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TERMINAL REPORT

AGRICULTURAL COOPERATIVE PROJECT IN GUATEMALA

By David Fledderjohn

October, 1976

Agricultural Cooperative
Development International
Under Task Order #2
AID/Pha/BOA 1078
Agency for International Development

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CONTENTS

	Page
I. THE PROJECT	1
A. Background	
B. The Institutional Design	
C. The Service Package	
D. The Work of ACDI	
E. Declining Inputs by AID and ACDI	
F. A Note on Training	
II. SOME NUMBERS	11
A. The Affiliated Cooperatives	
B. The Federation FECOAR	
C. Expenditures by AID	
III. MEMBERS AND THEIR FARMING	21
A. The Farms	
B. The Farmer-Member	
C. Income, Credit and Technical Assistance	
D. Conclusions and Observations	
IV. KEY EVENTS WHICH AFFECTED THE COURSE OF THE PROJECT	26
A. Organization of the Regionals	
B. Personnel Policies	
C. Grants from AID	
D. The Formation of FECOAR	
E. Credit and Price Policies	
F. Competition from Government	
G. Prices and Availability of Inputs	
V. PROBLEM AREAS ENCOUNTERED	36
A. Timing of the Project	
B. Growing Pains in the Regionals	
C. Getting FECOAR Organized and Operating	
D. Generating Income and Diversified Projects	
E. The Earthquake	
VI. THE FUTURE	41
A. Resources and Future Requirements	
B. Diversification, Risk and Income Producing Ventures	
C. The Government of Guatemala	
D. Initiatives from AID	
E. Growth	

- A. Job Descriptions of ACDI Staff
- B. Organization Chart of FECOAR
- C. Organization Pattern of a Typical Regional Cooperative
- D. Condensed Trial Balance of FECOAR as of June 30, 1976
- E. Condensed Year-End Balance Sheets of FECOAR Affiliates
- F. Credit Situation of Affiliated Cooperatives
- G. Credit Situation of FECOAR
- H. Letter from Public Accountant

I. THE PROJECT

A. Background

Beginning in the mid-sixties, the Agency for International Development (AID) sponsored joint studies with the Government of Guatemala to take a hard look at the situation and trends in the Guatemalan rural economy. The results of this work culminated in a redirection of much of AID assistance to the country toward the less fortunate rural population. The Government of Guatemala, fully aware of the implications of disparate growth and development which was bypassing much of the rural population which comprises some two-thirds of the nation's total, adopted policies and made institutional adjustments to give priority in public programs to small and medium-sized farmers producing crops essential to the national diet. AID contributed to the Government effort with loans, technical assistance and training in the agricultural public sector to further strengthen programs directed at the rural poor. Most of these programs were begun about 1970 and became something of an antecedent for AID priorities in rural development in later years.

A five-year Rural Development Plan was drafted as a guideline for institutional reorganization in the public sector and the results which it was expected to produce. Included in the Plan was the mention of rural cooperatives as instruments or delivery mechanisms to provide essential services to the less privileged portion of the target population of some 400,000 rural families. Cooperative organizations, it was thought, could reach farmers in a unique way (and at possibly less cost) providing small farmers with technical advice, production credit, farm supplies and marketing assistance--essential services for improving the productivity and profitability of small-scale farms. In early 1970, Agriculture Cooperative Development International (ACDI) was invited to participate with AID officials in a brief study of the agricultural problems and existing cooperative institutions of Guatemala. The results of this study contributed to the decision by AID to invest in a major effort of agricultural cooperative development in the Western Highlands region of the country.

This Highlands region epitomizes the problems of the rural poor of Guatemala:*

*See "Members and Their Farming" section for more precise measurements of the farmers affected by this project.

- Population pressure on the land is intense.
- The people are poor; estimates of per capital income are about \$70.
- More than three-fourths of the people are illiterate.
- The population is largely of ancient heritage.
- Emigration to plantations in the warm coastal plains for seasonal work is a means of economic survival for many.
- Attitudes of suspicion and distrust of the outside world are common.

In this setting, ACDI was contracted by AID to devise and build an agricultural cooperative system which would complement more traditional Government programs and contribute to an improved standard of living of this target population. Economic viability, institutional autonomy and the participative benefits of democratic organization, all traditional cooperative norms, were expected to be followed. In November 1970, two technicians from ACDI began work on the project. This report, written in mid-1976, relates a summary of the achievements, a brief mention of the history of development problems encountered and comments on the future of the project.

Opinions expressed here are those of the author who served as Chief of Party of the ACDI effort and do not necessarily reflect official conclusions of AID on the project. It should be noted, however, that during the entire period of ACDI assistance, the team and the project received generous support and constructive criticism from AID. As assistance to this effort terminates, ACDI considers that the opportunity provided it to undertake this work was an excellent test of the application of the cooperative technique to find solutions to pressing problems facing the small farmer of Guatemala.

B. The Institutional Design

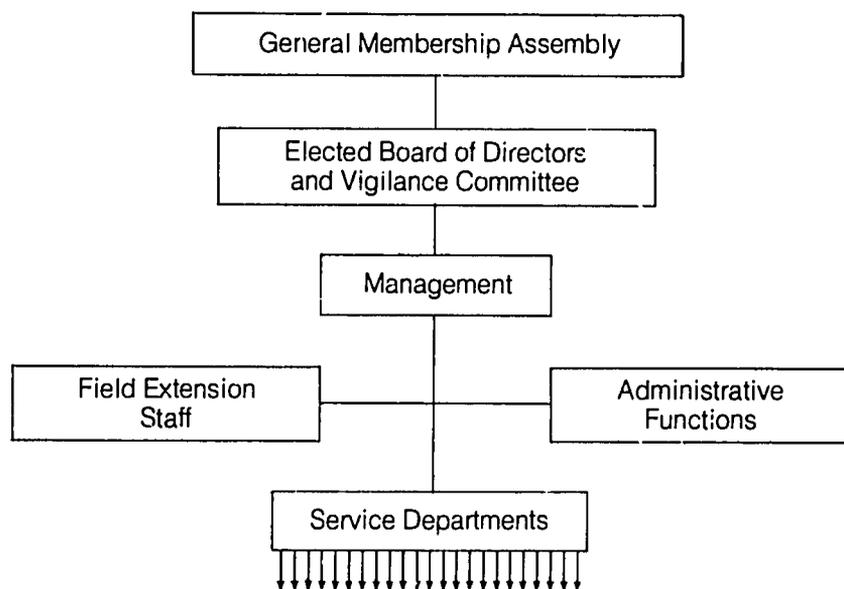
The idea of applying the cooperative technique to the problems of small farmers in Guatemala was not introduced by this project. During some 10 years previously, more than 100 cooperatives were organized and chartered in the Highlands. These organizations, although promoted by people and programs of high intentions and unquestionable faith in cooperative principles, were having serious problems and the incidence of failure was high enough to cause farmers serious doubts about the real value of cooperative organization. The experience of these small, informally run and feeble cooperatives gave ACDI plenty of evidence that, even with the advantage of resources from AID to "patch up" the ailments of existing cooperatives, this sort of assistance would have only short-run effect. The cooperatives were ill-conceived to deal with problems of administration, complex service demands of members and the require-

ments of institutional survival such as capital formation, growth, economies of scale and ability to deal with competition.

After some months of review, discussions with AID and field consultation, a type of cooperative organization, innovative in Guatemala, was devised. The basic elements of this first level or "regional" cooperative as it came to be called in Guatemala, were:

1. Sufficient area coverage to provide access by some 3,000 to 5,000 farmers. This meant that the cooperative would serve several communities within a radius of some 20 miles of the administrative center.
2. With a member base this large, a volume of operations sufficient to achieve economies of scale in administrative functions, purchasing and distribution would be possible.
3. Professional hired management, strict standards of control, accounting and handling of money would be absolutely essential.
4. Although the regionals were to be direct (individual) membership societies, the organization of farmers at the village or settlement (aldea) level would be essential for communications and the delivery of services.

Following these guidelines, ACDI conceived the regional, multi-service agricultural cooperative as the primary institution within which a capacity to provide essential services to farmer-members would be built. Six of these regional cooperatives were planned to eventually serve about 30,000 individual farmer members. The organizational pattern of the regional cooperative is illustrated below.



Membership base organized in 20 to 40 local groups with elected leaders in each to represent them. Committees organized for credit functions and delivery of services.

C. The Service Package

The target population of small farmers in Guatemala was being largely denied access to services which would enable them to increase the productivity of their farms and make even the first steps toward commercial operations. The government had a few agricultural extension posts, a trickle of credit and a wheat promotion program but these services were largely used by the more affluent (and larger landowners) located in or near the larger towns of the area. Even private commerce seldom reached the villages where farmers mainly plant for family subsistence.

Since no element of the farmers' service requirements was being adequately handled by public or private enterprise, it was clear that the cooperative service institutions would have to try to provide a "supermarket" of goods and services needed by their members. In general terms, farmers needed access to the following services:

1. Advice on what to plant, variety selection, cultural practices especially related to diversification, intensification and plant health.
2. A reliable source of production credit.
3. Farm supplies, principally fertilizers and seed.
4. A dependable (and honest) market outlet.
5. Specialized services, typically mechanical wheat thrashing and trucking.
6. A forum or communications system through which information could flow from and to the outside world of commerce and government.

The regional cooperatives were designed to satisfy the basic needs of their farmer-members in these areas. This obviously required skilled management, complicated administration, extensive member education and money. Midway in the project, a federation of the regional cooperatives called FECOAR organized to reinforce the affiliates and assume a leadership position in the project. Experiences in the formation of these institutions and the start-up of operations are related in later sections of this report.

D. The Work of ACDI

From instructions and funding provided by the USAID Mission in Guatemala, a Task Order (contract) was negotiated between the central offices of ACDI and AID in Washington, D.C. to begin the project. This Task Order essentially provided for three things: two cooperative specialists to design and start the project, overhead expenses and basic equipment for an office, and funds with which a Guatemalan staff was hired to begin the process of promotion, education and organization in the field. This procedure was somewhat unusual for AID in projects of this type in that the actual

managerial responsibility of the effort was placed with the contractor--ACDI. The Government of Guatemala approved this arrangement during the planning process and the official liaison for the project was the Department of Cooperatives of the Ministry of Agriculture.

The two ACDI technicians who were selected for this work were: Jorge Nery Chinchilla, a Honduran national with a background and specialization in administration, management, accounting and finance and, as Chief of Party, David Fledderjohn, a North American whose main contributions were in the areas of organizational design, policy development, staff selection and training, agriculture and overall direction and representation of the project. The two technicians worked a total of 132 man-months during the life of the project. Periodic reporting was directed to the central office of ACDI and to the Office of Rural Development of the USAID Mission in Guatemala which followed the progress of the work closely.

ACDI was expected to organize and start operations of two regional cooperatives per year for 3 years. This pace was altered somewhat due to circumstances but the field work progressed just about as the planning schedule called for. By design, the central office of ACDI in Guatemala City was kept small. During the first years, only the two technicians, a Guatemalan director, a secretary, an administrative assistant and an office boy worked there. Travel to the field was frequent and a network of radios for instantaneous communication was established from the beginning. The heavy investments of time, equipment and manpower were made at field stations where the regional cooperatives were expected to develop.

With funds provided by AID, the ACDI group selected a team of Guatemalans to start each regional effort. The team was selected and put on the job over a period of a few months in the following order and comprised the "skeleton crew" of staff for each regional cooperative.

1. Two fieldmen with agricultural and extension experience began visiting the countryside to interview farmers, detect service requirements and to sound out interest in organization. Informal talks were organized with groups of farmers and public officials in the area. Estimates were made of the geographic area to be served, potential membership, problems to be faced and the most appropriate service package. The Guatemalan fieldmen who did this difficult work nicknamed themselves "the flamethrowers."

2. An office boy was responsible for everything from cleaning up to receiving farmers in small, rented offices.

3. A chief clerk, secretary and cashier were added to handle communications, filing and handling money as soon as members began to sign up and make their capital payments.

4. An accountant to operate the books was hired and the standardized system of mechanized accounting was installed when the cooperative acquired a legal charter.

The time required in this sequence which began with "sounding out" the interest of farmers and culminated in a legal charter for the new cooperative, averaged almost one year. However, the cooperatives were able to start raising capital and providing services in a provisional fashion after holding a "constitution meeting" in which the by-laws were approved and a legal charter requested. This meeting was usually held about 4 to 5 months after initial contact with farmers by the two fieldmen.

The ACDI team and central office staff participated directly in the first efforts in the field for several reasons. This experience gave the project invaluable background for the selection and training of appropriate staff, designing the organizational structure, sounding out policies and devising a sound administrative and control system. Another important aspect of this early work was the frequent direct dialogue with farmers. The work of member orientation and education was based largely upon observations of the idiosyncracies, aspirations and character of the farmers themselves. Although the farmers knew little or nothing about cooperatives or the elements of a formal business enterprise, they did provide many wise insights and elements of indigenous leadership which could not be duplicated by "the experts."

As the cooperatives obtained legal charters and elected their leadership, the influence of the ACDI office was diminished intentionally. The Boards of Directors selected their managers and they, in turn, selected their staff. Since AID funds were being used to pay salaries and other operating costs during the first years, budgets and staff appointments were monitored closely by ACDI. Not once did ACDI have to "pull rank" on a cooperative and deny support to the cooperative's request. Virtually without exception, the cooperatives retained the original "skeleton crew" and built an enlarged staff from this base. ACDI was frequently consulted by managers and Boards before taking actions and this harmonious relationship between the central office and the regional cooperatives persisted during the life of the project.

E. Declining Inputs by AID and ACDI

Without intending to give the impression that this project was started and supported with a paternalistic attitude, perhaps the metaphor of raising a family is useful to describe the philosophy with which external assistance was applied to the early work, and the process through which AID and ACDI divested themselves of the role of parents. As described earlier, it was agreed with Guatemalan officials that AID would attempt this cooperative effort with its own funds. ACDI began by conceiving the offspring institutions, served as midwife during the birth pangs and supervised the use of AID resources through adolescence. With the birth of the federation in 1973, ACDI, by design, ceased being the "daddy" and became more like a "grandfather" of the project--not directly involved in sustaining the family and making decisions but rather offering advice and counsel during a period of rapid growth.

One might observe that ACDI "aged" rapidly and became obsolete rather quickly. Parental pride surely obscures the objectivity of ACDI in this process but the Guatemalans who caught the spirit of the enterprise and assumed the responsibilities of the work made it unnecessary for prolonged nursing and guidance. Direct AID assistance in the form of operating subsidies for the newest regionals is being terminated in 1976. Long-term AID loans to the federation in the amount of \$3.0 million at preferential interest rates being channeled through a Guatemalan development bank represent something of a "silver spoon," nevertheless.

A declining scale of external subsidy to cover overhead expenses of the regionals was devised to tide the cooperatives over about a four-year period in which they were developing membership, sales volume and beginning to generate profits. Budgets for subsidy payments were worked out with Boards of Directors of each cooperative and followed scrupulously. The cooperatives also agreed to capitalize all net margins of operations in indivisible net worth at least to the amount of their subsidies. In this way, AID grant assistance is being "converted" into permanent capital of the cooperatives.

In less quantifiable terms, ACDI followed a philosophy of delegating functions of the project to Guatemalans as soon as possible and giving complete authority to locals for carrying out their jobs. The scheduled withdrawal of ACDI's managerial role and AID assistance were made clear to everyone connected with the work from the outset. Several outstanding examples of Guatemalan professionals who responded to the opportunity to "make their own permanent jobs" are evident and these people are precisely the ones now filling key jobs.

F. A Note on Training

With the exception of the role of ACDI as administrator of the project at the beginning, a good part of the work of the contractor involved training Guatemalans to understand the objectives of the cooperative system, perform their jobs competently, and develop qualities of responsibility and initiative which would carry the project far beyond the period of external assistance. Many different techniques were used; some worked better than others but generally ACDI used the principle of "stretching" carefully selected candidates to do jobs for which they were barely prepared. The ACDI team were mostly coaches and advisors to the Guatemalans while they were on the job. Learning most of the jobs needed to make the project function was something akin to learning to milk a cow or ride a bicycle. Certain principles could be taught and demonstrations given but the true skills had to be developed by each person in practice.

Relating some of the techniques and results may be helpful here:

1. After being selected for work in the project, each employee

was subjected individually to a sort of lecture by the ACDI team. A few administrative details were covered but mostly the philosophy of ACDI and the project were emphasized and what was expected of the employee was laid out in general terms. Typical admonitions or instructions were: "the project--the farmers--are more your boss than ACDI," "set your schedule of work to the convenience of the field, not to the central office," "report honestly and frequently," "consult ACDI or anyone else as often as you need--don't bluff it you aren't sure what you're doing," "your performance will be judged more on results and less on the effort you expend in your work." This was the last lecture any Guatemalan ever got from ACDI. Most took the instructions to heart; those who did not, didn't last long.

2. Some reading matter on the project, cooperatives in general, sample by-laws and selected reports were distributed periodically. It was seldom apparent that Guatemalans read them very carefully or got much out of them.

3. Outside consultants were used three times for specific training purposes averaging about one week each. On two occasions the results were very good; the third only fair.

4. Probably more training occurred in the frequent staff meetings called by ACDI early in the project than through any other technique. In these meetings, the teachers were most often the Guatemalans themselves. Agendas were rather open and participants were encouraged to relate on-the-job experiences. Debates were frequent, spirits high and more than once criticisms between co-workers were sharp. ACDI participated in the content of the meetings also but more than anything else directed the traffic of discussions and kept the meetings from becoming a free-for-all. Meetings frequently extended into the night over a beer at a local restaurant.

5. Eight men in key staff positions were sent outside the country for study courses which averaged about six weeks in length. The men learned a great deal, an appreciation of the potential of cooperatives was developed and morale was high when they returned. Six of the eight are still working in the project. The federation was also instrumental in obtaining non-AID scholarships for three other employees to study in foreign countries. The results were good.

6. Technical courses in accounting and administrative operations were held periodically. These were pretty much cut-and-dried instruction although the participants were also encouraged to pass on tricks they had learned to fellow employees. Later, accountants and cashiers met in sessions in which they made their own agendas and called for their own instructors. These were very good meetings and contributed to an esprit among employees in administrative positions.

7. A few effective courses were developed for technical instruction. These included subjects such as soil fertilization, plant health, machinery maintenance, research and variety trials.



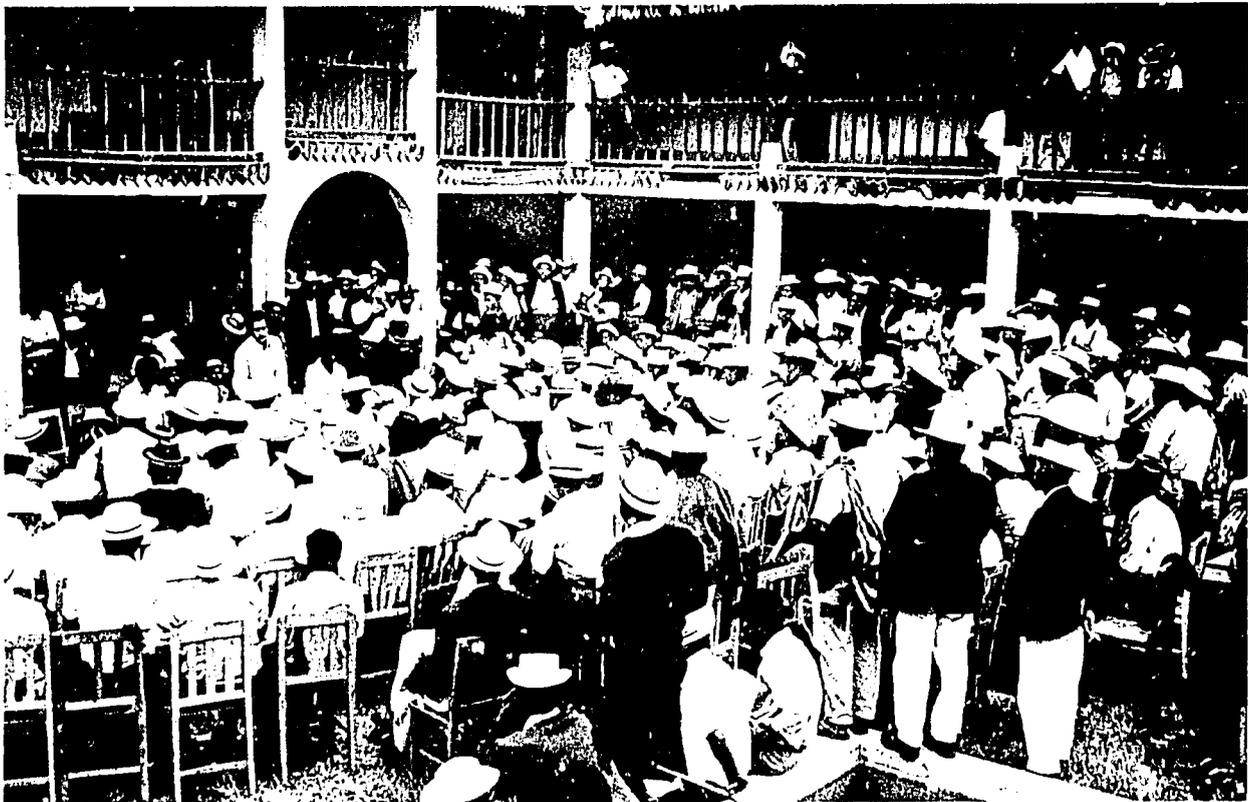
The office branch and retail store of the San Andres Cooperative in the town of Solola collapsed in the earthquake but the farmers continued to patronize the store. Here Fieldman Edgar Rodriguez is doing credit business on the hood of his truck. The large church in the background was lost also.



An experimental potato patch is being inspected here by Hugo Santisteban, FECOAR fieldman and member of the Quiche cooperative.

8. Much of the less formal or day-to-day training which was essential to the project was performed by the ACDI staff and later federation personnel, through frequent field visits and continued radio consultations. This input was usually related to specific problems but in sum, was probably about as important as any other training technique. Many items came up in the field, for example, which were never brought to staff meetings.

The ACDI team certainly did not know everything required to make the project function smoothly. Consultations including practically everything from the legal interpretation of contracts to machinery repair were frequent and the contractor had to become adept at scrounging the answers from whatever source was available. Often, the ACDI office in Washington was very helpful in this regard.



Despite the earthquake, meetings of cooperatives attracted large crowds. Here Manager Jorge Mario Ochoa addressed members of the Flor Chimalteca at its annual meeting.

II. SOME NUMBERS

A. The Affiliated Cooperatives

The accompanying map illustrates the approximate location and geographic coverage of the six regional cooperatives. The guide to the map gives information related to the agriculture and geographic setting of each. The cooperatives are numbered in the order in which they were developed during the project. Only number five, "Cuna del Sol", is located outside of the original Western Highland priority area and the crop mix is different from all of the others. Altitude figures are given to provide the reader with an idea of climatic conditions in each area. Higher elevations and cooler temperatures permit the cultivation of wheat, fruits and vegetables; these climates are not duplicated anywhere else in Central America.

The following graph illustrates membership growth during the project in each of the affiliates. It may be noted that "San Adres Semetabaj" has grown little during the life of the project. More than 500 members were dropped there due to unsatisfactory credit experience. The large jumps in membership in 1973 and 1975 can be explained in part by the fact that the cooperatives were well supplied with fertilizers during periods of shortage in the country. The cooperatives of Chimaltenango and San Marcos tended to be the most aggressive in recruiting members. Due mainly to problems which this brought on, the affiliates in Jutiapa and Quezaltenango have tended to be more conservative.

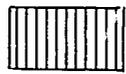
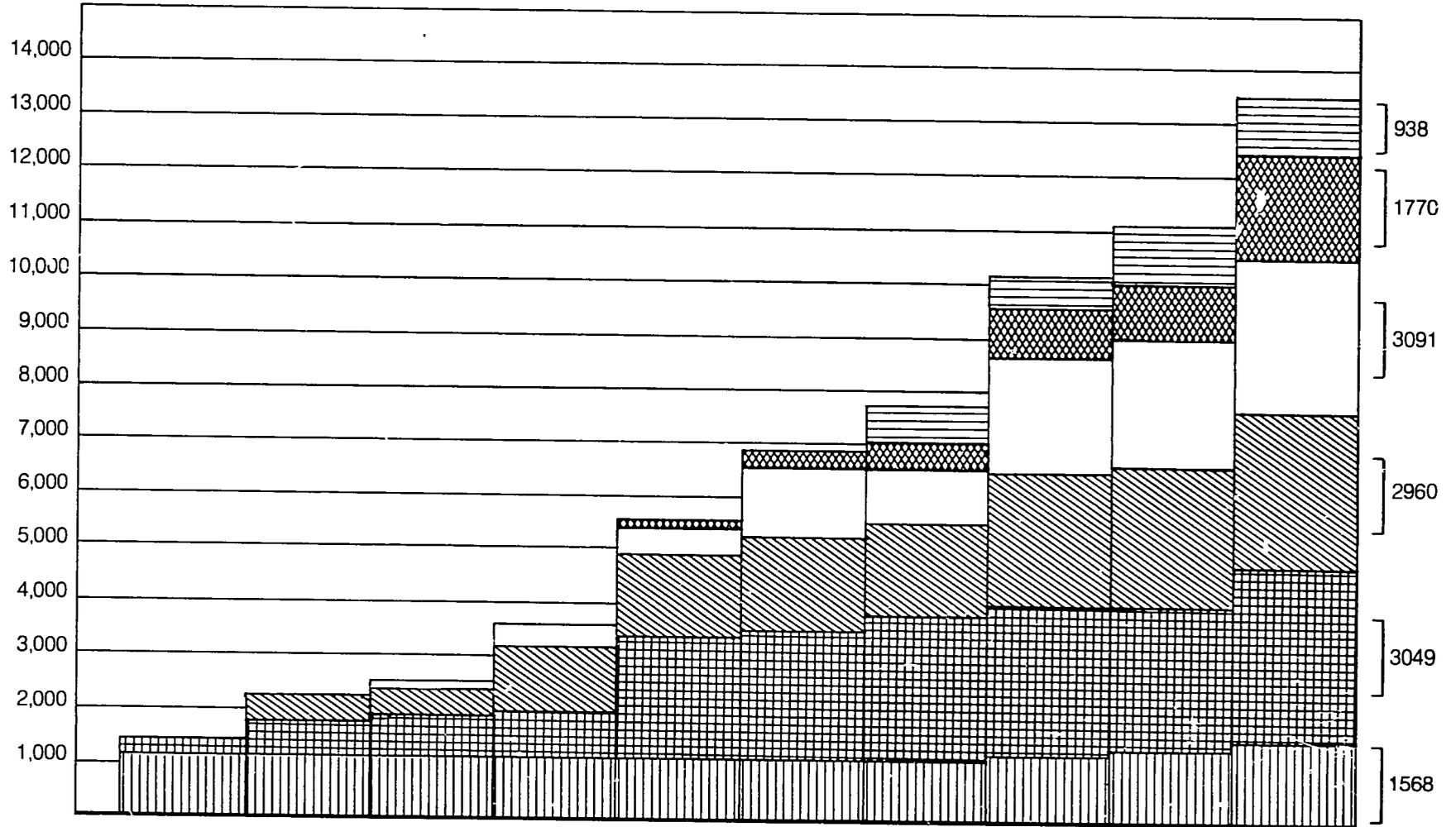
Geographic Distribution of FECOAR Affiliates and Crops Produced
by Members with Services from the Cooperatives



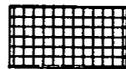
⊗ FECOAR Offices, Guatemala City

- (1) "San Andres Semetabaj," Department of Solola
Coverage: 800 kms², Altitude: 1,707 meters
Crops: Wheat 45%, Corn 32%, Potatoes 7%, Beans 5%,
Vegetables 5%, Temperate zone fruits 3%, Others 3%.
- (2) "Flor Chimalteca," Department of Chimaltenango
Coverage: 2,400 kms², Altitude: 1,786 meters
Crops: Corn 55%, Wheat 15%, Beans 10%, Potatoes 10%
Vegetables 5%, Others 5%.
- (3) "Justo Rufino Barrios," Department of San Marcos
Coverage: 2,000 kms², Altitude: 2,500 meters
Crops: Wheat 35%, Corn 25%, Potatoes 8%, Temperate zone
fruits 6%, Oats 6%, Vegetables 4%, Rye 3%, Others 5%.
- (4) "Rey Quiche," Department of El Quiche
Coverage: 1,200 kms², Altitude: 2,015 meters
Crops: Corn 85%, Beans 5%, Vegetables 4%, Potatoes 2%,
Wheat 2%, Others 2%.
- (5) "Cuna del Sol," Department of Jutiapa
Coverage: 1,500 kms², Altitude: 805 meters
Crops: Corn 85%, Beans 5%, Vegetables 4%, Potatoes 2%,
Wheat 2%, Others 2%.
- (6) "12 de Octubre," Department of Quezaltenango
Coverage: 750 kms², Altitude: 2,350 meters
Crops: Wheat 45%, Corn 30%, Potatoes 10%, Vegetables 5%,
Temperate zone fruits 5%, Others 5%.

Membership in the Regional Cooperative Affiliated with FECOAR (by Semester, 1971-6)



San Andres
Semetabaj
Sololá



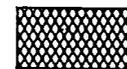
Flor Chimalteca
Chimaltenango



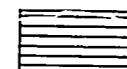
Justo Rufino
Barrios
San Marcos



Rey Quiché
El Quiché



Cuna del Sol
Jutiapa



12 de Octubre
Quezaltenango

Table 1 of Statistical Indicators gives a quick view of cooperative indicators in the six affiliates. The number of local groups into which the membership is organized varies widely. This has been the subject of much debate in which the fieldmen have tended to favor more groups for promotional and educational purposes and the office types want fewer, for reasons of accounting and inventory control of warehouses located in local groups. Paid-in capital has consistently grown due mainly to capitalization requirements on production credit loans to members. Reserves and other capital have increased as a result of capitalized earnings. Nearly two-thirds of this capital was earned in one year of windfall profits resulting from timely fertilizer purchases. Fertilizer sales are a good indicator of comparative volume of operations between the regionals. Sales in 1976, for example, ranged from 18 hundredweights per member in San Andres to 6 in the cooperative Justo Rufino Barrios. Final sales figures for 1976, will be about 240,000 hundredweights.

Annex E of "Condensed Year-End Balance Sheets of FECOAR Affiliates" allows the curious reader to compare the financial position of each of the cooperatives. It should be noted that 1975 was a bad year for earnings. Other years have obviously been better. None of the cooperatives is yet well capitalized. Reserves as a percent of credit operations are still quite low. All of the cooperatives except San Marcos represent sound loans from FECOAR. All "Loans Payable" are owed to FECOAR with the exception of the long-term loan outstanding to San Adnres from a government bank. A summary of FECOAR lending to affiliates is presented in Annex G.

Annex F shows the experience of the affiliated cooperatives in lending to member-farmers. One cooperative clearly in trouble is "Justo Rufino Barrios." "Flor Chimalteca" and "San Andres" have to clean up their receivables also. The three remaining (the newer cooperatives) have a better record partly because they were able to learn from the others and also run somewhat tighter controls as a result of some "technical insistence" by ACDI. Percentages of delinquency of overdue loans are noted in the totals column. All unrecovered loans are included and delinquencies have not been understated by refinancing of extensions. Commonly, members do not pay their loans in observance of the due date of obligations but rather pay at the time of marketing their products or when they accumulate cash from non-farm income.

B. The Federation FECOAR

The federation is a separate firm and accounting entity from its affiliates. Evidence that the cooperatives deal with FECOAR for their credit and supplies and that the federation deals only with its affiliates, is clear. "Investments" by the cooperatives are "Member Capital" in the federation and Receivables in the federation are Payables in the affiliates.

Table 1

STATISTICAL INDICATORS OF THE REGIONAL
COOPERATIVES AFFILIATED TO FECOAR
JUNE 30, 1976

INDICATORS	SAN ANDRES SEMETABAJ	FLOR CHIMALTECA	JUSTO RUFINO BARRIOS	REY QUICHE	CUNA DEL SOL	12 DE OCTUBRE	T O T A L S
Local Groups	22	102	36	79	73	14	326
Paid in member capital	102,499.56	99,987.61	88,247.80	58,621.04	66,794.91	30,808.72	\$446,959.64
Reserves and other capital	149,256.54	89,105.96	63,290.52	42,104.57	38,624.93	4,769.26	\$387,151.78
Fertilizer sales in hundredweights--Agricultural year 1973-74 (To May)	21,440	16,300	11,250	-	-	-	48,990
Sales: May 1974 to May 1975	15,500	20,622	20,352	7,728	6,018	-	70,220
Sales: May to December 1975	22,631	24,108	19,813	22,441	11,675	9,456	110,124
Sales 1976 to date	27,627	47,920	17,449	65,336	34,689	14,638	207,659

FEDERACION DE COOPERATIVAS AGRICOLAS REGIONALES

General Balance Sheet
as of Dec. 31, 1975

ASSETS

Current

Cash	20,284
Loans to cooperatives	1,511,531
Interest receivable	9,795
Fertilizer subsidy receivable	267,820
Insurance claim pending	234,660
Other receivables	18,257
	<u>2,062,347</u>
Inventories	1,613,287
(-) Reserve for valuation	(234,778)
	<u>1,378,509</u>
Prepaid items	1,232
	<u>3,442,088</u>
<u>Other Assets</u>	
Investments	714,380
Long-term loans	170,275
	<u>884,655</u>
Vehicles, furniture and equipment	69,366
(-) Accumulated depreciation	(20,273)
	<u>64,093</u>
Total Assets	<u>\$4,375,836</u>

LIABILITIES AND NET WORTH

Current

Loans payable	775,600
Subsidies payable, cooperatives	16,977
Fertilizer subsidies payable	172,966
Other accounts payable	<u>9,615</u>
	975,158

Contingency funds

Labor code benefits fund	<u>7,780</u>
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Long term

Loans	<u>2,805,002</u>
-------	------------------

Deferred

Prepaid items	<u>2,640</u>
---------------	--------------

Total liabilities	<u>3,790,580</u>
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Capital and Reserves

Member share capital	170,853
Indivisible net worth	326,329
Protection fund	48,389
Legal reserves	33,728
Undistributed profits	<u>5,957</u>
	\$ 585,256

Total Liabilities and Net Worth		<u>\$4,375,836</u>
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FEDERACION DE COOPERATIVAS AGRICOLAS REGIONALES

Operating Statement
Year Ending December 31, 1975

Sales	1,494,427
Cost of Sales	<u>1,472,238</u>
Gross profit	22,189
Administrative Overhead	85,078
Profit (loss) in operations	(<u>62,889</u>)
Other Income:	
Interest income from loans	87,156
Interest income from investments	30,484
Donations and contributions	<u>118,631</u>
	236,271
Other Expenses:	
Interest paid on bank loans	94,644
Subsidies paid to affiliates	68,381
Miscellaneous	<u>1,192</u>
	164,217
Net income of the year	\$ <u><u>9,165</u></u>



ACDI President, second from left, chats with members and officials of the Cuna del Sol co-op at Jutiaper during the Central American Cooperative Workshop sponsored by ACDI and AID.

The year-end balance sheet and operating statement of FECOAR for calendar year 1975 are presented here. This presentation was suggested by a local public accounting firm (see Annex H). An odd item, "Fertilizer subsidy receivable" stated as an asset, represents the best estimate of the amount which the Government of Guatemala will pay in accordance with a fertilizer distribution agreement noted in the "Key Events" section of this report. "Donations and Contributions" in the operating statement represent AID subsidies to the project. Over half was paid out to affiliates by FECOAR.

The condensed trial balance of FECOAR as of mid-1976 is presented in Annex D in order to give a more current reflection of the financial position of the institution. The difference between income and expense items under "Operating Accounts" represents net operating income on the year. By agreement with its affiliates, FECOAR has sold products at exactly acquisition cost this year. Negotiations with the Government of Guatemala on fertilizer subsidies are still proceeding and unpaid as of the reporting period. If the actual subsidy which is eventually paid varies significantly from the estimate noted under receivables, the financial position of FECOAR will vary accordingly.

C. Expenditures by AID

Control accounts kept by the USAID Mission in Guatemala were consulted to obtain data on the total cost of the project. The total investment in grant funds is high--about \$100 per member--at this point in the life of the cooperatives. On the other hand, it might be observed that all grants to the project, including the cost of the ACDI contract, are already "covered" by capital generated in FECOAR and its affiliates.

Total Expenditures by AID for the ACDI-FECOAR Cooperative Project

Through September, 1976

(Stated in Thousands of Dollars)

	<u>Amount</u>
Cost of the ACDI contract services; staff salaries, travel, allowances, benefits, etc. (a no-overhead contract)	\$ 354
Contracts between AID and local (Guatemalan) suppliers of goods and services	70
Participant training; travel, per diem and scholarship costs for foreign studies	29
Commodities, including office equipment and supplies, vehicles, buildings and agricultural equipment	273
Local salaries, per diem, travel, educational expenses, office rent, vehicle maintenance, etc. ("Other costs" in AID accounting terminology).	715
	<hr/>
	\$1,441

This represents a large project in terms of the Guatemalan AID Mission. It is also probably one of the more significant AID cooperative development projects, at least in terms of grant assistance, in Latin America. Time and the judgement of others should reveal if AID "got their money's worth," or not.

III. MEMBERS AND THEIR FARMING

One of the criticisms which has been frequently expressed of this project by students, evaluators and analysts, is that of the paucity of hard data on the situation of the target group of farmers. The project does not have data to demonstrate with indisputable evidence, for example, that farmers are better off for having joined and used the services of the FECOAR cooperatives. No detailed base-line study or survey was performed previous to the implementation of the project and measurements attempted subsequently have been inconclusive, the results have been debated and conflicting evidence appears frequently. Most of the measurements required of ACDI in this project refer to the process of institution building rather than the effects of the institutions on the well-being of their farmer-members.

It would have likely been expensive, time-consuming and counter-productive to undertake a detailed farmer survey at the beginning of the project. Indian farmers, particularly, are reluctant to be interviewed and suspicious of people who want to know many details of their personal and economic lives. It was even noted by the fieldmen during the early years of the organizational effort that farmer-members consistently gave misinformation on their farming situation at the time of credit interviews. Similarly, the information provided by prospective members and compiled by the cooperatives in their files on such matters as land holdings, cropping patterns and off-the-farm income is almost certainly inaccurate and skewed to some perception of the farmers of what "the cooperative wanted them to say." The language barrier between Indian tongues and Spanish is also a factor and it has often been observed that, even though the Indian farmer can speak Spanish, his conversational pattern is much different when using his first language.

The ACDI staff and the Guatemalans working on the project have, nevertheless, collected numerous observations from farmers during the life of the project. These observations are, admittedly, sketchy and have not been scientifically compiled nor analyzed. Successes, for example, have probably been more noticed than failures and there is no assurance that those intimately involved in the project have been able to maintain objectivity in either their observations or interpretation of same.

In 1974, AID sponsored an evaluation of cooperative projects in Guatemala which had received assistance for the Agency and as a part of the exercise, farmer surveys were included. The American Technical Assistance Corporation (ATAC), selected 384 members at random from the FECOAR affiliates to be interviewed by a sub-contractor and after eliminations required by the statistical procedures employed, recorded the responses of 210 farmer-members. This sample was the equivalent of 4.4% of the total number of member-

borrowers of the cooperatives at that time. In addition, a match or control group of 71 farmers who were not cooperative members, was interviewed. The results of this survey, as yet unpublished, give a better picture of the target farmer group than any other single source. Unfortunately, the Jutiapa cooperative was not included in the sample because of limitations of time and resources. Also, this cooperative is not located in the Western Highlands and farming patterns are different from the area of primary concern of the study.

A summarized and paraphrased version of the findings of the ATAC survey of FECOAR follows:

A. The Farms

1. The survey found 1.3% of the farms containing 21 hectares or more, 26.3% of the farms had from 3.6 to 21 hectares, 45.1% had from 1.47 to 3.6 hectares and 27.3% had less than 1.47% hectares. The average FECOAR member operated about 4 hectares with approximately 2.4 in crop production.

2. Only 3.8% of the farms were rented but about 35% of the FECOAR members rented land in addition to that which they owned or used under some arrangement other than renting.

3. Only .1% of the land suitable for crops was left fallow and the amount under irrigation was only about .5% of the total.

4. 99.5% of the farmer-members had some land planted to corn and 56.2% had some wheat. About one-half of the land planted to corn was interplanted with some other crop (mostly beans).

5. Total net worth of the farmers averages about \$2,878 of which 85% is farm capital. The remainder is mostly the value of the farmhouse.

6. The average labor force per farm is about 1.5 adult males.

B. The Farmer-Member

1. Slightly over half of the farmers interviewed responded that they "could read and write" yet less than 4% had finished the 6th grade or more in education.

2. 54% of the members were males under 40 years of age, 4.8% over 64, and 1.4% were women.

3. About one-fourth of the member families supplement their incomes by performing seasonal labor on the southern coastal plains.

4. 83.3% of the members were Indians and 16.7% identified as "Ladinos," or of mixed blood.

5. 73.8% professed the Catholic faith, 20.9% Protestant.

C. Income, Credit and Technical Assistance

1. The average FECOAR member made \$485 in net farm income in 1974, compared to \$490 for the match or control group interviewed. Gross income was composed as follows:

	<u>FECOAR Member</u>	<u>FECOAR Match Group</u>
Wheat and corn	\$496.50	\$457.70
Other annual crops	109.60	123.90
Permanent crops	12.90	24.80
Gardens	1.40	.70
Animals	155.20	99.10
Forest products	33.10	23.80
Other	4.80	.40
	<hr/>	<hr/>
Totals:	\$813.50	\$730.40

Costs were recorded as follows:

Fertilizer	\$157.30	\$119.20
All others	112.50	91.40
Sub-totals:	<u>\$269.80</u>	<u>\$210.60</u>
Animals costs	20.10	18.00
General farm costs	24.20	9.20
Interest	<u>14.00</u>	<u>2.60</u>
Totals:	\$328.10	\$240.40

2. The average member received \$172.60 in credit of which \$149.80 came from his cooperative.

3. 99.5% of the farmers responded that "credit is important to them to achieve good results in farming."

4. About 1/3 of the interviewees acknowledged having received technical assistance; 15% considered it "very good," 62% called it "good," 20% said "fair" and 3% said that it was "useless."

5. In response to the question, "Has your cooperative met your expectations?," 58% responded "yes, totally," 33% said "yes, partially" and 9% said "no."

D. Conclusions and Observations

ATAC searched the data collected from the field survey of cooperative members and their match groups to find what elements contributed to or distracted from their incomes. Their findings were, if anything, negative. At one point, the text of the ATAC report goes so far as saying: "Indeed, the highest income per "manzana"* of all was scored by a group of farmers who do not belong to cooperatives, do not have credit, do not want credit, and are more than three kilometers from a road."

This kind of statement not only flies in the face of AID programs and priorities with the rural poor (and deflated those who worked on the FECOAR-ACDI project!) but also contradicts farmer behavior in recent years in Guatemala. Indices of growth in the two principal federations FENACOAC and FECOAR, whose agricultural services are overwhelmingly directed at the target poor, cannot be ignored. Although the common notion is that poor farmers are highly rational in the economic sense in their farming decisions and are efficient in that they use resources available to them rather well, it may be that ATAC has found that cooperative assistance programs contribute nothing to their well-being.

Are farmers mistakenly joining cooperatives, demanding services and using public sector services in Guatemala, or have measurement techniques been inadequate to explain the phenomenon? ATAC themselves admitted that, without time series data, surveys have serious limitations and the slice of time measured may not be typical of the field experience. It is, however, unsettling to note that another survey performed in Guatemala some three years earlier to measure the effects of public agriculture programs came up with conclusions not too different from those of ATAC.

Some attempts at explaining what appears to show that the FECOAR services are not contributing to the wellbeing of its members may be in order.

1. As noted above, the interviewing process is very difficult and there may be a bias in that farmers are actually doing better than they admit to an interviewer who is totally unknown to them. The difference in the size of the samples of members (210) and non-members (71) may have affected the reliability of the comparison between the two groups, also.

2. The agricultural year measured by the ATAC survey was one

* A land measure unit equal to .7 hectare.

of the most adverse in several years in Guatemala. Drought and crop damage from volcanic eruptions ruined crops and it would stand to reason that cooperative members who used relatively more credit, fertilizer and planted more wheat (a delicate crop) would be less well off than those who invested less heavily in their production.

3. The price relationships between the costs of inputs and the market value of corn, wheat and beans were particularly bad in 1974.

4. Farmers may be joining cooperatives and obtaining credit in the hopes that they will not have to pay it back.

5. Farmers may not be using the proper combination or "package" of practices to give them good results and one constraint may be the lack of technical orientation in their farming practices. Of this list, the ACDI team considered that probably only the first three items contributed significantly to an explanation of the questions raised by the ATAC survey. Unfortunately, the draft ATAC report does not touch on any of these points.

The agricultural focus of this project was developed primarily from research performed by FAO on small farms in Guatemala in the mid-sixties. Results showed that fertilizers were an excellent investment on food crops returning about \$3 for every \$1 put in the soil. Nitrogen produced the most dramatic results followed closely by phosphorus. With few exceptions, the use of potash did not pay out. By the time this project got rolling, these simple findings were rather well understood especially in the areas of Chimaltenango, Solola, Quezaltenango and to a lesser extent, El Quiche and Jutiapa. Demonstrations of the feasibility of using soil insecticides sponsored by the cooperatives in San Marcos and El Quiche, also produced excellent results and this practice has been generally accepted in these areas.

Wheat is considered to be a somewhat more risky crop than corn but the returns per land unit are higher and the crop provides an alternative for cash income. Wheat should not be attempted, however, without sources of good seed, mechanical threshing, fertilization and access to the market. These are precisely the services demanded by farmers and provided by the regional cooperatives. An increasing demand for services related to the production of diversified and intensive crops, particularly fruits and vegetables, has been noted in recent years and the cooperatives have responded to some degree. Potatoes represent a crop with particularly good potential. Some comments on the role of the FECOAR system in this area are contained in Section IV of this report.

IV. KEY EVENTS WHICH AFFECTED THE COURSE OF THE PROJECT

A. Organization in the Regionals

The first significant decision which ACDI made which affected the course of the project was that of accepting the job of rebuilding the administrative and economic structure of the Wheat Growers Cooperative of San Andres Sematabaj, Solola. An agreement was signed between the cooperative and ACDI in December, 1970 and a diagnosis was begun of the institution. Soon it was discovered that the cooperative had never made money, was in a negative capital position, was falsely represented in its financial statements and members were almost completely in the dark on the status of the organization. A detailed audit turned up further problems, including malfeasance by the former manager and such a garbled mess in accounts receivable that the books essentially had to be reconstructed.

The project did not expect to find such problems but it was agreed that the attempt would be carried out to save the institution and salvage more than \$300,000 in public credit which was outstanding and overdue. This effort turned out to be expensive, time-consuming and difficult but with some satisfaction the project can claim that an important source of services and supplies for over 1,000 farmers of the Solola department was kept intact. The cooperative is now considered to be one of the most highly developed and successful farmers' cooperatives in the country.

In terms of producing statistics and other sound evidence that this effort was a prudent investment of AID's resources, the San Andres experience might be criticized. This was the only attempt that the project made at rebuilding and reorienting existing cooperatives; once was enough.

On the positive side, the San Andres experience served the ACDI team as a unique laboratory for testing new norms and policies early in the project life plus an invaluable insight into pitfalls, problems and other possible contributions to failure. Many of the newly-hired staff of the project did an "internship" at San Andres, the standardized accounting system was first installed and "de-bugged" there, and many lessons learned there were much more convincing than if they had been taught by the ACDI technical staff. In retrospect, it was probably fortunate that the project took on the San Andres challenge, and probably wise that it did not choose to repeat the process in other areas.

It was decided that the organization of new, direct-membership regional or area oriented agricultural cooperatives, represented the best alternative for the project. A network of local groups

also conceived as a way to reach concentrations of farmers in outlying areas and to preserve elements of communication and democratic process in an informal, familiar setting. A sort of "manifesto" was written in early 1971 and became the pattern for the organizational structure future regional cooperatives were to take. The established or traditional cooperators of Guatemala complained bitterly about these norms which were directed mainly at economic viability and it was not until some years later that the regional concept of organization, professional management, economies of scale and multiple services were generally accepted (and eventually emulated) in national cooperative circles. It is not appropriate to cite here the many debates and criticisms the ACDI team was subjected to in those early days of the projects but suffice it to say that the introduction of new personalities, ideas and resources for agricultural cooperatives by this project, met with resistance, complaints and some pressure on AID to do things differently. Although this period of the project was extremely difficult for both the foreigners and Guatemalans in the project (and probably confusing for the farmers) it was probably good that the effort was constantly under scrutiny and discussion. It had to be defensible and this exercise contributed to keeping the project on its toes.

The following is a recapitulation and commentary on the formation of the six regional cooperatives:

San Andres Semetabaj - The origins of this cooperative's inclusion in the project are mentioned above. Expanding and improving the services provided to wheat producers was the principal aim there. The town of San Andres was poorly located for commerce, communications and labor supply but fixed installations were adequate and the cooperative operated a good threshing, trucking and marketing service. Agricultural gains through the introduction of wheat had been significant during the first eight years of the cooperative and membership was well distributed over the productive portion of the Solola department. Indian-ladino* relations were satisfactory within the cooperative and the institution was the best cooperative in the country.

Chimaltenango - picked as the site for the first regional organization, it was probably one of the mistakes made by the ACDI group. The Department had been the favorite campground for various projects of assistance for years. Some 16 small cooperatives were already chartered and semi-active with about 475 members. The Cooperative School (EACA) was active in cooperative education and

*NOTE: The term "ladino" is used in Guatemala to denote non-Indian or "mestizo"--racially mixed between native and European stocks. The term "ladino" translated literally means "sly and cunning like a fox" and the connotation and traditional roles of "ladinos" is clear. The distinction between Indian and ladino is, therefore, a combination of racial and attitudinal factors.

motivation courses supported by AID and it was hoped that the project could weave a viable cloth out of the situation there. Promotional work began in early 1971 and the "Flor Chimalteca" regional was organized in August of that year. Later experience showed that the project produced much better results in areas where cooperatives and related organizational efforts had not gone on before. The level of technology used in farming, and the use of inputs were relatively high yet there was no effective program of production credit nor convenient retail sales of farm supplies reaching the remote settlements or aldeas. Growth poles were located in Comalapa and San Martin Jilotepeque aldeas with the drive of two competent Guatemalan fieldmen and two excellent Peace Corps Volunteers. Growth was rapid and the organization spread widely in the geographic sense. Due to resignation of the first manager, the cooperative never did have good professional leadership but produced some outstanding elected leaders.

San Marcos - After the experience of organization in the cluttered atmosphere of Chimaltenango, the project ventured to the highlands portion of the Department of San Marcos. This is a remote area with good agricultural potential and, at the time the cooperative "Justo Rufino Barrios" was organized in January, 1972 there was practically no development assistance available to small farmers there. A team of two able Guatemalan fieldmen and three Peace Corps Volunteers opened the way there and growth was rapid. Wheat was the crop which received the most attention and in many areas, especially in the region of Tejutla, the cooperative was responsible for the introduction of improved varieties, fertilization trials, mechanized threshing and a more direct marketing scheme. The cooperative was lax in the management of production credit despite the fact that the manager had ample experience in this area. Due principally to credit problems, the manager was fired at the insistence of FECOAR in 1975 and the Federation assumed the responsibility of another "repair job" not too unlike some of the work which was done earlier at San Andres. From the San Marcos experience it was clear that the ACDI project was comparatively most effective in the aldea setting of large numbers of farmers working small amounts of land with little outside assistance from government or private interests.

El Quiche - Another major miscalculation of the ACDI project became apparent after several months of organizational and agricultural work in the Department of El Quiche. The original intent of cooperative organization there was to concentrate on reestablishing the cultivation of wheat among small farmers. Wheat had once been important in the area but it was grown by large ladino landholders. It was thought that, with cooperative services in the areas of technical orientation, the provision of credit and inputs plus a threshing and marketing service, the Indians could enter into commercial agriculture on their limited landholdings. Wheat trials and demonstrations were moderately successful but it soon became clear that the Quiche Indians were much more interested in improving their corn production. Due mainly to the constantly shrinking landholdings among the Indians resulting from demographic pressure

during the past 20 years, survival in the form of producing sufficient calories from corn, the traditional food staple, was more important to the farmers than optimizing returns from modest factor endowments. The response by the Indians to new corn technology and the opportunity to use production credit provided by the cooperative, was excellent.

The "Rey Quiche" cooperative, organized in January, 1973 became, in terms of organization, administration and effects upon agriculture, one of the success stories of the project. Opposition to the El Quiche effort, originating from combined interests of a credit cooperative, religious and political groups, declined after about the first year of work.

Jutiapa - A major diversion from the original plan of concentrating the organization of the regional cooperatives in the Western Highlands was made with the formation of the "Cuna del Sol" cooperative in December, 1973 in the Department of Jutiapa. This area, located in the eastern border region of the country, is characterized by a large number of small scale farms which produce a variety of basic food products under adverse conditions of tight, eroded and sloping soils and low rainfall. The population is entirely ladino and much of the agricultural commerce is carried on with neighboring El Salvador. The reasons for this change of strategy in the project might be summarized as follows:

1. The federation of credit unions, FENACOAC, requested that organization of an agricultural cooperative not be attempted in Huehuetenango, the next area on the project's list, because of "personal and political problems" they were having there with some twenty rural based credit unions.

2. The spreading of risk areas outside of the Highlands and to different crops was important to the newly organized federation, FECOAR.

3. The Agricultural Technical Institute, ICTA, requested help in the form of disseminating information and newly developed seed materials in the area. Promising varieties of grain sorghum needed the "push" of an organization capable of sponsoring production with the distribution of seed, information, credit, threshing and marketing services. (The relationships which developed between ICTA and the "Cuna del Sol" cooperative, became the most satisfactory that the project ever enjoyed with any agency of the public agricultural sector of Guatemala.)

4. The areas of Totonicapan, and Quezaltenango-- "candidates" for organization in the Highlands--presented problems which the project foresaw as being similar to those encountered in earlier organization attempts in Chimaltenango and El Quiche.

5. The management of FECOAR was, by this time in the history of the project, responsible for the execution of the project and strongly supported the suggestion of ACDI to go to Jutiapa.

Unfortunately, the promotional and organizational work of the Jutiapa cooperative corresponded in time with a presidential political campaign. After many explanations, the work went smoothly and it was soon apparent that the impact of the organization would again be in the outlying areas or aldeas of the department. The effort in grain sorghum was well received and the crop was widely established in the cropping patterns used by farmers two years later.

Quezaltenango - After some consideration of other geographic areas of Guatemala, the sixth regional was organized in the Department of Quezaltenango in October, 1974. Although some attempts were made early to include larger ladino farmers in the organization in order to get sources of volume, growth in membership occurred mainly in the smaller outlying settlements where smaller Indian operators predominate. Wheat, corn and some potatoes comprise the major portion of production there and the cooperative has carved out sectors of organization for local groups which do not overlap with established programs of the public sector, cooperatives and other development institutions. The cooperative has a sound, if not spectacular, start and has maintained a good staff and internal administration. The competition from the private trade and government programs is formidable but it serves its customers from the city of Quezaltenango, second largest of the country. Indications are that the Quezaltenango regional will develop penetration into the area in a sort of doughnut pattern, using the city only as a base for administrative operations and communications.

B. Personnel Policies

From the outset, it was the policy of the ACDI team to hire outstanding Guatemalans with field experience for the work of developing the regional cooperatives. Salaries paid were slightly higher than the going market rate for similar government positions. Dozens of lengthy interviews were held, references checked and close supervision was practiced in the early months of employment. Nearly all of the early staff were vocational school level agronomists with five or more years of experience in public programs. Support of the field staff in the form of consultations, visits and adequate logistic arrangements was a high priority for the ACDI team.

Somewhat differently from common Guatemalan practice, the staff men were encouraged to set their own work schedules, develop their technique of field work and arrange priorities of jobs to be done in the context of the overall objectives of the program. Most of the men, accustomed to working under a more strict, regimented work schedule of government programs had some difficulty adjusting to this kind of freedom. The pressure to produce results was always on and there were some who dropped out to return to more comfortable jobs. This norm of personnel management was applied, more than anything else, so that the men could grow as quickly as possible to assume jobs of greater responsibility when it was no longer advisable nor practical for ACDI to make decisions. Five managers of regional cooperatives were developed under this philosophy.

Frequent staff meetings were held during the early years of the project. The major theme of these meetings was invariably an exchange of experience from different points of view and different regions of the country. The input from the ACDI staff was purposely kept to a minimum. Peace Corps Volunteers assigned to the project also participated in these sessions. Morale was generally high, the work pace was fast, healthy competition between regions developed and a free atmosphere of communications existed, generally between the field and the central office of the project. The input of ACDI in matters concerning the selection, training and management of staff was reduced sharply as each regional developed its own policies and later, with the formation of the federation, staff matters were handled almost exclusively by Guatemalan management. The practices of managing personnel drifted toward a more conventional Latin norm and it was discouraging for the ACDI team to observe a decline in morale, higher turnover rates and somewhat lower productivity.

Looking back on the experience in personnel management that the ACDI team gained in this project, many aspects of managing people could have been better. With the advantage of hindsight some points which become clear at this juncture of the project are:

1. There was not enough diversity in the backgrounds of key staff hired early in the project. Agronomists with government field experience, ladinos all and most near the same age, made for a clique which soon began to form a sort of exclusive attitude.
2. Accountants and cashiers were hired as subordinates to the men with an agricultural background. They were paid less, given little professional stimulation and not fully appreciated for their potential contribution to the business aspect of the cooperatives.
3. The project was slow to dismiss people who because of poor attitude or incompetence, were not suitable for the work.
4. It was not until late in the development of the project that women were incorporated into the cooperatives at fairly high levels.

C. Grants from AID

It can be safely said that AID was generous with this project. Financial resources were not a limiting factor in the institutional development of the cooperatives nor the federation. From the outset, the program had good equipment, vehicles and adequate budgets for materials. The short-wave radio network, questioned by some as possibly a luxury, became a necessity and it is difficult to envision how the project could have functioned without instantaneous communications between the regionals and with the central office. The "Buy American" rules of AID were somewhat of a restriction in purchasing, however.

Due to a combination of circumstances, AID was able to provide resources for accelerated investments in the regional cooperatives. This activity was justified by reasoning that, a) enhancing the service capacity of the cooperatives at an early stage in their development was important in order to demonstrate the practical benefits of organization b) good services should increase the growth potential of the organizations and, c) the investments should generate an income stream. Some \$153,500 was provided for equipment and \$243,800 for central warehouse facilities in the newly organized regionals. These resources were granted to FECOAR which, in turn made soft loans to its affiliates for the equipment in the same amount and the six buildings were charged at \$25,000 each.

The decisions as to what to buy with the money were made after long discussions with cooperatives. The acquisition of large trucks, buildings and tractors appear to have been a sound investment. On the other hand, light trucks, two seed cleaners, utility vehicles and some agricultural implements were not well utilized at first and some transfers between cooperatives were required.

D. The Formation of FECOAR

From the time of the early planning of the project, the formation of a federation composed of the regional first-level cooperatives was contemplated. This strategy was based on two assumptions: 1) ACDI should not be the direct administrator of the project any longer than necessary and, 2) a federation with financing, wholesaling, representation and monitoring functions was absolutely necessary if the cooperative system being developed in the countryside were to survive. ACDI initiated the work to organize the federation in the early part of 1972. By mid-year the by-laws had been drafted and the three legally chartered regional cooperatives representing some 3,000 farmers applied for a charter. A year later the charter was approved by the Government.

The delays in both organizing and legal recognition of FECOAR were unfortunate. ACDI was left in the de facto position of administering the project much longer than was appropriate and the development of the wholesaling and support functions of the federation was slowed considerably. The reasons for the delay were numerous and are documented in AID and ACDI records. It was a day for rejoicing when the charter for FECOAR was finally granted and the ACDI team proceeded immediately to help staff the new institution, set up administrative operations and to retreat from the role of directors of the project to that of advisors. The transition was smooth and the staff selected originally by ACDI was retained at all levels.

E. Credit and Price Policies

Rather than a particular event which affected the course of the project, the early development of credit and price policies did, in fact, set a sort of principle from which the project gained

a reputation. There was some pressure on ACDI to concede to easy credit norms and lower prices to farmer-members for inputs in order to stimulate new membership and set a precedent that the cooperatives "give a better deal." With AID operating subsidies it would have been relatively easy to do this but it was decided that these policies should be based on the longer view. Prices were set at levels similar to the competition with small incentives for members over non-members in cash transactions only. Also, for the first time in agricultural cooperatives in Guatemala lending was related to members' paid-in capital. Other elements of credit policies included approval of applications by a members' peers, credit in kind for specific crops and repayment in kind through marketing agreements where possible. Interest rates of 12% per annum and a capitalization charge of 5 to 10% were also charged. Although these restricting credit norms were developed in part because of the poor credit reputation of cooperatives in Guatemala, it was clear from the outset that production credit operations were an expensive and losing proposition for the regionals. Although experience is still somewhat short, it has been calculated that the cooperatives are regularly losing about 12 cents on every dollar placed in annual credit. This fact further supports a competitive price policy in supply activities because it is mainly through the sale of inputs that the cooperatives are able to make up losses in credit operations. It may also be necessary to adjust lending practices and interest rates further if supply and other services do not make up this difference.

Credit operations in the local cooperatives will almost certainly continue to produce losses. The 4% interest margin on which the local cooperatives operate is not enough to cover the costs of administration. There is a trend, however, in reducing these losses through a combination of improvements in the entire credit process. Experience has not yet shown exactly how much the following steps might reduce costs eventually, but a list of remedial practices is presented here in more-or-less the order in which it is expected that improvements in credit operations can be expected:

1. Cooperatives are "sorting out" their credit clients. Members, with no justification for late or non-payment of their loans are being denied further credit. This had led to many resignations and some hard feelings among members, yet the cooperatives agree that they must establish a firm credit reputation.

2. Application forms and paper handling have been improved and simplified. Local groups are now often preparing the loan applications for their members without the need of a paid cooperative employee to be present.

3. Improvements in the wheat threshing, trucking and marketing services have helped the cooperatives to "capture" loan repayments in the form of grain and thus reduce the need for chasing down farmers to pay in cash after harvest.

4. Incentives for members with a "clean" credit record, in the form of higher loan to paid-in capital ratios have shown promise in one local cooperative.

Penalty interest rates (usually 6% above the 12% per annum normal rate), legal action against delinquent borrowers and various other types of suasion have produced little results.

F. Competition from Government

When a survey of the potential for agricultural cooperatives in the Western Highlands was done jointly by AID and ACDI in early 1970, it appeared that competition from private and government sources was practically nil. With the exception of a few hardware stores and truckers selling fertilizers in the major towns, a handful of moneylenders supplying credit and pitifully small government credit operations mostly with larger farmers, the field for cooperatives was wide open. Outside of major towns, services for the small farmer were virtually non-existent. Hence, this project was conceived principally as a new access mechanism rather than a displacement of established trade. In fact, this project was only a part of a concerted effort between AID and the Government of Guatemala to reorient programs of assistance to the rural poor. The Credit Union Federation (FENACOAC) was encouraged by AID to utilize its rural-based affiliates to distribute farm supplies but more importantly, the Guatemalan Agricultural Development Bank (BANDESA) was conceived and financed to carry out an aggressive credit program to benefit the producers of basic foodstuffs needed in the country.

By 1973, BANDESA was operating its own distribution of farm supplies and in 1975, instituted a policy of production credit at a 5% interest rate. BANDESA programs were established widely throughout the country although fortunately for the cooperatives, they were not particularly effective in reaching the outlying settlements and were operated with cumbersome administrative requirements for the farmer. In 1974-75 BANDESA overbought fertilizers by some three times their distributive capacity and in 1976, FECOAR has become a seller of BANDESA products at an "official" price which is below the going market price. A 5% gross margin set for the cooperatives by the Government is not sufficient to cover distribution costs and pay overhead.

Nevertheless, the Government gives high praise to the cooperatives for their role in helping the small farmer. Direct dialogue regularly takes place between cooperative leaders and the highest levels of government. There is no denying the fact, however, that the cooperatives operate at the will of government. They (not only the FECOAR system) are dependent upon BANDESA for debt capital, their operations take place in markets affected by public policy and the cooperatives have for the first time in the history of Guatemala, become instruments of public programs. It is difficult to predict what the future may bring but obviously the concept of the development of self-sufficient cooperative institutions

operating independently and autonomously in a relatively free market has been altered considerably from the time the ACIDI effort was begun.

G. Prices and Availability of Inputs

It might be said that fertilizer is the economic lifeblood of this project. It comprises about 90% of sales to members and the economic viability of the cooperatives depends largely upon net margins which they can make on a volume of about 10,000 tons which has been developed by 1976. Events in the fertilizer industry have skewed the economic indicators of the project to such an extent that it is virtually impossible to estimate the competitive viability of the cooperatives in time of "normal" fertilizer trade. It is well known that the fertilizer industry came out of an oversupply position in the late 1960s to a worldwide shortage situation in the early seventies. Demand and supply and resulting prices have, in effect, been in a constant state of adjustment ever since the project began. Additional factors of instability in the internal Guatemalan and Central American markets, have caused FECOAR no end of grief and contribute to doubts of future viability.

In principle, it would have made sense for the FECOAR system to develop a reliable supply of fertilizers from U.S. commercial or cooperative sources, trading off their developing strength in the Guatemalan market and economies of scale. Also, the local manufacturing monopoly could have been challenged by setting up bulk blending facilities owned and operated possibly jointly by FECOAR and FENACOAC. None of this was done for a variety of reasons and the whole fertilizer supply situation may represent one of the major missed opportunities of the project. Actions of government in the Guatemalan fertilizer market are of particular concern. The project had an experience in 1973-74 of selling products to members obtained from BANDESA at nearly twice their cost. In 1975, the government agreed to subsidize the cooperatives for losses incurred as a result of oversupply and sharply declining prices caused in large part by BANDESA imports. In 1976, the cooperatives are back to helping BANDESA get rid of an excessive inventory.

The situation also complicates financial management in FECOAR. In times of a sellers' market, the federation must invest in an inventory months in advance of actual application in the fields. At this time, fertilizer in the form of production credit is still out and this means that FECOAR must have money tied up in both inventories making their capital requirements roughly double. In times of a buyers' market, suppliers will often sell on 30, 60 or even 90 day terms making capital requirements of a distributor like FECOAR, correspondingly less.

V. PROBLEM AREAS ENCOUNTERED

Many problems were faced during the implementation of this project; it could be expected that the work was not going to be easy and that solutions to problems would be easy to find. Some problems were solved while others were endured. It seems that there were always problems on the list as some were dropped or solved and new ones added. The problems listed here, however, are mentioned because they were not expected, nor foreseen and therefore caught the project short and required actions which would not normally be thought of as part of a project of this nature.

A. Timing of the Project

By 1970, AID had a certain reputation of favoring cooperative type projects directed at helping the people of rural Guatemala. The individual projects assisted with AID resources were small, however, and even the credit union federation had made little progress in either building an institutional network or solving the problems of the small farmer. A cooperative school (EACA) had received AID assistance for some time yet the results in the form of effective cooperatives were hard to find. Motivation, leadership development and cooperative education were the strengths of the School.

As AID and the Guatemalan government developed joint priorities of rural development and the role of cooperatives was emphasized, there was a certain air of expectation developed by the time the ACIDI team arrived. Some government officials were skeptical of cooperatives on both the grounds of their poor performance and ideological orientation. Others saw AID's interest as a chance to get resources for their favorite cooperatives. The arrival of ACIDI and subsequent development of its strategy was a disappointment to many. It was not until 1974, that strong, consistent evidence of support from the top levels of government for FECOAR and its affiliates was apparent. The ACIDI team may not have been the best diplomats for the project as evidenced by the fact that, as soon as Guatemalans began running and representing the project, the criticisms diminished and there was much more communication between cooperative institutions and with different levels of government.

B. Growing Pains in the Regionals

It was never possible to predict with any degree of accuracy the response which the work of promotion organization and start-up operations would produce. The project found itself, therefore, continually adjusting to developments in the field, especially in matters relating to internal administration. Often, accountants, clerks and even managers had to be trained hastily and different sorts of problems required constant adaptations of accounting and

control procedures. Staffing and organizational patterns were modified, forms were re-edited and reprinted and much "tightening up" of administrative procedures were necessary. In 1975, at the suggestion of ACDI, a full-time field auditor was added to the FECOAR staff. The whole area of administrative housekeeping and control represents that category of problems which were never totally solved but rather reduced, patched up or partially forgotten. One of the major frustrations of the ACDI team was that they were never able to instill into the Guatemalans the priority and importance of accurate, timely controls and the utility of accounting information in managerial decisions.

Another growing pain which afflicted the regional cooperatives was that of geographic expansion and the proliferation of local groups. Chimaltenango is the prime example, where over 100 local groups were sponsored by the cooperative, some as far away as 2-1/2 hours from the central office. Some 40 local warehouse depots were also opened to serve a membership of about 3,000. Things got out of hand, frankly, and the two fieldmen of the cooperative practically had to give up their intentions to visit groups regularly and to monitor effectively the distribution of inputs, threshing, credit collections and wheat marketing. From the early experience in Chimaltenango, preventive medicine was applied in later organization but the anticipation of growth, recognition of limitations of service and other consequences of growth and expansion, seem to be difficult concepts to grasp. In part this may be explained by the difficulty of saying "no" to farmers who want services, especially during the initial growth period of the project. Also, the art of anticipating the effects of expansion and the practice of long-range planning may be talents of management which have yet to be developed in the project. Some of the managers were barely able to grow as fast as the magnitude and complexities of their jobs required. Others either quit or were fired when their willingness and/or abilities were obviously deficient.

C. Getting FECOAR Organized and Operating

The average time required for getting a charter for the regional cooperatives was about seven months. It took more than a year to get FECOAR legalized. As complicated as the process is, it would seem that it should take no more than a few weeks to get a charter. It was never very clear just what considerations were being made by the Ministry of Agriculture, but the delay in granting a charter for the federation was surely the result of more than just fumbling the papers. There were doubts at some levels which had the effect of making the Government cautious in granting a charter for some time. Investigations were made by the Government in the regionals which were then operating. At one point, ACDI considered the entire project in jeopardy as it appeared that the institutional building process was not going to be complete with the formation of the federation. Once the charter was granted, however, the "Federacion de Cooperativas Agricolas Regionales" (FECOAR) was staffed quickly with a new manager and personnel who had been previously part of the ACDI staff. At this time, the two expatriate staff members

of ACDI became advisors to FECOAR relinquishing direct operating responsibility of the project to Guatemalans. The transition was smooth and the name of ACDI and the identification of the project were quickly transferred to the Guatemalan institution.

D. Generating Income and Diversified Projects

It is clear that the FECOAR system is going to have a hard time making profits from the lines of services being offered as of 1976. Production credit is a losing proposition for the regionals and input sales have generated very low gross margins in the past two years. Machinery and trucking services commonly barely break even and marketing fees contribute a small net margin. Cutting costs does not make a significant dent in overhead and it has already been demonstrated that the use of lower paid and fewer administrative and field staff result in more problems that the economies justify. The solution lies in diversifying services to produce additional sources of income from members' production.

One of the basic drawbacks to this solution is the fact that about 70% of the services provided by the cooperatives are directed at production which is consumed in the farm household or sold in local markets where cooperative action is of no benefit to the farmer. By far the most important commercial crop supported by the cooperatives is wheat. The Guatemalan milling industry is developed to over-capacity and is highly organized, making entry into the field a risky venture. Soft wheats produced in Guatemala must be mixed with hard winter varieties imported into the country for making bread. The millers are required to accept local wheats in order to obtain an import quota. Milling imported wheat is much more profitable than milling the local material and the pastry and cracker producers do not consume enough soft wheat to absorb local production. In addition, wheat is a "political crop" in Guatemala and producers can survive international competition only with protective legislation which guarantees a premium price for locally grown wheat. Nevertheless, FECOAR is pursuing the possibility of going into wheat milling and the possible addition of corn flour or potato products to make bread flour.

No crop has yet been found which is as widely acceptable as wheat for cash income for the small farmer of the Western Highlands. There are hopeful signs, however, in such lines as alfalfa, the cole crops, apples, peaches, pears, onions, carrots, lettuce, peas, berries and avocados. Potatoes also are relatively easy to grow but price fluctuations have deterred many farmers from taking the risk. All of these crops represent a part of the natural competitive advantage which the Guatemalan Highlands hold over all of Central America. Exploiting this advantage to the benefit of the small producer is probably the greatest challenge facing the Guatemalan cooperatives. Research in production techniques and quality control is limited within the country. Many farmers had some brief experience with a variety of crops but with the exception of wheat, few stray very far from producing consumable staples--corn and beans. Agroindustry to utilize a variety of

crops from the Highlands has not developed significantly due, in part, to uncertainties of supply. Production has not grown because of the lack of a reliable market.

This "vicious circle" must be broken and the FECOAR system is in probably the best position to embark on a series of projects of this type. Sophisticated market research, technical assistance in processing, packaging and distribution plus a liberal source of financing are necessary ingredients of a program to stimulate cooperative participation in this area. Fortunately, AID had taken the first step; in this direction by sponsoring an ambitious market research effort beginning in late 1976. A list of projects or types of activities which have been discussed between ACDI and FECOAR and their possible location, follows:

Fruit and vegetable canning - Solola

Oatmeal milling - San Marcos

Potato storage and marketing - Chimaltenango, Quezaltenango

Production of nursery stock - Solola (in operation)

Broom corn production and processing - Jutiapa

Rice milling - Jutiapa

Wheat seed production and processing - Solola, San Marcos
and Quezaltenango (in operation)

Alfalfa dehydration - Chimaltenango

Apple storage and marketing - Quezaltenango

Production of building materials - Chimaltenango

Straw hat manufacture - El Quiche

Some comments on diversified projects and the element of risk are included in the following section.

E. The Earthquake

The disaster which struck the north-central area of Guatemala at 3:00 a.m. on February 4, 1976 has been publicized and documented widely. The area in which the "Flor Chimalteca" regional cooperative operates was particularly hard hit and there was extensive damage in parts of the geographic areas covered by the San Andres Cooperative in Solola and in El Quiche. Structures made of adobe and particularly those with heavy tile roofs suffered most and were the cause of much of the loss of life and injury in the countryside. Strangely, only 15 members of the cooperatives were killed although extensive or complete loss of dwellings and farm buildings affected some 3,000 member households. The principal installations

of the cooperatives which were built to earthquake standards under the AID grant withstood the quakes and were virtually undamaged. The San Andres buildings were damaged and the offices had to be evacuated for some time.

Except for emergency work, the three cooperatives essentially closed normal operations for about six weeks following the first quake. Fertilizer distribution was delayed, wheat threshing and marketing in Solola particularly was interrupted and credit collections suffered. The disaster occurred at a time when nearly all of the crops had matured and fortunately, there was sufficient food to sustain life in the countryside. Farmers immediately set out to contrive some sort of shelter and some two months later began the annual ritual of land preparation in anticipation of the May rains. The Indian population, particularly, demonstrated their stoic nature, resourcefulness and hardy constitution during this period.

As might have been expected, members looked to their cooperatives for help. Although they did not usually expect charity, they asked for building materials on credit, extension of their production loans and cash to help them reestablish their farmsteads. The cooperatives, through their federation, FECOAR, were able to acquire some metal roofing materials and AID later contributed tool kits which were distributed free for use in rural communities through the cooperatives. Two areas of the Chimaltenango department were also selected by AID to receive pressure treated building poles at a subsidized price through the cooperative there. FECOAR was frustrated in trying to obtain a line of credit for housing construction to be distributed through its system and this has led to major disappointments from the membership. An idea to utilize the cooperatives as centers for the fabrication and distribution of building materials for reconstruction also died as a result of the federation's inability to obtain financing.

Perhaps the most serious problems for the cooperatives and their members caused by the quakes could be best described as psychological. Employee morale sank as families had to be relocated, productivity also suffered and it was some time before anything like an energetic, optimistic mood could be detected among the staff. Farmers became even more fatalistic in their attitudes and an atmosphere of gloom prevailed for months in the countryside. The work of getting meetings organized in the local groups to discuss credit matters, the new growing season or nearly any subject related to the future, was extremely difficult. It was particularly disappointing to observe in the Chimaltenango area, the inability of the cooperative leadership and management to inject a spark of optimism and initiative to the membership there.

VI. THE FUTURE

A. Resources and Future Requirements

1. Financing

The FECOAR system in 1976 is operating with \$3 million of AID financing which is channeled through BANDESA. Although capitalization requirements on credit transactions between FECOAR and the affiliates and between the affiliates are generating internal capital which has reached the level of \$1,445,500 within the system as of mid-1976, the cooperatives obviously depend heavily upon debt financing. The cyclical nature of capital requirements makes this a logical alternative and it might be argued that a reasonable goal of capital formation should be to cover fixed capital requirements and adequate reserves. The interest margin spread which FECOAR makes on credit operations with AID origin funds is also practically the lifeblood of the organization and allows the federation to sell inputs to the affiliates practically at cost. This is a temporary and artificial financial advantage, however, and alternative sources of capital will be required as growth and investments in diversified activities develop. It is not inconceivable that BANDESA might increase lending to FECOAR from sources other than AID. This would be particularly true if the FECOAR system were to undertake programs closely related to Government priorities.

2. Staff

By design, the federation has a minimum staff. In 1976, FECOAR employs: one general manager, one financial and administrative assistant, one supply and marketing specialist, one accountant, one field auditor, one education and promotion specialist, two secretaries and an office boy. This appears to be an adequate and efficient staffing pattern for the levels and types of services now being supplied to the affiliates. (See Annex B). Most of the diversification projects mentioned above, however, will most likely be performed by the federation and this will require additional and specialized personnel. Another facet of FECOAR's operations which contributes to some uncertainty in the future is that of "filling in" deficiencies in the affiliates. In 1976, for example, the federation had three staff members on long-term assignments in affiliates' operations to bolster local operations and to work on acute problems. If the federation continues to offer this type of "repair service" for affiliates, some adjustments in staffing and charges to affiliates must be made.

Significant changes in the staffing pattern of the regional affiliates is called for and some of these changes have already been implemented with fair results. (See Annex C). The main

problem has been found in field extension work. Two travelling agronomists can simply not cover the field even working through local group organizations as the average size of the cooperatives in 1976 is over 2,000 members. Furthermore, the work of the fieldmen has become heavily loaded with administrative duties (programming credit, checking inventories, handling receipts and cash, scheduling trucking and machinery), necessary jobs but which do not require professional training in agriculture and may be performed by lower-paid staff. Three of the regionals have developed staff positions of field assistants which call on the local groups and supervise warehouse operations by motorcycle and in one location it has been decided to have only one agronomist and five field assistants.

The hopes of the project to provide effective technical assistance in agriculture to members from generated income have been practically lost due to cost considerations. The Government of Guatemala assigned four agronomists to the regionals at different times during the development of the project but they were soon dismissed by the managers as it became apparent that their low level of performance and motivation was doing more harm than good. Another source of technical orientation in agriculture will likely be the field assistants who, with training and supervision, should be able to contribute to fill this need. The effectiveness of this type of delivery system for elementary technical orientation has already been demonstrated in Guatemala by other programs, such as "World Neighbors."

3. Elected Leadership

An interesting development in the type of elected leadership emerging from the democratic process has been observed over a period of some five years in the project. The early elections produced leadership which might be typified as fluent in Spanish, successful in farming, ladino in many instances and experienced in leadership positions through participation in local committees. They looked good and talked well but were not authentic representatives of the majority of farmers in many instances. Elections in later years have produced leaders who possess less "polish" but who tend to be more representative of the membership. In matters pertaining to legal, financial, accounting, personnel and long-range planning issues of the cooperatives, elected leaders do not comprehend nor contribute very much. They have, nevertheless, a degree of wisdom and understanding of cooperatives' actions as they affect the membership which contribute greatly to guiding operations. It is important that these directors be encouraged to question, discuss and reflect upon decisions affecting the general direction the cooperatives should take. Management has, at times, been reluctant to divulge certain information to Board of Directors and limit the areas in which they are allowed decision. This is a dangerous trend and it falls largely to the federation to train, stimulate and encourage active directors in cases of management reticence to share a frank, open dialogue with elected directors. This has already happened a few times

and, in the case of San Marcos, a manager was fired as a result not only of his poor performance but also for having kept his Board of Directors in the dark. In this respect, FECOAR becomes practically the conscience of the affiliates and initiates the process of facing problems honestly.

4. Organization

Except for minor adjustments, the organizational structure of the regionals as originally conceived by ACDI has functioned well. Certain observations on experience gained through 1976 and implications for the future are appropriate, however:

a. The local groups should be large, fewer in number and carry out a more complete function in credit operations. The success with local group organization has been spotty but it is quite evident that, where the groups function well, especially in credit planning and organization of threshing and trucking services, the work of the fieldmen is relatively easy and the services of the cooperative work smoothly with lower costs.

b. The "Consultative Council" was conceived as a sort of extract of the general membership for purposes of communication between management and the local groups. It is made up of the elected presidents of the local groups and has served as a sounding board for policies, the dissemination of general information and feedback from the field in the form of complaints and doubts as well as more positive reactions. This body was commonly brought together for meetings only once or twice a year at the beginning of the project. Recently, the regionals have used the "Council" more frequently and in the future it is probable that the body will become more useful as an instrument to maintain the necessary communication with the membership.

c. The Vigilance Committees are required by Guatemalan cooperative law to be in the organizational hierarchy. With very few exceptions, they do not work and probably never will. Most managers have adopted a practice of having Vigilance Committee members present at most of the sessions of the Board of Directors. The internal auditing service provided by FECOAR is a much more effective control measure for the cooperatives partly because of the level of professional competence required but also because local management has little influence on the auditing process.

B. Diversification, Risk and Income Producing Ventures

In a previous section of this report, the dilemma of diversifying services in order to help farmer members out of their subsistence predicament and at the same time, produce income for the cooperatives, was mentioned. The future of the cooperative system formed by this project may be more dependent upon this development than any other factor. Some observers and students of the Guatemalan rural economy have stated that the small farmer of the Highlands is going to starve to death--slowly but surely--

producing the basic crops of consumption. Demographic pressure is already severe in the Highlands and there is no reason to speculate that the condition will not deteriorate. The cooperatives, obviously, cannot thrive as independent support institutions to a marginal and deteriorating farm population.

The cooperatives of the FECOAR system possess several of the necessary elements to diversify, intensify and accelerate production. They are also a potential source of processing and marketing services. The FECOAR system has:

1. A relatively efficient, though somewhat conservative, production credit scheme.
2. Field organization which permits efficient dissemination of agricultural technology, advice and market information.
3. Administrative structure which can be modified to handle diversified transactions.
4. A communications and transportation network which is the best in the Highlands.
5. A membership which is receptive to viable production alternatives provided that risks to survival are low.
6. Good relations with government.

Where the FECOAR system is weak is in:

7. Technical expertise in research, production, processing and marketing of non-traditional crops.
8. Equity capital to invest in new ventures.
9. An income stream from current operations which permits operating new ventures at a loss even in the short run.
10. Production potential is widely scattered and composed of many small farm units.

In sum, it appears that, if the cooperatives are to make a significant contribution to a definitive solution of the problems of its small farmer members and the economy as a whole, they will need help. Technical assistance and credit would contribute a good part of the missing elements, yet one factor continues to discourage the cooperatives--risk. Even dismissing the natural risks associated with any kind of agriculturally related pursuit, agribusiness in Guatemala represents a classic "high-risk-high-gain" situation. The estimates of effective demand are pretty much a guessing game, export possibilities either to the Central American region or to wider markets are not clear, the "catastrophe rate" for all of Central America in recent years would lead one to conclude that the area is on the Maker's black list, and the

tability of political institutions affecting agricultural commerce is less than ideal. In the face of this magnitude of risk and the tenuous economic strength of the FECOAR system, it seems appropriate to explore ways in which the cooperatives can undertake agribusiness ventures which benefit members, under some sort of risk sharing arrangement with government or other development institutions. Some alternatives have been discussed, especially in the area of fixed investments, but no precise formula for risk sharing has yet been developed.

C. The Government of Guatemala

Predicting government attitudes and actions toward cooperatives generally or specifically the FECOAR system, is risky at best. The support of the cooperative cause generally and programs of the two principal cooperative federations, FENACOAC and FECOAR, by the Laugerud government was not altogether expected. Nevertheless, FECOAR has developed a responsible reputation with the present government and participates in high-level meetings with officials. This has never happened before in Guatemala. In one sense, the type of services provided by the FECOAR system represents a "bargain" for the government. Where the cooperatives are providing credit, supplies and marketing services within the guidelines and objectives of the government's rural development strategy, there is less need for expensive public programs to reach the small farmer. This explains, in part, why the government considers cooperatives a positive component of the rural economy.

The total organized strength of the cooperatives providing agricultural services in Guatemala has reached approximately 50,000 farmers. Although the cooperatives are not dominant in any particular line of services nor specific crop, they do represent a voice to be reckoned with in the formation of public policy and implementation of programs. The role of FECOAR management and elected leadership in defense and representation of the interests of membership has been responsible and there is reason to expect that it will be largely the same in the future. There are some signs of increased inconformity and aggressiveness in some leaders which is the product of their increased awareness and maturity as representatives of a less privileged constituency. It is difficult to imagine, however, that FECOAR leadership which is predominantly of Indian origin, would opt for hard-line confrontation with the Guatemalan government, jeopardizing the possibilities for productive dialogue which have been developed in the early years of the life of the institution. If this prediction is valid, it would appear that the FECOAR cooperative network can expect not only a harmonious relationship with government but also expect assistance which will be needed for survival and growth.

D. Initiatives from AID

Conversations with AID officials over a period of years have tended to reflect two main currents of opinion on the ACDI-FECOAR effort. Although these opinions are usually not inflexible nor

absolute, they do demonstrate alternatives which AID might consider in future programs directed to the rural poor in Guatemala. One opinion, simply stated, would argue that AID has made a significant investment of loan and grant monies to implement the agricultural cooperatives project. This type of project and the specific institutions have received enough AID assistance in Guatemala in order to give them ample opportunity to demonstrate their viability and capacity to solve problems. Different approaches to the predicament of the rural poor should be supported by AID and problems not particularly suited to cooperative action should be tackled. Also, the priorities for AID assistance should be established more with the public sector than with private institutions such as FECOAR.

The other line of reasoning might be described as "now that AID has invested in the institution building process of the cooperatives so heavily, support to these institutions should be continued to make them stronger, larger and more effective." AID must be pragmatic by investing its resources where the return is likely to be greatest and not be concerned about being accused of favoritism toward cooperative programs in the private sector. Cooperatives can be adapted to be useful in a wide range of development efforts.

It is probably not possible for ACDI to be unprejudiced in a debate such as this on the specific case of Guatemala. However, despite the fact that a considerable amount of resources in grants, loans and technical assistance has been extended to the FECOAR system which is still not "over the hump" in proven economic viability, the second argument does appear to have merit. Recent AID initiatives in the areas of new land settlements by small farmers and the marketing of fruit and vegetable crops to be undertaken in large part by cooperatives, also indicate a preference for the second alternative. Viewed another way, the additional resources required to make the cooperatives truly effective in such important areas as crop diversification, technical assistance, agroindustry and marketing would likely be less than if new institutions, public or private, were attempted.

E. Growth

The early estimates of growth potential in the regionals appear to have been fairly accurate. On the average, the growth curve of membership begins to flatten out at about 3,000 members. Chimaltenango and El Quiché have already surpassed this figure and San Marcos is getting close. San Andres has lagged behind and Jutiapa will have to cover a wide geographic area in order to reach 3,000 members. Estimates of the cooperatives coverage of the potential within their respective geographic areas range from a low of about 10% to a high of 40%. In every region, the impact or presence of the cooperatives appears in a spotty pattern. In some aldeas, nearly every farmer is a member and uses the services of the cooperative. A few miles away, the penetration of the cooperative is minimal. The explanations of this phenomenon are

easily found but some of the cooperatives are beginning to develop growth in volume by filling in the areas of sparse coverage in their regions. The resignation of members also may indicate future trends of growth. For example, in Jutiapa where public programs of credit and supplies are particularly strong, some 30% of the original membership has resigned. These farmers may be characterized as somewhat larger operators than the average, living in the larger towns and fairly well connected to the information network, public credit and commerce. The net growth in membership in Jutiapa has come largely from remote aldeas and smaller farmers whose alternatives for services are fewer.

At various times, FECOAR has considered sponsoring new affiliates in different areas of the country. Some areas of the south, east and north-central portions of Guatemala appear to offer promise. The deterrent has been cost. Conservatively, the cost of launching a promotional effort, setting up an office, preparing staff and providing the essential commodities to start operations, would be between \$50,000 and \$75,000. The returns to such an investment would be a fairly long-run proposition for the federation and current sentiment of the elected leaders is to invest in existing cooperatives to improve or expand their service capacity before launching into new areas. Especially in light of more aggressive programs of the government in recent years which compete with cooperatives, it is not likely that FECOAR will launch the formation of new regionals on its own account in the foreseeable future.

On a few occasions, different agricultural cooperatives have inquired about the possibility of becoming affiliated with FECOAR. Without exception, these have been small organizations, usually with serious problems and specific requirements of a federation. They usually want credit; some want a federation to intervene in their behalf for special privileges such as legal services or importation permits. Beginning in late 1974, FEDECOAG, a federation which has existed for some years only on paper, was staffed and began operations with several non-federated cooperatives. It may be too early to judge, but the future of FEDECOAG looks bleak. They probably cannot build an effective organization on a foundation of weak, diverse and divided affiliates unless they obtain large operating subsidies and resources to undertake reorganization, mergers and reorientation of affiliates to more realistic economic norms. Nevertheless, FEDECOAG now has among its affiliates some cooperatives which might have been candidates to join FECOAR. Also, the coffee producers' cooperatives are already affiliated with their own specialized federation, FEDECOCAGUA.

It does not appear likely that the FECOAR system will grow by affiliating loose or stranded cooperatives around the Guatemalan countryside. The legal (by-law) requirements of area coverage and capital contributions, plus FECOAR policies which are relatively strict in terms of administration and credit norms, will probably discourage cooperatives from affiliating to the Federation. Unfortunately, the cooperative movement of Guatemala is divided,

diverse in its origins and objectives. The processes of maturation, survival of the fittest, definition of government policies, alignment of sentiment and the emergence of leadership will go on for some years before the place of cooperatives in the rural economy of the country is defined.



ACDI programed some of the Guatemalan cooperative leaders for training at U.S. cooperatives. Here a group is shown inspecting farm machinery on a tour provided by the Indiana Farm Bureau Cooperative Association, an ACDI member.

ANNEX A

Job Descriptions of ACDI Staff

A few months after the federation--FECOAR--was organized and the ACDI staff was converted to an advisory role, job descriptions for the two technicians were drafted jointly by FECOAR management and the ACDI team. Below is a translation of the "Functions and Responsibilities of the ACDI Advisors with FECOAR and Its Affiliates:"

Jorge Nery Chinchilla - Specialist in Administration

Functions: Design, orientation, consultation and review of results of administrative norms.. Training of staff directly involved in administrative functions, including Directors.. Financial and statistical interpretation of the results of the project and communication of same to authorities.

Base of Operations: FECOAR offices.

Superiors: Manager of FECOAR, Chief of Party of ACDI and project coordinators within the USAID Mission to Guatemala.

Principal Counterparts: FECOAR - Chief Administrative Office, Accountant and Credit Officer, Internal Auditor, Statistician, Manager.. Affiliates - Accountants, Paying and Receiving Clerks, Manager.

Specific Areas of Responsibility: Administrative procedures including forms, paper flow, file, management of cash, orders, correspondence, etc.. Statistics including portfolio, membership, operations and respective reports.. Accounting including practices, interpretation, analysis and preparation of financial statements.. Budgeting including planning, preparation and utilization.. Auditing including procedures, preparation and utilization of results.. Financial operations including relations with financial institutions, portfolio management, projections (cash flow), management of investments and control.. Aspects of organization and paperwork required for legal chartering.. Training of Directors in their functions of the business.. Advice to management in financial and administrative matters relating to public institutions.

Special Considerations: The Administrative Specialist may assist in any aspect of the agricultural cooperatives project which is within his abilities and requested by the Manager of FECOAR. Be it understood, however, that the Specialist may not represent FECOAR nor its affiliates in official nor legal negotiations with third parties nor sign documents in this regard which bind the cooperatives or FECOAR.

David Fledderjohn - Chief of Party

Functions: Consultation and advice in the establishment and execution of general norms of the Project. Training of personnel of FECOAR and affiliated cooperatives, including directors.. Collaboration with FECOAR staff in special projects or jobs.. Inform ACDI and the USAID Mission to Guatemala on the development of the project.

Base of Operations: FECOAR offices.

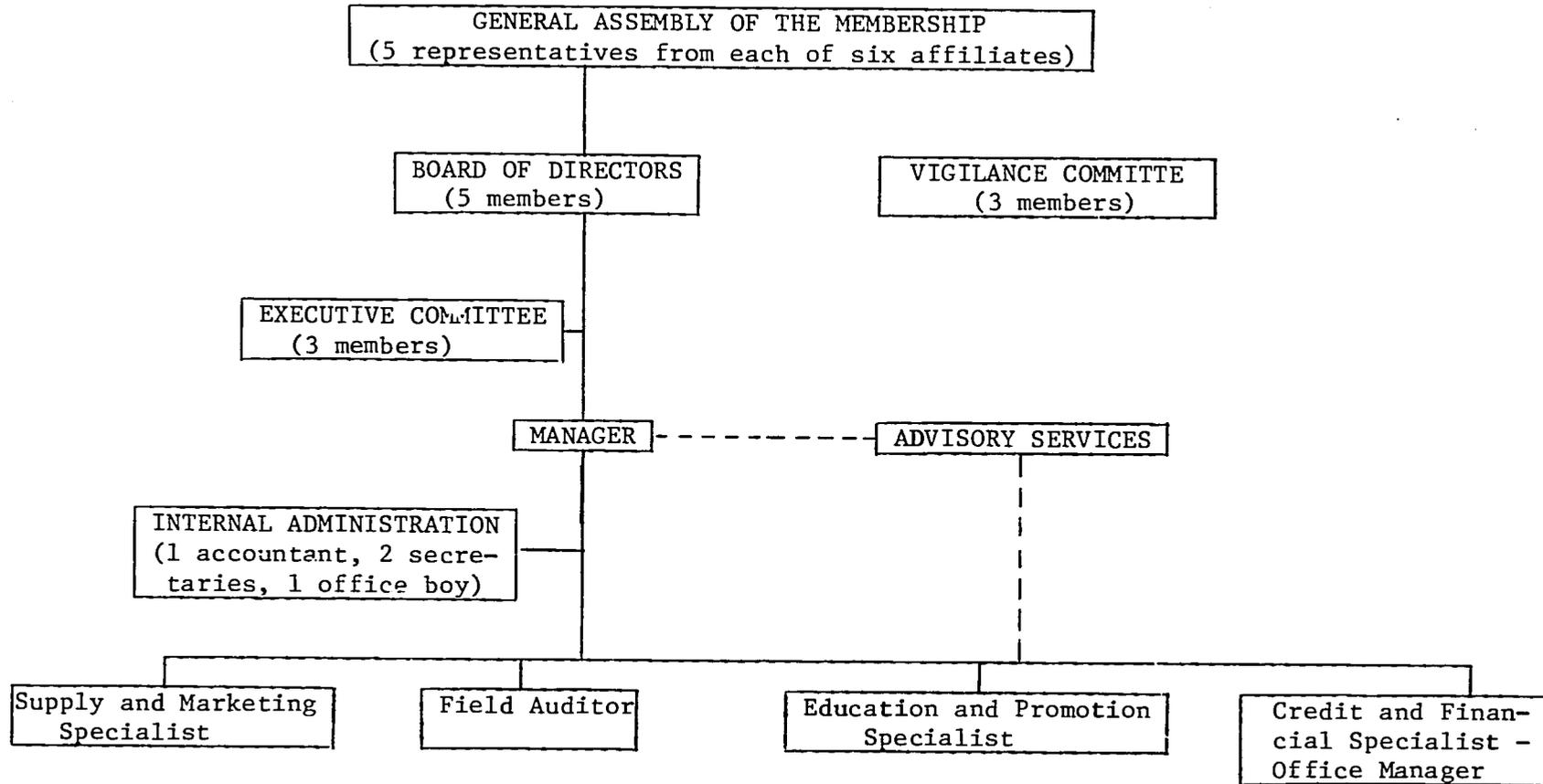
Superiors: Manager of FECOAR, USAID Cooperative Programs Coordinator, President of ACDI.

Principal Counterparts: FECOAR - Supply and Marketing Manager, Education and Promotion Department, Manager.. Affiliates - Manager Managers, field staff and Peace Corps Volunteers.

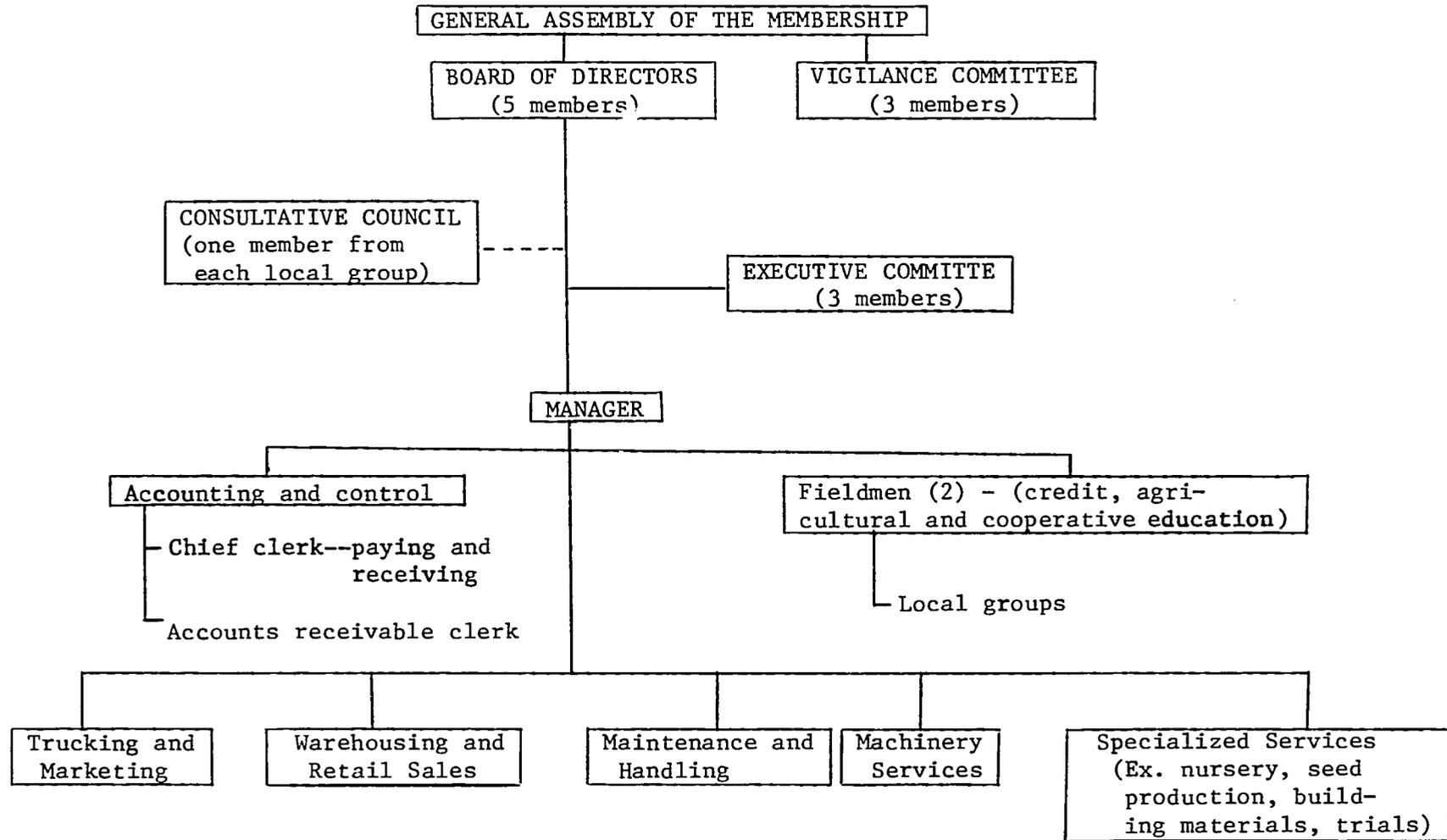
Specific Areas of Responsibility: General policies including pricing, credit, services, etc.. Organization structure including geographic coverage.. Inputs including selection, purchasing, distribution and use.. Marketing including research and processing.. Promotion and education including design and use of materials and techniques.. Public relations and dissemination of information.. Utilization of subsidy funds.. Relations and contacts with international agencies which may be of utility to the project.

Special Considerations: The Chief of Party may assist in any aspect of the agricultural cooperatives project which is within his abilities and requested by the Manager of FECOAR. Be it understood, however, that the Chief of Party may not represent FECOAR nor its affiliates in official nor legal negotiations with third parties nor sign documents in this regard which bind the cooperatives nor FECOAR.

Organization Chart of FECOAR



Organization Pattern of a Typical Regional Cooperative



Condensed trial balance of FECOAR as of June 30, 1976

<u>Current Assets:</u>		
Cash		22,470.28
Inventories	541,105.82	
(1) (-) Reserve for valuation	<u>234,777.89</u>	306,327.93
Loans to affiliates	1,593,079.54	
(-) Reserve for uncollectables	<u>10,917.65</u>	1,582,161.89
Accounts receivable		47,297.94
Interest receivable		22,335.87
Investments		1,237,700.00
(2) Fertilizer subsidy receivable		1,028,824.11
Insurance claim pending		<u>234,660.24</u>
	Total	\$4,481,778.26
<u>Other Assets:</u>		
Loans	69,606.28	144,161.97
Furniture, vehicles, equipment	<u>24,892.30</u>	44,713.98
(-) Accumulated depreciation		1,500.00
Construction in process		
		<u>1,186.48</u>
<u>Prepaid Items:</u>	Total	\$ 191,562.43
<u>Current Liabilities:</u>		
Loans payable		775,600.00
Accounts payable		10,447.85
Subsidies payable		28,534.71
Interest payable		59,136.50
(3) Fertilizer subsidies payable		172,965.66
(4) Contingency funds		18,552.38
<u>Loans, long term</u>		3,000,000.00
<u>Prepayments</u>		<u>2,340.00</u>
	Total	\$4,067,577.10
<u>Capital and Net Worth:</u>		
Affiliate shares		224,291.05
(5) Indivisible net worth		353,371.59
General reserves		<u>33,728.54</u>
	Total	\$ 611,391.18
<u>Operating Accounts:</u>		
(6) Cost of sales	1,072,015.48	
Sales		1,072,015.48
Interest income		107,747.70
Other income		23,864.21
Overhead	40,830.10	
Subsidy payments, affiliates	28,534.71	
Interest expense	67,265.68	
Other expenses	<u>609.01</u>	
	\$1,209,254.98	\$1,203,627.39

SEE NOTES ON NEXT PAGE

Notes: On the Condensed Trial Balance

(1) Inventories valued at current market value or "official" prices are reduced by a reserve amounting to an estimate of the value of lost and damaged material. The "insurance claim pending" is for approximately the same amount.

(2) The "fertilizer subsidy receivable" (from the Government of Guatemala) represents a calculation of the difference between the cost of fertilizer to FECOAR and the "official" sales price and reflects an agreement made between FECOAR and the Government in 1975. Negotiations are currently in process to fix the exact amount of the subsidy to be paid on materials sold in 1975 and 1976.

(3) A portion of the "subsidy receivable" is also "payable" to affiliates for freight and other direct costs of distribution.

(4) Contingency funds are accumulated for labor code benefits of FECOAR employees and a death benefit provision for farmer-members holding credit with affiliated cooperatives.

(5) Subsidies from AID in the form of equipment and capitalized operating income make up this account.

(6) Cost of sales and sales are stated in "official" prices and recorded as affiliates report sales to members. This, also is a result of the agreement on prices mentioned in Note #2 above.

"CONDENSED 1975 YEAR-END BALANCE SHEETS OF FECOAR AFFILIATES"
(in dollars)

	SAN ANDRES SEMETABAJ	FLOR CHIMALTECA	JUSTO RUFINO BARRIOS	REY QUICHE	CUNA DEL SOL	12 OCTUBRE	SELECTED TOTALS
<u>ASSETS</u>							
<u>CURRENT</u>							
Cash	99,193	26,276	1,329	2,516	5,503	9,490	
Accounts Receivable-Members	362,220	308,485	380,246	234,217	107,384	64,041	1,456,593
Accounts Receivable-Others	93,994	66,532	69,951	52,521	32,079	29,263	
Inventories	133,388	16,709	30,860	11,142	31,821	648	
Investments	65,907	47,384	31,306	19,847	11,880	6,668	
<u>FIXED (Depreciated)</u>							
Buildings and land	39,121	57,159	46,145	54,767	52,799	14,400	264,391
Agricultural equipment and Vechicles	25,631	22,533	25,079	21,590	22,520	117	117,470
Office and other equipment	5,480	3,631	4,600	4,066	1,171	70	
Projects	2,781	317	1,756	-	-	-	
<u>DEFERRED</u>							
Miscellaneous	2,693	-	33	1,940	1,225	583	
T O T A L S:	803,408	549,026	591,305	402,606	266,382	125,280	
<u>LIABILITIES</u>							
<u>CURRENT</u>							
Account Payable	28,477	27,460	3,997	1,016	7,999	4,759	
Loans Payable	275,347	306,540	407,690	276,202	129,466	84,338	1,479,583
<u>LONG TERM</u>							
Loans Payable	273,058	43,138	44,823	38,627	40,627	6,705	
<u>CAPITAL ANDRESERVES</u>							
Member capital	93,804	76,292	69,441	40,806	50,190	23,517	354,050
Indivisible Net Worth	76,931	79,926	60,316	42,083	24,134	596	283,986
Reserves	78,612	12,289	4,852	1,262	1,284	596	99,895
Undistributed Profits	4,179	3,379	186	2,610	12,682	4,769	
T O T A L S:	830,406	549,026	591,305	402,606	266,382	125,280	

Note: All cooperatives operate on a calendar year accounting period except San Andres, which closes its books March 31.

CREDIT SITUATION OF AFFILIATED COOPERSTIVES OF FECOAR

FARMER MEMBER-COOPERATIVE LENDING

AS OF JUNE 30, 1976
(in dollars)

ITEM - YEARS	SAN ANDRES SEMETABAJ	FLOR CHIMALTECA	JUSTO RUFINO BARRIOS	REY QUICHE	CUNA DEL SOL	12 DE OCTUBRE	T O T A L
<u>AGRICULTURAL YEAR 1971-72</u>		---	---	---	---	---	
Total Credit Extended	143,721.68	---	---	---	---	---	143,721.68
Uncollected	15,404.30	---	---	---	---	---	15,404.30
Percentage of delinquency	10.42	---	---	---	---	---	10.72
<u>AGRICULTURAL YEAR 1972-73</u>							
Total Credit Extended	160,895.66	25,405.12	22,279.80	---	---	---	208,580.58
Uncollected	17,422.05	1,235.73	264.98	---	---	---	18,922.76
Percentage of delinquency	10.83	4.86	1.19	---	---	---	9.07
<u>AGRICULTURAL YEAR 1973-74</u>							
Total Credit Extended	214,007.07	64,496.91	85,009.90	12,992.10	---	---	376,506.68
Uncollected	---	3,588.97	5,416.35	---	---	---	9,005.32
Percentage of delinquency	---	5.56	6.37	---	---	---	1.12
<u>AGRICULTURAL YEAR 1974-75</u>							
Total Credit Extended	328,800.97	140,486.00	213,873.16	94,232.24	26,710.80	---	804,103.17
Uncollected	61,995.93	19,701.82	54,702.21	2,254.25	1,797.16	---	140,451.37
Percentage of delinquency	18.85	14.02	25.58	2.39	6.73	---	17.47
<u>AGRICULTURAL YEAR 1975-76</u>							
Total Credit Extended	392,999.37	304,199.40	296,693.06	257,768.21	143,221.59	84,665.46	1,479,547.09
Uncollected	89,795.58	116,652.73	141,953.69	70,122.70	22,627.60	4,335.40	445,127.70
Percentage of delinquency	22.85	38.35	47.84	27.20	15.80	5.12	30.08

CREDIT SITUATION OF FECOAR
AFFILIATE - FEDERATION LENDING

AS OF JUNE 30, 1976
(in dollars)

ITEMS _ YEARS	SAN ANDRES SEMETABAJ	FLOR CHIMALTECA	JUSTO RUFINO BARRIOS	REY QUICHE	CUNA DEL SOL	12 DE OCTUBRE	T O T A L
<u>AGRICULTURAL YEAR 1973-74</u>							
Total Credit Extended	98,531.51	75,219.06	54,102.79	---	---	---	227,853.36
Uncollected	--	--	--	---	---	---	
Percentage of delinquency	--	--	--	---	---	---	
<u>AGRICULTURAL YEAR 1974-75</u>							
Total Credit Extended	183,985.00	246,768.00	251,271.00	102,297.00	80,557.00	---	864,879.00
Uncollected	--	--	--	---	---	---	
Percentage of delinquency	--	--	--	---	---	---	
<u>AGRICULTURAL YEAR 1975-76</u>							
Total Credit Extended	329,228.52	342,834.77	294,334.40	317,541.98	169,850.49	137,760.86	1,591,551.02
Uncollected	72,230.96	83,774.41	200,277.19	86,604.54	---	---	441,886.20
Percentage of delinquency	21.94	24.43	68.04	26.96	---	---	27.76

(Translation)

AREVALO, PEREZ AND ASSOCIATES
Public Accountants and Auditors

Guatemala, C.A.

Gentlemen:

Board of Directors
FEDERACION DE COOPERATIVAS
AGRICOLAS REGIONALES
City

We have examined the balance sheet of the Federacion de Cooperativas Agricolas Regionales as of December 31, 1975 and the corresponding statements of profit and loss and changes in financial situation for the year terminating on the same date. Our examination was done in accordance with generally accepted auditing norms and, therefore, included those proofs of the books and accounting documents and other auditing procedures which we considered necessary in view of the circumstances.

In our opinion, the financial statements attached, reasonably represent the financial situation of the Federacion de Cooperativas Agricolas Regionales to December 31, 1975, the results of operations and changes in financial position for the year ending on this date, according to generally accepted accounting principles, applied on the same basis as the preceding year.

AREVALO, PEREZ AND ASSOCIATES

Lic. Hugo L. Arevalo
Registered Public Accountant
and Auditor #204

DAVID C. FLEDDERJOHN

Taking his first professional agricultural development assignment in 1966, David C. Fledderjohn began an endeavor that became a career. He was named Chief of Party of a project in Honduras which brought the cooperatives together for their common good.

Four years later he was transferred to Guatemala for a similar undertaking. He relates in this report what was and was not accomplished and speaks frankly about unexpected windfalls and heartbreaks.

David has accepted another responsibility of assisting low-income farmers in Guatemala. He expects to continue monitoring the progress of FECOAR and presumably creating sources of leadership in the agricultural development field.

Before joining ACDI, he served as a program officer and deputy director of the Peace Corps. He holds degrees in Business Administration from Earlham College and the University of Chicago, majoring in economics and industrial relations. He is married and has two children.

WHAT IS ACDI?

ACDI is a non-profit, membership organization with deep cooperative roots and purpose. The membership includes 22 regional agricultural cooperatives, 5 co-op suppliers owned by combinations of regionals, 6 district Farm Credit Banks and their Central Bank for Cooperatives, 2 mutual insurance companies, a consumer co-op, and 5 national farm and cooperative associations.

ACDI was created during the 1960's for the purpose of drawing on the technical and management experience of our member organizations to provide technical assistance to developing countries in the development of agricultural cooperatives and other supply, marketing and/or credit services to farmers.

ACDI has helped develop farmer cooperatives and farm service organizations in many countries of Africa, Asia, and Latin America. ACDI provides consulting services in project identification design, and feasibility studies. It develops and conducts training programs in cooperative management, accounting and member education. Provided also are technical and management assistance to supply, marketing and credit cooperatives and to rural development banks. ACDI organizes and conducts problem oriented leadership seminars and provides information in response to technical queries. Currently ACDI is involved in eight projects on the three continents.

ACDI's basic policies are set by a Board of Directors representing each of our member organizations. Operations are directed by the President and a small central support staff. Our overseas projects are manned by experts recruited on a term-contract basis, from our member organizations to the extent feasible. In addition we maintain contact with a number of organizations and individuals with a wealth of experience in the development of agricultural cooperatives, abroad as well as in the United States, for short assignments as consultants, trainers or resource people for workshops on problems of cooperative management.

We believe that successful cooperatives must fundamentally be effective and efficient business organizations providing services to their members on a competitive basis. They are economic institutions that pay their own bills and charge fees for the services they provide. They can also yield major social and political benefits in democratic participation and control by their members and in providing a trustworthy linkage for them to the world of large affairs. But such benefits can be lasting and real only if the organization which provides them is economically successful. We believe that the key to that success lies far more in the willingness of the members to work together and invest together for their mutual benefit, than in the provision of subsidies.