.

b) System Response and Gaps (La Paz)

(1) Cooperative Level

In terms of organization for action, the co-op provided an excellent service, thanks to a degree of leadership and

motivation rarely observed at this level. The enthusiasm demonstrated by the group was extraordinary in its intensity. Everything had been done so far with no external financial inputs whatsoever. Service provided by CEPAD included only advisory and accounting assistance. On their own, the group had initiated the consumer service from scratch, starting with a very few of the most basic household commodities. A voluntary "vendedora" handled sales for the co-op.

Probably one of the most valuable services the co-op provided was a mechanism for saving. With the goal of a piece of land in mind, the socios could and still are saving regularly, at a level found in a number of the FECACNIC/FUNDE credit unions with a more affluent member group in general.

Beyond economic concerns, the co-op was also working itself into an articulate pressure group with respect to basic social needs. This, when combined with a real willingness to work and contribute to common goals, promised substantial progress over the medium and long term, if momentum somehow could be maintained.

(2) Supporting Institutions

(2.1) CEPAD

It is not known whether the high degree of commitment and enthusiasm directed to the co-op by its membership can be attributed to CEPAD, local leadership or both. While some members of the group obviously stood out, after spending several hours with the staff of the Co-op Department and observing them with the group, it is suspected that CEPAD has some very special skills in organization and motivation. Lacking, however, were financial and technical capacity to follow through properly.

(2.2) BNN/INVIERNO

Those socios who had any security over land were roughly divided between BNN and INVIERNO credit programs. Those receiving INVIERNO credit were also provided with agricultural and supply services. A substantial percentage of the group, however, was ineligible for assistance because of the land factor. According to the group, no attempt had been made by either government entity to work directly with the co-op.

(3) Gaps

(3.1) Cooperative Level

Although professional management was lacking, the biggest gap was probably in the area of credit for land, debt consolidation and social improvements.

(3.2) CEPAD

While CEPAD apparently possesses effective organization and motivational skills, it lacked the ability to draw on necessary external investment and working capital to accelerate progress of the group toward both economic and social goals. Additional technical assistance was also needed in cooperative management and service areas.

(3.3) BNN and INVIERNO

Both institutions appeared to be missing a valuable opportunity to capitalize on a highly motivated, tight knit group of socios that could have made excellent use of resources from either institution. (In fairness, it may be that neither institution has had the time to get around to the group. It was only legalized in August 1976 and INVIERNO commenced operations in the area in early 1977.)

c) Needs - The Credit Cooperative, El Carmen

According to the president, the major problem of the socios was the socio-economic vicious circle in which they lived. Credit was seen as the way out. Thus far, the only external capital that had been brought in was a $400 donation from CEPAD, and the co-op was lending at just over a one-to-one ratio (loans to savings). Credit was needed in the following order of priority; consumption ("alimentación" - basic food stuffs), education, and commercial working capital. The current range of loan sizes ran between $30 and $140.

The socios did express a need for land for family subsistence farming and for a communal plot. With respect to other basic social indicators, members appeared to be relatively well off (housing, health, etc.).

d) System Response and Gaps (El Carmen)

(1) Cooperative Level

The cooperative appeared to be stagnating due to the lack of "injection" (as they call it) of external capital. Also, both management and accounting were handled on a voluntary basis by one of the members. Delinquency was high, but no defaults were recorded. Total savings of some $1,300 were recorded which was only slightly exceeded by the loan portfolio. The co-op had 63 members with an estimated growth potential of 200 additional in the same community.

(2) Supporting Institutions

Neither CEPAD nor anyone else appeared to be doing much to help the co-op get off the ground. CEPAD was monitoring its progress, but there did not seem to be any concrete plan of action.

(3) Gaps

The major gap appeared to be external credit along with technical assistance in the development of a growth plan. When asked why no assistance or affiliation had been sought with either FECACNIC or FUNDE the answer came back that the group was loyal to CEPAD. (CEPAD is seeking active collaboration with FECACNIC, especially in the training area, and currently utilizes FECACNIC accounting and control materials as part of its own package of services.) In any case, an apparent gap is the lack of long range financial support and technical assistance that should, in principle, be available from the credit union federation, at least until the co-op is in a position to tap private capital on its own account.

4. Findings and Recommendations

Criteria for PVO activities in general are set forth in Section G below. In the case of CEPAD, specific recommendations include the following:

a) CEPAD represents an unexploited (outside the church community), experienced organizational resource. Its dynamic approach and highly developed skills in the area of community organization and motivation should be stimulated and assisted by Government and other private agencies.

b) CEPAD's Cooperative Program shows great promise, but it is doubtful that CEPAD has the capacity to follow through adequately over the medium and long term with co-ops once created. Other institutional support arrangements and linkages should be sought and developed (i.e., FECACNIC, FUNDE, BNN, INVIERNO, etc.)

c) CEPAD should allocate more of its own organizational and financial resources to the co-op program, which is a relatively minor portion of the overall budget. The lasting developmental payoff from such a shift should be evident from such efforts as La Paz de Oriente.

d) AID should consider assistance to CEPAD, both technical and financial.

C. Instituto de Promocion Humana (INPRHU)

INPRHU, like CEPAD, represents a valuable organizational resource in the area of low level, self-help group development. Until very recently, the organization was primarily engaged in community development type activity. In the past year it has begun forming cooperatives with high potential groups viewing this as a logical progression. In general, INPRHU appears to be focused on small infrastructure and agro-industry. INPRHU has a pragmatic approach, following no particular model except that the genesis of whatever idea or activity to be supported must come from within the group (autogestión).

1. The Organization

INPRHU was founded in 1966 as a non-profit private development institution. Its "inspiration" is Christian, but its objectives are all development oriented. Its major source of financing thus far is of German Catholic origin (Christian AID).

INPRHU is engaged in four major activity areas, each with its own department:

a) Integrated Rural Development

Activities include: rural community organization leading to a network of local groups dedicated to various social and economic goals, training and technical assistance related primarily to agricultural production and marketing, direct lending and assistance for securing

financing, and promotion of cooperatives and small rural industries. Thus far, initiatives have been pursued in five departments (Carazo, Granada, Managua, Matagalpa and Boaco) and 39 communities. Community organizations are linked under the INPRHU sponsored "Federación de Organizaciones Rurales" (FOR). (The new cooperative program is included in this department.)

b) Urban Community Development

Urban community action is pursued in poverty neighborhoods utilizing various local group forms. Assistance and training is provided principally in the area of legal and human rights and basic community services.

c) Adult Education

The department functions as a center for providing both educational services and materials to the other department programs and groups. Seminars, laboratories and circulars are the main instruments.

d) Research and Advisory Center

This is a support unit primarily for project design and evaluation. The unit also contracts its services to other institutions (presently working with FUNDE in an evaluation with CECOOP).

It was not possible to obtain a feel for INPRHU's overall budget, but for the Rural Development Program, 1977 operating costs are estimated at approximately $111,000, of which $83,000 is for personnel, $8,000 for technical assistance and evaluation, and $20,000 for administrative support.[3] Personnel in the department include a

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[3] Funding for this department is due to expire in February 1978. INPRHU is urgently seeking extended assistance in Germany and elsewhere.

director, two agronomists, four promoters, a cooperative specialist, an accountant and a part-time legal advisor. The cooperative specialist is in charge of all of INPRHU's co-op initiatives thus far.

2. The Cooperative Program

INPRHU's involvement with cooperatives is a recent development. The first INPRHU cooperative was not legalized until January 1977, a potable water co-op in Guanacaste (near Granada). Since then, three others have been formed and two are in process as show below. Approximately 170 rural families are benefiting from the three established rural co-ops.

Cooperative	Location	Purpose
El Progreso	Guanacaste	Potable water leading to other community ventures
El Esfuerzo	Guanacaste (different community)	Potable water leading to other community ventures
San Carlos	San Carlos	Housing project
Nandayosi	Nandayosi	Processing of broom sorghum
Molina Sur (Pre-co-op)	Sebaco	Production and agro-industrial (onions)
Cooperativa Agropecuaria Regional (Pre-co-op)	Matagalpa	Production and marketing (multi-service)

(The study team visited the two water and the broom processing cooperatives.)

The cooperatives, thus far, are all outgrowths of the larger rural development program (except for San Carlos housing project). The cooperative specialist draws on an as needed basis from the other specialists in the department. INPRHU is seeking means to hire another cooperative technician to handle general supervision and follow-up activities

with presently established co-ops while the present chief would focus on new formation. Not unlike FUNDE, INPRHU philosophy is to form the co-op, stay with it for a couple of years to allow time for initial growth and a degree of stability, and then to turn it loose to run on its own steam. None of the co-ops have yet approached this point. INPRHU is also seeking funds for the creation of a revolving fund for cooperative lending ($50,000 is the estimated need for 1978)

3. Needs

Of all the various groups and systems visited during the study, the INPRHU co-ops perhaps best and most consistently satisfied AID's criteria of the "poorest of the poor." Uniformly throughout the three cooperatives, income and living levels were of the lowest and poorest seen in Nicaragua, with priority needs being of the most basic type.

a) Water

In the case of the two potable water cooperatives, water itself was the overriding need, transcending the economic vs. social categorization delineated throughout most of the rest of this study. Most of the water had to be brought in in barrels by intermediaries for all purposes, drinking, sanitation, animals, etc. By and large, families needed at least a barrel a day and had to pay C$4 each, sometimes more. (One of the co-ops, El Progreso, had constructed a water line to the village from a well eight kilometers away with assistance and a loan from INPRHU. The system was not reliable, however, and provided water for drinking only intermittently. The other co-op, El Esfuerzo, had no water and was seeking a sizable grant from the IAF for a well and distribution system connecting three communities.)

In the case of the Broom Sorghum Co-op, the big need was for irrigation. The area, approximately midway between Managua and Leon, had received almost no rainfall for the past ten years - it was claimed. Broom sorghum was the only thing that could be grown commercially in the area.

b) Other Economic Needs

(1) Land

In all cases, what small amount of land the socios did have was rented with the same problem of rising costs encountered elsewhere. In the water co-ops, rented land holdings varied from one half to two mz. In the Broom co-op, socios averaged between two and four mz. It was claimed that neither land nor financing was available.

(2) Income and Employment

In the two water co-ops, almost all family heads were day laborers earning no more than $1.40 to $2.00 a day when they had work. Women earned between 40 and 85 cents, depending on how much of the day they could escape from household commitments. In the Broom co-op, outside of subsistence and sorghum production, socios worked as day laborers in the cotton and coffee harvests.

(3) Credit

In the two water co-ops, no government credit was being received for either production or investment. INPRHU had provided a small amount of production credit. The major need, it was asserted, after solving the water problem, was for credit to acquire land for communal farming. In the broom co-op, credit was also lacking for both production and investment (mainly irrigation). BNN credit was a problem

because of the need for a co-signer. Both co-ops needed working and investment capital for small employment and processing activities. Credit was also sought for socially oriented activities in all three co-ops.

c) Social Needs

(1) Health

By far the highest priority expressed need in all three co-ops was in the health and nutrition area. In the water group, the most urgent need was for a dispensary and periodic visits by a doctor. The cost to the socio of leaving a day's work, going to Granada and paying for a medical visit was prohibitive. In the case of the broom socios, the main health problem had to do with the toxic pesticides spread by airplanes on the surrounding cotton fields. (The spray represented an environmental problem in general. Both people and animals were suffering serious consequences.)

(2) Other Social Needs

These ran the gamut from education to housing to day care centers (allowing for greater income possibilities for women, also an economic need.)

4. System Response and Gaps

a) Cooperative Level

In all three cases the co-ops provided valuable service in terms of organization for action, general consciousness raising and a mechanism for saving. Members appeared well motivated and had high aspirations for what they could eventually achieve through the co-op. All three had action plans. Local leadership appeared strong and outspoken. Innovative thinking was evident.

In the water co-ops, projects being pursued included commisaries, collective chicken breeding, communal farming, informal day care arrangements, small artesanry (sewing and handicrafts), a medical dispensary, land acquisition and eventually a savings and loan service. In the broom co-op, the major project was the planned acquisition of a broom making machine which would allow the broom manufacture of such quality to be sold in local supermarkets. The co-op also was farming a rented 40 mz. plot collectively, and future plans included farm supply and transportation services and various community improvement projects in health and education.

Obviously lacking at the co-op level were capital resources and experienced management. In all cases, however, regular savings were being accumulated for specific projects. Accumulated capital in the broom co-op was just over $4,000 and in the water co-ops, several hundred dollars each.

b) Supporting Institutions

Again, as with CEPAD, INPRHU demonstrated very strong skills in group formation, organization and motivation. Its approach also focused on a small infrastructure and other physical, concrete responses to urgent needs, which has proven to be effective time and again throughout Latin America. INPRHU also makes good use of volunteer inputs. INPRHU's resources, however, both human and financial, are extremely limited and it is suspected they have about reached their maximum case load.

The only other external service that was evident was BNN

production credit to some of the broom sorghum producers.[4] The water co-op socios claimed to be too small for either the BNN or INVIERNO to touch.

c) Gaps

At the co-op level, the obvious gaps included trained management and capital for water, land and other varied initiatives. With respect to INPRHU, due to circumstances, limited resources, and a tendency to not pressure government sources due to earlier negative experiences, the organization appears to have very limited capital and technical assistance mobilization capacity.

INPRHU is now seeking, however, financial assistance for the following purposes:

(1) Operating costs for its rural development department (approximately $111,000/yr.)

(2) A revolving fund for cooperative lending ($50,000).

(3) An agricultural training center or an experimental farm which would provide a three-month course to farmer leaders. The idea is that trainees would return and train others at the community level. ($150,000 is sought for this project).

5. Findings and Recommendations

(Criteria for PVO projects in general, are set forth in Section G. below.) In the case of INPRHU, specific recommendations include the following:

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[4] The broom co-op was outside of INVIERNO's current area of operation.

a) INPRHU's skillful and pragmatic approach to self-help and cooperative efforts amongst the poorest of the rural population merits serious attention by both government and other agencies interested in reaching this level of beneficiary. At a minimum, INPRHU's experience should be studied for application of lessons learned in other areas.

b) INPRHU should devote more attention to the securing of external capital resources or it will be faced with not being able to deliver to groups whose aspirations and expectations have been raised substantially.

c) The pace of new co-op development by INPRHU must be carefully phased to avoid over-extension of the organization's limited staff and resources. INPRHU is seriously lacking in technical review and follow-through capacity which is especially critical in relation to the agro-industrial bent of the program.

d) AID should consider both technical assistance and financial support for INPHRU.

D. Technoserve, Inc.

Despite a relatively brief history in Nicaragua (Country Program Office established in 1974), Technoserve has amassed a considerable store of experience and talent, primarily in the area of agro-industrial feasibility analysis relating to the problem of the small rural producer. The approach is in line with one of the general conclusions of this study which is that for cooperatives or other groups to effectively contribute to the resolution of the vicious circle of

poverty that most small farmers find themselves in, something must be added over and above the straight production and marketing function, something which adds value, provides employment, or otherwise breaks the circle. Unfortunately, for this analysis, Technoserve has not yet had the opportunity to follow a project through to realization. The first two are just "coming on stream" this year. The quality of the analyses performed thus far by Technoserve, however, speak for themselves. They are outstanding and complete by any standard. This experience and talent should be looked to by private and public agencies alike, including AID, as new ways and means are sought to assist the small farmer in Nicaragua through whatever form of group enterprise.

1. The Organization

Technoserve, a U.S., non-profit, tax exempt, membership organization was incorporated in New York in 1969. Its purpose is to assist and stimulate successful "self-help" enterprise among low income people in developing countries. Today, in addition to Nicaragua, Technoserve has country program offices in Tegucigalpa, San Salvador, Accra, and Kesumu, Kenya. The organization is supported in roughly equal shares by private contributions, churches and AID. Increasingly, costs are covered by the projects which it develops. Technoserve's U.S. budget is approximately $1.5 million.

In Nicaragua, Technoserve is staffed by seven professionals (all at the Masters level) including an MBA, an accounting specialist, a finance and credit specialist, an electro-mechanical engineer, a cooperative specialist and other business oriented skills. The director

and his deputy are Americans. All others are Nicaraguan. Technoserve, as a matter of policy, hopes to replace the American director as soon as possible with a Latin American (either Nicaraguan or from a third country). Short-term technical specialists (either U.S. or local) are brought in or employed as necessary. Technoserve operates in Nicaragua under an agreement with the Central Bank. Country offices are backstopped by a U.S. staff of 20 professionals.

2. The Approach

Technoserve's focus in Nicaragua is rural agro-industry. Its policy is to respond to local initiative. Primary services include feasibility studies and project evaluations, capital funding assistance (serving as intermediary or providing guidance in identifying and securing debt or equity capital) and management services - always on a temporary basis. Sometimes Technoserve takes a modest equity position in projects, holding shares for later distribution to participants in the venture. Technoserve's policy is to recover costs to the extent possible from future profits of the enterprise.

While most of Technoserve's effort in Nicaragua has been directed to cooperatives, the organization is not wed to the co-op model. It also works with stock companies and other entities (municipalities, for example). Criteria for project selection primarily relate to growth, income and employment, target group and other development oriented indicators. Its approach is pragmatic and is tailored to local conditions and circumstances.

As a general rule, Technoserve tries to focus its efforts on the "Lowest 40%" of the population, although due to the nature of most

of the projects, groups have tended to cluster in the upper half of that bracket. Technoserve is not bothered by the active participation and benefiting of some large producers in its projects as long as the lower income group is helped simultaneously. In fact, this is encouraged as being conducive to establishment of desirable managerial capability, economies of scale, stability, etc. Formerly Technoserve looked for projects in the start-up capital requirements range of $50,000 - $250,000. In the case of Nicaragua, however, this has tended to shift up to more like $100,000 - $500,000. The one major exception to this thus far is the cotton gin and ancillary facilities for the departmental cooperative in Chinandega, the initial investment for which, $1.04 million, represents the largest ever undertaken by a Technoserve assisted organization.

Finally, and as shown below, Technoserve appears to be refreshingly free from a compulsion observed in other development assistance organizations to press on with a project regardless of what the analysis and the numbers demonstrate. When the risk appears to be high or clear social economic and financial returns are not demonstrated with sufficient probability, Technoserve backs off and advises the entity concerned to do the same. Technoserve is especially conscious of the risk factor as it relates to the equity of low income participants.

3. Undertakings thus far in Nicaragua

In order to demonstrate the breadth of experience of Technoserve with respect to Nicaragua rural social and economic factors and opportunities, the following summary is provided for reference.

a) La Perla, FUNDE Coffee Cooperative in Bocaycitos, Department of Matagalpa

This was Technoserve's first project in Nicaragua. A pre-feasibility study was done for the establishment of a cooperative "beneficio" (coffee drying and processing facility). The cooperative wisely decided to postpone further consideration at the time due to receipt of an Inter-America Foundation grant and a number of other undertakings which would have overloaded cooperative management if pursued simultaneously with the beneficio project. Also, economies of scale were doubtful.

b) Rio Grande, BNN assisted Cattle Cooperative in Matiguas Department of Matagalpa

A pre-feasibility study was done in early 1977 with respect to a proposed cooperative milk cooling station which would eventually convert to a creamery. The project was finally postponed due to a marketing factor which was identified in the analysis and put the risk too high for local producers. It had to do with a glut of milk in the Pacific Milk Pool during the winter months. The project may make sense at some point in the future when justified by demand and cost factors.

c) Santa Ana Cotton Cooperative, Chinandega

Development of a project to expand cooperative services from basic supply and marketing functions to include a full ginning operation began in January 1977. As of this writing, financing arrangements with the BNN/IDB Rural Credit program are about to be concluded. The project should commence procurement and construction activities early in 1978.

Feasibility and other analyses leading to this project are among the most complete, detailed, and professionally done that the team has seen in a development context. In fact, the studies are recommended for AID review as illustrative of a model analytical approach which would be of great utility with respect to a number of Agency activities. Included in the package are standard economic and financial C/B and IRR calculations plus a social benefit analysis focusing on income and employment impact. In addition, a sensitively analysis was carried out with respect to possible cotton price fluctuations as well as a variety of other cuts at the project, including the full range of technical, managerial, marketing, labor, and other considerations related to feasibility, desirability, practicability, etc.[5]

d) "Henequeneros de Madrid, S. A." (HEMASA) A Henequen Growing and Processing Corporation in Somoto, Department of Madriz

Initial work on this project commenced in October 1976 but didn't really take off until June 1977. Feasibility work and arrangements are now moving fast and nearing completion. The project is built around a group of 40 producers of henequen, including five small, eleven medium, and sixteen larger farmers. 60 to 100 small producers are waiting "in the wings" to see what happens. The project is to produce and process henequen (sisal) fiber into rope, sacks,

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[5] This study is illustrative of an important system response consideration brought out in the Agricultural Production Section which is that certain cooperative ventures have or will soon move beyond the capability of their respective support systems to really help them due to size and complexity of operations.

matress padding (excellent export market in Salvador if of adequate quality) and other products.

The project is particularly interesting because of its unique corporate approach. A cooperative was considered initially but rejected in favor of the "S.A." model for the following reasons:

- Financing: It was possible to raise a higher equity contribution as a corporation. The larger producers were more attracted to this model.

- Poor image of cooperatives in the area.

- The project has fairly high risk as a new technology is being tried for the first time in Nicaragua.

- Flexibility was needed and the ability to move faster than a cooperative structure would have permitted.

Nevertheless, a number of features of the corporate charter, advised by Technoserve, make it attractive as a vehicle for low income rural development. First, all shareholders must plant henequen and market their production through the corporation within three years. Secondly, all profits will be split 50/50 between the shareholders and producers in proportion to quantity of production marketed through the corporation. In this case, at least as things stand now, this will result in a net transfer of profit from large shareholders to small producers. Technoserve, which in addition to handling the feasibility work is providing 18% of the capital requirements, has insisted on at least one small producer on the board. There are other safeguards and controls to protect the interests of the small farmers.

e) Cooperativa Agropecuaria, Jinotega (Coffee)
(One of the cooperatives visited by the team)

The Jinotega co-op, large by any standard with membership annual production of over 150,000 quintales of coffee, was the recipient in 1970 of a large obsolete coffee "beneficio" from INCEI (The National Grain Marketing Board) in the form of a very soft loan on which no payment as yet has been made. Technoserve is doing a feasibility study with respect to the modernization of plant and equipment to the point where the co-op will be able to handle both wet and dry processing for the entire Jinotega area (potential estimated at around 350,000 quintales).

The project attacks directly one of the most frustrating elements of the cycle of poverty for the small coffee producers. Normally, commercial "beneficios" provide farm inputs to the small producer on credit in return for a specified quantity and quality of coffee at a certain price. The nature of the arrangement allows for gross manipulation of the real interest rate and often producers find themselves hopelessly in debt and tied to the "beneficio" thereafter. (Not unlike the "company store" concept.) While the co-op does include some 20 large producers and 50 medium sized growers (producing 45,000 to 60,000 qunitales, respectively) over 100 smaller producers (20,000 quintales) are also involved and more should join once the project is able to offer the processing service. An affiliation with La Perla (see a) above) may also be profitable at some point in the future.

Necessary new capital investment for the project is estimated at something less than $700,000. The cooperative will have to provide equity financing as close as possible to 40%.

f) Cooperative Agropecuaria, Departmental Cooperative in Masaya

Technoserve explored with the co-op the possibility of a human and animal feed concentrate facility. Pre-feasibility work demonstrated that distribution and marketing costs were too high given an insufficient amount of cattle. High risk and an inadequate projected volume of operations indicated the project should be dropped.

g) Central Bank Proposed Melon Project

On an idea from the Central Bank, Technoserve, together with an Israeli consulting firm, explored the possibility of a melon project which would export to the US during the "off season." It was found that a prohibitively high investment would be required and necessary quality control and coordinating arrangements were beyond existing conditions and capabilities. Risk was too high. The idea was shelved.

h) Mayor's Office, Granada

This is a proposal to remodel the public market in Granada for a more rational and profitable operation. The undertaking is to be a joint venture between the mayor, market members, and Technoserve. Technoserve would also like to join forces with the FUNDE Market Credit Cooperative in Granada. The basic thrust is to promote small market enterprise. The scheme is complex and will take 12 to 18 months to become operational, if the decision is made to go ahead.

4. Findings and Recommendations

Technoserve was not looked at from the basic needs analysis starting point of the rest of their study, but rather due to its basic nature, as an existing institutional resource which might be drawn upon more effectively by assistance agencies. In this light, findings and recommendations are as follows:

a) Technoserve represents an invaluable store of experience, knowledge and knowhow with respect to the feasibility and desirability of agro-industrial possibilities in Nicaragua. Technoserve should be consulted, and if appropriate, asked for assistance in relation to proposed ventures in its area of expertise. The FAO supported cooperatives, Pacayita and Chisolapa, would especially benefit from such consultation.

b) AID and other agencies should consider assisting Technoserve to expand its capability. Technoserve's hard headed business oriented approach is called for in the more risky but badly needed movement of co-ops and other groups into more viable "value added" type operations.

c) Technoserve/Nicaragua should be encouraged to present projects to AID, the IAF, IDB, and other donor agencies for financing where the national capital market is unable to respond adequately. This would be especially important in high risk ventures where soft money for experimental purposes is appropriate.

E. Cooperative for American Relief Everywhere (CARE)

In the course of the study, CARE was looked at primarily in relation to its irrigation activities in IAN colonies (see Chapter III, Section E).

Beyond this, CARE is not working with cooperatives in Nicaragua and claims to have no particular expertise or insight. Nevertheless, it is important to note that CARE/Nicaragua now represents considerable experience in the agrarian colony area in general and especially with respect to small farmer irrigation systems. With the severe need for attention to diversification and intensification of production in the small farm context in mind, CARE should be able to provide practical guidance.

1. Organization and General Program

The CARE/Nicaraguan staff includes a Director, Deputy Director, two field representatives, three contract nurses and seven Nicaraguan accounting and clerical personnel. In addition to the IAN/irrigation program, CARE is involved in: school construction, community health, construction of potable water and sewage systems (DENACAL) and other community development activities. In all cases, community groups of one kind or another are worked with.

A proposed program of special interest is to take place in collaboration with both INTA and IAN in the Rigoberto Cabezas colonization project at Nueva Guinea. This will be a Regional Agricultural Center which will focus primarily on seed and cattle breeding (genetic materials). After two years the project is to be replicated at Siuna - another major Atlantic colony of IAN's just now getting underway.

2. The Irrigation Program

CARE assists IAN under what is called a "Convenio General" which establishes general ground rules, relations, and contributions. Specific projects are then negotiated under the General Agreement. Thus far the projects have been realized on the following colonies:

Angélica de Schick	218 Mz ($200 AID OPG)
Presidente Schick	30 Mz
La Esperanza	25 Mz
Santa Isabel - Phase I	30 Mz
Santa Isabel - Phase II	51 Mz

Future projects are planned for San Ignacio (130-140 Mz), San Benito, and Tonala.

Under the standard CARE/IAN understanding, IAN handles the engineering, feasibility, and community organization and training elements through its departments of Agricultural Engineering, Community Development and Campesina Tranning. CARE contributes funds, assists with external procurement, helps with liaison and coordination functions and evaluates and monitors project progress and impact.

The only project visited by the team was Angélica de Schick which is described in the section on IAN. (See Chapter III, Section E.) In general, however, the team found a pressing need for irrigation assistance throughout its visits elsewhere for both intensification and diversification of production. CARE feels that the irrigation area is a particularly viable and appropriate focus for its major contribution to rural and agricultural development in Nicaragua and intends to pursue this focus indefinitely. The team is inclined to agree, provided the necessary feasibility and other analyses are carried out. (See Criteria, IAN Section.)

3. Recommendations

CARE's experience with the IAN/Irrigation program should be studied and evaluated with the following in mind:

- Possible expansion and/or acceleration with AID or other assistance.
- How community organization and/or cooperative elements could be improved to capitalize more effectively on the basically solid foundation of this type of small infraestructure project.[6]

CARE's experience in the area of minimal housing in other countries would also suggest that it has something to offer in the development of cooperative rural housing efforts.

F. The Food and Agriculture Organization (FAO) of the United Nations[7]

The FAO office in Nicaragua is vitally concerned with farmer organizational aspects of agricultural production and has become heavily involved in the cooperative area in general. Not only has the office sponsored specific cooperative projects on its own initiative, but also has assumed a vigorous role in the establishment of a national coordinating mechanism for cooperatives in the country. The office now has two active years of experience behind it and is well prepared to offer valuable insight into what does and does not make sense in the rural organization context.

1. The Organization and Program in Nicaragua

The FAO office in Nicaragua is the result of an agreement signed with the GON in July 1975 in order to promote increased production of

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6 See Judy Tendler's Summary Report of the Intercountry Evaluation of Small Farmer Organizations published in November 1976, recommendation Nos. 12 and 13, p. 11 (Chapter 11 - Small Farmer Group Recommendations).

7 Although FAO is not a PVO, its program is being covered in this section as it is of a nature and scale that fits the PVO pattern better than other larger national institutional systems being treated separately.

basic grains and other food stuffs. The office, attached to the technical extension division of INTA, includes a director (agricultural engineer), a rural credit expert, a rural organization specialist, a home economist and a community development specialist (UN volunteer).

While the principal activity of the program has to do with the establishment and testing of basic grain demonstration fields which have benefited some 8,000 plus farmers over the past two years, a considerable effort has been made in the area of diversified cooperative operations in an attempt to develop a model organizational approach to the problem of the small producer.

2. Cooperative Projects

Over the past two years the FAO, together with INTA personnel and the rural credit department of the BNN, has promoted, administered, and financially assisted the development of two experimental production/employment (small industry) cooperatives, both of which were visited by the study team.

a) Chiscolapa Agricultural Cooperative in Santa Lucia, BOACO, which combines basic grain and henequen production with a shop for the production of henequen rugs (employs approximately 30 wives and children of producers).

b) Pacayita, an agricultural cooperative in the Masaya area which combines agricultural production (communal farming) with clothing manufacture.

In addition, FAO is collaborating with both INTA and the BNN under an agreement signed in October 1977 between the two GON agencies to assist and finance a large number of pre-cooperative groups known as

"Clubes Agrícolas" (goal is 150 groups altogether of between 10 and 30 members each, or approximately five for each BNN branch). The idea is that these groups will eventually convert to cooperatives having had substantial prior experience in cooperative-type production activities. This will be the area of the FAO's major focus over the next two years.

3. Lessons Thus Far

As mentioned, the team visited both of the above co-ops. They each represent an innovative attempt to overcome the vicious circle of small farm poverty agriculture through the combining of production with low level labor intensive industry. In general it was hard to draw conclusions from the two projects as they had each received continuing and relatively massive amounts of technical and financial assistance from the FAO group, INTA, the BNN, the Peace Corps (Santa Lucia) and French Mission accounting and administrative assistance. Also, the design of the shop at Santa Lucia was contributed gratis by a group of architectural students from the University of Tennessee and a Dutch PhD. candidate in tropical agriculture is assisting farmers in the area. It was difficult to determine, therefore, whether the two co-ops had a respectable chance to eventually make it on their own or not.

With respect to the employment activity in each cooperative, although production is totally different in each case, there is one common lesson in hindsight which is that a more thorough feasibility analysis should have been carried out, particularly with respect to

marketing. In the case of Santa Lucia, tremendous demand is claimed to exist for the rugs produced by the taller as well as henequen cord, which could be produced in much greater volume with an additional investment in equipment. The cooperative is having trouble, though, because of lack of adequate market research and promotion earlier. Nevertheless, some 34 workers are employed fairly constantly and making wages of between C$12 and C$17 per day, which by Nicaraguan standards and alternatives for women and youth is relatively good pay. In the case of Pacayita, the problem with clothing manufacture may be more serious, relating to cost and market factors which may mean continued failure to become viable. The communal corn production operation of Pacayita is proceeding well, however, and there are other interesting alternatives for this cooperative (flower production, for example). Both projects suffer from lack of managerial capability.

In summary, both projects demonstrate that with imagination, and innovation potentially viable alternatives to subsistence agriculture can be identified and developed. The approach is one that should be pursued and researched in depth by those agencies working with farmer groups of whatever type. What has been lacking thus far is treatment by qualified specialists with respect to such areas as comparative advantages of one small industrial production model vs. others and the questions of marketing feasibility and strategy.

4. Recommendations

a) Evaluations should be conducted of both the Santa Lucia and Pacayita projects, with a view toward replication and improvement of the approach while assisting the two groups

to work out current obstacles. (Technoserve could provide relevant expertise for such evaluation.)

b) The FAO office should be encouraged to further develop the combined production and employment model with more specialized assistance in the areas of appropriate technology and market analysis.

NOTE: The FAO effort with respect to the Inter-Institutional Committee on Cooperatives is covered in the following Public Sector Chapter.

G. Criteria - PVO Projects

With the exception of Technoserve, PVO's working with cooperatives in Nicaragua tend to be very strong in the area of organization and motivation while lacking depth in important technical areas relating to production, marketing, and other specialized areas. PVO's in general are stretched thinly over ambitious programs. With these basic thoughts in mind the following factors (criteria) are offered for consideration. (Also see sub-section recommendations and the summary chapter.) The criteria below should be considered in addition to rather than in lieu of general criteria developed by the study.

1. Any PVO project proposal attempting to incorporate an innovative employment or marketing element as an alternative to subsistence agriculture should be analyzed by a specialist in the given area, external to the organization (except Technoserve).

2. Any PVO proposal should be analyzed particularly carefully with respect to back-up staff support and/or essential linkages with third party suppliers of support and technical assistance.

3. The question must always be asked, does the necessary follow-through capacity exist on the part of the PVO over the time required for the project to become self-sustaining?

4. What provisions are made to either abort the project in light of negative analytical findings or other factors which come to light in the course of development or to make necessary changes in mid-stream?

5. Again, with the exception of Technoserve, as PVO projects tend to aim at the poorest of the poor, the risk factor for the participant should be analyzed in particular depth.

CHAPTER VI

PUBLIC SECTOR ASPECTS RELATIVE TO COOPERATIVES

A. Introduction

1. General Coverage

This chapter deals basically with the government supervisory and legal framework relative to cooperatives and other groups. It is the "view from the top" intended to provide a balanced perspective when taken together with the earlier analytical elements that are all "bottom up" oriented.

Four major aspects of public sector involvement are covered here:

Page

a) The Cooperative Promotion Department in the Ministry of Labor. This is supposed to be the major regulating organ of the GON concerning cooperatives. A long-standing request to AID for assistance to this Department is still pending. Appropriate recommendations are provided in the section. 268

b) The Cooperative Law and its by-laws, (Reglamentación). A complete review of the law and its implications with respect to cooperatives as instruments of development is recommended. Areas for special attention are pointed out. 274

c) Coordinating Mechanisms — Page

To fill an earlier vacuum, certain mechanisms have come into being. These and their potential are discussed. Fruitful lines of activity are encouraged. 280

d) Training

As credit was a universal member need, training was observed to be a universal institutional need. Existing training mechanisms are discussed, and recommendations are made concerning public sector alternatives. 289

2. Government Commitment

Before coming to grips with the detail of specific government elements listed above, one question should be addressed which is normally carried as an assumption in AID project design documents dealing with cooperatives. This concerns the degree of commitment of government to cooperatives as a vehicle for rural development in Nicaragua. Considerable doubt has existed in the past with respect to this question and any strategy, program, or project in the area should consider the matter of whether or not there exists a national policy constraint and in what degree.

After considerable dialog with executive and lower level GON officials relating to cooperatives, plus study of existing documentation and interviews for the express purpose of obtaining a feel for government commitment in the area, the team would describe the government position in the following way:

a) The Group Approach

The Government of Nicaragua is committed entirely to a "group" approach to rural development. The preferred model varies. It doesn't have to be a cooperative. It can be any group. In the case of INVIERNO, it is the "junta comunitaria" to be eventually merged into a regional member-controlled structure, "Tienda Campesina," essentially a regional multi-service cooperative. In the case of the BNN, the traditional agricultural cooperative form is emphasized. With INTA, it is the agricultural club, ("club agrícola" a "pre-cooperative" form). IAN has its "empresa," run by committees and subcommittees.

b) The Agricultural Planning Perspective

The long range rural development plan also focuses on the community group as the principal organizational vehicle. In the "Agricultural Frontier" plan, as explained by DIPSA, community groups will be organized both for social action purposes and for more efficient production of specific commodities appropriate to the region. Regional and vertical integration is to occur through second level organizations, both cooperative and corporate, to provide for necessary commercialization and processing activity.

c) Labels

Semantically, there seems to be a preference to look for other words besides "cooperative" to describe the various organizational models which the government is pushing. Reasons for this are not known except perhaps that in the past cooperatives have been notoriously abused in Nicaragua for political and financial gain. In any case, in essence, the groups are "cooperatives." They are grass roots, democrati-

cally controlled, organizational forms with no profit motive and with the expressed purpose of providing a better service and a better life to their members on a share and share alike basis.

In summary, yes; the government is committed to cooperatives. Relatively speaking, massive resources are being directed to their formation throughout rural Nicaragua. There are problems, but these are not for lack of commitment. Rather, they are for lack of human and financial resources.

What is important for purposes of strategy and program formulation, is that no general policy constraint is believed to exist with respect to cooperative development approaches which AID and other donors may wish to utilize.

B. The Cooperative Department of the Ministry of Labor (MOL)

1. Legal Status and Functions

The General Law for Cooperatives (Ley General de Cooperativas), published on July 6, 1971, created the Department for the Promotion of Cooperativism - or more simply, the Cooperative Promotion Department (Departmento de Promoción del Cooperativismo) within the Ministry of Labor (MOL). The head of the department is officially the "Promoter of Cooperativism." From 1961 on, there existed an office for cooperative affiars in the Ministry of Labor, but it was not until the 1971 law was passed (with its accompanying Reglamentation in 1975) that a specific department was set up. The Law specifies the functions and responsibilities of the Department in Chapter II, Articles 19, 20, 21, 22, and 23. The language is broad, but the thrust is promotion and

support, not control, except in the sense of legalizing (i.e., granting "personeria juridica") new cooperatives and withdrawing legal recognition when an audit or investigation indicates serious financial and managerial irregularities.

The Cooperative Promotion Department is charged specifically (Article 20) with:

- The initiation, promotion, and direction of the organization of all types of cooperatives including the provision of advice and assistance within the limits of the resources of the Ministry.

- Development of plans for the encouragement and development of cooperativism in coordination with the BNN, IAN, the Ministry of Agriculture, the Housing Bank, the National Planning Office, the National Economic Council, and other public and private sector organizations. The integration and unity of the cooperative movement is to be promoted within socio-economic development plans and programs of the country.

- Legal and fiscal oversight of cooperatives including periodic audits to assure that they are complying with legal obligations and with the principles of cooperativism. The Ministry reserves the right to inspect or perform an audit when it is deemed necessary.

- Authorization of the functioning of cooperatives that comply with the legal requisites for cooperative status and are duly registered by the Department.

- Dissolution and liquidation of cooperatives in keeping with the specifications contained in Chapter VII of the Law.

- Carrying out necessary activities of whatever nature to comply with the attributions and functions described above and with the provisions and objectives of the Law and its by-laws.

By law, the Department is to receive guidance from a Permanent Advisory Commission to be composed of a representative from the BNN, IAN, and the cooperatives. The co-op representative is to be chosen by the Minister of Labor from a slate of three candidates selected by the cooperatives.

The Department is to be appraised of the date of the (annual) General Assembly of each cooperative and is to assure that the assembly is held within the limits determined by the cooperative's statutes and regulations. The cooperative is to advise the Department five days before such an assembly, and the Department may exercise its option to send a representative.

The by-laws specify (Chapter II, Article 16) in addition to the duties assigned the Department under the law, that the Department <u>may</u>:

- Visit and inspect selected cooperatives to determine whether they are acting within legal bounds and according to their own internal by-laws and statutes.

- Review the accounts, books and financial statements which cooperatives are required to maintain.

- Investigate, upon request from private parties or cooperative members, acts or circumstances which may indicate grave infractions of the law or of established norms and procedures on the part of the administrators of a cooperative.

2. Current Operational Status

The present Cooperative Promotion Department is structured as follows, including salaries:

	Monthly Salary
1 Promoter of Cooperativism (Department Chief)	C$ 4,500
1 Collaborator, Special Assistant (position vacant)	2,500
1 Legal Advisor - (position vacant)	2,500
5 Auditors (2 positions vacant)	2,000 each
3 Secretaries	1,000 each
1 Archivist (file clerk)	1,750
1 Messenger (position vacant)	600
Presumed additional budget - but not available to the Department	950

There is no departmental budget as such. Salaries are paid directly out of the Ministry's budget and all services and support activities must be requisitioned separately. There is no allotment for transportation or per diem. Each request for transportation and authorization for per diem is handled on an ad hoc basis. If the

situation appears to be serious or urgent enough, transportation and per diem may be provided, but often not to the extent requested.

Given the low salary level, compared to other GON ministries and institutions, it is not surprising that the personnel of the Department have other employment and that highly qualified personnel either are not recruited or cannot be retained. In addition, it is obvious that regardless of the lack of operating funds, the size and composition of the staff would reduce the Department to complying only with essential minimum functions assigned to it.

It is interesting to note that although the law assigned the Department a promotion role (in fact this role is implicit in the name of the department and the title of its chief), everyone interviewed at the institutional level, including the Minister of Labor and the Department Chief, believed that the promotion function should be carried out by other private and public sector institutions whose programs are geared to the use of cooperatives as instruments of development. It was the general concensus that the Department should be limited to the legalization function and audit review with inspection responsibility on an as needed basis. The Department has de facto not performed the function of promotion, and is performing only a minimum of its other functions. There is no concensus on the role of the Department in cooperative education.

The Commission called for in the law has met two or three times and by default has ceased to exist. However, due to pressures for greater exchange of information and coordination among the institutions working with cooperatives, a coordinating body has been created with

the approval of the Minister. It is called the Inter-Institutional Committee for Support to Cooperatives and is discussed later in this chapter under Coordination.

3. Recommendations

a) The MOL should upgrade the Cooperative Promotion Department by allocating an adequate budget for its operations. The budget should provide sufficient funds to cover the salaries of experienced and qualified staff plus transportation and other costs involved in efficiently running the Deparmment and making trips as required to cooperatives, both in Managua and outlying areas.

b) The Department should be strengthened both in quantity and quality to perform a responsible role in reviewing requests from pre-cooperative groups for legalization, including the ability to make feasibility judgements; to read, understand and interpret financial statements and audits; to perform inspections and trouble-shooting audits; and to compile basic statistics on cooperative activity in Nicaragua.

c) The USAID should consider providing technical assistance to the MOL in upgrading the Department within the confines of the functions listed above.

d) The MOL also requested assistance in developing educational programs and in compiling training materials. The study team recommends that this assistance not be provided at this time, but that action be deferred until a further study of overall training needs has been undertaken (see section on Training). Any USAID assistance, however,

should be contingent on MOL provision of increased funding to the Department and on the hiring of adequate staff. At a minimum, a technician with expertise in accounting and financial analysis should be brought in, but it would be preferable to also have a general cooperative specialist. A two-man team combining these qualities would be ideal. A third person - at a later date - could be a cooperative training specialist with experience in financial management and administration.(For more details, see section on Training.)

C. Cooperative Law

1. Background

On July 1, 1971, the General Law for Cooperatives (Ley General de Cooperativas) was signed by the President. Previously, cooperatives had been regulated under provisions of the Commerce Law (Ley de Comercio) of 1916. The Labor Law (Código de Trabajo) of 1945 made special reference to cooperatives but did not fully spell out details regarding their regulation. The By-Laws to the Law of 1975 ("Reglamentacion") were enacted in 1975 under the direction of the present Minister of Labor, under whose jurisdiction the supervision of cooperatives was placed by the General Law of 1971.

2. Provisions

The law specifies legal norms regulating the constitution, organization and functioning of cooperatives as entities having independent legal status ("personeria juridica"). It also specifies the conditions for the dissolution and liquidation of cooperatives. Cooperatives are liable only up to the total cumulative capital or shares of their members.

The law spells out the activities and qualities which should characterize a cooperative, without actually defining a cooperative (Article 2). These are:

- To obtain the social and economic improvement of its members through group action.
- To respect the right of free association as well as voluntary withdrawal, the equality of rights and responsibilities of members, and of religious and political neutrality.
- To assign one vote to each cooperator, regardless of the total of his contributions or shares. The vote is to be exercised personally and not by proxy except as law or regulations may specify.
- To function with a variable number of members, but never less than ten, although the by-laws may establish a different level for minimum membership for different types of cooperatives.
- To have a variable level of capital of indefinite duration.
- To be non-profit (although the wording suggests something slightly different in degree, specifically, not to pursue profit as a primordial end).
- To establish a limited interest rate on capital, in the percentage and under the conditions to be specified by regulation.

- To distribute cooperative earnings among the members in proportion to their participation.

- To promote cooperative education.

Other general characteristics spelled out in Chapter I of the law are similar to those of cooperative laws in neighboring countries and the language was probably borrowed from legislation of other Latin American countries where cooperative laws were promulgated between 1937 and 1942 and were revised in the early 1960's.

3. Review

While the law is generally good and confers on the cooperatives the special status one finds elsewhere in Latin America, it is probably too explicit, especially in listing specific types of cooperatives and describing their characteristics (for instance, the following are specifically cited: consumer, savings and credit, agricultural production, work or labor, housing, fishing, service, public services, cultural, school, or educational, youth) while making no mention of cooperative banks or finance institutions nor insurance cooperatives. The law qualifies the list in stating that all types of cooperatives may be organized and that the list is only illustrative. The assumption would be that types of cooperatives not listed would be permitted, but it is probable that the banking and insurance laws of Nicaragua might have certain stipulations that would prevent or curtail the organization or functions of cooperative banking institutions as well as insurance cooperatives if they were to be formed. The law is also silent on agro-industrial, supply, marketing and transportation cooperatives, but it must be assumed that they are permitted since the Ministry of Labor has registered cooperatives in these categories.

Specific problem areas - either real or potential - include but are not limited to the following:

a) Consumer cooperatives are limited to selling goods to their members. This limitation is not being followed in practice.

b) Each cooperative is obligated to specify the rate of interest in its by-laws and statutes, and this rate may only be changed in a meeting (annual) of the General Assembly. This presents a real operational problem to management.

c) The maximum number of members on the Administrative Council (board of directors) is set at seven, although a cooperative might find it more convenient or realistic to have a higher number. (The whole chapter on the functions and duties of directors is probably too specific and too rigid.)

d) While the cooperatives have tax and duty exempt status, the recent Tax Law (November 25, 1974) and its Regulation (1975) would appear to give the exempt status only to cultural, educational and youth cooperatives. In addition, the Tax Law of 1974 would appear to grant no exemptions for the payment of taxes on real estate and on goods and chattels in excess of certain prescribed limits. In fact, no cooperatives are paying or have payed any of these taxes. On the other hand, the exemption on sales taxes and customs duties is not being uniformly honored.

e) The law and its regulation appears to provide for the taxing of members only when they directly receive their share of return on investment or earnings from the enterprise. Since many cooperatives have been using earnings for continued capitalization of the cooperative and

have invested earnings in working capital, real estate, buildings, and equipment, etc. (some individual co-op by-laws specify that this must be done during the first five years of operations), it will be interesting to see what happens in terms of tax liability to the cooperatives that begin to return some or all earnings to members in the sixth year of operation.

f) Managers named by the Administrative Board of a cooperative, who are not mmebers of the cooperative, must be approved by the General Assembly.

g) International organizations working in the field of cooperative promotion and integration may be registered by the Cooperative Promotion Department in the Ministry of Labor. It is unclear whether the organizations must be registered before they work with cooperatives or whether their registration is a voluntary, enabling act. In any event, there appear to be no international organizations who are currently registered with the Department.

h) A cooperative can only receive loans, without prior approval from the Cooperative Promotion Department, from national banking and financial institutions. All other loans must recieve prior approval of the Department. (This restriction affects FUNDE and its assistance program.)

i) A cooperative must have prior approval from the Department to receive donations from any institution. It is doubtful whether this restriction is strictly enforced or even monitored, although FUNDE very carefully follows the prescribed procedure.

j) Cooperatives are required to present monthly financial statements to the Department as well as an annual audit report prepared under the auspices of a CPA. This requirement is probably not followed by the majority of the cooperatives. Some claim that the cost of using a CPA at least triples the cost of the audit.

k) The request for legal status must be signed by the charter members and be notarized. The notary fee ranges from C$1,000 to C$1,500 which is considered to be a heavy burden to low-income cooperatives with few members.

l) There are inconsistencies between the law and its regulation. In some instances the regulation goes beyond that specified in the law. In others, no interpretation is made.

4. Recommendations

a) The law should be reviewed and revisions recommended to the appropriate GON entity.

b) The review should be carried out by a Nicaraguan commission, possibly appointed by the MOL, drawing from the Inter-Institutional Committee for Support to Cooperatives, but including at least one legal expert versed in the inter-related laws in Nicaragua; i.e., The Ley de Sociedad Anónima, the tax laws, etc. It would also be helpful to have an expert in general Latin American cooperative legislation.

c) The law should not attempt to incorporate principles of cooperativism except in the distinction between a cooperative and a corporation.

d) The law should be spare in details. For instance, specific reference to coordinating agencies by name should not be made since

conditions may change and the MOL may find it more desirable to work with other institutions. What different types of cooperatives are, or should be, should not be spelled out in such detail except to list safeguards to avoid conflict with other legislation or jurisdictions. For example, education cooperatives should coordinate with the Ministry of Education, health cooperatives with the Ministry of Public Health, etc. This type of detail, however, could be spelled out in the regulation rather than the law.

e) The law should concentrate on the special legal and fiscal status of the cooperative, on its voluntary nature, on sanctions which should be imposed when cooperatives alter their form and procedures or cease to function as cooperatives or when directors or managers are guilty of legal abuse or criminal activity (malfeasance, misfeasance,etc.) and on the requirements for registration and continued cooperative status.

f) The law should not get into a discussion or assignment of promotion or education, but should indicate government support of cooperatives as a viable form of private enterprise.

g) The USAID should not become involved in the actual revision of the law, but should encourage the MOL to undertake such action as part of the MOL's upgrading of its cooperative regulatory responsibility. The USAID, however, might wish to consider providing a short-term expert in cooperative law for review and revision activity.

D. Coordinating Mechanisms

As indicated under the section on the Cooperative Promotion Department, the law calls for the establishment of a Permanent Advisory

Commission composed of a representative of the BNN, IAN, and from the cooperatives to be selected by the Ministry of Labor from a slate of three candidates. While the role of this commission is basically advisory, the law implies a possible coordinating role. In any case, the Commission is not functioning.

1. The Inter-Institutional Committee

a) Observations

To fill the above vaccum, several organizations working with cooperatives under the leadership of FAO, with collaboration from INTA and the BNN, have joined to create an Inter-Institutional Committee for Support to Cooperatives ("Comite Interinstitucional de Apoyo al Movimiento Cooperativo"). It first met in May 1977 and adopted by-laws drafted by representatives of the three sponsoring organizations in July 1977.[1]

The committee originally was composed of public sector institutions: Cooperative Promotion Department (MOL), BNN, INTA, INVIERNO, IAN, Banco de Credito Popular, with FAO as an observer-consultant, all working in varying degrees in the agro-rural sector. Membership on the committee was later opened to include private sector institutions: FECACNIC, FUNDE and CEPAD (INPHRU was not invited).

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[1] The committee did not meet again after the July meeting until November 4, 1977, at the request of the Cooperative Study Team. Also, at the request of the team it opened up the meeting to observers from institutions not on the committee: The Minister and Vice Minister of Agriculture, the Director of DIPSA, the President of the BNN, and a representative of the Ministry of Public Health. The latter two did not attend. The Minister of Labor was to have chaired the meeting but was not able to be present.

The by-laws of the committee specify its purpose, role, and functions. Basically it was created to strengthen the Cooperative Promotion Department, especially in the areas of promotion and education where the Department is not able to carry out its mandate and to coordinate to the extent possible various activities of institutions working with cooperatives. It also was designed to serve in an advisory capacity to the Cooperative Promotion Department and the Ministry of Labor in general.

The role of the committee is potentially very important to the development of cooperatives in Nicaragua. Some members would like to see the committee given legal status or at least official recognition (by decree) as an official advisory body. Others would like to see it expand its attention in areas of promotion and cooperative education. It also could provide a moderating influence to preserve the freedom of operations cooperatives should enjoy within legal limits set by the present law.

In any event, at present the committee is a forum for the discussion of a range of topics relating to cooperatives and cooperative development. The Ministry of Agriculture has expressed a real interest in seeing the committee contribute to a better orientation for cooperatives and other local level rural organizations in the framework of national development plans.

b) Recommendations: (Inter-Institutional Committee)

The following recommendations are made with respect to fruitful areas of endeavor which the team believes would contribute to the more effective functioning of the committee:

(1) The committee should make an inventory of cooperative oriented activities of each of its members, including training and technical assistance programs.

(2) The committee should aim at information exchange and coordination of activities wherein practical before trying to devise joint or national-level programs. (Apparently, the last meeting the committee held became bogged down on the issue of whether there should be just one national-level training program and who should have the responsibility for running it. Since several institutions already have training programs, some saw this as a potentially threatening move.)

(3) The committee should be open to all institutions working with cooperatives and local level groups; i.e., the Ministry of Public Health (PRAC and PLANSAR programs) and INPHRU. The committee could still maintain a rural development focus since these organizations are working primarily in rural areas.

(4) Since the committee is already of such a size that regular meetings of the entire group make it difficult to arrive at specific work and activity plans, working level sub-committees should be formed to address specific problems the committee wishes to discuss and for which it may wish to make specific recommendations. A first step is already being made in this direction. (See following sub-section)

c) Except indirectly through FECACNIC and FUNDE, the cooperatives themselves are not represented on the committee. Some formula needs to be devised to include them.

d) While the committee understandably is interested in seeing the development of a national strategy for cooperatives, it should resist

tackling this area for the present until there is a better understanding of what each group or institution is doing and what the various goals are. Except in the collaborative sense, a national strategy could have an inhibiting effect on private sector institutional initiative. It would be preferable for the committee to analyze the national sectoral and sub-sectoral strategies (i.e., agricultural development, rural development, rural community development, etc.) and advise the relevant GON agency or institution concerning appropriate alternatives.

g) The committee should seek legal status; i.e., official recognition by the MOL - possibly as a replacement for the inactive Permanent Advisory Commission.

2. Committee for Community Development and Farmer Organizations

a) Observations

Another committee is providing coordination at the working level, the "Comite Interinstitucional para Desarrollo Comunal y Organización Campesina." Members of this committee are representatives from INVIERNO, INTA, MAG, DIPSA, BNN, CENCA,[2] and IAN. The composition represents, in effect, a sub-group of the other Inter-Institutional Committee, although there is no direct relationship except in the linkage between some individuals who serve on both committees. The emphasis is broader in terms of organizations, since it is looking not only at cooperatives, but at all of the groups and primary level organizations with which each of the institutions is working.

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[2] CENCA: The National Agricultural Education Center.

The specific tasks of the committee from a working standpoint, however, are more narrow and restricted, giving the body a more cleanly defined area of responsibility. It has been charged first to understand and inventory the work of each member institution with local level groups and the types of training given to the technicians working in the field. Then, it is to develop a recommended draft joint training program which will serve the needs of each of the institutions. For instance, one need expressed in a meeting attended by a member of the Cooperative Study Team was for technicians who are more sensitive to the needs of the campesinas. There was a general concensus that government agronomists, for example, don't have the necessary rudimentary knowledge of rural sociology, and tend to be paternalistic.

Once the committee presents its findings and recommendations, CENCA will be charged with the elaboration of training programs for technicians working with primary level rural organizations. The committee will then, presumably, move on to other topics of mutual interest and need.

It would be useful for the work and findings of this committee to be shared with the larger Inter-Institutional Committee. It also would be desirable if membership could be enlarged to at least include someone from PRAC or PLANSAR (Ministry of Public Health) in that they are working with some of the same community groups. (The committee has decided to invite the Ministry of Public Health to participate after it feels a little better organized.)

b) Recommendation

The larger Inter-Institutional Committee should invite this committee to be one of its working group sub-committees, without distracting it from the purpose for which it was created. It could contribute much useful material and insight to the larger group; and, conversely, feedback from the latter would be valuable with respect to plans and initiatives of the committee, especially in the training area.

3. INTA/BNN

a) Observations

Another example of coordination at the national level is the recent agreement signed by BNN and INTA to coordinate efforts and avoid duplication with respect to the "club agricola"program. (See Chapter III, Section D.3) In essence, BNN agrees to provide financing (within the normal restrictions and rules of its rural lending program) to groups with which INTA is working - both to cooperatives and to groups which do not have legal status. In the case of the former, the BNN would consider a group loan to be administered by the cooperative and in the case of the latter, the BNN would consider individual loans but would expect the group to assist in the administration of the loan. INTA agrees to provide technical assistance to both types of groups including cooperatives which the BNN has assisted or is assisting with which INTA hasn't worked.

b) Recommendation (INTA/BNN)

This is an interesting model which should be studied by the Inter-Institutional Committee for possible replication in a larger context.

4. Ministry of Public Health and INVIERNO

a) Observations

Early in the development of the INVIERNO program, the need for coordination between the two Ministry rural programs (PLANSAR and PRACS) and INVIERNO became apparent. Each is working at the grass roots, rural community level, with groups which their promotional personnel organize to assist in defining and delivering services. In some cases, the same individuals are asked to join both the Ministry and the INVIERNO group. Talks between the Ministry and INVIERNO were initiated, but differences of approach, methodology, and basic philosophy became apparent. The Ministry came up with a suggested coordinating plan known as COOPLADIN which was rejected by INVIERNO.

Essentially the Ministry sees INVIERNO as a banking function delivering credit to rural areas. The Ministry, on the other hand, sees its role as that of mobilizing rural communities to identify critical environmental needs - from health (latrines, drinking water) to roads to schools. The Ministry provides the needed materials (or gets the Ministry of Public Works to do so) while the community is expected to provide the labor and local materials (sand, rock, etc.). However, the final product belongs to the community and it does not have to repay the cost of the materials provided. INVIERNO is focused on micro-economic production considerations, while the Ministry is concerned more with infrastructure.

After several months of impasse, it appears that the Ministry (in the person of the head of PLANSAR) and INVIERNO (the Vice-

Manager) have drafted an agreement to lay the groundwork for coordination. It involves, where feasible:

(1) use of same "junta comunitaria"

(2) holding joint community-level meetings

(3) holding joint training sessions

(4) maximizing collaboration

This approach is critical. Although PLANSAR is just getting underway (January 1977), it is already operating in 60 communities, half of which are INVIERNO communities. (The average community usually consists of 60 to 70 families of about 400 inhabitants.) INVIERNO presently has 300 communities.

This is actually part of a much larger problem. All of the institutions are working with groups at the community or base level. For instance, INTA has its agricultural and other clubs, and the BNN works with groups other than just cooperatives. National institutions involved in organizational/promotion work may each be working with the same "campesinos" - which can be very confusing. The smaller Inter-Institutional Committee is looking at this problem in an indirect manner.

b) Recommendation (Public Health vs. INVIERNO

The Inter-Institutional Committee should give careful consideration to the problem area described above. One institution or another should probably be "in charge" with respect to given community groups. INVIERNO and the Ministry of Health should coordinate prior to moving into a community with respect to who should maintain primary responsibility for the given group.

E. Training

1. Observations

While the team did not analyze or tabulate existing training programs, it discovered that virtually all of the national institutions, private and public, had training programs, both informal and formal, schedule and ad hoc. Some of these were exclusively for cooperatives; others were for village level or community groups; others were for the staff of the institutions working with such groups.

In terms of the need for additional training, the team identified the following areas:

- Upgrading of executive and managerial skills (Board/Management)
- Bookkeeping, accounting, and financial management. (Skill training for management and staff, orientation for boards of directors.)
- Marketing and supply operations, especially marketing.
- Specific technical areas related to agricultural production and processing technology.
- "Concientizacion," rudimentary orientation as to just what a cooperative is and how it should function, what the rights and responsibilities of a member are, and the primary definition of roles of board and staff (only where not a substitute for sound management and a viable enterprise).

One innovative approach to training in Nicaragua is that of CENCA. CENCA is an agency of the Ministry of Agriculture, specifically charged with developing training programs for the Ministry and its dependencies and other public organizations in the agricultural sector. These include the BNN, the National Cotton Commission (CONAL), the Irrigation Authority for Rivas (IRR), the National Coffee Institute (INCAFE), IAN, INCEI, the National Development Institute (INFONAC), INTA, and INVIERNO.

CENCA's training programs are designed for public sector personnel, although it is not prohibited from training private sector personnel working in conjunction with public sector programs. Its approach is:

- To identify specific training needs (working in conjunction with personnel of the pertinent or interested institution or institutions).

- Identify potential training facilities.

- Find resource persons with the requisite background to either act as trainers (with assistance from CENCA staff) or to assist in the development of course materials.

- To notify and negotiate with potentially interested institutions concerning time, place, cost, etc. of the course or seminar which as been developed.

The Minister of Agriculture has indicated an interest in and approval for CENCA to work with interested parties in developing training programs for cooperatives.

a) Recommendations: Training

(1) The Inter-Institutional Committee should appoint a working group (sub-committee) first to make an inventory of all cooperative training being offered in Nicaragua, including the private sector (FECACNIC and FUNDE, for example). This should include some degree of grading re difficulty, sophistication, and level of trainees.

(2) The working group should seek to work out special arrangements so that member institutions (wherein feasible) of the Inter-Institutional Committee could share in the training programs presently being offered.

(3) The working group (with CENCA's assistance) should identify gaps in present training programs which require new approaches, courses, seminars, etc.

(4) With CENCA acting as the coordinator, training programs to fill these gaps should be designed.

(5) These proposed training programs should be presented to the appropriate institutions for approval and funding.

(6) The USAID might consider providing technical assistance to the Inter-Institutional Committee or directly to CENCA and the working group, both with respect to identification of training gaps and design of new training activities. One training specialist should be able to handle such an assignment with support from CENCA and concerned institutions.

(7) The training specialist or the working group should contact The Organization of Cooperatives of America (OCA) and

cooperative training institutions in Panama and Honduras for materials. There is available material developed under the AID/RTAC program, and the plates are in Lima (OCA headquarters). In any event, the development of new materials should not be undertaken until available materials have been surveyed, even if it means trips to Panama and Honduras. (AID/W should be asked to help (PHA/PVC). The Farmers Cooperative Service of the USDA also should be contacted.)

(8) Training programs which receive USAID technical support (i.e., a training specialist) should concentrate in the areas of management, financial analysis and general management and the role of boards and staff. The promotional, traditional training orientation for new or would-be cooperators (concientización) should be left to the promotional and sponsoring institutions. Specific technical training involving agriculture technology should stay in CENCA.

INTERVIEWS

The following key persons were interviewed during the course of the study. This is not, unfortunately, a complete list, as in a number of cases, particularly in the field, names were not recorded. For future reference, however, the persons listed below have the most complete understanding and knowledge of their respective institutions, programs and areas of focus.

A. Government of Nicaragua

1. Ministry of Agriculture

   . Klaus Sengleman, Minister

   . Jaime Fernandez, Director, National Agricultural Sector Planning Office. (DIPSA)

   . Luis Osorio, Vice-Minister and General Manager, Institute for Agricultural Technology. (INTA)

   . Carlos Zepeda, Director of the Technological Extension Division of INTA.

   . Carlos Lopez Callejos (Jr.), Director of the National Agricultural Training Center. (CENCA)

2. Ministry of Labor

   . Julio Cardoze, Minister

   . Adolfo Garcia Rosales, Director of Department of Cooperative Promotion.

3. The National Bank of Nicaragua (BNN)

   . Carlos Lopez (Sr.), President

   . Carlos Rene Ramirez, Director of Department of Rural Credit.

- Guillermo Gutierrez, Deputy Director of Department of Rural Credit.
- Noel Delgado, Chief of Cooperative Section.
- Raul Cardoza, Acting Chief of Cooperative Section.

4. The Institute for Campesino Welfare (INVIERNO)
   - Gustavo Gomez Casco, Director General.
   - Frank Barea, Deputy Director.
   - Mario Pfaeffle, Director of Campesino Organization.
   - Jaime Castillo, Chief of Tienda Campesina Program.
5. The National Agrarian Institute (IAN)
   - Jorge Padilla Cubas, Deputy Director.
   - Frank Ramirez, Chief of Division for Campesino Organization.
   - Carlos Castillo Miranda, Supervisor, Zone 3A.
   - Miguel Nunez, Chief of Irrigation Projects.
6. Popular Credit Bank (Banco de Credito Popular)
   - Horatio Hooker, President
7. Ministry of Public Health
   - Jose Maria Zuniga, Director of PLANSAR.
   - Maria Francisca Carillo, Director of Education Division (Including PRAC)

B. Private Sector

1. National Credit Cooperative Federation (FECACNIC)
   - Jose Maria Rodriguez, Manager.
   - Alejandro Lee, Director of Finance
   - Napoleon Loaiziga, Director of Technical Assistance.
   - Padre Andres Weller, President
   - Raul Sanchez, Advisor to Management (COLAC).

2. The National Development Foundation (FUNDE)

   . William Baez, Executive Director

   . Roger Collado, Director of Administration and Technical Assistance

   . Roger Fornos, Director of CECOOP

   . Ruth Kelly de Zeledon, Director of Social Projects

   . Pedro Jose Alvarez, President

3. Evangelical Committee for Development (CEPAD)

   . David Trigueros, Chief, Cooperative Department

   . Gabriel Gaitan, Cooperative Advisor

4. Institute for Human Promotion (INPHRU)

   . Joaquin Olviedo, Chief of Cooperative Program

5. Technoserve, Inc.

   . John Lamb, Director

   . Michael Glover, Deputy Director

6. Cooperative for American Relief Everywhere (CARE)

   . Matthew Diamond, Deputy Director and in charge of Irrigation Program with IAN

   . Terry Grassman, Chief of Housing and Water Projects

7. Food and Agriculture Organization (FAO) of the United Nations

   . Carlos Suazo, Director, Basic Grain Program

   . August Vega, Rural Organization Specialist

   . Brack Daniels, Rural Credit Specialist

   . Alonzo Restrepo, Communicty Development Specialist

8. Latin American Confederation of Credit Unions (COLAC)

   . Rymel Serrano, Managing Director

. . Generoso Nicolas, Chief of Training

9. Robert Nathan, Inc.

. Rustin Paddy, Research Advisor to DIPSA

C. USAID Mission to Nicaragua

. Arthur Mudge, Director

. David Jickling, Director of Program Office

. Marvin Schwartz, Program Economist

. Richard Hughes, Chief of Rural Development

. Owen Lustig, Deputy Chief of Rural Development

. David Bathrick, Manager, INVIERNO Project

. John Becker, Agricultural Economist and Project Manager

. Armando Gonzales, Agricultural Engineer and Project Manager

. Bruce Blackman, Chief, Capital Development and Finance

D. United States Embassy

. Ambassador Mauricio Solaun

E. Inter-American Development Bank

. Gonzalo de la Pezeula, Representative
and various IDB staff members

ANNEX B.

FIELD VISITS

Cooperative or Other Farmer Organization Visited	Location or Area
BNN	
Cooperativa Rio Grande	Matiguas
Cooperativa La Esperanza	Matagalpa
Cooperativa El Esfuerzo	Masaya
Cooperativa Departamental Masaya	Masaya
Cooperativa de Caficultores de Oriente	San Marcos
Cooperativa Departamental Esquipulas	Leon
Cooperativa Departamental Santa Ana	Chinandega
Cooperativa de Calzado	Masaya
Cooperativa de Consumo	Masaya
INTA (FAO assisted)	
Cooperativa Pacayita	Masaya
Cooperativa Chiscopala	Boaco (Santa Lucia)
Club Agricola Pilas Occidentales (Pre-Cooperative group)	Masaya
INVIERNO	
Cooperativa de Paperos	Jinotega
Grupo Comunitario y Junta	San Ramon
2 Grupos Comunitarios y Juntas	Masatepe

Cooperative or Other Farmer Organization Visited	Location or Area
IAN	
Colonia Angélica de Schick	Leon
Colonia Tonalá	Chinandega
FUNDE	
Cooperativa de Ahorro y Crédito Ciudad Dario	Ciudad Dario
Cooperativa de Ahorro y Crédito de Pequena Industria y Comercio de Jinotega	Jinotega
Cooperativa de Ahorro y Crédito La Moderna	Matiguas
Cooperativa de Ahorro y Crédito La Union	Matagalpa
Cooperativa de Ahorro y Crédito Juigalpa	Juigalpa
Cooperativa de Ahorro y Crédito Santo Domingo	Santo Domingo
Cooperativa de Ahorro y Crédito Avances	Santo Tomas
Cooperativa de Servicios Multiples La Perla	Bocaycitos
FECACNIC	
Cooperativa de Ahorro y Crédito Camoapa	Camoapa
Cooperativa de Ahorro y Crédito San Antonio	Esteli
Cooperativa de Ahorro y Crédito Mateare	Mateare

Cooperative or Other Farmer Organization Visited	Location or Area
FECACNIC (Continued)	
Cooperativa de Ahorro y Crédito San Andres	Condega
Cooperativa de Ahorro y Crédito San Bernardo	Palacaguina
Cooperativa de Ahorro y Crédito Masaya	Masaya
Cooperativa de Ahorro y Crédito Humberto Aguilar	La Concha
CEPAD	
Cooperativa La Paz	La Paz de Oriente, Carazo
Cooperativa de Ahorro y Crédito El Carmen	Masatepe
INPRHU	
Cooperativa El Progresso (Potable Water)	Guanacaste
Cooperativa El Esfuerzo (Potable Water)	Guanacaste
Cooperativa de Industrialización de Escoba	Nandayosi
TECHNOSERVE	
Cooperativa Agropecuaria	Jinotega

In addition, the following Government field offices were visited where discussions were held with regional staff concerning operations in the area:

- BNN Branch Bank in Chinandega
- INVIERNO Regional Office in San Ramon
- INVIERNO Regional Service Centers (CEDES) in Jinotega, La Trinidad and Masatepe
- IAN Regional Office, Leon