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A Study of Their Development
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Volume II—Evaluation Team Study Papers
on Specific Projects

by
William H. Rusch, Team Leader
Fred L. Mann
Eugene Braun

Prepared for
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AMERICAN TECHNICAL ASSISTANCE CORPORATION

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SECTION III

FENACOAC (CREDIT UNIONS)

A. DESCRIPTION OF PROJECT

1. Rationale of Project

In 1964 the National Federation of Savings and Credit Cooperatives (FENACOAC) was formed by six savings and credit cooperatives with assistance from a ROCAP funded regional task order with CUNA.^{1/} From November 1965 to the present time, USAID has provided support to FENACOAC. Through 1968 that support was provided entirely through contract services with CUNA.^{2/} Beginning in mid-1969 USAID initiated direct assistance to FENACOAC.^{3/} At that time the objective of the project was stated to be: "Assist the National Federation of Savings and Credit Cooperatives to increase member savings and mobilization of investment resources, availability of credit to the rural population with special emphasis on the small and medium farmer, the effectiveness of affiliated cooperative enterprises and to promote the involvement of more Guatemalans in economic and social development through the organization of strong self-sufficient democratic institutions such as savings and credit cooperatives."^{4/}

Until 1970 the course of action primarily involved the provision of managerial advisory services of CUNA (and operating costs), in the development of local savings and credit cooperatives. During the same period, USAID provided considerable participant training, not only to FENACOAC but to the cooperative movement in general.^{5/} In 1970 the course of action began to shift from emphasis on advisory services for promotion of local cooperatives to direct financial assistance to strengthen the managerial and economic services provided by the Federation to affiliates. This course of action took shape and was articulated in the first PROP (non-capital project paper) for the project, submitted on September 10, 1971, as project No. 520-15-150-200.1.

^{1/} Credit Union National Association Int. funded in June 1964.

^{2/} November 1965 to December 31, 1966: PIO/T 520-148-3-60022; 1967: PIO/T 520-176-3-70029; 1968: PIO/T 520-187-3-80042; 1969: PIO/T 520-187-3-90044.

^{3/} Pro-Ag No. 69-22, dated 6/27/69.

^{4/} Ibid., P. 2, Para. II.

^{5/} See section on participant training, Section VII, pp. 113.

The PROP stated the project goal to be "increased rural incomes."^{1/} The specific purpose of the project was to "develop a viable, effective and producer-oriented Guatemalan Savings and Credit Cooperative Federation primarily serving rural communities," and provide "a source of credit and an institution for savings within reach of the low-income individuals, and by insuring ownership and control of these institutions by the same individuals."^{2/}

The course of action in the PROP gave major emphasis to improved services by FENACOAC to its affiliates in the form of (1) extension and educational (organizational, accounting and administrative) assistance, (2) credit, (3) insurance and bonding, (4) office equipment, and (5) educational, promotional and administrative materials.^{3/}

This project pattern of goal, purpose and course of action remained intact through successive project agreements through 1974. The 1972, 1973 and 1974 pro-ag's used uniform language in stating the objective of the project as follows: "develop a viable, effective and producer-oriented Guatemalan savings and credit cooperative federation primarily serving rural communities."^{4/}

These statements of objectives are consistent with and conform to the scope of FENACOAC's own apparent goals and course of action. FENACOAC has, however, sought additionally in rural areas to complement its credit union activities with multi-agricultural services. In particular, since 1971, FENACOAC has undertaken to provide agricultural inputs to its affiliates (especially fertilizer), and has relied on fertilizer sales as an important source of income for the federation.

In addition to AID assistance provided through the project agreements referenced above, two AID Rural Development loans also have provided financial assistance to FENACOAC. The capital assistance papers for these loans include purpose statements.^{5/}

^{1/} PROP, project No. 520-15-150-200.1, September 10, 1971, page 3, Para. B.1.

^{2/} Ibid., page 4, para. C.1.

^{3/} Ibid., pp. 6-7.

^{4/} Project Agreement No. 4-72, 11/12/71;
Project Agreement No. 5-73, 10/05/72; and
Project Agreement No. 7-74, 11/07/74.

^{5/} Capital Assistance Paper "Guatemala: Rural Development Loan," AID-DLC/
page 881, January 23, 1970.

In the first, the stated purpose of a \$2,000,000 allocation for credit to all cooperatives (of a \$23 million loan), is stated to be for "seed capital for stimulating a self-sustaining agricultural cooperative movement in Guatemala...", "...finance credit for storage facilities construction, working capital for 125-140 individual Highland agricultural coops and regional coop federations to finance storage operations and crop inventories, and for sub-lending to individual members to finance modern agricultural production inputs."^{1/} \$800,000 of this fund later allocated to FENACOAC.

In the 1973 CAP, \$2,000,000 of a \$4,500,000 loan for cooperative type organizations was allocated to FENACOAC "to increase the rural productivity and incomes of small farmers through the attainment of viable, effective, and autonomous cooperative federations; stimulate economic activity among small farmer groups in a pre-cooperative stage; and contribute to the development of a rural financial infra-structure in Guatemala."^{2/}

It should be noted that the 1973 CAP was the first documentation of AID recognition of the expanded FENACOAC role of providing agricultural inputs to its affiliates.^{3/}

2. Project Inputs

Table FEM-1 provides a detailed breakdown of project inputs from all sources, by type of input (i.e., grant, loan, equity contribution, advisory services, etc.).

3. Institutional Development

Cooperative leaders in Guatemala indicate that the idea of forming a federation of Savings and Credit cooperatives was first discussed in 1959 when the GOG began to recognize a role for the cooperative movement. FENACOAC was formed in 1964 by six savings and credit cooperatives, with assistance from a ROCAP funded regional task order with CUNA. Growth of the federation was slow through 1969. During the entire 1964-1969 period, CUNA was contracted by USAID to both advise and manage FENACOAC. Growth figures indicate

^{1/} AID-DLC/p. 881, Ibid., Annex II, Exhibit C, p. 6.

^{2/} AID-DLC/p. 1080, Ibid., p. 2.

^{3/} Ibid., p. 29.

TABLE FEN-1 BREAKDOWN OF INPUTS INTO FENACOAC BY YEAR AND SOURCE IN DOLLARS (QUETZALES), 1965-1974

SOURCES	YEARS							TOTALS
	1965 1969	1970	1971	1972	1973	1974		
1. USAID Grant *	\$155,350	\$216,618	\$156,584	\$153,208	\$125,000	\$73,000		
a. Contract services	155,350	49,203	44,682	17,500	16,200	---		
(1) Operating costs	80,000 <u>1/</u>	6,000 <u>1/</u>	5,000 <u>1/</u>	---	---	---		
(2) Commodities	20,000	5,500	---	---	---	---		
(3) Advisory personnel and overhead								
b. Direct grant		167,416	111,901	135,707	108,800	73,000		
(1) Operating costs	---	87,638	101,446	135,707	108,800	73,000		
(2) Commodities	---	79,778	10,455	---	---	---		
2. GOG Grant to capital	---	---	---	---	100,000	25,000		
Subtotal grant							\$1,004,760	
3. USAID Loan **	---	---	---	400,000	400,000	---		
4. COLAC Loan	---	---	---	---	200,000	300,000		
Subtotal Loan							1,300,000	
5. Member savings in coops.						3,849,000 ^{2/}	3,849,000 ^{2/}	
6. Affiliate savings in Federation						408,000 ^{2/}	408,000 ^{2/}	
TOTAL INPUTS								\$6,561,760

* An additional \$27,000 has been approved for 1975.

** FENACOAC has requested an additional \$2,000,000 for 1975.

1/ Estimated

2/ Cumulative

that CUNA followed a conventional pattern of concentrating efforts on the formation of an ever-increasing number of small local community credit unions affiliated to the federation. However, FENACOAC provided little in the way of services, and in 1969 the largest savings and credit cooperative member disaffiliated due to lack of services.

In 1970 USAID began direct grant assistance to FENACOAC, and management was turned over to Guatemalans. (CUNA continued providing some advisory assistance until 1971.) At the same time, emphasis was shifted from organizing (or affiliating) new credit unions to consolidation and growth of existing affiliates. Whereas in the early period affiliated membership grew from 6 in 1965 to 71 in 1969, it grew from 75 in 1970 to only 83 by the end of 1974. Individual cooperative members grew from approximately 1,000 in 1965 to some 13,000 in 1969, and grew from 16,000 in 1970 to 54,000 by the end of 1974. This is a membership growth from an average of 183 per affiliate in 1969 to 662 by the end of 1974.^{1/}

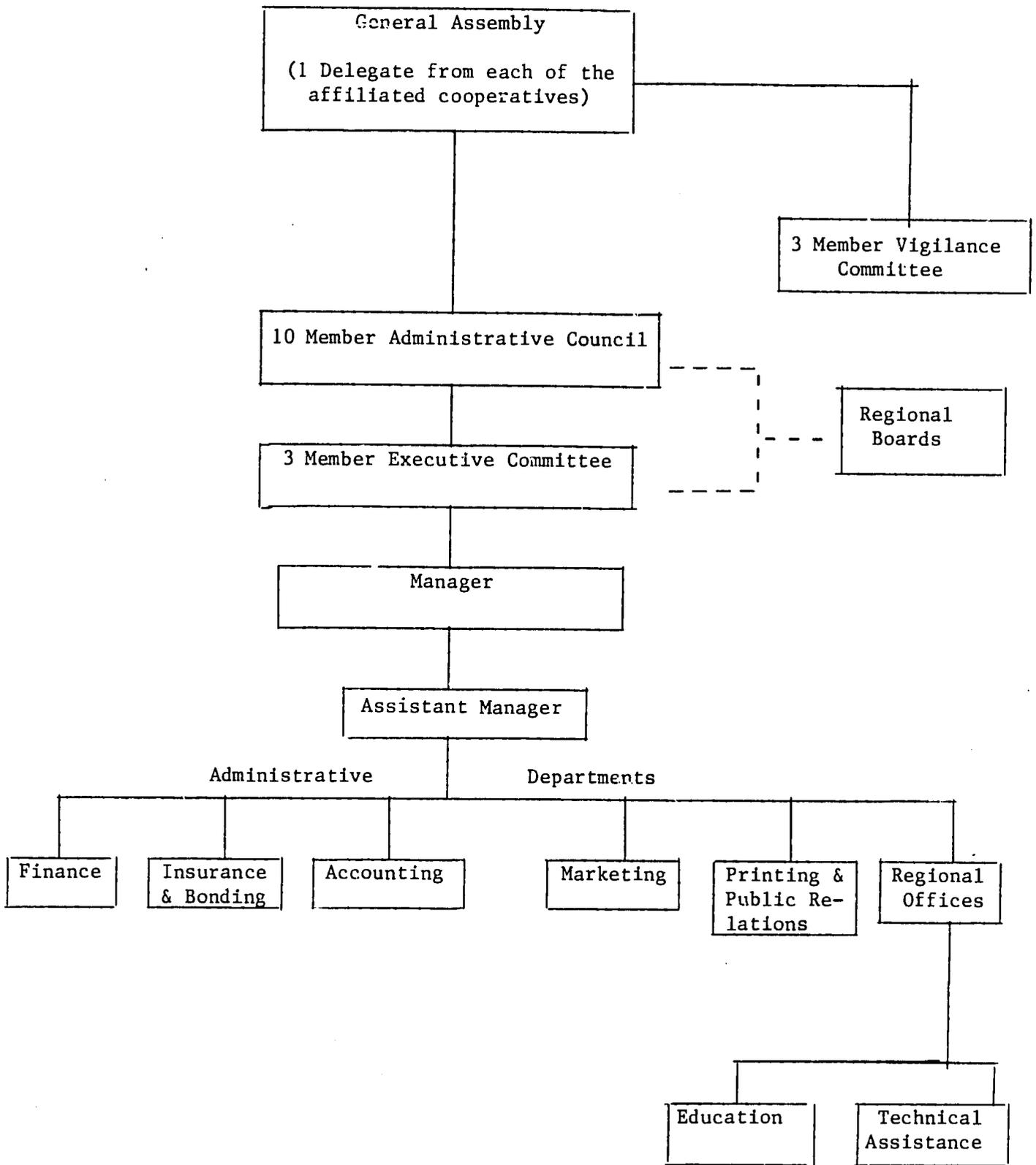
In terms of range of services, in 1969 FENACOAC had a loan portfolio of \$9,716, and provided limited extension services to members in recordkeeping, administrative procedures and cooperative education. Between 1970 and the end of 1974, FENACOAC initiated and developed active expanding programs in extension, education, credit, insurance and bonding, materials (publications) production, and agricultural input supply. It also has made enterprising efforts to market apples, garlic and handicraft items with mixed success.^{2/}

In 1972 FENACOAC began establishing regional offices to better serve its members. To now, it has regional offices and storage facilities in Huehuetenago, Quezaltenango and Solala. Six regional Juntas also have been formed, with each affiliated cooperative in the region represented. Each regional Junta meets once a month with FENACOAC's manager and at least one member of the administrative council in attendance. The regional Juntas have no direct administrative authority, but do serve an important communication and participation role.

Present organizational structure of FENACOAC is as shown on the next page.

1/ About 1970 CUNA and most Latin American credit unions began stressing development of larger units. Probably none has had more success than Guatemala in this policy.

2/ As this is written FENACOAC is negotiating a sale of garlic on the New York market at a very favorable price compared with local offers in Guatemala.



In 1975 Education was made a separate department and a new auditing department was created.

Presently, 62 of the 83 affiliates have full-time managers (all with same special training). By the end of 1975, 80 managers are expected to be full-time with special training. About 20-25 affiliated cooperatives are considered to be weak and of doubtful viability. The remainder are expected to grow and consolidate satisfactorily.

4. Services Provided

FENACOAC provides the following services:

(a) Credit

The federation makes loans to affiliated cooperatives for up to five times the net worth of the affiliate. It charges 8%, 9% and 10% interest depending on source of funds. The loans are made almost exclusively for sub-loans to members for productive purposes. Term of loans to affiliates usually is limited to 18 months.^{1/} In the future, if an extension is required, the federation expects to charge a 2% higher interest rate. An obligatory capitalization to the federation of 5% of the amount loaned to the affiliate is required, and the affiliate passes this charge on to the members receiving sub-loans, plus an additional 5% for its own capitalization.

Affiliates lend to their members at 1% per month for terms of 6, 10 and 12 months (occasionally for up to 18 months). Some affiliates require a guarantor; others do not, but require an unrecorded chattle mortgage on the crop being financed, or on some other property.

Affiliates lend from 2 to 5 times the amount of paid-in shares of the borrower (i.e., each coop sets its own limits, depending on its capital scarcity position). In some affiliates, credit is provided more liberally (in one case on the basis of the amount of land to be cultivated by the member).

All affiliated cooperatives are charged a quota for supporting federation activities, equal to 10% of their gross income. Half of this is the minimum provided by federation statutes, and the other half is an extraordinary quota approved by the general assembly until the federation's economic position becomes stronger.

^{1/} In some cases the federation has made medium-term loans to affiliates (3 to 5 years) for direct affiliate investment purposes. The amounts are small, being about \$100,000 in total at the end of 1974.

At the end of 1974, cooperatives had 98 loans outstanding with the federation for a total of \$1,599,196. At the same time, 24,440 members had loans outstanding with affiliates of \$3,647,000.

(b) Savings

Under the credit union system each member must make a small capital contribution upon joining. Thereafter he must make an additional contribution usually equal to 10% of the amount borrowed on each loan taken out.

This is a highly successful system of mobilizing rural savings so that over a period of time a considerable amount of the credit needed by small farmers can come from a capital source created by their own self-help.

It is noteworthy that as of December 31, 1974, the total amount of loans outstanding by FENACOAC cooperatives (\$3,647,000) was actually exceeded by the amount of members savings (\$3,848,000 -- \$3,440,501 in share capital and 408,000 in savings accounts).

Further FENACOAC and its affiliates have the capacity to attract additional savings (aportaciones and deposits) at an annual rate well in excess of \$1,000,000 at the present time, and the volume it can mobilize increases significantly each year with the growth both in membership and in volume of individual saving and borrowing.

Most savings are in the form of capital shares (aportaciones). A low rate of dividends is paid on them (the most common is 3% to 5%). A member may not make withdrawals until or unless he retires from the credit union. Finally, should he die as a member of an insured affiliate, his family is freed of obligation on loans, and receives a benefit above the amount of his aportaciones according to an age scale.

FENACOAC has also instituted a system of savings deposits on which interest is paid. Deposits are entirely voluntary and do not confer on the member any rights to obtain loans. As of December 31, 1974, deposits are relatively small (\$408,000, up from \$245,723 at end of 1973) but the service is new and the potential significant. 5% to 7% is paid on savings accounts

depending on length of deposits.

As a financier of both agricultural and other forms of credit, FENACOAC has some possibility to shift funds between agriculture and other activities (e.g., commerce and artesanía) according to seasonal demand. This is probably a modest advantage, but it does give FENACOAC somewhat greater flexibility in the employment of financial resources than is enjoyed by FECOAR.

(c) Insurance

FENACOAC offers a mutual protection service to its affiliates for loans and savings accounts. During 1974, 61 affiliates were subscribed to this service for a total amount of \$5,500,000. The debt of a member outstanding at time of death is cancelled and a benefit is paid to his heirs. In 1974 41 claims were paid for a total of Q10,262.

In addition, an asset loss insurance service was subscribed by 32 affiliates for assets valued at more than \$2,500,000. This insurance has a loss payment limit of \$15,000 per claim and a global ceiling of \$50,000.

(d) Administrative and Accounting Assistance

The federation operates a service of cooperative visits to affiliates to assist them in resolving administrative and bookkeeping problems. From 50 to 80 affiliates (75-100%) are visited each month by regional chiefs for up to three days each visit, the time spent depending on the degree to which the particular cooperative needs technical assistance.

The two regional offices^{1/} with permanent field installations are offering a central bookkeeping service to the affiliates who do not have a full-time manager (21 affiliates as of December 31, 1974). In this manner the person in charge at the affiliate need only remit the relevant receipts, bills, etc., to the regional office where the books are kept.

(e) Education Services

The federation offers short courses and other educational meetings for affiliate managers, directors, employees and members. These cover such subjects as accounting, administration, auto-motivation, management, credit

^{1/} A third is in process of organization.

procedures, etc. On the average, 10 or more courses, meetings and conferences are held by federation personnel each month. Monthly participation runs from 40 to 80 affiliates, and from 150 to 250 persons. Formally organized federation short courses totaled 91 in 1974, with 1,652 persons attending.

(f) Fertilizer Supply

A major undertaking by FENACOAC in recent years has been the supply of fertilizers to affiliates. The federation makes purchases prior to the beginning of the crop year in amounts based on estimated requirements by affiliates. The federation has central warehouse facilities in Guatemala City and regional warehouses in Solola, Huehuetenango and Quezaltenango, from where it makes distribution to affiliate's storage areas.

In 1973 the federation supplied 156,000 cwts. of fertilizer to its affiliates, while in 1974 the volume dropped to 38,000 cwts. due to scarcity and much higher prices. The federation expects to supply 170,000 cwts. in 1975.

Small amounts of other agricultural inputs such as insecticides and seeds also are supplied by some local cooperatives.

(g) Marketing Services

The federation has made some attempts to market garlic, apples and handicrafts for its affiliates but has had limited success. The management of the federation recognizes the need for this type of service to small farmers but has not yet been able to resolve the problems involved owing to lack of financial and human resources.

(h) Characteristics of Participants Utilizing Services

There is no statistical classification of the 54,109 members of cooperatives affiliated with FENACOAC as of January 1, 1975, according to occupation or otherwise. There are available, however, some statistics prepared by FENACOAC for COLAC as of January 1, 1974 (hereinafter called the "COLAC study") with respect to 39 rural cooperatives, including practically all of the more important of the rural affiliates. This showed the following classification for 32,750 members^{1/} out of FENACOAC's total of 42,449 as of that date:

^{1/} Some of the COLAC figures available to us are not correct totals of the detailed data or appear to have some omissions. In some cases we use revised totals, and we have refrained from using certain figures which are so obviously out of line as to be completely misleading.

<u>Occupation</u>	<u>Number</u>	<u>Percent</u>
Farmers	15,004	46
Artisans, small business and industry	4,601	14
Other activities	<u>13,146</u>	<u>40</u>
	32,751	100

Since most of the important cooperatives not included in the COLAC survey are urban, it is not likely that a complete survey would have produced a total of more than 18,500 farmers, or about 43% of membership. If we assume that from 50% - 60% of growth in 1974 was in farmer members, the result is an estimate of about 25,000 farmers as of January 1, 1975.

Our field observations, however, suggest to us that this proportion is too low. The reason for this is that a large number of persons with farming and other occupations (which is common in rural areas) were classified under other categories. There are large numbers of people engaged in both farming and handicrafts, as well as business and professional people, who do some farming.

Furthermore, our field survey of small farmers demonstrated that 86% of borrowing members of rural credit unions in the altiplano in 1974 were farmers. If this percentage were applied to all members of rural credit unions as of January 1, 1975, the total number of farmers in credit unions would be 35,000. To be thoroughly conservative we will accept 30,000 as a minimum figure.

We must further consider, however, that membership is not the same thing as active membership. There are many individuals who join and either never or rarely use either their privilege to borrow or other cooperative services. In this respect the COLAC report showed the following loans made in 1973 in the 39 cooperatives studied:

<u>Purpose of Loan</u>	<u>No. of Loans</u>	<u>Amount</u> (Quetzales)
Agriculture	6,557	836,825
Livestock (cattle, hogs, fowl, etc.)	618	114,819
Artesania (handicrafts)	244	36,522
Small industries or businesses	2,695	767,037
Transport vehicles	147	107,340
Housing	225	94,606
Other purposes	<u>5,569</u>	<u>784,945</u>
Totals	16,055	2,742,094

These figures suggest at first glance that not more than 7,275 farmers (agriculture plus livestock) could have received loans from the 39 cooperatives in 1973.^{1/} If we project this to the higher level of membership and operations of all 71 rural credit unions in 1974, the total would be about 10,000.

There are, however, various factors that suggest this figure is too high or too low.

1. From partial statistics and field observations, many of the large category of loans for "other purposes" are for (a) purchase of agricultural land and for (b) payment of debts, many of which are incurred in transaction relating to agricultural land, crops and animals.
2. Some transport vehicles are purchased primarily or partially for agricultural purposes.
3. It is never possible to know exactly how a borrower uses the marginal resources he receives by way of credit, particularly if he has multiple occupations.
4. The 39 cooperatives analyzed account for only about 75% of rural credit union membership.

After weighing these factors our best estimate is that the number of farmers who benefitted from loans in 1973 and 1974 was on the order of 14,000 and 17,500, respectively. Some additional farmers undoubtedly benefitted from ability to purchase fertilizer for cash and participate in other cooperative activities. Other farmers doubtless benefitted indirectly to some degree

^{1/} As some farmers receive more than one loan, the number of beneficiaries is always somewhat less than the number of loans.

from loans to small business and industry both because of the employment-generative effects of the loans and the fact that an indeterminate proportion were related to agricultural marketing and processing.

It also should be noted that most of the 7,000 or more new farmer members recruited by credit unions in 1974 were ineligible for loans at the beginning of the 1974 farming season. A large proportion of these will become active borrowers in 1975.

Thus, a reasonably satisfactory analysis of FENACOAC farmer members in 1974 would be as follows:

Active borrowing members	17,500
New potential borrowing members	5,000
Other members (active non-borrowers plus inactive)	<u>7,500</u>
	30,000

As to the geographic areas in which FENACOAC has an impact on farmers, we have already presented (Table FEN-2) an array of FENACOAC farmer members according to department. From this it will be noted that FENACOAC's rural impact is almost entirely in the altiplano departments (northern, western, and central highlands). Outside the highlands there is only one FENACOAC affiliate (in Zacapa) covered in the COLAC survey, of which a majority of members were farmers.

The Small Farmer Survey (Volume III) revealed that 46.1% of FENACOAC farmer members in the altiplano departments surveyed had two manzanas of land or less and 75.4% had 5 manzanas and less. On the average FENACOAC members are somewhat smaller landholders than members of agriculture cooperatives, but their average farm and other incomes are higher.

The average size of loan in 1974 was about \$150 per member borrowing, for all purposes, including agricultural inputs, land purchase, commerce, consumption, etc. For farmers in the altiplano the average was \$224, according to our farmer survey.

B. PROJECT ACHIEVEMENTS

1. Achievements in Benefits to Credit Union Members

In terms of the objectively identifiable indicators specified in the 1971 PROP, FENACOAC has performed well when measured against the projections made at that time. Table FEN-3 (page 19) shows that FENACOAC has surpassed PROP goals by wide margins for most indicators. An exception is in numbers of affiliated cooperatives. Given the rapid growth of membership in existing affiliates, the slower rate of growth in numbers of affiliates is very healthy from a development point of view.

Total loans outstanding fall short of PROP goals for 1974, as well. However, this is due primarily to delays in implementation of AID loans and in scarcity of fertilizer for sale in 1974. FENACOAC's 1975 budget projections show that they expect to "catch up" and surpass 1975 PROP goals (see Table FEN-3).

Although PROP indicators have been surpassed, there are shortcomings observed in terms of small farmer development needs. First of all, only short-term loans are granted (6 months to 18 months). This policy has been adopted primarily because of a limited capitalization level and consequent shortages of lendable funds to satisfy member demands. Short-term lending permits rapid roll-over and wider servicing of demand.

There is a high incidence of use of fertilizer among members, but the appropriateness of that use often is doubtful. FENACOAC does not have staff trained to provide reliable recommendations in this respect. Neither can affiliates depend on assistance from Ministry of Agriculture sources except on an ad hoc basis. One affiliate has made some progress in resolving the problem by training a member in each municipality served, and hiring him to visit all communities every other month. The problem remains, however, that in most cases, reliable technical information does not exist from government or other sources, for making specific fertilizer use recommendations, recommendations related to improved seeds, and especially related to crops other than traditional corn, wheat and beans.

Soil sampling is but rarely used (or even encouraged) by FENOCOAC or affiliated coop personnel,^{1/} nor is much effort made to promote other improved

^{1/} There is a general feeling in the field that the Central Soils Laboratory analyses and recommendations are unreliable, that long delays are involved in getting results, that they mix up samples, etc.

farming methods, such as contours, terraces, cover and green manure crops, etc.

Some affiliates provide a wheat threshing and marketing service, and FENACOAC has made sporadic attempts to assist in marketing apples, garlic and handicrafts. No sustained program in these latter marketing areas has been launched. Present capital (human and financial) limitations do not permit more sustained marketing services. The wheat marketing activities of affiliates assure honest weight, and, in some cases, slight savings on transport costs, but since wheat prices are standardized at the mill by the GOG, little additional price advantage is achieved through cooperative marketing. Further, no price advantage exists for storage operations.

Some price benefit has been achieved in the past from federation purchasing of fertilizer, but at other times it has been more expensive than alternative sources.

The main advantage to members from federation fertilizer purchasing is availability of product, and availability of credit with which to purchase it.

Federation assistance to small farmers through the provision of credit and fertilizer can be expected to have a positive impact on production and incomes in some cases. Past surveys and studies have shown that under certain favorable climatic conditions, the addition of fertilizer to the Guatemalan small farmer traditional production package can be expected to provide returns two to three times above the added input costs, other things being equal. However, both the small farm survey conducted as a part of this evaluation and the survey conducted of BANDESA clients in the altiplano a year earlier by AID raise serious doubts as to whether credit for fertilizer has, on the average, any affirmative effect on income whatever. It is abundantly clear that the use of fertilizer for the traditional crops of wheat, maize and beans is risky for the small farmer. Much more needs to be done to develop a more sophisticated approach in the selection and application of fertilizer under varied climatic and soil conditions and to the association with fertilizer use of improved farm management and technology.

Another, perhaps more important, factor which became apparent in the field reconnaissance trips, is to what extent one can expect credit and

fertilizer (and even achieving use of other improved practices) to resolve the basic submarginal production and income conditions of the small Indian farmer so long as he continues to produce primarily his traditional crops. With such small cultivated plots as he has, it is doubtful that, under Highland conditions, even with a high level of production input and cultivation practices technology, the sub-marginal land unit producing traditional crops can return enough to significantly affect the farmer's standard of living.

If such is the case, and the size of the land unit is basically fixed, the only alternative to significantly affect value product and income growth is to shift at least a part of their land into more labor and production intensive crops such as fruits, vegetables, potatoes, garlic, lentils, etc. Once such production alternatives are postulated, the critical factors immediately become those of known reliable technology applicable to the microclimates of the Highlands, a system of transfer of that knowledge to the traditional farmer, and a stable market for the resulting production. These are factors not yet being addressed in any meaningful fashion by the present activities of FENACOAC (or by any other private or government efforts).

Even though the needs referred to above are problems for which solutions are to be found in appropriate agricultural research which is primarily the responsibility of government, the federations also should occupy themselves with finding solutions.

While the impact of FENACOAC on small farmers is of the greatest interest to AID and has been the particular focus of this study, it is also important to point out the significant contributions that FENACOAC is making to other areas of rural life and, on a lesser scale, to sectors of urban society. A large part of its impact needs to be judged in terms of contributions such as the following:

- a. Financing of small business, industry and handicraft (much of which generates additional part-time employment for small farmers, and part of which contributes to agricultural marketing and processing) at an annual rate now exceeding \$1,000,000.
- b. Insurance payments to families of deceased which in 1974 totalled \$10,262.00.

- c. Provision of savings opportunities of \$3,440,501 (capital shares) and \$408,000 in voluntary deposits at end of 1974.
- d. Loans to members to educate their children; meet emergency medical and other needs; pay off or consolidate old debts (thus also freeing capital which is to a significant extent used productively by former creditors, in agricultural or other pursuits).

Neither time nor availability of data permit tracing and quantifying all these benefits. However, part of the development process is to bring small producers into the money economy and to facilitate transactions of development value that are hard to accomplish without money and credit. Credit unions are fulfilling this role in significant and varied ways.

2. Achievements in Institutional Development

As indicated in Tables FEN-2 and FEN-3, the federation has exhibited a high rate of growth, especially in the past three years, in both economic terms and in terms of numbers of farmers being assisted. If relative conditions remain stable, the federation can be expected to continue to gain economic strength and expanded coverage, becoming self-sustaining by 1976.

Further, affiliated cooperatives have, on the average, shown a commendable growth trajectory in terms of membership, capitalization and credit availability.

However, it appears that this growth phenomena has relied on an unduly narrow economic base; namely, interest margins on funds for lending received on highly concessional terms, and fertilizer sales during a period of scarcity and elevated prices that permit relatively wide sales margins. As concessional funds become committed and fertilizer availability and prices normalize and become more competitive, these margins will shrink, and federation income will be sharply reduced. Further, a bad crop year will undoubtedly cause a sharp rise in uncollectable loans, which the federation and its affiliates do not have the financial strength to absorb. A diversification of the productive service base for FENACOAC and its affiliates is a fundamental necessity, if the federation is to be able to continue to attract rank and file support, and absorb temporary setbacks in the economic results of any one activity.

TABLE FEN - 2 Key Development Factors - FENACOAC, End of Years 1969-1974

F A C T O R	1969	1970	1971	1972	1973	1974
Annual Operating Income*	2,500	3,500	16,000	75,000	143,000	157,000
Net Worth*	12,000	63,000	124,000	204,000	378,000	N/A
Own Investment capital available*					291,000	463,000
Member Savings (deposits and Shares)*	358,000	534,000	924,000	1,520,000	2,652,000	3,849,000
Members	13,000	16,000	23,000	32,000	42,000	54,000
Member loans outstanding*	478,000	503,000	1,234,000	1,723,000	2,814,000	3,647,000
FENACOAC Loans to coops.*	10,000	26,000	144,000	485,000	961,000	1,615,000
Number of affiliated Coops.	71	75	75	79	80	83
Average members per Coop.	183	213	306	405	525	650

*In dollars

2/14/75

TABLE FPN-3 FENACOAC - Objectively Identifiable Indicators (PROP projections & Actual)

(PROP Data from 1971 PROP)

P R O P Indicators	1973		1974		1975	
	PROP	Actual	PROP	Actual	PROP	Projected
1. Amount of AID Subsidy (\$)		107,000		64,000		27,000
2. Self-Sufficiency						
a. Income (\$)	55,210	143,000	88,061	157,000	127,021	400,000
b. Expenses (\$)	143,091	240,000	150,178	223,000	154,269	407,000
c. % of self sufficiency	39%	60%	59%	70%	82%	98%
d. Net Income (\$)	-	10,000	-	(-2,000)	-	20,000
3. FENACOAC Investment Capital available (\$)	1,181,000	1,291,000	1,837,000	1,763,000	2,577,000	3,872,000
a. Own (Shares, Reserves & donations to capital (\$)	181,000	291,000	237,000	463,000	323,000	572,000
b. External (\$)	1,000,000	(800,000*) (200,000**)	1,600,000	(800,000*) (500,000**)	2,254,000	(2,800,000*) (500,000**)
4. Total member savings (at local cooperative level) - (\$)	2,000,000	2,652,000	3,000,000	3,848,000	4,000,000	5,000,000
5. Affiliated members	31,000	42,449	38,000	54,109	45,000	62,000
6. Total Loans Outstanding No. (\$)	2,980,000	2,814,000	4,587,000	3,647,000	5,923,000	6,500,000
7. % of loans granted in rural areas 1/	80%	85%	80%	90%	80%	90%
8. % of value of loans for productive purposes	65%	80-85%	65%	80-85%	65%	80-85%
9. Cumulative No. of affil. Coops.	85	80	90	83	95	85
10. No. of full-time managers	80	49	87	62	95	80
11. No. of Federation support staff	15	20	15	21	15	25
12. No. of Edu. courses/year	125	23(95 days; 905 per.	75	91(83 days; 1652 per.	35	N/A
13. Amounts of FENACOAC loans outstanding (\$)	1,181,000	961,000	1,887,000	1,615,000	2,323,000	3,341,000
14. Delinquency rate (PROP says bad debt rate)	0.5%	3.0%	0.5%	8.0%	0.5%	under 10.0%
15. No. of FENACOAC Loans		52		83		N/A

*AID 1/ Including Ambitlán in the Guatemala City area, which is FENACOAC's largest

**COUAC affiliate (20% of 4000 members are farmers)

It can be expected that once fertilizer availability becomes normal, and if a greatly expanded and more accessible BANDESA small farmer lending program (at subsidized interest rates) continues, FENACOAC will find it more and more difficult to attract membership unless some further needed services are provided.

If the federation and its affiliates can continue on a membership and capitalization trajectory similar to that of the past three years, and as the organization consolidates and stabilizes its accounting, administrative and managerial levels for present activities, lending volume should be able to decrease in costs per loan made (and per \$ loaned), both at the federation level and at the affiliate's level. That is to say, as loan volume increases, it can be expected that affiliates and the federation could carry out profitable lending activities on somewhat lesser costs than at present.

Much of the ability of FENACOAC (and the cooperative movement in general) to continue growing in the agricultural credit field depends, as discussed in Volume I, Section II, pages 76-78, on government interest rate and collection policies, especially with regard to BANDESA lending.

3. Achievements Relative to Cost

To provide some meaningful relationships of costs to benefits received, costs have been compared on the basis of each dollar loaned and on the basis of each member provided with credit and fertilizer since these are the two most important services presently being provided by the federation and its affiliates.

Four methods have been used to determine costs:^{1/}

- a. Cumulative grant funds utilized for subsidizing directly or indirectly FENACOAC operating costs, plus value of commodities acquired from grant funds - \$713,325.
- b. Cumulative grant funds utilized for all purposes, including the provision of technical assistance - \$1,004,700.
- c. Cumulative grant and loan funds contributed to the project from all sources - \$2,304,760.

^{1/} Figures derived from data in Table FEN-1.

- d. Cumulative grant and loan funds and all member savings contributed to the movement - \$6,483,760.

The combination of benefit/cost results are shown in Table FEN-4.

The first cost factor applied in Table FEN-4 is probably the most representative of actual subsidy input, i.e., the transfer of resources permanently from the American taxpayer to the project. On this basis, if the cumulative subsidy to 12/31/74 is applied to the number of members benefitted with loans outstanding in 1974, the subsidy per loan is \$29. Of course, as new loans are made each year, members' benefit is repeated. With each year of new lending, the subsidy per loan goes down. For example, if this subsidy is applied to loans in 1973 and 1974 (23,463 and 24,440 = 47,903), the subsidy per loan drops to about \$15.

If we apply the cumulative subsidy cost to the estimated total number of loans made for the life of the project to date (95,000), we find that the subsidy per loan drops to about \$7.50.

By the same token, the subsidy cost per dollar loaned each year for the life of the project to date is reduced to six (6) cents per \$ loaned.

Another way of looking at subsidy is in terms of savings generated. Member savings at the end of 1974 amounted to \$3,849,000. Based on the cumulative direct subsidy of \$713,325, for each \$1.00 saved during the period, the subsidy cost was about \$0.19. By the end of 1975, with projected savings at \$5,000,000, subsidy cost per dollar saved will be about \$0.15.^{1/}

C. PROJECT STRENGTH AND WEAKNESSES

1. Organization and Management

The project has demonstrated that Small Highland Indian farmers can be encouraged to save. It has demonstrated that they appreciate the value of fertilizer and that they are willing to contract credit to get it. Present FENACOAC management has demonstrated that it can cope with the administrative and managerial complexities involved in sustaining and expanding credit and fertilizer supply activities.

^{1/} Based on \$713,325 cumulative subsidy to 12/31/74, and a final grant subsidy of \$27,000 programmed for 1975.

TABLE FEN-4 BENEFIT/COST ESTIMATES FOR FENACOAC PROJECT, December 31, 1974

Description	Amount	C O S T F A C T O R A P P L I E D							
		1		2		3		4	
		Description	Amount	Description	Amount	Description	Amount	Description	Amount
1. Per member benefited with a loan and/or fertilizer (outstanding on 12/31/74)	24,400 Members	Cumulative Grants to Operating Costs and Commodities	\$713,325	Cumulative Grants for all Purposes including Advisors Services	\$1,004,760	Cumulative Grant and Loan Funds from all Sources	\$2,304,760	Cumulative Grant Loan Funds Plus Member Savings	\$6,483,760
---B/C ratio			1:29		1:41		1:94		1:265
2. Per \$ of loans outstanding on 12/31/74	\$3,647,000								
---B/C ratio			1:0.20		1:0.28		1:063		1:1.78

FENACOAC is not a traditional credit union federation. It aims to be a multi-services cooperative federation built around the cooperative savings principles of the credit union system. The similarity stops there.^{1/}

The federation has shown an awareness of the need of economies of scale in its activities, at the federation level as well as at the affiliate level. Thus, it has concentrated organization expansion efforts on membership growth in existing affiliates, and improved services to members.

At the same time, the federation has recognized the need to decentralize its own operations if it is to be responsive to member needs. This is combined with what appears to be an acute awareness of the need for local participation in a systematic way, from the community level to municipality, region and nation. Witness the creation of three permanently staffed regional offices and warehouse facilities, and the regionalization into six (the three permanent and three more TDY) regional chiefs responsible for education, technical assistance and marketing. Further, each region has a consultative council, with representation from all affiliates in the region.

Additionally, the larger affiliates are encouraged to relate their branch offices to community level leadership participation, through credit committees that make credit determinations for their communities. With regard to internal accounting and recordkeeping, a recent external audit of FENACOAC^{2/} found the accounts and records to be in apparent good order, except for a series of systems deficiencies in daily handling of funds, and internal control procedures. It would appear that these systems deficiencies could be corrected with the addition of an Internal Auditor service, perhaps part-time.

The most serious weakness of the early stages of the federation (1965-1969) appear to have been overcome. The early tendency of creating more and more extremely small and inherently non-viable local credit unions began to be reversed by federation management in 1970, and has continued since then. Although some 20-25 present affiliates still are of doubtful viability, the

1/ Several important urban credit unions are not affiliated with FENACOAC in part because they consider it deficient in services to urban credit unions.

2/ See Audit Report by Arevalo Perez and Asociados dated May 31, 1974.

federation is aware of the problem, and should be in a position to effect mergers or other organizational adjustments.

It should be kept in mind that since mid-1972 the federation has been managed exclusively by Guatemalans^{1/} with no external technical assistance. Guatemalan management has demonstrated an ability to cope with organizational, administrative and cooperative aspects of the project while it was on an expansion trajectory.

FENACOAC management feels less secure in dealing with a broader scope of services related to other economic activities for which the members indicate a need. This deals with agricultural technical advice and demonstration, and with marketing of diversified production.

As mentioned earlier, FENACOAC has made some attempts at marketing some diversified products, including garlic, apples and artisanry products. The problems involved in these efforts are complex, and FENACOAC recognizes the need for specialized expertise and large volume operations in order to be successful.

2. Definition of Role

One of the difficulties for FENACOAC management is to define the FENACOAC role within the overall cooperative movement. The issue is whether or not FENACOAC should consider itself to be permanently in the agricultural multiple services business, or whether it generates its savings and credit demand by fomenting such services where needed, but generally expecting agricultural cooperatives to carry out the agri-services role. There is no clear answer to this in the present Guatemalan context, but it is an answer which should be sought, not only by FENACOAC but by the movement in general. Perhaps if FENACOAC (and the movement) could conceive of the FENACOAC role primarily as the financier of a wide range of agricultural production and marketing activities, and other organizations as the providers of these services, a viable partnership could be forged.^{2/}

1/ From 8/1/72 to 12/31/73, a Guatemalan cooperative's "advisor" was paid for by AID.

2/ See Volume I, Section II, pp 67-73.

3. Financial Problems

Loan collection is a continuing problem of FENACOAC and its affiliates. 7.6% of loans outstanding to affiliates from FENACOAC on 12/31/74 were overdue. However, only 3% were overdue by more than 6 months. This is an increase over previous years attributed to the dry weather in the altiplano. FENACOAC has a reserve fund for uncollectibles of only Q15,915 (as of 12/31/74), but expect to increase to Q33,000 by the end of 1975, and by 0.5% of the outstanding loan balance each year thereafter.

In the case of FENACOAC affiliates, the problem of loan collection is varied. While some affiliates visited indicated that collection was no problem, many indicated it to be their most serious problem. In the aggregate, the delinquency rate was 8.0% as of 12/31/74.^{1/} Reserves for bad debt in affiliates totalled only Q17,000 at the end of 1974. FENACOAC now is requiring all affiliates to allocate 0.5% of the outstanding loan balance each year to a reserve for bad debt.

FENACOAC estimates as uncollectible the following:

2-6 months overdue - 10% uncollectible
7-12 months overdue - 25% uncollectible
13-18 months overdue - 80% uncollectible
18 and over overdue - 100% uncollectible

We have studied FENACOAC's application of January 10, 1975, to BANDESA for Q2,000,000 under the AID 024 loan.^{2/} This is a document which sets forth in detail FENACOAC's credit needs in the years 1975-1979. The application indicates that by the end of 1979 FENACOAC would need additional loans of Q5,624,000 (Q5,121,000 after repayment of Q501,000 to COLAC).

The application gives the following figures as actual distribution of credit in 1974 and projected for 1979:

^{1/} Over 60 days past due.

^{2/} Loan request presented by FENACOAC to BANDESA, to utilize trust funds from 520-L-024 Loan, Guatemala, January 1975.

	<u>1974</u>	<u>Projected 1979</u>
Producción Agropecuaria	Q3,075,000	Q11,126,000
Artesanía y pequeña industria	589,000	1,989,000
Comercio rural	<u>1,130,000</u>	<u>3,707,000</u>
	Q4,794,000	Q16,822,000

According to FENACOAC these data are based in part on the COLAC study of rural credit unions referred to above. It will be noted, however, that the figures in the loan application omit some of the categories of loans set forth in the COLAC study -- most notably the "non-productive" loans, and loans for housing. (See p. 12 above of this section.) They also imply that no loans are made in urban areas except perhaps for artesania and small industry although FENACOAC has 13 urban affiliates engaged in much consumer lending.

4. Statistical Data on Loans

FENACOAC has not succeeded in collecting adequate and comprehensive annual information on the volume of lending by its affiliates, on the purposes for which loans are made, or as to the proportion of the total membership or borrowing membership which are farmers. The lack of such information has been noted by AID on various occasions.

Both FENACOAC and USAID, as well as BANDESA, have an obligation to assure that loan funds are used for the purposes stated in the respective loan agreements. This can be difficult to achieve without good statistical data to show both the purposes for which it is planned to use the money and later how it has been used. The fact that AID loan funds become intermingled with other credit union funds in an accounting sense (i.e., individual loans to credit union members are not identified as to source of funds between AID and other sources), it is particularly necessary to rely upon good statistics in order to know what is happening. If, as is suggested in this study, AID should make some further loans for some reasonably narrow specific purposes such as medium-term credit for land development and planting of permanent crops, the statistical need will become even more evident.

In consequence of the lack of more detailed statistical data, FENACOAC at times over estimates the rural and productive sides of its lending

activities. Such over-estimating can be counterproductive because it leads to a lack of clarity as to the thrust of the FENACOAC program and a questioning of the reliability of data provided. In many countries, as in Guatemala, credit union movements are lending with non-AID funds for a variety of purposes for which the use of AID loan funds is not permitted. There is nothing wrong with this, and, indeed, we believe the overall mix of credit union loans in Guatemala is excellent in terms of institutional viability and economic and social development. However, problems can arise when statistics are inadequate to demonstrate clearly what the AID funds, provided for more specific purposes, are being used for.

In this connection we believe that to avoid possible future complications, it would be useful for FENACOAC and USAID/G to give further consideration to the following statement in the AID Audit of June 1973:

"Identification and control of loan funds utilized at the savings and credit cooperative level needs improvement. Six of seven credit cooperatives visited had no formal supervision or monitoring of loan utilization, and only one of seven had identified those loans utilizing AID funding. It seems that FENACOAC has not adequately advised its member affiliates of identification requirements, procedures and prohibitions on the use of loan funds. These controls are necessary to assure that funds are not diverted to unsanctioned purposes, for example, production credit for prohibited crops (coffee, sugar, cotton). In addition, identification is necessary to assure that rollover funds continue to be used for the purposes established by the loan."

D. PROJECT POTENTIAL

Assuming reasonable resolution of some of the issues described above (e.g., government interest rate policy and diversification of credit union lending activities), FENACOAC has a very substantial potential for further growth.

The COLAC study of 39 major rural credit unions presents the following projections to December 31, 1977:

END OF YEAR

	1973 (Actual)	1974 (Projected)	1977 (Projected)
No. members	31,481	40,762	78,570
No. farmer members	14,019	18,841	37,481
Total "aportaciones"	Q1,766,713	Q2,233,829	Q5,157,850
Agricultural and Livestock loans:			
Number	7,175	12,918	24,109
Amount	Q 951,644	Q2,146,168	Q5,087,832
Other loans:			
Number	9,528	<u>1/</u>	25,664
Amount	Q1,903,270	Q2,180,049	Q6,023,362

It should be noted that these figures are based only upon internal expansion of the thirty-nine surveyed cooperatives and do not include growth by creation of new cooperatives. 2/

We can test whether the COLAC study projects a reasonable trajectory of FENACOAC's future progress by comparison of the study projection for 1974 with actual 1974 results as given in Table FEN-3. This shows the following on items that can be compared:

	Increase 1974 over 1973	
	<u>No. members</u>	<u>Amount aportaciones</u>
COLAC Projection	29%	26%
Actual per Table FEN-3	27%	45%

1/ Available figure is erroneously calculated and misleading.

2/ Also they are subject to our earlier comment that the proportion of agricultural loans is substantially understated since "other loans" includes a sizeable agricultural component.

Thus far it appears the COLAC survey is a reasonably good indicator of membership growth but far underestimates the capability of FENACOAC to mobilize capital.

Over and above its capacity for internal growth, FENACOAC has the capability to develop a significant number of new cooperatives in areas in which it is not now operating. Further, some of its smaller and weaker cooperatives could be consolidated and developed into zonal or regional cooperatives of scope and strength.

If FENACOAC's potential is viewed in terms not of simple growth but of the quality and range of services that it offers to farmers, it is important to bring to farmer members the range of services over and above credit that they need to improve their farming - technical assistance, agricultural diversification, a range of inputs, marketing services, etc. These also are urgent needs in the other three projects described below. The question is whether the various parts of the cooperative movement will find new means of working together in filling these needs more adequately or whether each will continue its generally solitary course.

SECTION IV

FECOAR: REGIONAL AGRICULTURAL COOPERATIVES

A. DESCRIPTION OF PROJECT

1. Rationale of Project: Goals and Purposes

The project was initiated late in 1970 "to assist the existing agricultural cooperatives to organize a national federation and regional cooperatives ... to: ..."

- a) Serve as a channel for technical information
- b) Provide production credit
- c) Provide necessary inputs
- d) Organize marketing
- e) Provide an "institutional structure through which all of the above functions can be carried out without prejudice to popular participation in the decision-making process and the social values of cooperation." 1/

The USAID input initially was provided through a contract with Agricultural Cooperatives Development International (ACDI) for two agricultural cooperative technicians and for related support and operating expenses. 2/

A second project agreement (71-12) was signed on December 30, 1970, and stated the objectives as follows: "To create and strengthen the agricultural cooperatives, particularly in the Highlands so as to increase production, improve living standards and make possible greater participation of the campesino in national development." 3/ The agreement further stated that it was entered into "in order to provide further assistance to the development of agricultural cooperatives, their future federation, and the training school for Agricultural Cooperatives (EACA)." 4/

1/ Project Agreement No. 70-19, dated 6/26/70, pp. 2-3, II, A, B, C, D, E.

2/ Ibid., P-3, III.

3/ Project Agreement 71-12, signed December 20, 1970, P-2, II.

4/ Ibid, P-2, I.

Agricultural Cooperatives Development International (ACDI) was to seek to establish a third regional agricultural cooperative before 3/31/72, and to organize and strengthen an agricultural cooperatives federation. Other functions were specified to be "to assist the agricultural cooperatives of the Highlands in organizing regional cooperatives which "would carry out objectives similar to those stated in the first pro-ag" (quoted above). ^{1/}

The first PROP for the project was submitted in 1971. ^{2/} The project objective was "to form out of the experience of small cooperatives, six regional cooperatives tied together in a national federation... It is planned that both the services and structure of each regional will be designed to respond to the desires of the people and the particular characteristics of the area... Democratic representation will be preserved through a system of village member committees or local Savings and Credit or Consumer Cooperatives, whose elected representatives will participate in the policy and control decisions of the Cooperative." ^{3/}

The project goal was to "increase rural incomes" and the project purpose to "develop a viable, effective, and farmer-owned Guatemalan Agricultural Cooperative System built around a minimum of six regional cooperatives integrated into a federation in the Highland areas ... insuring ownership and control by the farmers of the institutions providing these services." ^{4/}

The PROP's restatement of project design was confirmed in the next project agreement, as follows: "The objective ... is to contribute to the development of a viable, effective, and farmer-owned Guatemalan Agricultural Cooperative System, and thereby contribute to increased rural income ... while insuring ownership and control by the farmer..." ^{5/}

^{1/} Ibid, P-4, III. B.

^{2/} Non-capital project paper (PROP); submission date: September 10, 1971.

^{3/} Ibid, pp. 1-2

^{4/} Ibid, pp. 4-6

^{5/} Project Agreement 72-11, signed December 28, 1971, pp. 2-3, II and III, B.

The reference in the PROP language to the Savings and Credit Cooperatives was clarified somewhat as follows: "... the federation and ACDI ... will cooperate with the USAID Mission in the coordination of activities of the Savings and Credit and Agricultural Cooperative movements in Guatemala. 1/

Subsequent project agreements maintained the same project objective. 2/

In 1973, a revised PROP 3/ left unchanged the project nature, goal and purpose except that the geographic target area was expanded beyond the highlands to include the "Oriente" (Jutiapa), "and possibly other areas." 4/

This ROP revision is noteworthy for other reasons. It provides the first formal documentation of conflicts existing between the USAID sponsored FECOAR federation/regional cooperatives undertaking, and Guatemalan leadership in other cooperative movements in the country. According to this revised PROP, USAID and ACDI attempted to convince the Credit Union Federation (FENACOAC) to merge their activities with those of the planned FECOAR and four active regional cooperatives created as of the revised PROP date. They were unsuccessful after nearly one year of negotiations. 5/

The PROP includes a detailed account of how USAID and the Contractor tried to convince FENACOAC to accept some type of merger, which FENACOAC refused to accept, and then reaches the following conclusion:

"The failure to achieve serious participation by FENACOAC in analyzing possible economies of scale in the proposed merger finally forced USAID/G to allow the contract technicians to proceed with the formation of FECOAR. Since then it has become apparent that the agricultural based membership claimed by FENACOAC may not be as large as reputed, and that a combined Federation might have encountered serious operating difficulties." 6/

1/ Ibid, p-4, IV. C.

2/ Project Agreement No. 73-4, 10/5/72

" " No. 74-9, 1/7/74

" " No. 75-4, 10/29/74

3/ Revised PROP, dated 10/31/73 and signed 11/2/73

4/ Ibid, p-6, II, C

5/ Id. pp-24, II

6/ Id., p-4, II, A, 1, b. (Note also Vol III of the present report, which fully substantiates FENACOAC's claim to be predominantly serving small farms.)

The PROP also mentions the delay in chartering FECOAR, indicating that "It was anticipated when this project began that due to the fact that the regional cooperatives were being promoted with GOG support, this process would not be cumbersome. This, however, has not been the case." ^{1/}

In point of fact, the participation of the GOG in the project has not been extensive. One thing was asked of the GOG by the PROP: "to give publicity to this cooperative project through press, radio, television and other sources deemed appropriate." ^{2/}

There appears to have been some recognition by USAID of the limited participation of the GOG in the project, through the inclusion in the second pro-ag of the following clause: "The Government of Guatemala concurs in the program to be carried out as set forth herein." ^{3/}

By the fifth pro-ag, the reference to giving publicity as a GOG responsibility had been eliminated as well. ^{4/}

2. Project Inputs

Table FEC-1 shows total AID grant and loan funds provided to the project through January 17, 1975 as well as members' share capital in FECOAR and the regionals, and amounts borrowed from other sources by FECOAR. In addition, one regional has an outstanding loan with BANDESA for \$359,000, with interest at 5% repayable in March 1976.

3. Institutional Development

The project was initiated through a contract with Agricultural Cooperatives Development International (ACDI) in mid-1970. The plan initially was to choose regions of the highlands for creating regional cooperatives which would have as members various existing organized small cooperatives, as well as other informal groups to be organized.

^{1/} Ibid, p-3, II, A, 1, a., 1st para.

^{2/} See e.g., pro-ag 72-11, 12/28/71, p-5, VII, B.

^{3/} Pro-ag 71-12, 12/30/70, VI, p.9, VI, C.

^{4/} See pro-ag 74-9, 1/7/74, VI pp. 4-8, section entitled "Responsibilities of the Parties" and following.

Coupled to this type of organization, an agricultural cooperatives federation would be created that would have the regional cooperatives as members.

The first cooperative with which ACDI began to work was "San Andrés Semetabaj" in the Department of Sololá. This cooperative, in spite of serious financial and operational problems, had a network of services established in regional form and was attending 800 farmers, principally wheat growers. At this time San Andrés Semetabaj represented a positive example of the potential scope of cooperative activity in the western altiplano of the country; as well as of harmonic relationships between persons of indigenous and ladino tradition. By means of an agreement reached early in 1971, ACDI assumed the task of providing aid and financial aid directed principally to the internal restructuring of the cooperative and improvement of the technical assistance and services offered to its members. During the process of analysis there were discovered various accounts receivable from members of doubtful recuperability. An audit conducted jointly between the cooperative and the Department of Agricultural Cooperatives of the Ministry of Agriculture detected serious anomalies in the management of money. In order for the cooperative to continue its program of services, there was secured from SCICAS (one of the institutions which was absorbed in the formation of BANDESA) the concession of a loan of Q359,000, for five years at 5% interest to permit the Cooperative to attend to the farmers in their immediate financial needs, recuperate the losses suffered in previous years, and meet its obligations.

Through 1971, all AID grant assistance (as shown in Table FEC-1) was channeled through the ACDI contract. At the end of 1971, operating fund support was channeled directly to regional cooperatives until 1973, when the federation (FECOAR) became chartered. From that time, all such support has gone directly to FECOAR, which in turn has passed along a certain part of the subsidies to regional cooperatives.

ACDI organized and obtained charters for two more regional cooperatives in 1972: "Flor Chimalteca" in Chimaltenango, and "Justo Rufino Barrios" in San Marcos. In 1973, the "Rey Quiché" regional was chartered in Quiché

and, in 1974, a fifth regional "Cuna del Sol" in Jutiapá. A sixth regional (12 de Octubre in Quetzaltenango) has just been chartered.

As the number of regionals organized increased, so too did membership, from a December 31, 1971 level of about 1,100 members to a December 31, 1974 membership of 7,006 ^{1/} distributed as follows:

1. San Andrés	1,416
2. Flor Chimalteca	2,310
3. San Marcos	1,786
4. Quiché	1,152
5. Jutiapá	342

As indicated earlier, member share capital in FECOAR grew from \$55,986 at the end of the first fiscal year of operation as a legal entity (1973) to \$102,662 at the end of 1974. Member share capital in the regionals was \$2,234 in 1971 and reached \$144,616 by the end of 1974.

Beginning in 1973, a uniform capitalization program was instituted as follows:

1. For FECOAR
 - a. Each affiliate must pay in a minimum of \$200 (2 shares of \$100 each) each year.
 - b. 5% obligatory share capital purchase required for all loans from FECOAR to affiliates.
 - c. Obligatory capitalization of all AID donations of equipment and construction.
 - d. Obligatory capitalization of all net income (except for statutory allocations) until an amount equal to total AID grant subsidy has been capitalized from net income. Statutory allocations are 20% to undistributable reserves, and 5% to an education and social fund.
2. For Affiliated Regionals
 - a. Each member must buy a \$10 initial membership share.
 - b. 5% to 10% obligatory share capital purchase required on all loans to members. (rate established by each regional's board of directors).
 - c. Obligatory capitalization of all AID operating budget grants.

^{1/} Plus about another 500 if the Quezaltenanago charter membership were added.

TABLE FEC-1. INPUTS TO FECOAR and REGIONAL COOPERATIVE AFFILIATES (All Sources) 1970-1975

Year	G R A N T \$1,463,477 + (212,259) ^{3/} Total						MEMBER CAPITAL				L O A N				
	USAID						FECOAR		REGIONALS		USAID				OTHER (GCG)
DOCUMENT	DIRECT		CONTRACT SERVICES			Adv. Pers. Overhead	Gross ^{4/}	Net ^{5/}	Gross ^{4/}	Net ^{5/}	Authorized Date	Amount	Drawn Date	Down Amount	Amount
I.D. Number	Operating Costs	Commodities	Operating Costs	Commodities											
1970	Pro-Ag 70-19 5/26/70			5,470	19,113	10,445	C	C	C	C					
1971	Pro-Ag 71-12 12/20/70			65,567	45,174	(132,259) ^{1/} 50,275	U	U	U	U					
1972	Pro-Ag 72-11 12/28/71	138,775	81,374			22,984 87,000	I	I	I	I					
1973	Pro-Ag 73-4 10/5/72	155,000	50,000			85,000	N/A	55,986			Dec. 17 (AID-520-L 018)	1,000,000	12/17	400,000	
1974	Pro-Ag 74-9 1/7/74	228,700	80,600			70,000		76,606	406,409	144,616	Dec. 11	2,000,000	1/10 4/1 12/12 12/18	200,000 400,000 604,000 253,300	800,000 ^{5/} 761,300 ^{6/}
1975	Pro-Ag 75-4 10/29/74	165,000	38,000			65,000 (80,000) ^{2/}								1,142,700	38,700 ^{7/}
TOTALS		687,475	249,974	71,037	64,287	390,704 (212,259) ^{3/}	420,672	77,606	406,409	144,616		3,000,000		5,000,000	500,000

1/ EACA School

2/ For evaluation of entire coop assistance program

3/ Costs for purposes not directly related to this project

4/ Includes all past earnings applied to capital not distributable through 1973, plus earnings for 1974, plus member (affiliate) store capital.

5/ After deducting from cumulative and 1974 earnings, AID direct subsidies (AID direct cumulative subsidy still exceeds cumulative earnings through 1974).

6/ BANDESA (authorized)

7/ BANDESA (used 1974)

8/ BANDESA (for use 1975)

- d. Obligatory capitalization of all net income (except for statutory allocations) until an amount equal to all AID/FECOAR grant subsidies has been capitalized from net income. Statutory allocations are 10% to an undistributable reserve and 10% to an education and social fund.

The model for creation of regionals is as follows: ^{1/}

1. A FECOAR extension team goes into an area determined as having potential for forming a regional cooperative. They visit leaders of organizations operating in the region (such as CARITAS, DIGESA, BANDESA, and ICTA.)

They also visit the Mayors of Aldeas (Towns) in the area and, through them and other organization leaders mentioned, make contact with farmers to discuss the possibility of forming local groups interested in associating with a new regional cooperative. They do not try to recruit existing cooperative groups.

2. If enough farmers are interested, the regional is organized. An assembly of interested farmers is called and those who come elect a provisional Board of Directors and vote for a proposed set of statutes and to apply for a charter.

3. The regional is organized internally as follows:

- a. Local groups (usually based on the aldea) of interested farmers are formed by electing a Board of Directors (President, Vice-President, Secretary, Treasurer and one or two vocales). A three-man credit committee, a three-man education committee and a three-man agriculture committee also are elected by the group. A local group must have at least 15 farmers. These local groups are not constituted with personalidad jurídica (as a legal entity) but function as an informal sub-organization of the cooperative, approving loans for members of their group (through the Credit Committee), organizing cooperative and other education programs (Education Committee), and dealing with matters related to technical assistance, fertilizers and harvest (Agricultural Committee).
- b. Each local group elects a representative (usually its president) to be a member of a Consultative Group, that meets quarterly or more often with members of the Coope-

^{1/} There is no restriction in the by-laws barring existing cooperatives that have a scope which is regional to affiliate with FECOAR, but, except for San Andrés, only those regionals created by ACDI/FECOAR have been admitted.

rative Management and Board of Directors, to discuss matters of concern.

- c. A general assembly (organization assembly in first instance) elects a Board of Directors for the Cooperative President, Vice-President, Secretary, Treasurer, two Vocales; and a Vigilance Committee of three members.
- d. The Board of Directors contracts a Manager, and that Manager hires other employees.

4. Membership requires payment of an entry quota of \$1.00, and the obligatory purchase of a \$10 capital share (on time if needed).

5. If there are net profits at the end of the year, 10% must go into an undistributable reserve, and 10% into an education and social fund. If the Coop has received an AID/FECOAR grant, it must capitalize all additional net profits up to the amount of the total grant received. Then it can pay out dividends.

6. There is no fixed limit as to the amount a regional cooperative can borrow from FECOAR, but a member can borrow only 5 times his share capital. Each member loan carries an obligatory purchase of shares equal to 5% to 10% of the amount loaned. ^{1/} The regional must buy 5% in FECOAR shares of the amounts borrowed from FECOAR.

7. A regional must purchase \$200 per year in obligatory shares from FECOAR.

FECOAR administrative organization consists of:

1. A General Assembly of affiliates, made up of 5 representatives from each affiliate elected by its respective board of directors.

2. A Board of Directors, elected by the General Assembly, made up of President, Vice-President, Secretary and two Vocales, elected to three-year terms.

3. Executive Committee, elected by Administrative Council for one-year, renewable, has three members: President, Secretary and Vocal.

^{1/} Some regional cooperatives have a 10% obligatory share purchase requirement (San Andrés, for example) and others have only 5% (San Marcos, for example).

4. Vigilance Board made up of a President, Secretary and Vocal, elected for three years by the General Assembly.

5. Manager contracted by the Administrative Council.

4. Services Provided by the Organization

FECOAR provides credit, technical and educational assistance, inputs (mainly fertilizer), disaster fund participation, and auditing services to affiliates.

(a) Credit

FECOAR began lending to affiliates in the 1973/74 crop year. It loaned \$228,000 the first year, and in 1974/75, \$884,856. FECOAR charges affiliates 8%, and in addition they must pay 1.5% of the amount of the loan into a special disaster fund. The affiliates charge 1% per month for loans to members, plus a 1% to 1.5% planning fee which helps offset the disaster fund premium. Of the amount loaned to affiliates in 1974, \$105,414 is reported as being long-term, and \$779,442 as short-term credit. The long-term credit is for buildings, equipment and machinery of the cooperatives, while the short-term credit is for financing subloans to members and inventory.

Table FEC-2 shows the amount of credit provided to members year-by-year by each of the regional cooperatives.

FECOAR has access to \$3,800,000 (from AID loan funds, \$3,000,000 and GOG \$800,000), of which it has drawn down \$2,618,6000 as of January 17, 1975. FECOAR pays for funds of AID 3 to 4% interest (25 year loans, with 5 years grace), and charges the regionals 8%, lending for production credit for one year to 15 months, and longer for other purposes.

A member borrowing from a regional cooperative pays 1% per month, plus a 1% to 1.5% contribution to the FECOAR disaster fund and a penalty for overdue loans. The term is 8-12 months to members, who also must buy 10% ^{1/} of loan in additional shares (aportaciones). This is collected at the time the loan is paid.

1/ 5% only in two of the regionals.

TABLE FEC-2

LOANS GRANTED BY FECOAR REGIONALS TO MEMBERS, BY CROP YEAR, GUATEMALA, 1975

COOPERATIVE	1971-72			1972-73			1973-74			1974-75		
	No. of Borr.	Amount	Aver. Size	No. of Borr.	Amount	Aver. Size	No. of Borr.	Amount	Aver. Size	No. of Borr.	Amount	Aver. Size
San Andres Semetabaj (Solola)	854	Q143,722	Q168.00	787	Q160,896	Q204	726	Q214,500	Q295	650	Q324,980	Q500
Flor Chimalteca (Chimaltenango)	-	-	-	381	26,091	67	1,005	74,497	74	1,776	123,255	69
Justo Rufino Barrios (San Marcos)	-	-	-	325	22,280	69	982	84,675	86	1,400	210,267	150
Rey Quiche (El Quiche)	-	-	-	-	-	-	221	12,992	59	962	94,232	98
Cuna del Sol	-	-	-	-	-	-	-	-	-	273	26,708	98
TOTALS	854	Q143,722	Q168.00	1,493	Q209,267	Q140	2,934	Q386,172	Q132	5,061	Q779,442	Q154

Source: FECOAR

TABLE FEC-3

AVERAGE AREA FOR WHICH MEMBERS USED CREDIT IN FECOAR REGIONALS. 1974-75

Cooperative	Number of members borrowing	Total hectares for which cred. granted	Aver. hectares per borrower	Total borrowed	Aver. size loan	Aver. amt. borrowed per hectare
1. San Andrés	650	2,441	3.8	Q321,980	Q500	Q133
2. Flor Chimalteca	1,776	1,421	0.8	123,255	69	87
3. San Marcos	1,400	2,239	1.6	210,267	150	94
4. Quiché	962	2,596	2.7	94,232	98	36
5. Jutiapa	273	929	3.4	26,708	98	29
TOTALS	5,061	9,626	1.9	Q779,442	Q154	Q81

Source: FECOAR

(b) Input Sales

Regional Cooperatives began selling fertilizer and some other inputs in 1971. Annual sales grew as follows:

Crop year 1971/72	-	27,000 qq
" " 1972/73	-	40,000 qq
" " 1973/74	-	80,000 qq
" " 1974 ' "	-	94,000 qq

Some of this was sold to non-members but, from the data available, it is not possible to determine what amount.

Some other inputs such as seeds, insecticides, herbicides, etc., were sold; these amounted to nearly 8% of gross input sales. The gross sales for these items by FECOAR to regionals (on credit) was \$55,775 in 1974, while gross sales of fertilizer was \$771,859.

(c) Machinery Service

Machinery service is provided by all regionals, but not by the federation. Financing is available from the federation for regionals to purchase machinery. All equipment sales (including trucks) on credit from FECOAR to the regionals totaled \$105,414 at the end of 1974.

Gross volume of machine hire services for 1974 was:

● San Andrés	\$12,427 ^{1/}
● Flor Chimalteca	3,052
● San Marcos	3,647
● Quiché	716
● Jutiapa	<u>595</u>
	20,437

Most of this service was for threshing wheat, although a small amount was for tractor use in land preparation.

^{1/} Fiscal year ending April 30, 1975.

(d) Transport Service

Transportation service is provided by the regionals for inputs purchased, from the regional warehouse to the local bodega, and vice-versa for wheat sold to the Cooperative.

Gross transport income for 1974 was shown by the Coops as follows: ^{1/}

● San Andrés	\$39,953 ^{2/}
● Flor Chimalteca	8,007
● San Marcos	4,965
● Quiché	2,985
● Jutiapa	<u>1,287</u>
	\$57,197

The federation will lend for financing trucks, but provides no direct transport services to regionals.

(e) Marketing Service

All Regionals (except Quiché, not located in a wheat market area) market wheat, and some have marketed a small amount of beans and corn; Jutiapa sold small amounts of grain, sorghum and rice.

Although the federation does not market any products directly, it offers support services in the marketing of certain products.

Regionals had the following volumes of product sales in 1974:

● San Andrés	\$214,227
● Flor Chimalteca	23,154
● San Marcos	71,330
● Quiché	---
● Jutiapa	<u>11,389</u>
	\$320,100

(f) Technical Assistance and Education

FECOAR provides technical assistance in bookkeeping and accounting and internal auditing service. It also provides materials and assistance in

^{1/} This covers only harvest transport since input transport is treated as a cost of the input.

^{2/} Fiscal year ending April 30, 1975.

organizing and holding educational courses and meetings for members and staff of regionals. In 1974, two special courses were developed for elected leaders and instructional meetings were held for farmers at the village level, reaching about 85% of members.^{1/}

Each regional has two agricultural extension agents who are to provide agricultural advice to members. In practice, these agents have spent a large part of their time making out credit applications (including relevant farm work plans) and handling other administrative details related to credit. This credit and farm planning process in itself involves the provision of a basic form of technical assistance. Some regionals now are trying to make their local credit committees more dynamic and train them to make out the credit applications and have the responsibility for collections. Hopefully, in this manner, the extension agents will be able to dedicate more time to agricultural matters.

(g) Disaster Fund

FECOAR has set up a Disaster Fund which receives a 1.5% commission for all funds loaned. The fund had \$25,056 as of 12/31/74, and is to be used in case of some economic disaster to cover member and affiliate losses through long-term, low-interest loans to affected regionals and their members. The fund is to acquire a \$500,000 capital balance, with continuing pay-in, but this would be returned if in excess of a fund balance of \$500,000. Maximum loans to regionals are to be \$250,000 at 1% interest for 5 years with equal annual amortizations, and to members, 3% interest with same terms.

(h) Characteristics of Participants Utilizing the Services

Except for the regional in Jutiapa, all regionals are located in the highlands. Membership is both Ladino and Indians with Indians very prominent in the highlands, more so than in the FENACOAC membership.

The average size of loan is comparatively small for most regionals (See Table FEC-4).

^{1/} As reported in ACDI 1974 Annual Report

While San Andrés and San Marcos are now lending amounts of \$500 and \$150, respectively, per borrowing member, the others are lending less than \$100 each.

If one compares the number of hectares for which loans were made in 1974/75, 9,626 hectares with the amount loaned for crops (\$724,588 per Annex 3), the average size of loan per hectare was \$75.35.

In 1974, the average size farmer (by regional) was cultivating the average amounts of land (for which he was borrowing money) as shown in Table FEC-3.

On the basis of these statistics it appears that La Flor Chimalteca (Chimaltenango) Quetzaltenango and San Marcos are reaching the smallest farmers. The same also is essentially true in Quiché and Jutiapa, where mini-fundias are less intense. San Andrés, on the other hand, deals with somewhat larger farmers.

This cooperative, which covers Sololá and a part of Chimaltenango, is showing a slow rate of growth, and indeed there appears to be a downward trend in numbers of active members, judging at least by the indication of number of borrowers, which is as follows:

1971-1972	-	854	borrowers
1972-1973	-	787	"
1973-1974	-	726	"
1974-1975	-	650	"

This decline is mainly due to a failure by San Andrés to attract small marginal farmers. It must also be recognized that San Andrés has had a problem of weeding out members (many predating the regional cooperative program) who were not conscientious in meeting loan obligations. Nonetheless, our sample survey found the average landholding of a San Andrés member to be around 10 manzanas, about double that of FECOAR as a whole and about four times the average size of FENACOAC, Fundación del Centavo and independent cooperative groups operating in the same area (Sololá and Patzún region of Chimaltenango).

On the average FECOAR caters to somewhat larger-sized farmers than FENACOAC and Penny Foundation. While nearly 72% of FECOAR members have 5 manzanas of land or less, the main concentration (45%) is from 2 to 5 manzanas, whereas the other organizations have about half of their members in the two manzana and under range. On the other hand FECOAR members tend to be more fully dependent upon their farms for a living, while members of the other organizations are more likely to have income sources away from their farms.

B. PROJECT ACHIEVEMENTS

1. Achievements in Benefits to Small Farmers

The major services that are being brought to the members of FECOAR regionals, as indicated above, are production credit and the supply of inputs.

The extent to which the regionals are able to provide further services as contemplated in the program planning documentation is disappointing. The regionals have tried to provide technical assistance to members, but this has been modest and below the level of member demand. Each regional has two or three extensionists, each of whom has to deal with a large number (in some cases over 1000) of small farmers. This is not adequate.

Nor have USAID or FECOAR succeeded in negotiating effective arrangements for technical assistance support from DIGESA.^{1/} As indicated earlier, the program agreements are silent on such matters.

With respect to marketing, there is limited need for cooperative marketing for corn. San Andrés does a good job of marketing wheat for its members, and to a lesser extent this is true of some of the others.

Aside from services relating to corn and wheat the cooperatives do very little. Whether it is technical assistance, input supply, marketing, credit, or other services -- there is little activity in assisting members to diversify into more intensive crops or into animal products. Some regionals do have diversification projects on a small scale or in the idea stage, but there are no programs with significant impact.

^{1/} DIGESA has provided some agronomists to work with FECOAR cooperatives but their services have generally not been satisfactory to FECOAR or its cooperatives.

2. Achievements in Institutional Development

(a) Relevance of Program as Vehicle to Achieve Objectives

From the beginning, the objective of this program was ambivalent. On the one hand, as described above, there was talk about "assisting the existing cooperatives to organize a national federation and regional cooperatives..." and about "local savings and credit or consumer cooperatives whose elected representatives will participate in the policy and control decisions of the regional cooperatives". It was also said that each regional would be "designed to respond to the desires of the people and the particular characteristics of the area".

On the other hand, there was also a decided impulse to organize a brand new system of cooperatives on a consistent pattern with standard by-laws, and little regional variation, and completely independent of any other cooperative organizations in the country.

To the extent, therefore, that the original intent was to bring together and expand upon existing cooperatives organizations to deepen their impact and widen their scope, the program adopted had no relevance to the objective. Except for the adoption of an existing cooperative, San Andrés, as the first regional cooperative, no further relationships with existing cooperatives were successfully negotiated.

To the extent that there was intent to organize a totally new self-sufficient regional cooperative system to serve small farmers, the program is highly relevant.

The difficulty in understanding the program is that it has had, for all practical purposes, the same objectives as the AID program of assisting FENACOAC, the credit union federation. Both FENACOAC and FECOAR organize and service rural cooperatives whose basic business are the provision of credit and the sale of fertilizer. It is true that FECOAR cooperatives, to some degree, are more active than FENACOAC cooperatives in providing technical assistance and marketing services. However, none of these services are provided by FECOAR regionals to FENACOAC affiliates and FENACOAC and its affiliates are working on the development of such services independently of FECOAR.

The conclusion is inescapable that somehow, day by day and year by year, a central idea got increasingly lost in the shuffle. That idea was that an important part of what the program was supposed to accomplish was to provide a wider range of agriculture cooperative services than was previously available in the country and to do so on such a basis that the services would be available not only to new recruits to the cooperative movement but also to people already organized in rural cooperatives, whether they were "agricultural" or "credit unions".

The basic reasons why this idea was lost appear to be the following:

- Neither USAID nor ACDI ever conceived or proposed a plan for the general development of rural cooperatives in Guatemala or for even ad hoc relationships between FECOAR and the regionals with other rural cooperatives.
- ACDI was never able to establish rapport with other elements of the rural cooperative movement, and FECOAR and the regionals were developed without any relationships to the rest of the movement.
- USAID's support of a new regional cooperative program lacking any ties to other parts of the cooperative movement was disliked or resented by most other cooperative elements. This was coupled with an incorrect assumption that the GOG/AID program was concentrating its support on regional cooperatives to the neglect of other cooperatives.^{1/}
- USAID's one major effort to bring the cooperative movement together by trying to merge FENACOAC and the regionals was apparently maladroit. There could have been little hope, considering the time and circumstances, that FENACOAC and ACDI could have found a meeting of minds. Nor is it evident that any clear plan was tabled for discussion.

(b) Organizational and Financial Viability

PROP indicators and available data on achievements are set out in Table FEC-4. It is apparent that membership targets have been reached, and credit targets have been considerably exceeded. Fertilizer sales were below expectations, owing to a shortage in 1974, but sales in 1975 should reach the PROP projection. Marketing services lagged considerably. Though a technical assistance indicator is not available, progress in this respect was less than needed.^{2/}

^{1/} See Section IV and Section VII, especially pp114-115 for evidence that AID loans have been provided more liberally to independent agriculture cooperatives than to FECOAR regionals.

^{2/} See, however, findings on technical assistance in Volume III of this report.

TABLE FEC-4 FECDAR - OBJECTIVELY IDENTIFIABLE INDICATORS
(PROP Figures are from 10/31/73 revised PROP)

PROP INDICATORS	1971 (a)	1972 (a)	1973		1974		1975
			PROP	Actual	PROP	Actual	
A. FECDAR							
1. Membership	800	1,800	3,500		7,200	7,006 (c)	11,600
2. Increased production attributable to inputs	209,000	525,000	1,055,000	N/A	3,065,000	N/A	5,175,000
3. Value of Increased Production per family	262	292 (b)	301		426		446
4. Total operating income	-	-	-	10,064	58,000	164,981	107,500
USAID grant (net received)	-	38,500	43,000	41,032	51,200	89,732	35,000
- Total income	-	38,500	43,000	79,770	109,200	254,713	142,500
- Total expenses	-	38,500	43,000	71,813	109,200	160,394	142,500
- % of self-sufficiency	-	0%	0%	14%	53%	100%	75%
B. REGIONALS							
1. Total operating income	40,600	67,200	106,800		242,500	400,380	372,700
USAID grant (net received)	38,800	39,400	50,100	28,674	103,800	69,209	68,500
- Total income	79,400	106,600	156,900		346,300	469,589	441,200
- Total expenses	79,400	106,600	156,900		335,900	341,279	419,700
- % of self-sufficiency	51%	63%	68%		72%	100%	89%
2. Production Credit Outstanding to farmers	69,800	175,000	351,500	352,000	1,021,700	1,373,000	1,725,000
3. Fertilizer sold (cwts.) to all buyers	35,000	56,000	89,700	90,000	201,000	164,000	323,700
4. Produce marketed (cwts.)	39,100	75,000	118,700	119,000	230,200	119,000	441,100
5. Participants trained (cumulative)	-	5	7	7	13	8	23
6. Education Courses	20	40	60	60	60	97	60

(a) PROP indicators prepared 10/31/73 apparently are actual for 1971 to 1972.

(b) Estimates made by Contractor and Mission. No objective data was available.

(c) Not including about 500 charter members recruited in 1974 for the sixth regional, which was legally chartered in April 1975.

All planned regionals have been created and the degree of self-sufficiency exceeded expectations for 1974. Two of the older regionals are completely self-sufficient.

Table FEC-5 shows income and expenses for the five regionals and compares the net operating income with the AID grant received for the year.

Each regional has the potential to operate with a volume and consequent economies of a scale that should give it a satisfactory bargaining position. Although there still is room for considerable improvement, the system of local group organization at the aldea level shows promise for achieving and maintaining membership participation in the cooperative operations.

FECOAR was 100% self-sufficient in 1974 compared with a forecast of 53%. Though unusually high fertilizer profits were an unexpected windfall, this was very good performance for its first year of operation as a federation.

Just as in the case of FENACOAC, the economic base of FECOAR depends a great deal upon the interest rate spread from subsidized loan funds, and upon the substantial margins received on fertilizer sales during a time of rapidly rising world prices and increasing scarcity. As the fertilizer situation normalizes, the margins will narrow. In fact, this year, FECOAR would lose money without the BANDESA agreement to uniform prices for BANDESA-FECOAR-FENACOAC, and a grant to FECOAR to cover losses resulting from sales at the agreed prices.

The organizational structure of FECOAR is well conceived and has the attributes of a business-like arrangement in terms of economies of scale and ability to pay for competent management.

3. Achievements Relative to Cost

Of the 7,006 members inscribed in the regionals as of 12/31/74, 5,084 had loans. Some others took advantage of other services - for example, by buying fertilizer for cash.

TABLE FEC-5

INCOME AND EXPENSES SUMMARY FOR FECOAR REGIONAL AFFILIATES

OF FECOAR, 1974

	<u>Income</u>			<u>Expenses</u>	<u>Balance</u>	<u>Difference Between Bal- ance and USAID Donation</u>
	<u>Operations</u>	<u>USAID Donation</u>	<u>Total</u>			
1. San Andres	\$186,716	\$3,917	\$190,633	\$93,484	\$97,149	\$93,232
2. Flor Chimalteca	41,357	16,038	57,395	49,054	8,341	-7,697
3. San Marcos	48,415	13,028	61,443	47,187	14,256	1,228
4. Quiché	115,968	22,837	138,805	131,078	7,727	-15,110
5. Jutiapa	7,924	13,389	21,313	20,476	837	-12,552
TOTALS	\$400,380	\$69,209	\$469,589	\$341,279	\$128,310	\$59,101

Note: The income and expense figures do not necessarily reflect volume of operations, since some of the accounting systems may report income from sales as a net income after expenses, while others may report gross sales as income, and then include sales costs as operating expenses.

Total grant subsidy (contribution to direct operating costs and commodities) reached \$1,072,783 by the end of 10/29/74 (including grant subsidy for use during 1975). If we assume services are used by all present members, the subsidy cost to date has been \$151 per member. If we calculate benefit on the basis of dollars loaned in 1974 (\$1,373,000), the cost/benefit is 1 to 1.28, i.e., 78¢ for each dollar loaned. If we take cumulative lending to date as the basis (\$1,969,800), the cost/benefit is 1 to 1.8, or a cost of 56¢ for each dollar loaned.

It should be kept in mind that the regional organization is only four years old, counting from date of initiation of the technical assistance contract, and two years from the date FECOAR was chartered to do business. The original subsidy can be expected to be spread over expanded future activities, as well as past activities.

Members' capital now is \$247,286 in the regionals and FECOAR. If full lending capacity (based on the \$3,800,000 available from the AID loan and the GOC special contribution is maintained in the future, FECOAR share capital will increase by \$190,000 per year, and that of some regionals by a proportionate amount, from obligatory share purchases on loans. Thus, member share capital in FECOAR and regionals can be expected to equal the USAID subsidy level by the end of 1977, a very considerable achievement.

If it is assumed that the subsidy will be spread over a 10-year period, and FECOAR lends only \$3,800,000 each year for the next 6 years, the cost benefit ratio for loans made will be 1 to 23 (\$24,769,000 - \$1,072,783) assuming no further subsidy after 1975. Projected in this manner the subsidy cost for each dollar loaned will be 4.4¢. Projection over a longer period of time would reduce the subsidy element to an extremely nominal amount.

C. DISCUSSION OF PROJECT STRENGTHS AND WEAKNESSES

Many of the strengths and weaknesses have been covered in previous parts of this section. The outstanding strength of the regional cooperatives lies in their rational, efficient, and well-planned organization, which makes it possible to reach thousands of small farmers with economy of scale. The establishment of complementary local groups with a simple cooperative form

not requiring legalization is particularly important and praiseworthy. The FECOAR regionals, therefore, require no significant organizational restructuring but rather specific improvements in the way the structure works and an amplification in the range of services provided.

The FECOAR system was developed independently of other elements of the rural cooperative movement in the country and under circumstances which resulted in often strained and mutually suspicious attitudes between the FECOAR system, both nationally and in various regions, with such other elements. Now that FECOAR is operating under Guatemalan leadership, it has been broadening its contacts and participation in general cooperative, primarily at the national level though less so regionally. A greater effort needs to be made both by FECOAR and other cooperative groups to improve their mutual understanding in the interest of the development of the rural cooperative movement as a whole and of the small farmers whom they serve.

There is a collateral internal weakness in the FECOAR system in that a membership of overwhelmingly indigenous origin, including many with limited command of Spanish, is served by an almost completely ladino management. It is difficult to believe that, during the life of the project, greater success could not have been achieved in identifying or developing indigenous individuals with good capacity for participation in managerial and staff positions. However, it is important to note that the great majority of elected officers in the FECOAR system, including the members of Boards of Directors who appoint managers, are indigenous.

There are a number of specific problems which are treated below.

1. Loan Collection

All of the regionals visited indicated that one of their most serious problems in the early 1975 period would be loan collection. The highlands suffered a drought for the second harvest this crop year, and collections are slow. With such a narrow economic base as that of the small highland farmer, money borrowed for cash inputs is a high risk undertaking. A dry year can cause yield reductions that results in insufficient yield from fertilizer to pay the added cost. This is especially true for sloping land

with soils low in organic matter, and without water-holding improvements such as contours and terraces.

The FECOAR and regional affiliate reserve for bad debt accounts, as compared to overdue loans, as of December 31, 1974, is shown on Table FEC-6.

It is obvious that the greatest difficulty in doubtful accounts lies with San Andrés. Of their total doubtful accounts, Q63,637.45 or 54% occurred before San Andrés became a regional. In 1974, FECOAR did an analysis of the overdue accounts in San Andrés, and concluded that approximately Q110,000 probably should be written off as uncollectible. ^{1/} FECOAR is insisting that San Andrés normalize its bad debts at the end of its fiscal year (April 1975).

Total bad debt reserves of Q45,159.07 amount to slightly more than 3% of the amount of credit outstanding (as of 12/31/74). If the FECOAR reserve is deducted, this falls to 1.4%. Although FECOAR expects to be able to hold the the bad debt rate in its affiliates to 2-3%, the existing reserve amounts of regional cooperatives are dangerously low as compared to actual overdue loan rates. Even with the exclusion of the Q63,637 of old debt from San Andrés figures, the overall old (over one agricultural cycle) overdue loan rate is running over 12% on a cumulative basis. This suggests a probable need to make significantly greater provision for bad debts. In any case, there should be more thorough procedures for reporting and analyzing delinquency and bad debts both to recuperate on current delinquencies and to improve future performance.

2. Narrow Income Base

The business base of interest rate margins and fertilizer sales margins is insufficient for a multiple service agricultural cooperative organization. The present weak marketing program and inability to date to assist members in carrying out land improvement practices and diversifying into other production

^{1/} This is in addition to another Q21,163 of old loans to several area cooperatives condoned by San Andrés previously. FECOAR believes that some of the Q110,000 (perhaps 25% net) might eventually be collected by turning the accounts over to a collection agent or lawyer on a percentage basis.

TABLE FEC-6

FECOAR AND AFFILIATES, DELINQUENCIES AND BAD DEBT RESERVES
(December 31, 1974)

	A. Bad Debt Reserve Account Balance	B. Loans two or more crop cycles over- due (Approx. over 2 yrs.)	C. Difference		D. Loans one or more cycles overdue (Approx. over 1 yr.)	E. Difference	
			Amt. (A)-(B)	% (A)÷(B)		Amt. (A)-(D)	% (A)÷(D)
1. FECOAR	Q20,435	-0-	Q20,435	N/A	-0-	Q20,435	N/A
2. San Andres	13,346	Q99,556	(-86,210)	13%	Q116,044	(-102,698)	12%
3. Chimalteca	2,792	1,334	1,458	209%	5,115	(-2,323)	55%
4. San Marcos	2,764	300	2,464	923%	8,794	(-6,030)	31%
5. Quiche	111	-0-	111	N/A	-0-	111	N/A
6. Jutiapa	-	-0-	-0-	-	-0-	-0-	-
7. TOTALS	Q39,448	Q101,190	Q(-66,742)	39%	Q129,953	Q(-90,505)	30%

enterprises is a serious limitation on continued viability of FECOAR.

Practical technical expertise is required immediately by FECOAR in the area of diversified crops production, marketing, processing, and inputs (fertilizer blending, fruit trees, breeding animals). Such an expansion undoubtedly will require additional assistance, and especially soft credit.

3. GOG Interest Policy

A policy problem exists that weakens the future of the project. The GOG, through BANDESA, makes loans available to small farmers at 5% and 8% interest rates. Such rates are at least from 6% to 9% lower than cost. AID loan money has been made available to BANDESA (and GOG money as well) to lend in conjunction with a 100% subsidized technical assistance program of the Ministry of Agriculture (DIGESA) for small farmers in the same areas where FECOAR operates. The short-run interest rate advantage to a farmer may well tempt him away from his cooperative, or cause him not to join. This weakens the short-run membership base of the cooperative, even though the cooperative is a more efficient lender than BANDESA.

If the GOG continues to provide subsidized credit through BANDESA, it could seriously endanger the viability of not only FECOAR but also FENACOAC, during a critical period when there is a need to capitalize cooperatives rapidly on the basis of interest rate margins, in order to have the capital base to expand into marketing, processing and other services.

4. Need for Technical Assistance

Finally, a weakness related to FECOAR, as well as to all types of programs (public and private) trying to assist the small farmer, is the problem of adequate technical assistance in improved use of land and better use of inputs for traditional crops, as well as for crop diversification. A considerable part of the problem is lack of relevant, appropriate and reliable technical knowledge applicable to the micro-environment (ecological and structural) of the small highland farmer. This part of the problem must be dealt with by insisting that the government research organization begin designing and carrying out research projects and activities that are more relevant to this target group. The cooperative movement could strongly influence such changes if it spoke with a united voice.

However, an important part of the problem is that FECOAR (and other organizations, public and private) are not taking the organizational and investment steps necessary to bring known information and expertise to bear on the micro-environments involved, in a testing and demonstration process that can show the small farmer reliable elements of a technical package and of an appropriate enterprise mix. Such a process must be synchronized with a market services program consistent with a rate of adoption by farmer members of changed practices, improvements and crops. Such a process involves also the strengthening of the local groups of FECOAR as the medium through which expertise will be brought to farmers in an effective and relevant way.

D. PROJECT POTENTIAL

FECOAR has excellent opportunities for growth. Its existing regionals have much room to increase membership within and near the areas they now serve. There are also many other areas of Guatemala lacking agricultural cooperatives of departmental or sub-departmental scope that could support strong regional cooperatives.

There are two significant factors which adversely affect the ability of FECOAR to attract members. The first is the growing competition of BANDESA in offering loans at subsidized rates of interest to other groups of farmers. This has not been strongly felt thus far but presents a serious threat since farmers primarily interested in credit tend to gravitate toward the cheapest available source.

The second factor is the inability of FECOAR to attract, except in isolated cases, the large numbers of farmers being recruited by the credit unions of FENACOAC. Since FENACOAC and FECOAR offer very similar services, most farmers who are members of credit unions perceive little or no advantage in also affiliating with FECOAR. FECOAR has neither any working arrangements at local levels with credit unions nor much to offer them. While, on average, FECOAR cooperatives have a wider range of services, to an increasing extent this range is being matched by FENACOAC and its affiliates. This is particularly true in areas where FENACOAC affiliates have made arrangements with agricultural cooperatives (Chimaltenango and Sololá) or have been organized out of authentic campesino movements (San Marcos). FECOAR's

potential will, of course, be greatly enhanced by expanding its services, as suggested earlier in this section, with respect to technical assistance, diversification, marketing, etc. Such expansion is equally needed, however, by farmers serviced by FENACOAC and other cooperative groups. The question arises whether the logic of further rural cooperative development lies along continued separate development of the distinct cooperative groups or along lines of greater coordination. This subject is discussed in Volume I, Section II of this report.

SECTION V

FUNDACION DEL CENTAVO

A. DESCRIPTION OF PROJECT

1. Rationale of Project

AID/G began its support of the Fundación del Centavo (often referred to in English as "The Penny Foundation") in 1970 under the Rural Community Leadership and Modernization project (520-11-810-167) (PROAG 70-15). This project is aimed at "increasing the private sector participation in rural development". Along with the Guatemalan Reconstruction Movement, the National Development Center for Administration and Productivity (CENDAP) and the Center for Rural Leadership Training at Landívar University (CAPS), the Foundation received assistance planned to culminate in the formation of a National Development Foundation. PAR 47.9 stated the program goal to be to "contribute to Guatemalan rural development efforts by strengthening private sector involvement in community development". The specific purpose was seen as assuring the viability of selected Guatemalan institutions.

Concurrent with the final years of the above, AID provided resources through loans 018 and 024 aiming more specifically at helping the small farmer. CAP 1080 states as the purpose of the 024 loan "to increase the rural productivity and incomes of small farmers through the attainment of viable, effective, and autonomous cooperative Federations; stimulate economic activity among small farmer groups in a pre-cooperative stage; and contribute to the development of a rural financial infrastructure in Guatemala" and "to stimulate the Foundation's capacity of sustaining the development lending program without being unrealistically dependent upon grants, private sector donations and concessional lending".

The Penny Foundation itself states its general purposes as follows:

"The Penny Foundation is a private organization, Guatemalan and of perpetual duration. Its basic objective is to stimulate mutual help for the integral development of the rural areas of Guatemala.

"It cooperates with self-development projects, addressed to the individual or collective benefit of interested communities, through the granting of loans for the development of projects.

"The Foundation is convinced that only through long-term loans and not by "gifts" to rural communities, can men and communities be developed as proud and self-sufficient, as well as resolving community problems.

"Beneficiaries should contribute with their work in these projects and, moreover, pay for the costs and materials utilized, in order to repay the Foundation for funds granted and the latter can once again provide these funds to other communities successively."

The more specific objectives are to:

- o Stimulate agricultural production
- o Improve sanitary and health conditions
- o Join these communities with the rest of the country through roads, as well as through communication based on mutual understanding.
- o Teach, in a practical way, the use of credit to rural communities and strive for a constant increase of their income
- o Improve the standard of living of the family and community, awakening a civic and cooperative feeling as a means of obtaining material and spiritual growth.
- o Create and search for the conditions that permit the emergence of responsible leaders who are conscious of their communities' needs.
- o Stimulate artisan and artistic capacities so that, with our help, the community's values develop in benefit of the country.
- o Obtain from every point of view, the integration of the communities into the economic and civic life of the country.
- o Increase the program of those who participate in its programs.

As the following figures show, AID has contributed about one-fourth of the donations and grants received by the Fundación during the 1970's, together with the greater share of the loan funds drawn down to date.

2.	<u>Project Inputs</u>		
	a. <u>Grants</u>	<u>Total</u>	<u>Utilized to Dec 1974</u>
	- Local Donations (1971-74)	Q167,000	Q167,000
	- AID Grant Contributions:		
	PROAG 70-15 60,000	60,000	60,000
	" 71-3 5,000	5,000	5,000
	" 72-3 30,000	30,000	30,000
	" 72-24 30,000	30,000	30,000
	" 73-14 <u>10,000^{1/}</u>	<u>10,000^{1/}</u>	<u>10,000</u>
	Subtotal	135,000	135,000
	- Guatemala Government (1970-71)	150,000	150,000
	Other Grants:		
	- 1966 Pan American Development Foundation	21,000	21,000
	- Heifer Project (1970-71)	66,000	66,000
	- 1967 Inter-American Development Bank	27,000	27,000
	- 1974-76 Inter-American Foundation	<u>65,000</u>	<u>20,000</u>
	Subtotal	179,000	93,000
	 Total Grants and Donations	631,000	545,000
	 b. <u>Loan Funds</u>		
	- 1967 Pan American Development Foundation	200,000	106,000
	- AID Loan 018	200,000	200,000
	- AID Loan 024	500,000	---
	- Financiera Industrial Agropecua- ria, S.A. (Guatemala Bank)	<u>25,000</u>	<u>25,000</u>
	 Total Loans	925,000	331,000

1/ This sum was provided for the conduct of the study described on pages rather than for general operating expenses.

3. Institutional Development

The Fundación del Centavo began in 1963 through the personal efforts of Sam Green, a retired U.S. businessman, concerned with the plight of the Guatemalan Indian. With the help of friends in the Guatemalan business community, he began an assistance program around the concepts of loans, not gifts, and confidence in the reliability of the small farmer and his ability to repay even if only a penny at a time.

By the end of 1969, 96 group loans (with 4,494 beneficiaries) had been made totalling Q289,557.00 for agricultural inputs, building rural schools and clinics, land and vehicle purchase, small store operation and a variety of other purposes. The Fundación had become associated with the Pan American Development Foundation which was the source of its first major loan in 1969. From that time the organization has used the name Fundación Guatemalteca para el Desarrollo, along with its original legal name. By this time, it also had been working with Tools for Freedom, Heifer Project Inc., and the American Hospital Association, channeling resources to rural groups.

In the '70s the Foundation began to concentrate on agricultural inputs with over two-thirds of the loans for fertilizer, seeds and other cropping needs. The average size of the loans also had changed.

Average Size of Loan per Beneficiary

1966	-	Q22
1970	-	45
1973	-	53
1974	-	84

During this time the subsidiary programs in tools, hospital equipment and cattle distribution were reduced. Increased interest has developed in the Foundation to assist groups in the purchase of land, and three staff men have been assigned to this activity. The current publicity materials of the Foundation show a new awareness that they must help farmer go beyond the simple use of chemical fertilizer, which was a significant economic boost in the 1960's, and move into agricultural enterprises with longer range potential. They speak of simple agro-industry, crop diversification

and helping borrowers see farming as a business enterprise.

A constant concern in the Foundation has been to provide a way out of marginality for the farmer at the bottom. The organization is careful to stress its non-sectarian and apolitical position. But the manager is personally very convinced that the campesino grouping must not only provide a necessary economic base, but also start the formation of a pressure group to provide a voice for the campesino, whatever political persuasion may develop. Staff interviewed reflect this same concern and seem to fully support the awareness raising process, while refraining from providing any doctrinal content.

From the early small beginnings, the Foundation has become a respectable Guatemalan organization with outstanding businessmen giving time to the Board, and, on occasion, advising borrower groups on business matters. Staff now includes a manager, program director, seven field men, six administrative personnel, a part-time lawyer, a part-time publicity person, and several maintenance staff.

4. Services Provided

From its inception, the Foundation insisted on providing minimum services to borrowers partly as a measure to keep costs down and also to force participants to assume responsibility. After an initial contact and receipt of a formal request for a loan, Foundation services for obtaining a loan would typically include the following steps:

- a. The supervisors assigned to the geographic area of the requesting group analyze the request for completeness of information and general technical feasibility.
- b. The supervisor visits the community to judge the viability of the group, explain the credit process, clarify any problems, and possibly make suggestions to modify the proposed use of the loan. Responsibility is left with the group to form its own structure and be prepared to assume joint responsibility for the loan if it is approved.
- c. Following study and approval of the supervisor's report by the Foundation, the group is advised and its representatives receive a check, generally at the office in Guatemala, payable to the agreed-upon supplier.
- d. After two weeks, the supervisor again visits to check on the utilization of the credit.

- e. Three or four months later, in mid-growing season, a further check is made to deal with any problems or questions and maintain contact with the group.
- f. At harvest time the supervisor visits to advise the group on the status of their debt and clarify repayment arrangements.

The basic services provided are informational, regarding the Foundation and the credit arrangement, and motivational, assuring adequate group functioning to facilitate repayment. Some secondary services may also be provided, according to needs of the group and the ability of the supervisor, on community matters and technical agriculture. It is important to note that a highly valuable service is that of convincing previously isolated farmers to group themselves to meet their needs, and to guide them through the process of using group structures.

In the land purchase program, the Foundation has been providing more complete services. In addition to credit arrangements, Foundation agricultural staff helps the group prepare detailed plans for land use and some short-term technical assistance during the first months. In some cases they have arranged for this help to be provided by the Ministry of Agriculture personnel.

Services provided by the farmer associations to their members include:

- o Consolidation of individual needs into one request to the Foundation.
- o Establishment of credibility before the Penny Foundation and a local authority.
- o Management of the documentation and arrangements necessary to secure the loan and deliver the commodity of the community.
- o Protection of individual interests by the exercise of an acceptable form of group pressure.

The volume of loans granted by the Foundation can be seen in Table CENT-1. Supervisors can manage up to about 30 loans simultaneously. Table CENT-2 classifies the loans for the total period 1963-1974 and for 1974 alone, according to purpose.

TABLE CENT-1

NUMBER OF LOANS GRANTED - 1963-1974

<u>Year</u>	<u>No. Loans</u>	<u>Total Amount Loaned</u>	<u>Persons Benefited</u>
1963-1965	3	Q. 18,734	180
1966	9	53,780	576
1967	13	63,779	836
1968	30	70,782	1,178
1969	41	82,482	1,724
1970	82	92,438	2,046
1971	60	97,061	2,500
1972	79	138,581	2,977
1973	76	204,364	3,809
1974	67	436,900 <u>1/</u>	5,166 <u>1/</u>
	TOTALS	Q. 1,258,901 <u>1/</u>	21,092

Source: Fundación del Centavo

1/ These figures should be the same as in Table CENT-2. The variances are insignificant.

TABLE CENT-2

PURPOSE OF LOANS GRANTED BY FUNDACION DEL CENTAVO

<u>No. of Loans</u>	<u>Purpose</u>	<u>Total - 1963/1974</u>		<u>1974 Only</u>	
		<u>Amount</u>	<u>No. of Benef's</u>	<u>Amount</u>	<u>No. of Benef's</u>
259	Insumos Agrícolas	Q 755,048	12,000	Q404,661	4,059
7	Mecanización Agrícola	17,606	224		-
5	Arrendamiento Tierra	2,442	160		-
10	Compra Tierra	87,806	352	25,700 <u>1/</u>	861 <u>1/</u>
6	Comercialización	18,443	216		-
22	Cultivos Completos	74,148	826		-
15	Tiendas de Consumo	23,603	579		-
5	Artesanías	31,165	260	2,500	11
3	Luz Eléctrica	5,996	968		-
12	Introducción Agua Potable	43,399	2,258		-
12	Construcción Escuelas	10,899	202		-
19	Clínicas Rurales	54,425	30		-
37	Equipo Educativo	5,514	1,320	1,000	222
18	Compra Vehículos y Maquinaria Agrícola	89,377	528	185	10
8	Compra Ganado	12,756	59		-
<u>22</u>	<u>Otros</u>	<u>26,253</u>	<u>1,009</u>	<u>1,500</u>	<u>3</u>
460		<u>Q1,258,880</u>	<u>20,992</u>	<u>Q435,546</u>	<u>5,166</u>

1/ These figures include \$20,000 for the 850-odd members of the agriculture cooperative, Santa Lucía, which purchased land for cooperative use rather than for distribution to individual members. These transactions obviously have been treated differently in the 1963-1974 totals and the 1974 data.

Source: Fundación del Centavo

The Fundación del Centavo has been utilizing an OPIC guarantee for all loans beginning in 1972. The OPIC guarantee covers 75% of uncollectible loans. The premium is 1% of loans made, and the Fundación charges half of this to the borrower. To date, the Fundación has had two claims with OPIC, one for Q4,000.00, and one for Q1,000.00.

If a loan has been inactive for six months, it is classed by the Fundación as a doubtful account. A subsequent investigation is made, and if there is no economic base for recuperation, the loan is declared to be a bad debt. If there is an economic base for recuperation, all legal means are exhausted for realizing collection. If the loan is declared a bad debt, a claim is sent to OPIC which pays 75% of the face amount of the debt. The Fundación annually allocates 3% of its new loan volume as an expense for bad debts. This is not treated as a reserve, but any balance is carried over to the next year to make up the 3%.

As will be noted from Table CENT-2, the program of the Fundación del Centavo, though historically involving varied projects, both agricultural and non-agricultural, has settled down to a program almost exclusively oriented to the agricultural sector with emphasis on supply of inputs (fertilizer) and purchase of land.

5. Characteristics of Participants Using Service

In that the Foundation has a minimum of involvement with the individual beneficiary of the loans they have no records nor have they made studies of the characteristics of their constituents. They estimate that 98% of the associations borrowing money over the year have been at the aldea level, and probably 90% Indian. The areas of major activity of the Foundation have been central and western sections in the highlands. Some groups have been active in the eastern region but these have been Indian settlements. There have been occasional groups in El Petén and from larger communities.

Under the Foundation approach, services are provided to groups which had varied antecedents. Many groups were originally organized by Desarrollo de la Comunidad (GOG Rural Development Agency) for potable

water projects. After such projects are finished, Desarrollo de la Comunidad often suggests that the group continue as an agricultural group and apply for Fundacion del Centavo support. Other groups are formed by farmer leagues or syndicates or by other organizations, and some groups form spontaneously because farmers have heard of similar groups in nearby communities. This explains the wide assortment of designations of borrowing groups: Farmer Association, Agricultural Committee, Improvement Committee, Campesino League, Pre-cooperative Agricultural Group, Agricultural Federation, Union of Associations, Small Farmer Federation. 1/

B. PROJECT ACHIEVEMENTS

1. Achievements in Benefits to Small Farmers

Observations from field visits show that beneficiaries and other local people are convinced that Foundation-supplied credit for fertilizer, prior to recent price increases, substantially increased crop yields and farm incomes. With the change in price structures, farmers think that they will benefit but with much lower margins of profit and a need to be more selective in the use of fertilizer. Visits also suggest that farmers benefited by the organizational experience crystalized by the Foundation. Joint responsibility, leadership, and financial management skills are being developed. It is significant that the economic benefits are taking place within an accepted community structure that reinforces and strengthens local leadership.

Foundation sources report that approximately one-third of the groups receiving assistance in a given year do not request help the next. A few of these groups have affiliated with cooperatives; others find other sources of credit from organizations with programs similar to the Foundation. Still others apparently disband for lack of sufficient interest or leadership.

There is considerable difference of opinion as to the average

1/ Some loans have been made to cooperatives and other formally organized groups. The most recent of any size was to the independent Santa Lucia Cooperative (about 850 members) to buy land.

economic level of beneficiaries of the Fundación del Centavo programs and those of cooperatives. The Fundación believes that it is dealing with groups of almost exclusively individual minifundistas, many of Mayan religion, at the lowest levels of economic development. Cooperatives doubt that there is any economic difference between Fundación del Centavo groups and cooperative groups. Our observations indicated that many groups of the Fundación tend to be marginal while others include small farmers in better circumstances.

The field survey, (Vol. III of this report), now completed, demonstrates that the Fundación is reaching an average farmer of smaller size and less education. There are, however, few of indigenous beliefs (3.3%), though more than in the case of FECOAR (1.9%) or FENACOAC (.5%).

2. Achievements in Institutional Development

a. Relevance as a Vehicle to Achieve Objectives

The Fundación is a relevant vehicle for achieving the purpose of involving the private sector in development. The private sector is well involved on its board of trustees and it has some 220 members, 1/ including individuals and firms both inside and outside Guatemala.

In addition, an excellent case can be made for the relevance of the program of the Fundación in contributing to the objectives of improving the condition of the rural population. The main strength of this case lies in the fact that the Fundación concentrates more on average or marginal groups than do the cooperatives. Many members of these groups may not be well-prepared to undertake membership in cooperatives as individuals (the only form of membership in coops that is currently possible in Guatemala). Further, since communities composed largely of such individuals are not good territories for cooperatives to promote membership, even those individuals ready for cooperatives may be by-passed.

1/ Someone who has provided services or donated funds (or goods). Members have been classed as collaborators when they provide small donations or intermittent services. If the donation reaches Q.1,000, they usually are classed as active members.

There are two peculiar features of the Fundacion del Centavo approach compared with that of cooperatives. First, the members of the groups served by the Fundacion borrow with joint liability. Each member is responsible not only for his own borrowing but also that of his fellows. The result is to exert stronger group pressure on the individual to abide by his commitment than exists in the more normal individual borrower cooperative system, strong as cooperative peer pressure is. Second, the individual member does not have to earn his right to obtain a loan by first contributing capital (aportaciones). Accordingly the production credit lending program of the Fundacion del Centavo has a reach downward toward the least advantaged farmer.

The new program of Fundacion del Centavo of financing land purchases for marginal groups, now in an experimental stage, offers considerable promise. Modest tracts of land do become available with some frequency in the altiplano for those who have the cash to pay for them. The transfer of these tracts to marginal near-landless groups would have considerable economic and social value. The provision by the Fundacion in these projects of a package of technical assistance for development of the newly acquired land should contribute not only to optimizing the economic and social benefit, but also to insure that principal and interest payments can be met.

Both the production credit and the land purchase programs of the Fundacion del Centavo, therefore, should command the particular interest of AID because of their very direct relationship to AID policy and goals of assisting the least advantaged members of Guatemalan society with well-targeted programs to increase their incomes.

The fundamental problem for both AID and the Fundacion is the conflict between viewing the Fundacion on the one hand as an institution which should be primarily supported by the private sector, and on the other as an institution to achieve substantial impact with rural groups. As mobilizable private resources are insufficient to assure the support of a program of large scale, either the Fundacion must receive more public support (GOG or

or international agency) or the program held to a small scale.

b. Organizational and Financial Viability

The justification for AID assistance to the Penny Foundation under the Rural Community Leadership and Modernization Project was primarily to stimulate private sector participation in development, and through such participation reach self-sufficiency. This continues to be one of two major objectives of the Foundation. It has clearly not been achieved. Active Foundation members, both institutions and individuals, in 1970 were listed as 201 - by 1972 there were 280. The 1973 annual report gives no information on membership. Efforts to secure local financing have been only relatively successful. Records show these contributions to have been: 1/

1971	Q.39,557
1972	50,287
1973	33,500
1974	43,700

An AID grant offering to provide one dollar for every two Quetzales contributed locally was successfully met but did not stimulate any permanent improvement.

AID financed a study in 1974 by a Guatemalan firm to help the Foundation develop its fund raising capacity. The report analyzed in great detail benevolence patterns in Guatemala and the relative effectiveness of dozens of fund raising activities. It concluded that the Foundation should be able to receive important resources from private contributions. However, the suggestions of how to tap the private sector were very general and understandably of little use to the Foundation which, while accepting the need for full-time qualified staff for this purpose, is reluctant to invest

1/ Some of the contribution was in kind and may have been overvalued.

the necessary resources at this time. 1/ The Board of Directors is currently planning several specific public relations and financing schemes.

In the preparations for loan 024, which included \$500,000 for the Penny Foundation, a careful financial analysis was made of the current and projected status of the Foundation. The conclusions were that for the organization to survive it will be necessary to significantly increase its income and trim its administrative costs. One suggestion was that the interest rate on loans be raised to 18%, a measure which the Foundation feels is impossible. The loan agreement calls for effective action by the Foundation on this issue before disbursement of funds.

The Foundation's current point of view is that it is not sufficient to see their financial operation in global terms as a credit operation in which interest payments plus other local income must cover all costs. They are working on an analysis that separates a series of educational, promotional and experimental expenses that they do not expect regular income to cover.

Nevertheless, this does not solve the problem of the source of income. To date, the Foundation has been fortunate in receiving funds to meet its expenses. But the process has been unplanned and, although they may continue to stumble across benefactors, it cannot be assumed that they have an adequate base for self-sufficiency.

Obtaining and utilizing the \$500,000 available under loan 024 would at most provide the Foundation with another \$25,000 annually in income (spread between interest income received less reserve for losses and interest payable on loan funds). While the efficiency of the Fundacion can be greatly increased with higher loan volume, the earnings on the spread are not likely to fully cover the marginal costs of administering program

1/ The AID Pro-Ag obligating the funds for this study also called for the actual carrying out of a fund raising campaign by this same firm. We found no information on this matter in the files but it would seem that AID should have insisted that the Foundation give a campaign a try. As it is, the grant of \$10,000 produced a four-volume study and apparently nothing else.

activities with the additional funds. In consequence, we anticipate that the Fundacion will have some difficulty in its current financial analysis in developing a plan which would assure BANDESA and AID that the administration of the loan would be adequately supported.

3. Achievements Relative to Costs

Some of the data to be considered for 1974 are the following:

Total Loans.....	67
Value of Laons.....	\$436,900
Number of Beneficiaries.....	5,166
Average Size of Loan.....	\$ 6,600
Average Amount per Beneficiary.....	\$ 84
Total Operating Costs of the Foundation.....	\$110,000 <u>1/</u>

The simplest calculation gives a cost of \$1,642 loan of \$6,600, or 27%. If, however, the Fundacion had larger loan funds to amplify its program, it could achieve efficiencies of scale that could cut this to 20% or less.

Of the total of 5,166 beneficiaries of the program, some 1,072 (850 members of Santa Lucia independent agricultural cooperative, which received a loan for land, and 222 members of a group receiving a small amount of school equipment) were not reached in sufficient depth to count. Dividing the balance of 4,094 beneficiaries into the \$154,000 operating costs results in a cost of Q.27.00 per person. The human resource cost, requiring 14 professional staff (field and administrative) to reach 4,094 persons (and indirectly their families) amounts to about 290 beneficiary families per professional staff member.

C. DISCUSSION OF PROBLEMS AND POTENTIAL

1. Financing the Fundacion Program

USAID has been taking the position that the Fundacion should not be

1/ After eliminating costs relating to prior years.

"unreasonably dependent upon grants." For this reason, it has been urging on the Fundacion that it should increase its rate of interest to sub-borrower groups of marginal farmers to something on the order of 18%. In this way the Fundacion would be able to cover a significant part of its administration costs by the difference between what it pays for AID loans and what it collects on them.

There is some logic to this point of view. As we indicate elsewhere, the true rate of interest charged by federated cooperatives is substantively more than that of the Fundacion del Centavo. By offering a lost cost subsidized interest rate the Fundacion tends to undercut the cooperatives. There already is some evidence that cooperatives are losing members and membership potential to the Fundacion on this account. Unless the Fundacion intends to serve such farmers indefinitely, it may well be doing them a disservice to accustom them to a lower rate of interest than a cooperative can economically charge. Further, the Fundacion's policy of lending well below cost has been a major factor limiting its ability to finance its program and to provide beneficiaries with the technical assistance they need and want to accompany the credit.

At the same time, the position of the Fundacion needs to be fully appreciated. It is dealing with marginal groups, and, to a large extent, the subsidy element in its lending represents contributions by private Guatemalans and international donors. To some of these contributors the subsidizing of loans to marginal farmers at interest rates below cost is a legitimate form of philanthropy. Furthermore, DIGESA (through BANDESA), CARITAS and other organizations are operating subsidized programs almost identical to the Fundacion's at even lower interest rates.

The Fundacion has also become at least as efficient a lender as the cooperatives. A member of a Fundacion joint borrowing group, by assuming joint liability, is probably entitled to some concession on his interest rate.

We believe, however, that there should be room for mutual compromise and accommodation. The Fundacion should make some concession - at least to introduce, on a gradual basis if necessary, the 12% per annum nominal

rate charged by cooperatives, which is still less than the true annual interest rate of cooperatives. Reciprocally, AID should not overdo its insistence that the Fundacion not be "unreasonably dependent upon grants". As a foundation organized without any significant endowment, the Fundacion has always been dependent upon the vagaries of grants and donations and is likely to remain so.

This situation should be recognized by all concerned and the Foundation should consider reaching an agreement with the GOG to attempt to assure a continuing source of assistance to allow the Foundation to continue the job it is doing in attending very poor farmers.

2. Need to Clarify Program Objectives

In our judgment the system of the Fundacion del Centavo in dealing with small farmers is basically efficient, constructive and well-targeted with respect to beneficiaries.

Our major criticism of the Fundacion (as also of the three cooperative groups studied) is that each looks inward upon itself. They do not sit down together to look at the whole picture. There is no overall strategy as to how the groups might cooperate with and reinforce each other or what the goals of the cooperative and related movements are or should be. Each program can benefit by closer relations with the other and by working together with a more general strategy. This surely is particularly important at a time when the Government is disposed to give greater support to cooperatives and similar organizations with a view to achieving major improvement in the condition of the mass of small farmer of the country.

As we have pointed out earlier, the Fundacion performs an important role in establishing and solidifying small farmer associations composed of many who may not yet be prime candidates for joining cooperatives. The Fundacion claims to consider its work with these groups as transitional and not permanent, and that the groups ultimately should establish more permanent relationships to achieve the full range of credit, technical assistance, input, marketing and other agricultural services important for

the continuing development of their members.

Beyond this point, however, the Fundacion does not have a clear program of what is to become of these groups over the long run. Members of a few groups already have affiliated with cooperatives, but this has been uncommon. Our proposal below for affiliation of associations as joint borrowing groups with cooperatives presents another alternative. Other Fundacion del Centavo groups are uniting in informal federations akin to cooperatives but whose ultimate destiny and purposes -- not to mention source of financial support -- are not clear.

3. Potential for Complementing Fundacion and Cooperative Programs

We suggest that there is a great need for a program of collaboration between the Fundacion and the cooperatives to assist groups that would wish to move on to become members of cooperatives, and thus secure the broader range of services they can provide. If this is to be done effectively, it will probably require some flexibility in policies on the part of cooperatives as well as on the part of the Fundacion.

A major problem is that there is now no satisfactory method by which a Fundacion group can transform itself into a local cooperative group. The Fundacion group is one in which members borrow as a group (joint liability) and are not required to capitalize (contribute aportaciones). What happens then if a Fundacion group wishes to join a cooperative? First the joint borrowing concept must be discarded. Each member must join the coop as an individual. Further he cannot immediately get a loan of the same amount he received under the Fundacion. He must make capital contributions as a basis for borrowing. He must also wait until he has been a cooperative member for several months. This may well mean destroying the continuity and cohesiveness of the group, as some members may more easily and willingly accept the new conditions than others. This is obviously poor strategy in terms of either social or economic development.

We see, however, no valid reason why cooperatives should not accept associations of marginal farmers who have good payment records with

Fundacion del Centavo (or other organizations with similar systems) as members to be served financially in the form of joint borrowing groups. From the cooperative's point of view, the feature of joint borrowing may well be an advantage in safeguarding their capital and facilitating collection. Further, in consideration of this the cooperatives could well afford to modify their "aportaciones" requirements in such a way that the group could more easily meet them without sustaining a sudden sharp decline in the amount of funds they can borrow. Such a special system for joint liability group membership could work something as follows:

- a. A group could be admitted into membership in a cooperative as a joint borrowing group upon showing at least a two-year record of satisfactory repayment to the Fundacion (or other sponsor).
- b. The individuals constituting the group would be entitled to all benefits of the coop (except individual borrowing) upon payment of membership fees and without payment of initial aportaciones.
- c. The cooperative would lend the group annually at its usual rate of interest, but on terms of joint liability, amounts equal to the average amount per hectare lent by the Fundacion (plus upward adjustments for any increased costs of farm inputs) plus 10% as a group aportacion.
- d. The group would be entitled to a higher level of borrowing as soon as its group aportaciones reached a level that would permit it (normally in the fourth or fifth year).
- e. Provision would be made, subject to reasonable rules, for pro rata payment of aportaciones on decease of members, transfer from joint borrowing groups to individual membership, or complete retirement from the cooperative and local group.

4. A Possible New Form of Cooperative Rural Enterprises for Marginal Farmers

It is necessary to consider further the view of the Fundacion del Centavo that many campesinos do not want to join cooperatives and that other forms of rural organization would be more in accord with their desires and interests.

From our experience in other countries, we have observed that among certain campesino groups (particularly politically activist campesino groups

and those allied with labor unions) there is objection to "cooperative philosophy", which often appears to them to be bland or middle-class. This objection, however, does not often apply to the word "cooperative" on to all recognized forms of cooperative organization. What such groups usually do is form separate cooperatives composed of people of their own class or persuasion, which either maintain no or limited relationships with other cooperative groups. Given the fact that most rural cooperatives in Guatemala consist largely of lower income groups, we believe it is less likely here than elsewhere that cooperatives have to divide along class and ideological lines.

Nonetheless, we recognize that groups of different persuasion ought to have a democratic right to separate organization. Therefore, if there are considerable groups of campesinos in Guatemala who would prefer to organize distinct cooperative or cooperative-type organizations, we do not believe they should on this account be excluded from GOG and international agency support. We do consider, however, that the essential condition of such support should be that the plans and programs of such groups must offer a cost-effectiveness in the use of financing that is reasonably competitive with that offered by other groups in benefitting small farmers.

At the present time, the Fundacion del Centavo is helping local farmer associations receiving its assistance to form "federations" as an alternative to local or zonal cooperatives. Some of these federations have aggregate memberships of up to 500, and have a potential for professional management and program development comparable to many rural cooperatives. We do not, however, find a clear plan of evolution of such federations into organizations that fulfill the role of cooperatives, though the intent that they should do so apparently is there. Presumably, the idea is that such federations will naturally evolve into some kind of rural organization that will provide significant representation and economic support to the local groups and their individual members. However, we do not believe that support can appropriately be extended to a program which, though it has a sense of direction, has no clear plan that can be analyzed in terms of potential cost effectiveness.

It is conceivable that the Fundacion del Centavo can devise a program for the evolution of federations into effective multi-service organizations which reflect the interests of large numbers of campesinos and could serve them with a cost-effectiveness equal to zonal or regional cooperatives. If the Fundacion can come up with such a plan, it would merit the consideration of the GOG and international agencies in their future programs.

It should not matter to possible sponsors whether the form of organization of federations (by whatever name they might ultimately be called) is cooperative in accordance with the laws on cooperatives. It should, however, matter that the federations (by whatever name they are called) have a legally recognized and economically viable form of organization. As indicated above, separatist cooperative groups in other countries usually do accept the cooperative form as a matter of convenience. It is, however, a matter for the GOG to decide whether some other form should be legally recognized either under existing or new legislation. It also will be important whether such organization, regardless of legal form, will be able to participate in or benefit from advanced forms of cooperative marketing and processing of agricultural commodities (such as the "Union" described in Annex "A" of Section II of this report, should something of this nature materialize.)

In order for such a plan of the Fundacion del Centavo to be competitive in cost effectiveness with cooperative programs, it is indispensable that it include the feature of self-help, by which we mean primarily self-capitalization. One of the primary features of cooperatives which commends itself to observers is that members contribute significantly to the capitalization of cooperatives. This provides great leverage in the effective use of limited external resources to benefit considerably larger numbers of farm families and to do so on a more permanent basis. It also contributes to a sense of pride on the part of the participants that they are helping themselves and that they are building Guatemalan institutions that, over the long run, will not depend upon foreign aid.

D. RECOMMENDATIONS

1. That GOG, BANDESA and AID give consideration to the Fundacion program on its merits in contributing to the goal of benefitting marginal farmers even though this may require somewhat more substantial budgetary support or budgetary guarantees than heretofore contemplated.
2. That the Fundacion continue to broaden its relationship with the cooperative movement with a particular view to mutual coordination or harmonization of their rural action programs.
3. That the Fundacion increase its interest rate (or alternatively add a commission charge for loan processing or technical assistance) to achieve greater parity with charges made by cooperatives.
4. That the Fundacion consider developing a program by which, through affiliation with cooperatives or otherwise, its beneficiaries can progress to a level of development including self-capitalization of cooperative or other rural institutions, rather than permanent and exclusive dependence upon subsidized assistance.
5. That AID/Washington confer with the Inter American Foundation on means of providing the Fundacion del Centavo with some continuing access to expert counsel on fund raising suitable for organizations of its type in Latin America.

Addendum

Since the above was written we have had the opportunity to examine briefly the Fundacion del Centavo financial projections for 1975-1979. We have the following comments:

1. The projects are very well presented and provide a good basis for discussion both of program opportunities and problems. They do not create new issues that would alter the conclusions and recommendations we have made above.
2. The Fundacion's projections that it can mount a significantly larger program in 1975 and thereafter with moderate increase in administrative expenses are consistent with our finding that it could achieve substantially greater cost effectiveness by either reducing basic overhead or spreading it over a more substantial program.
3. To provide greater flexibility in use of funds as well as greater complementarity between GOG and AID funds, we would consider it useful that it be made clear that AID funds can be used for development and productive credit associated with projects of land purchase with non-AID funds.
4. We would hope the Fundacion would concentrate very strong efforts on developing the best possible land purchase and development program for marginal farmers. We have some concern that its projected expansion into a variety of little projects like rural commerce and infrastructure (unless related to groups also served in its major programs) might spread management attention too thin.
5. The Fundacion's plan reinforces our views that linkages of its joint borrowing group program with cooperative development and technical assistance programs are important.

SECTION VI

PROGRAM OF AGRICULTURAL COOPERATIVES DEPARTMENT WITH INDEPENDENT COOPS

A. DESCRIPTION OF PROGRAM

1. Rationale of Program

This project is concerned with assistance to independent agricultural cooperatives (essentially in basic grains) that are not affiliated with FENACOAC or FECOAR.

USAID/G began its support of the DIGESA Agricultural Cooperative Department in mid '73 by providing an advisor under the human resources section of the Agricultural Development Project 190-197.4. The general purpose of this assistance as stated in the PROP was "to increase the capability of the Ministry of Agriculture to implement certain phases of the National Rural Development Plan... by providing key inputs of technical assistance to public institutions whose performance is critical in reaching the small and medium sized farmer." The conditions expected at the end of the project were: "by 1976 it will have expertise and budget necessary to continue in-service training of technical staff, cooperative and other farmer groups, development of an increasing quantity and quality of agricultural information in a form usable by the target farmer..."

The agreement with the contractor, California Polytechnic State University (Cal Poly), described the advisor's role as follows: "Assistance will be given to DIGESA's Agricultural Cooperatives Department in creating administrative and financial viability in a controlled group of cooperatives identified as models of and poles of development as well as using these cooperatives as vehicles through which to implant modern technologies. The technical assistance will include the following:

- o Assistance to the chief of the Department in organizing and execution of an effective farmer group development program involving the private coop movement which will involve reorganization and reorientation of the department.

- o Assistance to the Department in the training and supervision of its personnel including work groups to enable the promotion of efficient business administration practices, coop education and agricultural production technology.

DIGESA rationale for the program was to : "Change the cooperatives into economically profitable and socially functional enterprises.

GOALS: Each group attends 4 cooperatives and provides technical, credit and educational assistance to the same. These 8 units comprise 30 cooperatives with 1,725 members and 5,303 hectares of land.

POLICIES:

- o Attend exclusively to the cooperatives engaged in the production of basic food.
- o Teach by doing things jointly.
- o Assist directly in all the activities performed by the cooperatives.

2. Project Inputs

AID grant support of this program has consisted exclusively of the technician financed through the contract with California State Polytechnic College. The costs of the Agricultural Cooperatives Specialist from September, 1973 through December, 1974, were approximately \$66,000, of which \$51,000 was for the year 1974. 1/

AID has also provided support to at least 14 of the cooperatives being assisted under the program through its 018 loan to BANDESA.

1/ From 1966 to 1969, AID provided \$53,207 for technical assistance under a CLUSA contract for assisting the Department of Cooperatives of the Ministry of Agriculture (see PIO/T 520-148-3-60052; 520-187-3-80052; 520-187-3-90067). In addition, in 1966, \$5,800 were expended in a personal services contract to assist the Cooperatives Department of the Ministry to carry out surveys to determine the cooperative development needs in agriculture. See PIO/T 520-148-3-60025.

In 1974 the BANDESA lending to the participating cooperatives can be summarized as follows using data from both BANDESA and DIGESA.

	A. BANDESA Data	B. DIGESA Data	C. COMPOSITE Data both Sources
No. cooperatives receiving loans	14	20	31
<u>Total</u> BANDESA loans	Q447,184	Q462,406	Q491,556
No. cooperatives receiving loans under AID 018 funds	13	n.a.	n.a.
Sub-total BANDESA loans from 018 funds	Q394,384	n.a.	n.a.

Lending provided from AID funds to the participating cooperatives in 1974 was, therefore, at least Q394,384 to 13 cooperatives and probably somewhat higher. 1/

The DIGESA budget for the Agricultural Cooperatives Department is shown in Table IND-1.

An approximate calculation of the annual cost of the DIGESA work groups assistance teams) in 1974 would be:

Direct cost of teams.....	Q91,948
25% Coop school expenses.....	Q 8,513
40% General Administration.....	<u>Q12,319</u>
Total.....	Q112,780

1/ Subsequently we have found that the DIGESA data includes some old loans merely renewed by BANDESA as the cooperatives were unable to repay.

TABLE IND-1

Budget of

Agricultural Cooperative Department,
Ministry of Agriculture, Guatemala

1974 and 1975
(In Quetzals)

Item	General Administration		Coop School		Tech. Assist Teams		Totals	
	1974	1975	1974	1975	1974	1975	1974	1975
Salaries	24,960	26,640	19,783	31,063	72,444	61,800	117,187	119,503
Per Diem	3,900	4,110	4,265	4,135	12,640	12,640	20,805	20,885
Materials & Supplies	1,858	1,636	9,714	10,012	6,464	7,264	18,036	18,912
Equipment	80	0	300	780	400	0	780	780
TOTALS	30,798	32,386	34,062	45,990	91,948	81,704	156,808	160,080

The cooperatives have a total paid in capital of less than Q75,000. However, in the case of some cooperatives total capital has been increased through earnings. In other cases it has been eroded.

Most independent cooperatives require members to make a contribution to capital of Q50, but generally allow this to be paid on the installment plan; the general assembly of a cooperative can make additional capital assessments but rarely does so.

2. Institutional Development

The history of formal government attention to cooperative development in Guatemala begins with the constitution of 1945 which assigned responsibility for the supervision of cooperatives to the Ministry of Economy. This early coop office had registered 30 groups by 1949. With the political turmoil of the early '50's, cooperatives suffered serious setbacks and little activity was seen, apart from the government intervention in coffee lands and the structuring of cooperatives on the resultant "Fincas Nacionales". In 1956, the Superintendency of Banks was assigned to look after the coop system; in 1959 the agricultural cooperatives were split off and put under the jurisdiction of the Ministry of Agriculture. The Ministry set up a separate department to handle agricultural cooperatives in 1964. The newly formed Department worked with approximately 25 cooperatives and had a budget of \$24,000. Cooperative formation has been an uphill struggle, but the Department has shown considerable expansion of activities as seen in Table IND-2.

The significant growth in the agricultural cooperative movement and a high incidence of early failure caused the planning personnel in DIGESA to seek, along with the Department of Agricultural Cooperatives, how the Ministry could support agricultural cooperatives more effectively.

In accord with the National Development Plan, it was determined that additional intensive agricultural and administrative technical assistance would be provided to small and medium-size farmers whose cooperatives could be classified as primarily producers of basic grains, fruits,

TABLE IND-2

Operations of Agricultural
Cooperative Department
1967-1974

Item	1967	1969	1971	1973	1974
Budget in Quetzals	18,020	19,021	62,475	95,202	156,808
Personnel of Department	8	11	17	57	57
Cooperatives Registered	171	247	284	306	312
Inactive Cooperatives	31	81	101	106	106
Number of Members	10,450	13,411	14,500	20,836	20,970 <u>1/</u>
Area Cultivated (Hectares)	20,800	34,820	45,218	38,762	n.a.

1/ Of which 4,562 are FENACOAR. FENACOAC members are, of course, not included as FENACOAC falls under Superintendent of Banks.

and/or vegetables. Of the 199 active cooperatives, this excluded 80 who were principally involved in the production of coffee, cattle, wood, sugar cane, etc. Thirty one of the remaining 119 were selected and offered the services of technical assistance teams of extension personnel. The 31 represented 26 percent of the 119 qualified coops under the National Development Plan, and included 1269 agriculturalists cultivating 3944 hectares.

Eight extension teams were organized in February and March, 1973, with three members per team: a cooperative technician, an extension agent and an agricultural agent. Later, in September and October, in light of the social as well as economic characteristics of cooperatives, two other team members were added, a 4-H Club (4-S Club in Spanish) agent and a home economics agent. These teams were largely organized through transfer of existing personnel from various other government agencies.

After the idea of the technical assistance teams was accepted, implementation took place very quickly and as a consequence suffered various setbacks. The original idea called for highly experienced people as team members in order to provide high quality assistance to the cooperatives, which were to be chosen for their dire need for help. In reality, the teams were not given such high priority and, except for some team coordinators chosen from existing staff of the Department, the technicians assigned did not have the necessary preparation or experience. In addition, there was a 40% turnover of personnel of the teams during the first year, and one-third of the coops being assisted were dropped and others took their place for the second year. Finally, the team concept itself proved difficult to implement in that it required a very different approach than most technicians had experienced. This fact, in part, caused the high rate of staff changes.

The Cal Poly advisor began service in September of 1973. By then, there had been various changes in team staffing and 11 of the 40 positions were vacant, so it was decided virtually to begin again. The advisor, working with Department personnel, developed a training program which was held in November 1973, covering technical content as well as administrative

requirements for the program. Aspects of this training have been continued in the advisor's regular visits to the teams. Approximately a third of the advisor's time is spent in the field. He visits each team approximately once every three or four months.

At first, the teams were responsible directly to the Agricultural Cooperative Department of DIGESA in Guatemala City. In mid-74, with the regionalization of DIGESA their operations fell under the respective regional or sub-regional directors who assigned them according to their local priorities. Although the national office was still responsible for supervising the technical operation of the teams, its direction of the teams practically disappeared with the organizational undercutting of its authority. The Cal Poly advisor became the only regular link of communication between the teams and the central office.

4. Services Provided

As originally designed, the technical assistance teams were to make regular visits to their four assigned cooperatives to provide assistance in five areas:

- o cooperative organization and administration
- o planning for and provision of essential agricultural inputs
- o technical agricultural information
- o homemaking skills for women and girls
- o agricultural and cooperative skills for boys

The teams have provided these services in varying degrees, generally by means of a one-day visit per week to each group. In some cases, distances and road conditions combined with the demanding work schedule of the coop members meant that contact time with the members is an hour or two per visit. In many cases the team is able to separate once it arrives in a locality;

the cooperative advisor spends time with the manager or other leaders; the credit advisor works on farm plans with farmers; the extensionist in demonstration plots; and the youth club advisors with their respective groups.

The coordinator of the team is generally the coop technician, usually a licensed accountant (perito contador). He counsels the various committees of the cooperative regarding their duties, gives talks to the full membership on cooperativism, and is responsible to see that the accounting is being properly handled. Generally, the coops hire a local accountant to do their bookkeeping. The coop advisor also arranges for audits by the Department of Agricultural Cooperatives.

The extensionist agent, usually a graduate of the Barcena school with a degree as practical agronomist (perito agronomo), gives short talks to coop members, according to the agricultural needs of the area, advises on problems brought by members, and develops demonstration plots. In 1974, about 20 coops had demonstration plots.

The agricultural agent works with the farmers in preparing their farm plans to identify input needs and then with the coop management to consolidate these needs, request credit and follow the process through until the inputs are available. In several teams, this member has not been appointed and these activities are carried out by the extensionist and the team coordinator.

The home economics agent (educadora del hogar) organizes 4H type clubs with the daughters of club members, providing instruction in cooking and sewing. She also provides similar training for wives of coop members, although in some coops it is very difficult to organize the women.

The last member of the team usually has been trained as a rural teacher and is responsible for organizing boys' 4-S clubs and some general education for the coop members. In both this case, and with the girls generally, nearly half the club members are from non-coop families. Meetings for both groups are held in schools, in some cases in coop offices and

homes. Only two coops have no 4-S clubs, while 23 have more than two groups. These additional clubs are organized where there are clusters of members in different aldeas.

The principal service provided by the coops to their members has been the procurement of chemical fertilizer, and in a few cases other inputs by means of the credit supplied by BANDESA. With the help of the team, the coops consolidate member needs, prepare the needed documents, and follow through on the process of securing the fertilizer. Many coops operate a small general store for their members. Some of the larger groups own tractors, trucks and threshing machines.

Activities of the teams in 1974 as reported in the Ministry of Agriculture information system are as follows:

Activities of Technical Assistance Teams 1/

<u>Activity</u>	<u>Projected</u>	<u>Actual for 1974 2/</u>
Number of teams	8	8
Cooperatives assisted	32	32
Members trained (contacted)	1,785	6,104 (117)
Hectares of land involved	6,489	3,517
4-S club members (boys)	2,000	4,000 (78)
Women's club members	1,000	1,599 (31)
4-S club members (girls)	1,000	3,666 (70)

Services provided by the Cooperative Department to the teams is limited to training and supervision by the AID-provided advisor. Department services to the cooperatives include training and auditing. During 1974, about 130 members of assisted cooperatives attended courses at the Department operated training center at Amatitlan. Of 9 audits performed by the Department, 6 were for cooperatives assisted by the teams.

1/ The data for members trained, 4-S and Women Club Members refers to cumulative attendance at activities.

2/ Numbers in parentheses are weekly averages.

5. Characteristics of Beneficiaries

Information on the characteristics of the participants in this program can be found in the socio-economic studies designed by the advisor and carried out by the teams. In general terms, most of the coop membership is from the highland area. Of the thirty coops, the four in Zacapa are almost entirely Ladino with larger land holdings. The four in Retalhuleu are at least 50% Ladino and also much better off economically.

Similarly members of the two cooperatives in Escuintla are principally more prosperous than the subsistence small farmer class. Among the highland coops, only El Agro is completely Ladino, while San Carlos Sija and Sibilila are approximately half Ladino. This totals 13 coops with sizeable non-Indian membership. Twenty percent of the cooperatives, with about 80% of the total membership, are primarily dedicated to wheat and corn production in the highlands at an average of 2.1 hectares per family. Two corn producing cooperatives are in Escuintla in the lowlands with average sized farms of about 15 hectares. The four vegetable coops in Zacapa have about 14 hectares per member, much of it in intensive high-income crops. The members of the coops raising coffee and corn have an average of 3.6 ha. and those raising cattle and corn, 5 ha. each.

General data on the cooperatives in this project are summarized in Table IND-3.

TABLE IND-3

COOPERATIVES SERVED BY TECHNICAL ASSISTANCE TEAMS

Team Number, Region and Cooperative	Principal Activity	Number Members	4-S Clubs ¹ Membership	Hectares			Credit Program ^{1/}			No. Borrowers	
				Planted		TOTAL	On-going Loans	New Loans	TOTAL Loans		
				Basic Grains	Other Crops						
TEAM I Huehuetenango:											
	Civilco	corn	108	70	143	3	146	Q 6150	Q 4727	Q 10877	20
	Nueva Esperanza	corn	54	75	36	1	37	--	--	--	--
	San Idelfonso	corn	80	49	120	1	121	2500	5000	7500	21
	San Mateo Ixtatán	wheat	20	42	82	1	83	--	2777	2777	7
TEAM II Quezaltenango:											
	San Carlos Sija	wheat	82	180	469	7	471	18400	--	18400	--
	San Rafael	wheat	72	86	43	18	61	2560	4925	7485	27
	La Espiga	wheat	60	26	40	20	60	800	1450	2250	--
	Sibilia	wheat	43	176	332	4	336	13000	23391	36391	25
TEAM III Sololá:											
	San Juan Argueta	wheat	161	91	112	13	125	4829	11250	16079	120
	Chaquiyaqueña	wheat	28	78	17	1	18	3152	4643	7795	20
	Tecún Umán	wheat	97	115	198	--	198	9310	18000	27310	82
	San José	wheat	30	60	60	--	60	2500	1538	4038	20
TEAM IV Chimaltenango:											
	Kamolón KI Kusamuj	corn	103	1	51	--	51	--	--	--	49
	El Agro	wheat	143	24	983	10	993	9000	70000	79000	94
	San Bernardino	wheat	304	135	187	--	187	17452	--	17452	84
	El Progreso	wheat	70	90	133	6	139	30329	--	30329	65
TEAM V Retalhuleu:											
	El Asintal	coffee-corn	103	278	64	230	294	--	38800	38800	68
	La Unión	cattle-corn	32	106	60	315	375	5000	--	5000	--
	Grano de Oro	coffee-corn	20	81	75	77	152	9250	--	9250	--
	El Reposo	cattle-corn	22	39	65	53	118	39136	--	39136	--
TEAM VI Nueva Concepción:											
	La Concordia	corn	16	77	220	64	284	--	20000	20000	15
	Alianza Nva. Con- cepción	corn	54	36	625	156	781	58172	60000	118172	38
TEAM VII Zacapa:											
	Gualán	vegetables	26	131	100	85	185	25000	--	25000	--
	Casvachi	vegetables	44	150	500	200	700	150000	94320	244320	32
	Motagua	vegetables	46	79	300	200	500	65000	35400	100400	30
	El Rosario	vegetables	32	111	400	300	700	37000	47200	84200	19
TEAM VIII Sta. María de Jesús:											
	Eterna Primavera	corn	20	70	56	12	68	--	9985	9985	14
	Nuevo Sembrador	corn	26	63	103	23	126	7398	6000	13398	21
	Santiago de los Caballeros	corn	67	61	10	--	10	--	--	--	--
	Monja Blanca	corn	27	108	44	19	63	2000	3000	5000	18
TOTALES			1990	2817	5623	1819	7442	Q517938	Q162406	Q980344	899
			====	====	====	====	====	=====	=====	=====	====

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Source: Department of Agricultural Cooperatives
Guatemala^{1/} Does not agree completely with BANDESIA data. Does not include
loans by Credit Union to three Chimaltenango Cooperatives.

B. PROJECT ACHIEVEMENTS

1. Achievements in Benefits to Small Farmers

The most evident benefit of the program to small farmers is the availability of Q500,000 in new credit during 1974---an amount averaging Q250 per cooperative member and Q500 per borrower. This is more than treble the amount of credit made available to a borrower from a FECOAR or FENACOAC cooperative. Most of the loans, which come from BANDESA, were provided at 8% until July 1974; subsequently for basic grains the rate has been cut to 5%. A small proportion lent through a credit union was at 1% per month.

The integration of agricultural technical assistance into the program hopefully will have a synergistic effect with the relatively substantial use of credit. We note, however, considerable shortcomings in the technical assistance system. In some cases, the youth, relative inexperience, and difference of cultural background of the agronomist appeared to restrict his effectiveness. Perhaps more important, however, each agronomist was more or less on his own. He either was not able to get significant specialized assistance from other organizations in DIGESA or he did not know how. In our view there should be a senior supervisory agronomist to follow the progress of extensionists working with coops and other farmer groups and to assure that they both can and seek to utilize the full technical capability of DIGESA.

Despite the extraordinarily high levels of loans and technical assistance expended in this program, the small farmer survey (Volume III to this report) does not show the farmers in this program to be earning as much per manzana as their neighbors. Further their farm earnings fall below those of both FENACOAC and FECOAR members on both an absolute and per manzana basis.

The small farmer survey indicates that a substantial part of the loan funds from BANDESA could not have been used for maize or wheat production and indeed often not even in any form of agricultural production. Only 35% of members polled indicated they were receiving technical assistance.

While a greater percentage of members receiving assistance rated it as good than in the case of FENACOAC and FECOAR, a smaller proportion rated it as "very good" (only 12% compared with 31.5% of FENACOAC members).

The organization of 4-S clubs is more clearly seen as a specific result of the technical assistance teams. The clubs organized under this program include about 10% of the national membership and represent 20% of the total number of clubs in Guatemala. However, the impact of the clubs on development through changes in members cannot be identified and at best is a long range benefit. There was some indication that club work was irrelevant, largely due to a lack of understanding and experience on the part of the agents of cultural factors (and especially the languages spoken). There may well be an overall negative effect from the point of view of effecting social integration of the Indian into the broader life of Guatemala. There was insufficient indication among agents interviewed of real understanding and motivation to deal with the deeper aspects of social development. The average weekly club attendance of 4-S and other clubs, as shown earlier, appears to be exceedingly meager for the up to 16 technicians employed in these activities.

2. Achievement in Institutional Development

a. Relevance of Program as Vehicle to Achieve Objectives.

While several of the cooperatives attended under the program involve middle and lower middle income farmers (cattle, coffee and vegetable growers and some medium scale grain producers) the general thrust of the program is to strengthen cooperatives of small farmers, and thereby to enable them to enhance their incomes.

The program is an intelligent reversal of past policies that encouraged the formation of small, principally village level agricultural cooperatives. Such cooperatives have tended to lack adequate management and programs, as well as the support of a strong national federation. The program is thus based on the sound premise that it is better to have a few good cooperatives than large numbers of weak ones with a substantial rate of

inactivity or failure. By concentrating on strengthening existing independent agricultural cooperatives rather than promotion and formation of new ones, the program in effect leaves it primarily up to the federations (especially FENACOAC and FECOAR, both of which have adopted policies of fostering only cooperatives with substantial membership potential) to promote new cooperative units. In a sense, therefore, the DIGESA program complements the program of the major federations and avoids duplicating what the federations are doing.

While this avoidance of duplication is, on the one hand, a strong element of the program, it also points to one of its greatest weaknesses. In all probability, the most efficient way to bring the full benefits of cooperative association to the members of the independent cooperatives is to link them in some way with the major federations, particularly as the latter become increasingly capable of offering a substantial range of services. DIGESA cannot, through its program, match what the federations can do, particularly as they move into agricultural marketing programs that require action on a national scale.

In point of fact, some of the cooperatives attended (the four in Chimaltenango), already have affiliation with a regional cooperative (El Quetzal) and through that with a FENACOAC affiliate (KATO-KI). Another has a working agreement with a credit union in Huehuetenango. While the DIGESA program is appreciated by El Quetzal, it is obviously not of central importance to the total El Quetzal/Kato-Ki program. The same quantum of resources might be more appropriately used to deal with the priority problems of El Quetzal/Kato-Ki in the overall consolidation and extension of its organization and program.

In short, the general utility of the DIGESA program suffers because it has not been made relevant to the mainstream of cooperative development through the principal rural federations, with which it has no linkages. There is a fourth federation (FEDECOAG) which unites some of the independent coops for representational purposes; however, it would be hard to see an economic advantage in developing separately within a federation of diverse,

scattered, and mainly small cooperatives a full range of national agricultural cooperative services.

Finally, while womens' and 4-S clubs are good activities for cooperative sponsorship, they are not the critical elements in building the cooperative movement.

b. Organizational and Financial Viability

The program is organizationally functioning with eight teams regularly attending 30 cooperatives. There is evidence that the teams are making some impact in improving cooperative accounting and business management, encouraging agricultural improvements, and stimulating club activities.

Achievements of the program in terms of PROP indicators have been as follows:

Indicator	1974 Projected	1974 Actual	1975 Projected
a. Coops functioning	15	30	17
b. Membership	1725	1990	2500
c. Production credit to members	Q300,000	Q562,406 <u>1/</u>	Q400,000
d. DIGESA personnel trained	10	40	35

As is evident from the above, all of the PROP indicators were exceeded. Further, it is expected that all will be exceeded in 1975 except the number of members served.

1/ This figure includes mainly loans from BANDESA.

The main reason the results in terms of PROP indicators look good is that the projection of 1974 membership was low. In fact the membership total for the 30 cooperatives now involved in the program (as listed in Table IND-3) has remained stable at from 1900 to 2000, or an average size of about 66 members per cooperative:

Membership of 30 coops

January 1973.....	1969
January 1974.....	1941
January 1975.....	1990

Analysis of the changes in membership of the 30 cooperatives from 1973 to 1974 reveals the following:

<u>Coops accounting for growth (or decline)</u>	<u>1973 to 1974</u>	<u>1974 to 1975</u>
Four cooperatives affiliated with FENACOAC Credit Union during 1974 but not during 1973 <u>1/</u>	-22	+59
One cooperative "with business relations" with FENACOAC cooperative in 1973 and 1974 <u>2/</u>	+30	+28
One newly organized cooperative	+21	-1
Twenty-four pre-existing coops with no affiliations to Coop federations	-38	-31

From these figures it will be observed that the growth was in cooperatives with working arrangements with cooperative federations during the periods of such affiliation. The other cooperatives in the program, as a group, lost ground, and the single new cooperative created was not a success. The most dramatic growth in 1974 was in El Agro, a Ladino cooperative, and Kamalon Ki Kusamuj, Katoki El Quetzal affiliate, both in Chimaltenango.

1/ Affiliates of Katoki-El Quetzal.

2/ Agricultural Coop in Cuilco, Huehuetenango, which acquires fertilizer from the local credit union.

While the technique used by the program-- the mobile technical assistance team travelling together--has been developed with care, there are substantial problems in its functioning. The entire group must spend a large amount of time travelling to what often are widely distant sites. Programs of all the members of the team are not readily synchronized. Not all coops really want or need the whole range of services. Breakdowns of transport, and lack of gasoline, immobilize the entire group. This problem has been accentuated by recent Ministry of Agriculture reductions in gasoline allowances to the point (50 gallons a month per team) that the institutional viability of the program can be questioned on this score alone.

At the level of the Department of Agricultural Cooperatives, a basic conflict results from a situation in which there are more requests for assistance than there are resources to respond. Pressure from non-attended groups is likely to increase so that the only longer range viability, assuming that the resource level will remain about the same, is to find more efficient ways to use the teams, or an alternative to the team approach.

Another significant conflict which affects the viability of the program is that of the interrelation and duplication of functions between team members and other staff of DIGESA. As mentioned earlier, extension agents on teams have little or no contact with their opposite numbers in other branches of DIGESA, or access to specialized technicians and facilities. Similarly, 4-S coordinators have little contact with their opposite numbers in other programs.

There also appears to be no coordination between DIGESA and BANDESA in the management of the latter's \$1,000,000 cartera with independent coops in the program; much of this amount is believed to be delinquent.

3. Achievements Relative to Costs

The basic data necessary to make comparisons include:

	<u>1974</u>	
No. of coops in program	30	
No. of coop members	1990	
Coop member contacts per year	6104)	or 37 persons per
Club member contacts per year	9282)	week contacted per
Team costs per year (includes share of central office but not value of vehicles)-GOG	Q112,780	team
Advisor costs per year (AID)	51,000	
Loans outstanding approx.	Q1,000,000	
Loans granted in 1974 approx.	Q500,000	

The cost of reaching each cooperative member amounts to Q82 (including the Cal Poly technician) and Q57 (excluding his cost). The cost in relation to each quetzal loaned in 1974 is about 30 centavos (including the Cal Poly technician) and 23 centavos (excluding his cost).

The cost in manpower is about 35 full time personnel to reach the total target population of 1990 families or a ratio of 57 families for each technician. The cost of each of the 15,386 contacts with people (again excluding the Cal Poly technician) averages Q7.30. This strikes us as a fairly high price for the GOG to be paying for each encounter (usually in group meetings rather than individually) between a campesino or his wife or one of his children with one of the young team members involved in the program.

The farmer members of DIGESA-supported cooperatives included in the small farmer survey (Volume III) reported an average of approximately 4.7 technical assistance experiences (meetings, demonstrations, visits) in 1974. This would work out to 9353 contacts per year for the overall membership. Since about a third of assistance seems to have been provided by Desarrollo de la Comunidad and other groups, this conforms pretty well to the 6104

contacts reported in the table above. 1/

There is not enough experience under the new program to determine the extent to which loans will be paid on time or the proportion of funds that will be uncollectable. In the past, BANDESA has sustained significant delinquency and losses in loaning to independent unfederated cooperatives. One of the major benefits that could flow from the program would be to enable BANDESA to recover more of its money. If the program could save BANDESA and other creditors 10% of the \$1,000,000 debt (\$500 average per member) of this group of 30 cooperatives, it would more than cover its costs for one year's operation.

Unfortunately, there appears to be no collaboration between BANDESA and DIGESA in the administration of BANDESA's loan portfolio with independent cooperatives. Neither BANDESA nor DIGESA know what the amount of the portfolio's delinquency rate is, except that it is high. The DIGESA teams are not used to assist in salvaging old and delinquent indebtedness. Nor with respect to current debts is there an indication of any pressure on the teams to see that debts are 100% paid on time- which is the goal toward which their extensionist counterparts in FENACOAC and FECOAR must strive.

In undertaking our small farmer sample survey we found in the case of two DIGESA cooperatives listed by DIGESA as receiving loans in 1974 that these were refinancings of delinquent 1973 loans; we understand that in at least one case the program is currently assisting a cooperative to extend its loan. A recent report from a BID member of the tripartite AID/BID/World Bank team on one of the larger borrowing cooperatives in the program finds it in serious financial trouble. These are not encouraging signs.

C. PROJECT POTENTIAL

As an interim program to halt the proliferation of small new cooperatives and to concentrate on strengthening those already in existence,

1/ Many farmers attributed technical assistance cooperatives rather than DIGESA,, but it appears reasonable to attribute such assistance to the DIGESA teams.

the DIGESA program is an excellent conception.

We believe, however, that for the long run it has three serious shortcomings of program design. First, it is too inward looking. It considers the various cooperatives as distinct units without visualizing their most logical integration into the mainstream of the Guatemala rural cooperative movement.

Second, it attempts to treat a wide variety of different cooperatives through the instrument of a standardized team approach. In fact, however, the cooperatives involved are heterogeneous. Some are strong enough that they have relatively little need of the support offered, though they might well use assistance of a more specialized kind than is available. Other have so little potential that they do not warrant the effort expended upon them. The same amount of effort exerted in another way by an enthusiastic 5-man group, supported with the generous BANDESA credit expended on this program, should be able to create some regional and zonal cooperatives of tremendous scope and service to small farmers.

Third, while the mobile team approach appears to enable technicians to cover more ground and attend to more people, in fact too few hours are spent on-site providing assistance. The approach used in recent years with greatest success (e.g., in credit unions throughout Latin America) is to subsidize the salary of a professional manager to work full time with the membership to build up a cooperative, extend its services, attract new members, etc. The size of the subsidy is diminished each year so that the coop and its manager strive for self-sufficiency rather than permanent dependency. This type of approach involves first identifying cooperatives with real potential for growth. If a cooperative lacks the growth potential ultimately to support full-time management, then it is questionable whether the group should have been established or should continue as a separate entity. The group might have been better served by forming a village farmers association, as a local group of a strong cooperative. An example of such a case visited in our field trips in Guatemala is Cooperativa Eterna Primavera, a group of 20 farmers in Sacatepequez, located about 200

meters from another similar (and only slightly larger) cooperative. Its existence as a separate legal entity simply has blocked this group from the logical step of either affiliating with the larger FENACOAC (El Quetzal/Kato-Ki) or FECOAR (La Flor Chimalteca) cooperatives in the area.

At the present time, the GOG and the cooperative movement are studying the feasibility of establishing an INSTITUTO COOPERATIVO, which would be a joint Government/cooperativist agency responsible, among other things, for promotion of cooperative development. The DIGESA Agricultural Cooperatives Department will presumably be integrated into the new Institute.

The creation of the INSTITUTO COOPERATIVO should make it possible to look at development of rural cooperatives in terms of the movement as a whole (credit unions, regional, zonal and village agricultural coops) rather than only in distinct parts. This would make it possible for programs currently administered by DIGESA to be modified in accordance with such a global view. The DIGESA program (or some successor to it) should consider the following techniques:

1. Promotion of working agreements between independent agricultural coops and neighboring credit unions on the pattern of El Quetzal/Kato-ki (or the Santa Lucias), and support for the expansion of their membership and joint programs.
2. Identification of individual coops with potential to achieve substantial regional or zonal membership and support to their expansion, preferably under sponsorship of a federation such as FENACOAC or FECOAR.
3. Promotion of agreements between local agricultural cooperatives and regional FECOAR cooperatives whereby the former can affiliate with and obtain services from the latter.
4. Providing suitable inducements to small rural groups with no independent potential to consolidate into larger cooperative units (rather than incentives to stay independent by providing special help based solely on the fact that they are separate legally created entities).
5. Promotion of the concept of local village farmers' associations (local groups without personalidad juridica) as democratic building blocks of zonal and regional rural cooperatives.

D. CONCLUSIONS AND RECOMMENDATIONS

The DIGESA program of assisting selected independent cooperatives has not been a strong one. Nevertheless, it has been advantageous at this stage of cooperative development in Guatemala and has justified the AID technical support given to it. While the contribution of the advisor is difficult to quantify, he has been a major factor in restructuring the program, training the team members, and providing a vital link between headquarters and the field. The personal qualities of patience and perseverance of the advisor have been important factors in his ability to work with the teams in a meaningful way.

The manner in which loan funds from BANDESA (mostly of AID origin) are controlled in connection with the program is exceedingly disappointing.

Our basic suggestion is that the program should, particularly in view of prospective organization of an INSTITUTO COOPERATIVO, be restructured to work with the rural cooperative federations and to encourage independent cooperatives to participate in the main stream of the rural cooperative movement.

Our more specific suggestions are:

1. That the program be continued on an interim basis in anticipation of establishment of an Instituto Cooperativo.
2. That interim efforts be made to explore the possibilities in at least some cases of linking independent cooperatives (both those now served by the DIGESA program and others not so served) to one or another of the active rural federations (FEDACOAC, FECOAR, FECOCAGUA, El Quetzal).
3. That DIGESA and the federations enter into a dialogue as to how closer relations between the independents and the federations (or their regional or zonal affiliates) might be established on efficient and mutually attractive terms.
4. That the program avoid trying to resuscitate cooperatives that are inactive and dormant or to create new ones without significant growth potential.

5. That BANDESA and DIGESA should give urgent attention to establishing effective control and supervision over lending to cooperatives in the program.
6. Finally, and most important, DIGESA, BANDESA and the cooperatives should work together rather than apart to develop more effective and viable programs to raise small farmer incomes.

SECTION VII

SUPPLEMENTARY PROJECTS

This part of the report deals with various small projects (either USAID supported or related to USAID-supported activities that have dealt with cooperatives in Guatemala). Some of these projects were supportive of the four major projects discussed above; others were independent.

A. AID-SPONSORED PARTICIPANT TRAINING

AID/G Training Office files indicate that since FY 1956 about 90 Guatemalans related to the co-op movement have been provided with specialized training at a total cost of about \$158,000.

Through FY 67, the majority of participants went to a 14-week course in San Juan, Puerto Rico, under the Inter-American Cooperative Service of Supervised Agricultural Credit (SCICAS) (AID Project - Agricultural Credit).

From 1964 through 1968, 22 attended the 6-week course at Loyola University, New Orleans, La., concentrating more on leadership formation (under AID project Rural Community Leadership and Modernization).

In more recent years, participants have gone to the Inter-American Cooperative Institute in Panama; on "in-service training" visits to the U.S.; and to the Inter-American Center for Cooperative training (CIDAC) operated by the Argentine Co-op Movement.

The files do not provide complete information but, of 90 participants, 26 can be identified as working in credit unions, and 47 in agricultural cooperatives.

Individuals currently active in the cooperative movement who have received AID sponsored training include the managers of FENACOAC and FECOAR, the director of the EACA school (described below), and managers of many of the largest rural cooperatives of the country. From our conversation with some of these individuals, we believe that the training opportunities were valuable in broadening the horizons of the participants and were much

appreciated by them.

In our view there are two Latin American countries with important cooperative programs that would be particularly relevant for Guatemalan cooperative leaders to become familiar with; these are:

- (a) Chile: This country provides almost limitless opportunities to observe a range of problems relevant to Guatemala's present and future needs: particularly the development of vegetables and fruits for domestic and international markets; purchase and distribution of inputs by a national cooperative union.
- (b) Costa Rica: This country provides opportunity to observe the operation of unions of cooperatives for the purchase of inputs and the marketing of products.

It may be useful for AID to consider the relevance of cooperative experience in the above countries in the development of future participant training programs.

B. COOPERATIVE SCHOOLS

EACA (Escuela de Cooperativismo, Chimaltenango) is, formally speaking, an affiliate of the Chimaltenango marketing cooperative federation, El Quetzal, which is now merged, de facto though not de jure, with the new Chimaltenango credit union, Katoki, to form a large multi-service small farmer cooperative, Katoki-El Quetzal.

USAID played a significant role in the organization of EACA and provided most of its early financial support. Total AID contributions through 1971 amounted to \$244,000.

EACA fell out of favor with USAID about the time AID started the FECOAR regional cooperative project. EACA strongly disapproved of the USAID-ACDI approach in this project. USAID reacted by deciding that EACA was no longer an institution of great utility or promise. EACA is now receiving support from the Inter-American Foundation, which obviously did

not agree with the USAID conclusion regarding EACA.

EACA has been a catalyst in the movement to organize an Instituto Guatemalteco de Fomento Cooperativo. ^{1/}

There also has been some erosion of EACA's support elsewhere in the cooperative movement. Although FENACOAC's manager was a former EACA sub-director, the credit union movement is not enthusiastic about using the school for education of either members or officers. EACA now draws mainly for its students on Katoki-El Quetzal. coffee and consumer cooperatives, artisan cooperatives, and some organizations working on quasi-cooperative programs. It also has been forming a closer relationship with the Fundacion del Centavo.

In 1973, the Ministry of Agriculture's Department of Agricultural Cooperatives dealt a further blow to EACA by organizing another cooperative training school--CENCACOOP (Centro de Capacitacion Cooperativa), now located in Amatitlan. About half of CENCACOOP's students come from FECOAR and the remaining half from coffee and independent cooperatives.

In our view, the two schools perform an important function in the training of cooperative members (as opposed to professional cooperative managers) to discharge responsibilities both as democratic members and as officers of the cooperatives. Since many members are illiterate, and most have limited education, this is both difficult and important in improving the functioning of cooperatives and the social development of individual participants. Cooperatives using each school appear to be satisfied with results and their members pleased with their training experience.

Of the two schools, CENCACOOP has the most extensive facilities in terms of space (for classes, dining and dormitory) but EACA is far better endowed with equipment and materials for use in instruction. With a staff of 16, EACA also is more comprehensively staffed.

^{1/} See Section II, pp 73-76.

Prior to our visit to the EACA school, we had heard numerous statements from various quarters that were adverse to it (e.g., that the school was too "political", too "doctrinaire"). We also heard contradictory assertions that it was "too practical" (not enough concerned with social formation of the individual) and that it was completely "impractical." While our conversations with EACA directors were limited to a few hours, we found no problems which would lead us to conclude that there are substantial reasons, other than possible conflicts in personality, for estrangement between EACA and other parts of the cooperative movement, or between EACA and USAID. EACA's leadership in the formation of Katoki-El Quetzal, one of the major multi-service small former regional cooperatives in Guatemala, makes it difficult to understand why USAID and ACDI on the one hand and EACA and El Quetzal on the other found such serious obstacles in reaching a meeting of minds when the FECOAR program was initiated. One would have thought they could have agreed to organize a single regional cooperative in Chimaltenango; instead, each separately organized a regional cooperative with identical functions.

In our conversations with EACA, we found its directors fully amenable to designing courses to meet the peculiar needs of particular cooperatives or groups of cooperatives. (This supposes, of course, that the cooperative or cooperative group is prepared to invest some time to specify in detail its needs and the results that it hopes to achieve; and conversely, that EACA's response will be practical with respect to the needs rather than doctrinaire.) In this respect, we believe one of the major needs of cooperatives is for training of officers of their local village groups. In Chimaltenango alone, this is an important need both of Katoki-El Quetzal (FENACOAC affiliate) and La Flor Chimalteca (FECOAR affiliate). We believe it would be extremely useful if FECOAR, FENACOAC, La Flor Chimalteca and Katoki-El Quetzal would work together with EACA to design courses specifically intended to foster more effective democratic grass-roots participation in cooperatives at the village group level. This would not only answer to a common need, but could contribute to the development of bridges of understanding among elements of the Guatemalan cooperative movement.

With respect to DIGESA's rival school, CENCACOOP, our principal reaction is one of disappointment that the Ministry did no more than start another school to do the identical things EACA was doing. While it is possible (though in our opinion doubtful, for reasons of limitations of experience and budget rather than of staff interest and competence) that CENCACOOP is as good a school, it is not a convincingly better one.

Over and beyond sheer cooperative education, it is manifestly important that rural cooperative members and leaders, at both regional and local levels, be exposed to education in agriculture, in order that they may participate in cooperative efforts to improve agricultural productivity and incomes. "How to make better farmers" ought to be one of the main topics of education of agricultural cooperativists. Yet this type of education is not given sufficient emphasis in either the EACA or CENCACOOP programs. Neither school has so much as a small demonstration plot. CENCACOOP, though located within a few kilometers of the agricultural school, Barcena, has no relations with or exchange of program whatever with that school. Important as it may be to teach cooperative members something about cooperative parliamentary procedures and bookkeeping, there are practical limits as to how far this can be carried with illiterates and functional illiterates. A leavening of such courses with practical information on the promotion of better agricultural practices should result in the formation of better leaders and better rank and file. At least one of the two schools should develop a heavy program emphasis on agricultural techniques and their promotion.

We are also seriously disturbed that the major agricultural training institution in the country, Barcena, has no courses on cooperatives, or on working with small farmers as groups.

Cooperatives need now, and will increasingly need in the future, managers and extensionists with good training in agribusiness, including agriculture, accounting and business administration. DIGESA urgently needs extensionists capable of working with cooperatives and quasi-cooperative groups of small farmers. There is a special need for the training

of persons acquainted with Indian languages to work in the altiplano, yet comparatively few of Barcena's students have this background.

Accordingly we consider that it is urgent to develop programs at Barcena (both undergraduate and special) specifically designed to train personnel to work with cooperatives and other small farmer groups. The only viable alternative would be the creation of an additional institution to meet the major need of the country for agricultural technicians to serve the important small farmer sector.

During the course of our study we received numerous reports that there are many young people in the altiplano who are well-prepared to undergo training programs in agriculture such as that at Barcena, but who lack financial support. This suggests to us that a scholarship program oriented to altiplano youth interested in work with cooperatives could be a highly useful feature of future AID assistance related to cooperatives in Guatemala.

C. ARTISAN COOPERATIVES

AID Loan 018 provides \$750,000 of loans to handicraft (artesanía) producer cooperatives. An AID audit report of June 1973 points out that very little of this had been utilized and recommended that some action be taken. Since then the funds still have not been moved. ^{1/}

We visited the newly formed artesanía cooperative federation, which is located in Quezaltenango. We observed with interest that two presumably sophisticated developed countries -- United States and Sweden -- each were financing volunteers (two to four PCV's in the case of the United States and two volunteers from Sweden) to assist in the development of this cooperative production and sales business, without benefit of the working capital necessary to make the volunteer services productive. In our view the GOG in several of its ministries, BANDESA, USAID, the Peace Corps, and

^{1/} \$500,000 of AID funds have been reprogrammed for other use, and an equivalent amount of GOG funds has been programmed to replace them.

and the cooperative artesanía federation have all failed to act with diligence to avoid the pointless continuance of this combination of under-utilized manpower and undisbursed loan funds. The responsibility lies with all of them, jointly and severally, to take initiative to resolve this problem expeditiously instead of each asserting its impotence.

We also suggest the possibility of discussions among BANDESA, USAID and FENACOAC to determine whether some part of these funds could be used in some of the credit unions which have very large groups of artisans or with some of the Ministry of Agriculture's artesanía cooperatives.

To the extent that funds cannot be expeditiously and effectively utilized for artisan purposes, we recommend that they be promptly re-programmed to FENACOAC and FECOAR as long term loans for use in the granting of medium and long term sub-loans to cooperative members for agricultural land improvement and diversification.

D. PEACE CORPS

The Peace Corps has provided assistance to coops since 1965. Initial assignments to work with the Ministry of Agriculture were not considered successful. Subsequently, FENACOAC has received 54 man-years of PCV's, with seven men currently assigned, and FECOAR 18 man-years with five men still in the program. Participation in the FENACOAC program has been considered successful. The Federation has provided excellent administrative support. The PCV's are now working largely with the regional managers of FENACOAC, are appreciated, and have good morale.

While there are notable exceptions, FECOAR and its member cooperatives do not appear to have worked out effective means to make use of this resource. Most of the volunteers have regarded themselves as under-utilized and there has been a high rate of drop-out from the program. We can think of a long list of useful services FECOAR could be performing for its members, or to improve its system of record collection and administration, which lie within the talents of PCV's.

As specific examples, some PCV's have unique talents which could make them useful in developing pilot projects for agriculture diversification in such fields as vegetables and fruits. Most have enough administrative skill to be able under the direction of an agronomist (a) to plan and carry out a program of selecting soils for testing and in translating the interpreted results into improved sets of recommendations on the choice and use of fertilizers under varying conditions obtained in a cooperative's region; (b) to conduct with local cooperative groups simple experiments in the preparation and use of compost green manure and cover crops, and other fertility enhancing practices; and (c) assist in laying out and construction of contours, terraces, waterways, and similar soil and water conservation activities.

Based on our experience in other countries, we do not believe it is productive to assign PCV's to cooperatives unless there is a strong and continuing interest at federation level to make full, constructive and creative use of this resource, giving attention to individual talents and skills. Otherwise, the PCV is likely to be underemployed both with respect to his work time and the usefulness of the duties he is asked or permitted to perform.

E. AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

The AID-supported program in Guatemala has some relationship with campesino groups such as the Confederacion Sindical de Trabajadores de Guatemala (CSTG). The latter has developed a program in Chimaltenango whereby a number of its groups are provided with BANDESA credit at 5% interest; the program is administered by DIGESA and the group loans are guaranteed by CSTG.

AIFLD has provided some participant training for agricultural workers including, currently, a cooperative course for chicle workers of Peten. It is also taking some campesino leaders to see the AIFLD-supported cooperative plan program administered by a campesino union in Honduras. (The climatic problems, is a joint-borrowing group system operated similarly to that of the Fundacion del Centavo. It differs from the

Fundacion program, however, in that important technical assistance and marketing support also is provided. The philosophy is one of reaching a limited number with a complete service package rather than trying to serve larger numbers with a single service).

Given the availability of BANDESA credit, there could be a significant potential here and, in specific localities such as Chimaltenango, a challenge both to the cooperatives and to the Fundacion del Centavo.

F. LOANS TO INDEPENDENT COOPERATIVES THROUGH BANDESA

Section VI has already discussed loans made by BANDESA under AID loan 520-L-018 to the cooperatives involved in the technical assistance team program of DIGESA.

A number of other rural cooperatives, however, also receive loans under this fund. As shown by BANDESA records, these were the following in 1974:

<u>Cooperatives and Location</u>	<u>Principal Products</u>	<u>No. of Members 1974</u>	<u>Amount of Loans</u>
<u>Altiplano</u>			
Santa Lucia, El Novillero - Solola	Wheat Corn Rabbits	932	\$ 192,775
Nuestro Futuro, La Democracia, Huehuetenango	Coffee Corn Beans Rice	119	39,946 <u>1/</u>
Xelaju, Quezaltenango	Wheat	30	2,000
Mequel, San Miguel Acatan Huehuetenango	Artesania	30	4,470
<u>Oriente</u>			
Regional de Oriente, Zacapa	Corn Sorgham Tomatoes	153	150,000
	Carried forward.....	1,263	\$ 389,191

1/ Loan for machinery

	Brought forward.....	1.263	\$	389,191
<u>Coastal Plain</u>				
La Unidad, San Antonio	Sugar	54		148,000 <u>1/</u>
Suchitepequez	cane			
	Total	<u>1,317</u>	\$	<u>537,191</u>

There was an apparent strengthening of AID interest in assistance to non-federated cooperatives in Guatemala from the AID audit report of June, 1973 on the AID-018 loan, which states as follows: "USAID/G agrees that unaffiliated cooperatives need specialized credit assistance. This matter will be taken up with BANDESA and assistance provided in establishing an adequate program."

The \$192,775 of purely AID 018 funds lent to Santa Lucia in 1974 were larger than the \$188,572 in funds borrowed, almost entirely at short term, by the FECOAR affiliate in Solola from FECOAR.

1/ Loan for warehouse construction