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REPORT ON INSTITUTIONAL STABILIZATION

THROUGH

EQUITY PARTICIPATION MECHANISMS

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List of Acronyms

Titles and Abbreviations

A.I.D.	United States Agency for International Development
ADF	Agricultural Development Foundation (proposed)
ANACH	National Peasants Association of Honduras
BAHNCAFE	Coffee Bank of Honduras
BANADESA	National Agricultural Development Bank of Honduras
COLAC	Latin-American Confederation of Credit Unions
CREHSUL	Regional Cooperative of Southern Horticulturalists (a model cooperative)
FACACH	National Credit Union Federation of Honduras
FECORAH	National Federation of Regional Agricultural Cooperatives of Honduras
FEHCOCAL	National Coffee Cooperative Federation of Honduras
Fruta de Sol	A model cooperative
IHCAFE	National Coffee Institute of Honduras
MODELS	Model agricultural cooperatives
Maya Occidental	A model cooperative
P & A	Purchase and assumption
UNIOCOOP	National Union of Regional Cooperatives (recently organized association of model cooperatives)
20 de Marzo	A model cooperative

I. STABILIZATION ALTERNATIVES

DEBT VS. EQUITY FINANCING

When a business encounters financial difficulties, there are two generally accepted ways of raising the necessary capital to enable the business to continue onward. The two alternatives are:

1. Debt refinancing
2. Equity contributions

The conditions under which a business would seek each alternative vary depending upon the situation. Generally speaking, if a business has a relatively decent financial statement, it can seek a debt refinancing from a financial institution without too much trouble. This is usually a more preferred way to go for the following reasons:

1. Management can continue to be in full control of the day to day operations.
2. The debt repayment terms are usually fixed over a specified period of time and can be budgeted rather easily.
3. The long run cost of debt is generally cheaper than equity, because investors require higher yields for the higher risks they assume as part-owners of the business.

When a business is bankrupt, however, the only feasible way for the institution to continue on, is if someone injects equity capital into the ailing operation in order to meet it's financial obligations. The larger money center Banks such as Chase Manhattan and Citibank have adopted this strategy in buying bankrupt lending institutions with equity capital, and then making the necessary management changes. In the credit union movement, this operation is called purchase and assumption (P & A), and is typically used to enable strong credit unions to absorb ones which would otherwise be liquidated. This is generally considered to be the least cost method of absorbing the liability of insolvent institutions.

STRENGTHS OF EQUITY CAPITAL

Since virtually every one of the institutions that has been included in this project is in serious financial condition, it is recommended that the equity capital alternative be implemented in order to achieve the following:

1. Significantly strengthen the balance sheets of the institutions involved in the project.
2. Reduce the high interest costs.
3. Increase net earnings.
4. Allow for more flexible repayment terms.
5. Indirectly obtain a voice in management to improve operating practices through the suggested Agricultural Development Foundation (ADF).
6. Avoid the appearance of a "bailout" by taking a preferred ownership position in each institution and thereby have a first call on any earnings that the institution generates before allocating net profits back to the other members.

IMPLEMENTATION OF THE EQUITY PARTICIPATION PROGRAM

The main vehicle by which troubled institutions can participate in the equity participation program is the OPERATING CONTRACT. This contract will be a legal document which will spell out the terms and conditions under the equity funds will be disbursed. The institution will agree to abide by the conditions outlined in the contract and hopefully, will have the approval of the general membership, prior to signing the agreement, which will be the final process to make it legally binding.

The contract will specify, among other things, the following basic "boilerplate" conditions:

1. The ADF will have the first call on any earnings that the institution may generate, prior to any distribution to affiliates or members.
2. The amount of the preferred dividend, plus any retirement of equity capital will be up to the sole discretion of the ADF.
3. Unless there are inadequate earnings, the preferred dividend shall not be less than 4% per annum.
4. The ADF shall have a direct veto power over any management decision or practice that is not in compliance with the operating contract. If inept management continues, the ADF shall have power to find replacement personnel.
5. The ADF will have rights of approval over the annual operating plan and budgets.
6. The ADF will have the right to name the external auditors as well as conduct interim inspections and operating reviews.

DIVIDEND PAYMENT

There are many ways to structure a dividend payment on equity capital. The flexibility that is provided in setting further repayment terms is particularly useful. Since a return on equity capital is dependent upon earnings, there is no pre-arranged return to capital. As outlined above, we recommend that that minimum dividend payment be 4%, since most institutions are paying at least that amount on their share capital. From a practical standpoint, that amount will change from year to year, depending upon economic conditions and investment objectives. There could conceivably be years in which no dividend was paid, because of no earnings.

As noted in the operating contract, the Board of Directors of the Foundation would be responsible for determining the appropriate dividend amount, taking into consideration the financial strength of the institution, as well as the amount of earnings generated during the year. The individual institutions could make recommendations to the Board, but would not make the final decision.

If the institution had a particularly good year, the Board of Directors could approve a retirement of equity capital, in addition to the payment of a dividend, and thereby facilitate the gradual recapitalization of the developing institution with its own equity capital, achieved through earnings. This is the precise manner in which the Farm Credit System of the U.S.A. was able to retire all of the Government "A" Stock that was used to capitalize the System in its infancy. The retirement of the government capital was achieved through the net earnings and capitalization requirements of each Farm Credit Bank.

The capitalization systems employed by FACACH and its affiliated credit union, as well as the regional model cooperatives are similar to the

U.S. system. They general additional paid-in capital independently of earnings by requiring all borrowers to invest a given percentage of credit received from the cooperative or credit union in its share capital. Unfortunately, however, earnings have generally been insufficient and in most cases, member capital (paid-in stock certificates) has been impaired (book value is less than par).

As can be seen from the previous paragraphs, the issue of a "bailout" can be solved very nicely by the equity alternative. In essence, the bankrupt institution is not being bailed out by anyone, but rather is being "taken over" or assisted by a more financially solvent institution (ADF). Hopefully, the ADF will be able to provide the weaker institution with not only equity funds, but also technical assistance and management expertise during its rebuilding phase. As soon a he weaker institution is able, it may buy its way out of Foundation control through a gradual retirement of the latter's equity capital.

DISADVANTAGES OF DEBT RESTRUCTURING

The weaknesses of a debt restructuring are basically the opposite position of the strengths of an equity participation. Namely:

1. The balance sheets of the institutions are worsened instead of improved, because of the increase of debt. In the case of bankrupt institutions, obtaining debt financing is possible, only if there are unsecured assets which can be pledged as collateral.
2. The interest costs will continue to be high, because of the higher amount of debt at market rates.

3. The net earnings will obviously be diminished, due to the higher interest charges.

4. The repayment terms will be fixed over a period of time, and if the institution encounters a bad year and is unable to make the interest payment, there is not the same flexibility in resolving the delinquent payment problem.

5. A debt restructuring will not provide a voice in management on a continuous basis, but rather, only be able to impose changes at the time of refinancing.

6. A new loan to a "bankrupt" institution with impaired or even negative net worth is tantamount to a "bailout", and certainly weakens the overall objective of the project design, which is to implement a business-oriented approach within each developing institution.

As mentioned previously, debt restructuring has its benefits if the institution has a respectable balance sheet. Since this project is lending assistance to institutions that are either bankrupt, or on the verge of bankruptcy, an equity participation is the most appropriate vehicle to use for such risky investments. It should be viewed as a natural step in the process of controlled institutional growth and expansion.

II. CURRENT STATUS OF INTERMEDIARY INSTITUTIONS

In order to evaluate the need for, as well as the amount of stabilization investments in each institution, a matrix was developed to show the current status of the institution in terms of its financial strength and earnings ability, the size of its membership base, and the services that the institution currently provides to its members. The information presented in the matrix was obtained from the institutional profiles were recently prepared on each intermediary by independent consultant groups.

Table 1 contains the results of the matrix comparison between the five institutions that are currently being considered within the project. As can be seen, virtually all of the institutions are in an extremely weakened financial condition with poor earnings. In the case of FECORAH and ANACH, the net income shown was a result of dues or donations, since neither institution has significant income generating capabilities.

The membership base of each institution varies rather widely from a low of 1,449 members to a high of 39,104 members. Unfortunately, there is little correlation between the number of members served, the range of services offered, and the financial strength of each institution.

As far as services offered is concerned, FACACH and FEHCOCAL both provide the widest range of services from credit lending to input supply and marketing. FECORAH and ANACH on the other hand, offer a rather limited scope of services which primarily deal with agrarian reform services such as land titling and legal representation. The four model

Table 1

Comparative Matrix Analysis
Current Status Indicators

Institutions	FACACH	FEHCOCAL	MODELS	FECORAH	ANACH	TOTALS
FINANCIAL (Amounts in Lempiras)						
Net Income	(740,725)	(2,801,937)	(2,836,660)	26,033	34,852	(6,318,337)
Total Assets	19,668,063	31,858,364	4,460,155	1,023,934	280,788	57,291,304
Total Debt	13,968,153	42,452,066	5,385,673	527,000	454,666	62,787,558
Paid-In Capital	2,567,123	27,000	777,598	394,000	-0-	3,765,721
Total Net Worth	5,699,910	(10,593,702)	(925,518)	496,934	(173,078)	(5,495,454)
MEMBERSHIP						
No. of Affiliates	89	28	4	375	728	1,224
No. of Members	39,104	7,300	1,449	10,000	25,000	82,853
SERVICES OFFERED						
Credit	X	X	X			3
Input Supply	X		X			2
Domestic Marketing	X	X	X			3
Export Marketing		X	X			2
Technical Assistance	X	X	X			3
Legal Assistance	X	X		X	X	4
Representation	X	X	X	X	X	5
Accounting		X				1
Savings	X					1
Insurance	X					1
Product Processing	X	X	X			3
Product Storage	X	X				2
Social Programs	X	X		X	X	4
Coop. Organizing	X	X				2
No. of Services	12	11	7	3	3	36

MODEL COOPERATIVES

	Net Income	Total Assets	Total Debt	Paid-in Capital	Net Worth
20 de Marzo	13,732	976,496	497,187	152,656	479,309
Maya Occidental	1,159	808,650	353,299	161,636	455,351
Fruta del Sol	(1,376,859)	936,531	1,830,099	269,306	(893,568)
Crehsul	(1,474,692)	1,738,478	2,705,088	194,000	(966,610)
Totals	(2,836,660)	4,460,155	5,385,673	777,598	(925,518)

cooperatives are primarily involved in the production and marketing of basic feed grains, cucumbers, and melons.

Based upon the information included in the matrix, the following conclusions can be reached about each institution:

1. FACACH offers the widest range of services and also has the largest membership base of any of the other institutions. Notwithstanding its operating losses, its overall financial position is technically solvent, but minimally acceptable.
2. FEHCOCAL offers a wide range of services to a small group of beneficiaries. The financial condition of the institution is bankrupt with a negative net worth.
3. MODEL COOPS offer a narrower scope of production and marketing services, serve the smallest group of members, and two of the four coops are financially insolvent.
4. FECORAH has an acceptable financial condition, due to donated capital, serves an average sized membership base, offers a limited scope of services, and has no permanent source of income other than donations.
5. ANACH has an unacceptable financial condition with negative net worth, serves a large membership base, offers a limited range of services, and cannot survive without donations.

III. FINANCIAL PROJECTIONS

In this section we describe the financial condition of the intermediary organizations and present a current, adjusted financial statement for each. Historical financial statements are included in the appendices. Based on our analysis of the intermediaries, we project their financial condition after receiving stabilization investments. In the case of the model regional cooperatives, a break-even projection is also presented.

DESCRIPTION OF THE MODEL

The model presents the closing balances for 1984 adjusted to reflect any significant changes during 1985. Stabilization entries are then made showing how each of the balance sheet or income statement accounts is adjusted in order to improve the intermediary's financial position. These changes are usually:

--Asset write-downs to reflect past operating losses or loan losses.

--Reduction in retained earnings to reflect various types of losses.

--Injection of "preferred capital" to offset the negative impact on net worth of the asset write-downs.

--Adjustment of capital costs (interest expense) to reflect the need to provide earnings to cover the dividends on the preferred capital.

--Debt substitution, either to lower capital costs or to reduce foreign exchange risk exposure.

--Reductions in reserves to cover losses have not been included in the projections given these organizations' generalized need to improve their already weak reserve position.

The interest rate structure generally employed in the model is shown in Table 3. The only significant exception to these rates is in the case of FACACH. Here, we have only reduced the federation's wholesale lending rate from its current 18% to 14%, instead of 11% as in the case of the other federations. This reflects the generally higher lending rates of credit unions (18%-21%) as compared to other primary cooperatives (16%).

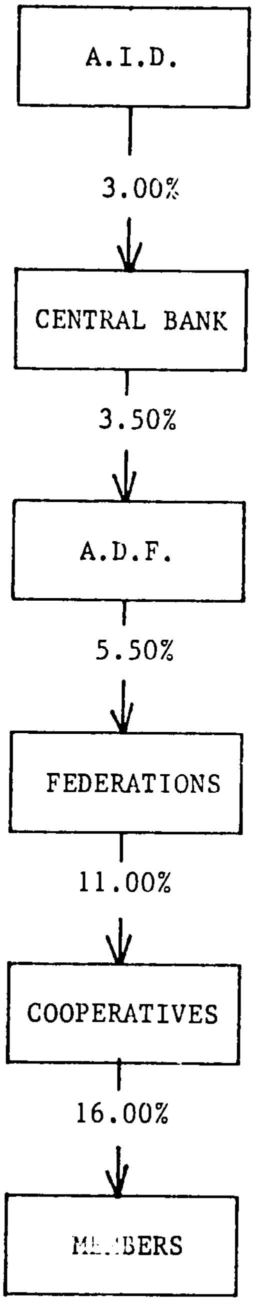
A series of analytical percentages and ratios are shown for each intermediary to assist in assessing its condition and prospects. They show financial structure (common size analysis) and earnings.

We have not addressed the processes or magnitude of stabilization efforts at the affiliate level in this model. Needs at the primary level of the system will only become apparent as problems are resolved at the federation level and will require in-depth analyses within each sector and for each organization to be stabilized. Chapter VII of the FACACH Institutional Profile describes the operational process of stabilization.

Table 3

PROPOSED

INTEREST RATE STRUCTURE



FACACH

FACACH has grown relatively slowly over the last few years. It has experienced a profound change in its financial structure as financial assets, particularly loans to credit unions and cooperatives, have been increasingly replaced by investment in agricultural production and marketing facilities. These have been financed on an increasing scale by capital donations. This change in financial structure has been accompanied by a precipitous drop in earnings, due to lower asset yields, increasing cost of capital and rapid escalation of net operating costs. See Appendix 1 for trend data.

Stabilization of FACACH is shown in Table 4. It involves these major components:

--Substitution of Lempira debt for U.S. dollar debt in the amount of L.2,767,500 to reduce devaluation loss exposure.

--Injection of preferred capital to offset loan and other asset write-downs.

--Funding of insurance reserves with the proceeds of the preferred capital.

The impact of this effort is:

--Elimination of foreign exchange risk to FACACH

--A slight reduction in net worth and total assets

--No worsening of net earnings

--Substantial improvement in FACACH's liquidity.

Table 4

FACACH Stabilization Projections

BALANCE SHEET	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE	INTEREST RATE (%)
ASSETS					
Liquid assets /1.......	711,323	878,000		1,589,323	10.05
COLAC Shares...........	832,204			832,204	
Loans Outstanding /2...	8,754,967	845,000	1,182,000	8,417,967	14.00
Other Assets /3........	9,369,569		908,000	8,461,569	
Total.......	19,668,063			19,301,063	6.93
LIABILITIES					
Credit union deposits..	1,304,423			1,304,423	12.00
Notes Payable /4.......	9,212,703	2,767,500	2,767,500	9,212,703	7.16
Accounts payable.......	1,359,305			1,359,305	
Other liabilities......	2,091,722			2,091,722	
Total Liabilities......	13,968,153			13,968,153	
NET WORTH					
Paid-in Capital /5.....	2,567,123	367,000		2,200,123	8.00
Preferred Capital /6...	0		1,104,000	1,104,000	4.00
Donated Capital........	4,300,404			4,300,404	
Retained Earnings /7...	(789,856)	2,830,725	986,000	(2,634,581)	
Reserves...............	338,497			338,497	
Year-to-Date Earnings/8	(740,725)		740,725	0	
Other capital accounts.	24,467			24,467	
Total......	5,699,910			5,332,910	
Total Liabilities and Net Worth...........	19,668,063			19,301,063	5.37
Totals		7,688,225	7,688,225		
INCOME STATEMENT					
Interest income /9.....	1,317,709			1,338,242	6.93
Interest expense /10...	1,021,676			1,036,477	5.37
Gross Spread/Margin....	296,033			301,766	1.56
Operating cost.........	2,198,755			2,198,755	11.39
Other income...........	1,102,974			1,102,974	5.71
Net Operating Cost.....	1,095,781			1,095,781	5.68
Operating Spread/Margin	(799,748)			(794,015)	-4.11

Table 4 Notes

FACACH Stabilization Projections
(Continued)

NOTES:

1. Increased by proceeds of stabilization preferred capital investment in amount necessary to establish invested reserves equal to currently unfunded insurance reserves of L.878,000. Balance of stabilization proceeds are invested in loans to credit unions.
2. Increased by balance of stabilization investment (L.226,000) and reinvestment in loans of recovered guarantees on liquidated loans (L.619,000). Decreased by loan losses estimated at L.1,182,000.
3. Write-off of loans in liquidation from previous periods (L.607,000) and accrued interest receivable.
4. Stabilization loan of L.2,767,500 granted to FACACH to retire U.S. dollar-denominated debt and prevent possible future devaluation losses.
5. Reduced by decreases in paid-in capital retired against loan losses.
6. Stabilization investment of L.1,104,000 equal to sum of loan, loan liquidation and interest receivable write-offs, less guarantee recoveries and write-down of paid-in capital of delinquent debtors.
7. Reduced by the sum of loan, loans in liquidation and interest receivable write-offs plus 1984 year-to-date negative earnings. Increased by guarantee recoveries and paid-in capital write-downs.
8. Balance is transferred to retained earnings.
9. Estimated as the weighted average rate of return on total assets of..... 6.93%. Loans outstanding are set at 14%, higher than the 11% rate for other cooperative sectors due to the higher rates charged by credit unions (18% to 21%).
10. Estimated as the weighted average cost of capital of: 5.37%
This assumes that there is no significant reduction in the cost of capital; notes payable are set at 7.16% and stabilization preferred capital is set at 4%. All other rates remain constant.

MODEL COOPERATIVES

20 de Marzo

No stabilization investments are recommended at this time given the coop's healthy position. Break-even estimates show a need to nearly double sales at current cost and income levels and the coop's historical 18% sales margin. Prospects appear good. See Table 5 for the income statement at break-even volume. Appendix 2 presents the historical data.

Table 5

20 de Marzo Stabilization Projections

	1984 CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ASSETS				
Liquid assets	229,332			229,332
Loans outstanding	449,185			449,185
Inventories	48,579			48,579
Net Fixed assets	95,155			95,155
Other assets	154,245			154,245
Total Assets	976,496			976,496
LIABILITIES				
Accounts payable	35,478			35,478
Notes payable	446,826			446,826
Other liabilities	14,883			14,883
Total Liabilities	497,187			497,187
NET WORTH				
Paid-in Capital	152,656			152,656
Preferred Capital				0
Donated Capital	206,474			206,474
Retained earnings	42,014			42,014
Reserves	74,947			74,947
Other capital accounts	3,218			3,218
				0
Total Net Worth	479,309			479,309
Total Liabilities and Net Worth	976,496			976,496
INCOME STATEMENT				
Net sales /2	304,732			589,456
Interest	66,143			66,143
Other income				0
Total Income	370,875			655,599
Cost of goods sold	248,976			483,354
Operating expense	172,245			172,245
Total Expenses	421,221			655,599
Income before interest	(50,346)			0
Interest cost				0
Net Income	(50,346)			0
A.I.D. Subsidy	64,078			0
Net surplus	13,732			0

Table 5 Cont.
20 de Marzo Stabilization Projections

	1984 CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	304,732			589,456
Cost of goods sold	248,976			483,354
Sales margin	55,756			106,102
Interest	66,143			66,143
Other income	0			0
Gross margin	121,899			172,245
Operating expense	172,245			172,245
Income before interest	(50,346)			0
Interest cost	0			0
Net Income	(50,346)			0
A.I.D. Subsidy	64,078			0
Net surplus	13,732			0
FINANCIAL ANALYSIS	Percent of Total Assets			
ASSETS				
Liquid assets	23			23
Loans outstanding	46			46
Inventories	5			5
Net Fixed assets	10			10
Other assets	16			16
Total Assets	100			100
LIABILITIES				
Accounts payable	4			4
Notes/interest payable	46			46
Other liabilities	2			2
Total Liabilities	51			51
NET WORTH				
Paid-in Capital	16			16
Preferred Capital	0			0
Donated Capital	21			21
Retained earnings	4			4
Reserves	8			8
Other capital accounts	0			0
				0
Total Net Worth	49			49
Debt:Equity	1.04			1.04

Table 5 Ccnt.

20 de Marzo Stabilization Projections

	1984 CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	82			82
Sales margin	18			18
Interest	22			11
Other income	0			0
Gross margin	40			29
Operating expense	57			29
Income before interest	(17)			0
Interest cost	0			0
Net Income	(17)			0
A.I.D. Subsidy	21			0
Net surplus	5			0
RATIO ANALYSIS				
Inventory turnover	5.13			9.95
Sales margin/Sales	18.30			18.00
Sales marg/Gross marg	45.74			61.60
Operat Exp/Gross marg	141.30			100.00
Net income/Sales	(16.52)			.00
Net income/Assets	(5.16)			.00
Net income/ capital	(10.50)			.00

NOTES:

1. Loans delinquent one year or more total L.28,280, less than reserves of L.74,946. Stabilization capital not required.
2. Break-even sales volume required to meet net fixed costs at current sales margin of 18%.

Maya Occidental

This cooperative has also experienced substantial growth in total assets, net worth and earnings. Nevertheless, a stabilization injection of L.106,539 is recommended to cover probable loan losses. As Table 6 shows, sales volume must nearly triple at current cost and margin levels to reach break-even. Historical data are in Appendix 3.

It has been suggested that this cooperative as well as the 20 de Marzo, can achieve necessary sales growth without undue credit risk only by entering the grain drying and marketing business. While this may be, it needs to be studied very carefully. FACACH has found that its credit risk has been reduced in its basic grains drying and storage operations but at the cost of increasing its marketing risk. FACACH has yet to generate a net profit in these operations, despite very low loan delinquency.

Table 6
Maya Occidental Stabilization Projections

	1984 CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ASSETS				
Liquid assets	195,747			195,747
Loans outstanding /1	428,213		106,539	321,674
Inventories	56,722			56,722
Net Fixed assets	84,695			84,695
Other assets	43,273			43,273
Total Assets	808,650			702,111
LIABILITIES				
Accounts payable	13,474			13,474
Notes payable /2	321,124	106,539		214,585
Other liabilities	18,701			18,701
Total Liabilities	353,299			246,760
NET WORTH				
Paid-in Capital	161,636			161,636
Preferred Capital			106,539	106,539
Donated Capital	218,849			218,849
Retained earnings	15,972	106,539		(90,567)
Reserves	58,894			58,894
Other capital accounts				0
				0
Total Net Worth	455,351			455,351
Total Liabilities and Net Worth	808,650			702,111
INCOME STATEMENT				
Net sales /3	193,985			575,489
Interest	60,686			60,686
Other income				0
Total Income	254,671			636,175
Cost of goods sold	159,238			471,901
Operating expense	164,274			164,274
Total Expenses	323,512			636,175
Income before interest	(68,841)			0
Interest cost				0
Net Income	(68,841)			0
A.I.D. Subsidy	70,000			0
Net surplus	1,159			0
Totals		213,078	213,078	

Table 6 Cont.
Maya Occidental Stabilization Projections

	1984 CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	193,985			575,489
Cost of goods sold	159,238			471,901
Sales margin	34,747			103,588
Interest	60,686			60,686
Other income	0			0
Gross margin	95,433			164,274
Operating expense	164,274			164,274
Income before interest	(68,841)			0
Interest cost	0			0
Net Income	(68,841)			0
A.I.D. Subsidy	70,000			0
Net surplus	1,159			0
FINANCIAL ANALYSIS Percent of Total Assets				
ASSETS				
Liquid assets	24			28
Loans outstanding	53			46
Inventories	7			8
Net Fixed assets	10			12
Other assets	5			6
Total Assets	100			100
LIABILITIES				
Accounts payable	2			2
Notes/interest payable	40			31
Other liabilities	2			3
Total Liabilities	44			35
NET WORTH				
Paid-in Capital	20			23
Preferred Capital	0			15
Donated Capital	27			31
Retained earnings	2			(13)
Reserves	7			8
Other capital accounts	0			0
				0
Total Net Worth	56			65
Debt:Equity	0.78			0.54

Table 6 Cont.

Maya Occidental Stabilization Projections

	1984 CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	82			82
Sales margin	18			18
Interest	31			11
Other income	0			0
Gross margin	49			29
Operating expense	85			29
Income before interest	(35)			0
Interest cost	0			0
Net Income	(35)			0
A.I.D. Subsidy	36			0
Net surplus	1			0
RATIO ANALYSIS				
Inventory turnover	2.81			8.32
Sales margin/Sales	17.91			18.00
Sales marg/Gross marg	36.41			63.06
Operat Exp/Gross marg	172.14			100.00
Net income/Sales	(35.49)			.00
Net income/Assets	(8.51)			.00
Net income/ capital	(15.12)			.00

NOTES:

1. Delinquent loans more than two years of L.91,844 less reserves of L.70,145 charged to retained earnings.
2. Notes payable reduced by value of stabilization investment of L.106,539 in preferred capital.
3. Break-even sales volume required to meet net fixed costs at current sales margin of 18%.

Fruta del Sol

This cooperative has suffered serious losses in its cucumber export operations and is technically insolvent, with estimated accumulated losses exceeding L.1.5 million and negative net worth of nearly L.900,000. A major infusion of L.1,556,086 in preferred capital is needed to stabilize the cooperative. This will return the organization to solvency.

Break-even can be achieved at current production volumes if the projected price of L.26 per box is obtained, given estimated costs of L.21 per box. These calculations and the stabilized balance sheet are shown in Table 7. Much improved market and price information is needed both to plan the crop and sales effort and to assure that product is not shipped when prices are too low. The adjusted 1985-85 crop cycle financial statement is in Appendix 4.

Table 7

Fruta del Sol Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ASSETS				
Liquid assets /1	408,777	122,360		531,137
Loans outstanding	0			0
Inventories	0			0
Net Fixed assets	274,834			274,834
Other assets	252,920			252,920
Total Assets	936,531			1,058,891
LIABILITIES				
Accounts payable	377,056			377,056
Notes payable /2	1,433,726	1,433,726		0
Other liabilities	19,317			19,317
Total Liabilities	1,830,099			396,373
NET WORTH				
Paid-in Capital	269,306			269,306
Preferred Capital /3	0		1,556,086	1,556,086
Donated Capital	260,715			260,715
Retained earnings	(1,556,086)			(1,556,086)
Reserves	132,497			132,497
Other capital accounts	0			0
Year-to-date earnings	0			0
Total Net Worth	(893,568)			662,518
Total Liabilities and Net Worth	936,531			1,058,891
INCOME STATEMENT				
Net sales /4	1,821,766			2,314,000
Interest	56,564			128,000
Other income	22,668			14,915
Total Income	1,900,998			2,456,915
Cost of goods sold /5	1,701,315			1,869,000
Operating expense /6	343,497			360,672
Total Expenses	2,044,812			2,229,672
Income before interest	(143,814)			227,243
Interest cost	43,097			227,243
Net Income	(186,911)			0
A.I.D. Subsidy	119,924			0
Net surplus	(66,987)			0
Totals		1,556,086	1,556,086	

Table 7 Cont.
Fruta del Sol Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	1,821,766			2,314,000
Cost of goods sold	1,701,315			1,869,000
Sales margin	120,451			445,000
Interest	56,564			128,000
Other income	22,668			14,915
Gross margin	199,683			587,915
Operating expense	343,497			360,672
Income before interest	(143,814)			227,243
Interest cost	43,097			227,243
Net Income	(186,911)			0
A.I.D. Subsidy	119,924			0
Net surplus	(66,987)			0
FINANCIAL ANALYSIS Percent of Total Assets				
ASSETS				
Liquid assets	44			50
Loans outstanding	0			0
Inventories	0			0
Net Fixed assets	29			26
Other assets	27			24
Total Assets	100			100
LIABILITIES				
Accounts payable	40			36
Notes/interest payable	153			0
Other liabilities	2			2
Total Liabilities	195			37
NET WORTH				
Paid-in Capital	29			25
Preferred Capital	0			147
Donated Capital	28			25
Retained earnings	(166)			(147)
Reserves	14			13
Other capital accounts	0			0
Year-to-date earnings	0			0
Total Net Worth	(95)			63
Debt:Equity	(2.05)			0.60

Table 7 Cont.
Fruta del Sol Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	93			81
Sales margin	7			19
Interest	3			6
Other income	1			1
Gross margin	11			25
Operating expense	19			16
Income before interest	(8)			10
Interest cost	2			10
Net Income	(10)			0
A.I.D. Subsidy	7			0
Net surplus	(4)			0
RATIO ANALYSIS				
Inventory turnover	NA			NA
Sales margin/Sales	6.61			19.23
Sales marg/Gross marg	60.32			75.69
Operat Exp/Gross marj	172.02			61.35
Net income/Sales	(10.26)			.00
Net income/Assets	(19.96)			.00
Net income/ capital	20.92			.00

NOTES:

1. Increased by L.122,360, the net difference between the stabilization investment of L.1,556,086 and the amortization of notes payable of L.1,433,726.
2. Notes payable are reduced by proceeds of the preferred equity stabilization investment (L.1,556,086). Annual production credit received of L.1,500,000 is assumed fully amortized.
3. Stabilization investment equal to previous total negative retained earnings.
4. Estimated break-even sales (L.2,314,000 for 89,000 boxes) given fixed costs of L.587,915, variable costs of L.21/box and assumed price of L.26/box. This is high as shown by the following data:

Notes on prices:	US Dollars	Lempiras
Traditional price level..................	13	26
ACDI projected price 1984-85..............	13	26
Actual price received by coop............	4	8

ACDI projected 1984-85 volume at 150,000 boxes; 106,000 were actually exported.

5. Cost of goods sold is estimated at 89,000 boxes @ L.21/box; total variable cost of L.2,204,430 / 106,000 boxes in 1984-85.

Table 7 Cont.

Fruta del Sol Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE

7. Operating expenses are at the estimated 1984-85 level plus 5%.
8. Interest cost is based on the following weighted average cost of
8. Interest cost is based on the following weighted average cost of

Capital items:	Rate	Balance	Cost
Preferred capital stock	4.00	1,556,086	62,243
Operating line of credit	11.00	1,500,000	165,000
Total	7.44	3,056,086	227,243

9. Interest income estimated at 16% on an average balance of L.800,000.

CREHSUL

CREHSUL experienced even greater losses than Fruta del Sol in its melon exporting business and is insolvent. An infusion of preferred capital of L.2,014,372 is needed to retire the cooperative's short term debt; this would slightly exceed total negative retained earnings to date. Losses in this coop come from both production and loans to producers.

Break-even is difficult to project given the lack of price data and the very low prices obtained by the cooperative in the last crop cycle. At volumes substantially in excess of last year's output, the quite high price of L.44 per box must be achieved to break-even given estimated total production and marketing costs of L.33 per box. The projection is shown in Table 8 and the adjusted 1984-85 closing financial statement is in Appendix 5.

Table 8
CREHSUL Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ASSETS				
Liquid assets	108,215			108,215
Loans outstanding /1	376,509		275,262	101,247
Inventories	454,000			454,000
Net Fixed assets	517,985			517,985
Other assets	281,769			281,769
Total Assets	1,738,478			1,463,216
LIABILITIES				
Accounts payable	647,487			647,487
Notes payable /3	2,014,372	2,014,372		0
Other liabilities	43,229			43,229
Total Liabilities	2,705,088			690,716
NET WORTH				
Paid-in Capital	194,000			194,000
Preferred Capital /4	0		2,014,372	2,014,372
Donated Capital	308,962			308,962
Retained earnings /2	(96,252)	1,749,954		(1,846,206)
Reserves	101,372			101,372
Other capital accounts	0			0
Year-to-date earnings	(1,474,692)		1,474,692	0
Total Net Worth	(966,610)			772,500
Total Liabilities and Net Worth	1,738,478			1,463,216
INCOME STATEMENT				
Net sales /5	1,148,787			3,666,000
Interest /9	59,303			64,000
Other income	1,296			2,425
Total Income	1,209,386			3,732,425
Cost of goods sold /6	2,393,480			3,102,000
Operating expense /7	303,667			318,850
Total Expenses	2,697,147			3,420,850
Income before interest	(1,487,761)			311,575
Interest cost /8	69,236			311,575
Net Income	(1,556,997)			0
A.I.D. Subsidy	82,305			0
Net surplus	(1,474,692)			0
Less loan losses	(275,262)			
Adjusted loss	(1,749,954)			0
Totals		3,764,326	3,764,326	

Table 8 Cont.
CREHSUL Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	1,148,787			3,666,000
Cost of goods sold	2,393,480			3,102,000
Sales margin	(1,244,693)			564,000
Interest	59,303			64,000
Other income	1,296			2,425
Gross margin	(1,184,094)			630,425
Operating expense	303,667			318,850
Income before interest	(1,487,761)			311,575
Interest cost	69,236			311,575
Net Income	(1,556,997)			0
A.I.D. Subsidy	82,305			0
Net surplus	(1,474,692)			0
FINANCIAL ANALYSIS Percent of Total Assets				
ASSETS				
Liquid assets	6			7
Loans outstanding	22			7
Inventories	26			31
Net Fixed assets	30			35
Other assets	16			19
Total Assets	100			100
LIABILITIES				
Accounts payable	37			44
Notes/interest payable	116			0
Other liabilities	2			3
Total Liabilities	156			47
NET WORTH				
Paid-in Capital	11			13
Preferred Capital	0			138
Donated Capital	18			21
Retained earnings	(6)			(126)
Reserves	6			7
Other capital accounts	0			0
Year-to-date earnings	(85)			0
Total Net Worth	(56)			53
Debt:Equity	(2.80)			0.89

Table 8 Cont.
CREHSUL Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	208			85
Sales margin	(108)			15
Interest	5			2
Other income	0			0
Gross margin	(103)			17
Operating expense	26			9
Income before interest	(130)			8
Interest cost	6			8
Net Income	(136)			0
A.I.D. Subsidy	7			0
Net surplus	(128)			0
RATIO ANALYSIS				
Inventory turnover	5.27			6.83
Sales margin/Sales	(108.35)			15.38
Sales marg/Gross marg	105.12			89.46
Operat Exp/Gross marg	(25.65			50.58
Net income/Sales	(135.53)			.00
Net income/Assets	(89.56)			.00
Net income/ capital	161.08			.00

NOTES:

1. Reduced by loans delinquent more than two years of L.265,520 plus accrued interest of L.9,742; both charged to retained earnings.
2. Retained earnings are reduced by loan losses (L.275,262) plus year-to-date negative net earnings for the 1984-85 crop cycle (L.1,474,692).
3. Notes payable are reduced by proceeds of the preferred equity stabilization investment (L.2,014,372). Annual production credit received of L.2,100,000 is assumed fully amortized.
5. Estimated break-even sales (L.3,660,000 for 94,000 boxes) given fixed costs of L.550,000, variable costs of L.33/box and assumed price of L.44/box. Th[illegible] is high as shown by the following data:

Notes on prices:	Price per Box US Dollars	Price per Box Lempiras
Traditional price level....................	25	50
ACDI projected price 1984-85..............	22	44
Reported average market price 84-5........	17	34
Actual price received by coop.............	8	16

ACDI projected 1984-85 volume at 100,000 boxes, 58,000 were actually purchased and 48,000 were exported.

6. Cost of goods sold is estimated at 94,000 boxes * L.33/box; total

Table 8 Cont.
CREHSUL Stabilization Projections

	CLOSING BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED PALANCE

variable cost of L.1,929,661/58,000 boxes in 1984-85.

7. Operating expenses are at the estimated 1984-85 level plus 5%.
8. Interest cost is based on the following weighted average cost of capital:

Capital items:	Rate	Balance	Cost
Preferred capital stock	4.00	2,014,372	80,575
Operating line of credit	11.00	2,100,000	231,000
Total	7.57	4,114,372	311,575

9. Interest income estimated at 16% on an average balance of L.64,000.

FEHCOCAL

FEHCOCAL is in such serious financial condition that stabilization investments can be made only in the most gradual manner to minimize risk of serious losses. At year-end 1984 the stabilized balance sheet of FEHCOCAL, including probable loan losses and operating deficits from prior years, had negative retained earnings of over L.16 million and negative net worth of L.12.6 million. Paid-in capital from members was less than one-half of one percent of total assets and liabilities exceeded assets by 44%. In addition, the federation had contingent liabilities of about L.7.5 million. The year closed with an operating deficit of L.2.8 million and FEHCOCAL's sales margin was at its lowest rate in years.

The stabilized balance sheet includes L.1,250,000 in preferred capital injected as debt substitution for FEHCOCAL's annual amortization to IHCAFE. In addition, a L.6 million line of inventory-secured credit is included at the rate of 5.5% per annum. These debt substitution measures will lower FEHCOCAL's cost of capital, making a substantial contribution to net earnings. The annual loss of L.2.8 million declines to L.1.8 million in the projected, stabilized statement. The FEHCOCAL stabilization projection is shown in Table 9 and the histrcical data in Appendix 6.

Table 9

FEHCOCAL Stabilization Projections

	AUDITED BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
Liquid assets /9	1,998,703			1,998,703
Accts.Rec'ble./1,8,13	10,382,196		3,304,191	7,078,005
Coop coffee advances/5				0
Inventories	16,367,356			16,367,356
Fixed assets (net)	2,721,469			2,721,469
Other assets /10	388,640			388,640
Total Assets /2	31,858,364			28,554,173
LIABILITIES				
Accounts payable /7	4,045,734			4,045,734
Notes payable-short/11	29,547,643	1,250,000		28,297,643
Notes payable-long	8,858,689			8,858,689
Other liabilities	0			0
Total Liabilities	42,452,066			41,202,066
Total notes payable	38,406,332			37,156,332
NET WORTH				
Paid-in Capital	27,000			27,000
Preferred Capital /6			1,250,000	1,250,000
Donated Capital				0
Retained Earnings /13	(12,713,072)	3,304,191		(16,017,263)
Reserves /3	316,432			316,432
Other Capital Accts/4	1,775,938			1,775,938
Total Net Worth	(10,593,702)			(12,647,893)
Total Liabilities and Net Worth	31,858,364	4,554,191	4,554,191	28,554,173
INCOME STATEMENT				
Net sales	66,211,218			66,211,218
Interest	692,223			692,223
Other income /12	3,685,870			3,685,870
Total Income	70,589,311			70,589,311
Cost of goods sold	48,171,836			48,171,836
Operating expense	17,954,268			17,954,268
Total Expenses	66,126,104			66,126,104
Income before interest	4,463,207			4,463,207
Interest cost /14	7,265,144		965,441	6,299,703
Net Income	(2,801,937)			(1,836,496)
Net surplus	(2,801,937)			(1,836,496)

Table 9 Cont.
FEHCOCAL Stabilization Projections

	AUDITED BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	66,211,218			66,211,218
Cost of goods sold	48,171,836			48,171,836
Sales margin	18,039,382			18,039,382
Interest	692,223			692,223
Other income	3,685,870			3,685,870
Gross margin	22,417,475			22,417,475
Operating expense	17,954,268			17,954,268
Income before interest	4,463,207			4,463,207
Interest cost	7,265,144			6,299,703
Net Income	(2,801,937)			(1,836,496)
Net surplus	(2,801,937)			(1,836,496)
FINANCIAL ANALYSIS				
FINANCIAL STRUCTURE ASSETS				
Liquid assets	6			7
Loans outstanding	33			25
Coop Coffee advances	0			0
Inventories	51			57
Fixed assets (net)	9			10
Other assets	1			1
Total Assets	100			100
Adjusted TotalAssets	0			0
LIABILITIES				
Accounts payable	13			14
Notes payable (short)	93			99
Notes payable (long)	28			31
Other liabilities	0			0
Total Liabilities	133			144
Total notes payable	121			130
NET WORTH				
Paid-in Capital	0			0
Preferred Capital	0			4
Donated Capital	0			0
Retained earnings	(40)			(56)
Reserves	1			1
Other capital accounts	6			6
Total Net Worth	(33)			(45)
Adjusted Net Worth	0			0
Debt:Equity	(4.01)			(3.26)

Table 9 Cont.
FEHCOCAL Stabilization Projections

	AUDITED BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	73			73
Sales margin	27			27
Interest	1			1
Other income	6			6
Gross margin	34			34
Operating expense	27			27
Income before interest	7			7
Interest cost	11			10
Net Income	(4)			(3)
Net surplus	(4)			(3)
Inventory turnover	2.94			2.94
Sales margin/Sales	27.25			27.25
Sales marg/Gross marg	80.47			80.47
Operat Exp/Gross marg	80.09			80.09
Net income/Sales	(4.23)			(2.77)
Net income/Assets	(8.79)			(6.43)
Net income/ Capital	26.45			14.52

NOTES:

1. Anticipos Cafe of L.8,910,724 and other receivables are shown net of reserves for accounts of doubtful recovery.
2. Total assets are reduced by the value of estimated loan losses.
3. Statutory Reserve only is included.
4. Includes Revolving and Special Funds.

5. Coop. coffee advances are defaulted obligations assumed by FEHCOCAL in 1978 from its member cooperatives. See note 1.
6. Stabilization investment equal to value of annual IHCAFE amortization.
7. Includes expenses and other non-loan payables.

8. Includes all Documentos, Cuentas and Prestamos por Cobrar.
9. Includes cash and banks of L.531,084 and Depositos en Garantia of L.1,467,619.
10. Includes pre-paid expenses and other assets.

Table 9 Cont.

FEHCOCAL Stabilization Projections

	AUDITED BALANCES	STABILIZATION ENTRIES Debits	Credits	ADJUSTED BALANCE

11. Includes principle and interest payable on loans from banks, cooperatives and others. Adjustment includes L.1.25 million equity substituting current notes payable.
12. Compensating Fund adjustments from IHCAFE are included in other income (L.3,454,996).
13. Accounts receivable are reduced for doubtful recoveries of L.3,002,038 per the 3/85 delinquency schedule and estimated other doubtful accounts of L.302,153. These are charged to retained earnings.

14. Interest cost is reduced due to debt substitution which lowers the weighted average cost of capital from the current 19% level.

	Amount	Rate	Cost
Equity.............	1,250,000	4.00	50,000
Inventory credit...	6,000,000	5.50	330,000
Current debt.......	31,156,332	19.00	5,919,703
Total....	38,406,332	16.40	6,299,703

SUMMARY

Total estimated equity capital and debt participation during the project's stabilization of the federations (excluding primary FACACH and FEHCOCAL affiliates) is shown in Table 10.

Table 10

Proposed Stabilization Equity Capital Participation
Agricultural Development Foundation
(Amounts in Lempiras)

Institution	Investment Needed	Equity	Debt
FACACH	3,871,500	1,104,000	2,767,500
20 de Marzo	-0-	-0-	-0-
Maya Occidental	106,539	106,539	-0-
Fruta del Sol	1,556,086	1,556,086	-0-
CREHSUL	2,014,372	2,014,372	-0-
FEHCOCAL	7,250,000	1,250,000	6,000,000
FEHCORAH	-0-	-0-	-0-
ANACH	-0-	-0-	-0-
Total Amount	14,798,497	6,030,997	8,767,500

IV. STABILIZATION PROGRAMS

CONSULTANT RECOMMENDATIONS

In order to evaluate and compare the recommendations found in each of the institutional profiles, a matrix was developed to show what areas of concern were identified by the consultants as potential problem areas needing further assistance. The major areas for project assistance were identified as follows:

- -Accounting
- -Administration
- -Credit Skills
- -Debt Financing
- -Domestic Marketing
- -Export Marketing
- -Educational Programs
- -Equity Participation
- -Feasibility Studies
- -Plant & Equipment
- -Policies & Procedures
- -Operating Subsidies
- -Organizational Structure
- -Savings Mobilization
- -Technical Assistance

The results of the comparative matrix can be found in Table 2.

Based upon the information found in the matrix, the most common areas of concern cited by the consultants are as follows:

1. Technical Assistance
2. Operating Subsidies
3. Feasibility Studies
4. Debt Financing
5. Accounting

Table 2

Comparative Matrix Analysis
Development Recommendations

Institutions	FACACH	FEHOCAL	MODELS	FEHCORAH	ANACH	TOTALS
CONCERN AREAS						
Accounting	X		X	X	X	4
Administration	X			X	X	3
Affiliate Stabilization	X	X				2
Credit Skills	X	X	X			3
Debt Financing	X	X	X	X		4
Domestic Marketing	X					1
Export Marketing			X			1
Educational Programs			X			1
Equity Participation	X		X			2
Feasibility Studies	X	X	X	X	X	5
Plant & Equipment	X	X	X			3
Policies & Procedures	X			X	X	3
Operating Subsidies	X	X	X	X	X	5
Organizational Chart	X			X	X	3
Savings Mobilization	X					1
Technical Assistance	X	X	X	X	X	5
Total No. of Areas	13	6	9	8	7	43

PROJECT IMPLEMENTATION STRATEGY

The Project will be implemented on a phased basis as noted earlier. Two major phases are foreseen, the timing of which will vary for each of the cooperative sectors being assisted. These phases are first, Stabilization and second, Development. The Stablization phase activities for each sector are discussed below and are based on the financial analyses and projections for each institution in combination with the consultant recommendations in the institional profiles. The major components of the Project Implementation Strategy are summarized in Table 11.

STABILIZATION RECOMMENDATIONS

Model Cooperatives

20 de Marzo

This grain cooperative currently is in acceptable financial condition with adequate reserves for bad debts and operational losses. The main problem has been an insufficient sales volume to cover all of the fixed costs of the operation. It has lost money each year it has been in operation. We therefore recommend the following items:

1. No equity stabilization money is needed at the present time because of an acceptable financial condition.
2. A feasibility study should be conducted in the near future to determine whether or not there is sufficient demand to expand sales volume to cover fixed costs and generate net income.

Maya Occidental

This grain cooperative has suffered some loan losses in past years and consequently, does not have sufficient loss reserves to cover the anticipated losses in the loan portfolio. In addition, this cooperative also has an insufficient sales volume to cover the necessary fixed costs to generate a profit. To date, the cooperative has not been able to make enough money to sustain itself without an operating subsidy from A.I.D. Based upon the above problems, we recommend the following:

1. Technical assistance be given this cooperative in the area of agricultural credit to strengthen the credit program.
2. Equity stabilization funds in the amount of L.106,539 be given to this cooperative to cover the necessary deficits in its loan portfolio and maintain an adequate loss reserve.
3. A feasibility study should be conducted in the near future to determine whether or not there is sufficient demand to expand sales volume to cover fixed costs and generate net income.

Fruta del Sol

This vegetable and fruit production and marketing cooperative is in serious financial condition. As of the date of this report, we estimate that the cooperative has a negative net worth in the amount of (L.893,568). Due to the insolvency of the cooperative, an immediate decision by A.I.D. must be made to determine whether to continue or not with this agro-exporting project. With only 183 members who are the beneficiaries, a convincing argument must be made to continue financing such a high risk venture. Assuming that A.I.D. is willing to finance this venture, we recommend the following:

1. By 10/85 an equity contribution of L.1,556,086 will be needed to cover the deficit net worth.
2. A reduction in the number of hectares planted to melons in order to reduce the risk exposure to A.I.D. in the event of future losses. This reduction would be temporary, until such time as the necessary experience is acquired to permit a controlled expansion.
3. An independent study by conducted immediately to determine the exact causes of the extraordinarily large losses that the cooperative incurred last year, with recommendations as to how such exposure can be reduced in the future.

CREHSUL

This fruit and vegetable exporting cooperative is likewise in severe financial difficulties. We estimate that as of 5/1/85, the cooperative has a negative net worth in the amount of (L.966,610). With a total membership of only 140 members, a convincing argument should be made to justify the continuation of any type of financing to this cooperative. Assuming that A.I.D. is desirous of continuing some sort of financial assistance, we recommend the following:

1. An injection of equity capital in the amount of L.2,014,372 by 8/1/85 in order to cover anticipated losses, as well as provide operating capital for the next crop year.
2. An independent study be conducted immediately to determine the exact causes of the extraordinarily large losses that the cooperative incurred last year, with recommendations as to how such exposure can be reduced in the future.

FECORAH

This federation is apparently solvent at the present time, due to subsidies which it receives from external as well as internal sources. Nevertheless, its financial management systems are so rudimentary, that balancing financial statements cannot be obtained. The federation at the current time offers a rather limited scope of services, none of which provide operating income. Due to its lack of services and resources, as well as its immature organizational structure, we recommend the following:

1. No equity capital is needed at the present time to stabilize the institution.
2. Technical assistance should be granted to FECORAH in order to immediately begin proper accounting and bookkeeping procedures, as well as commence the institutional development process, in order to identify key service programs that can generate sufficient income to allow the Federation to achieve self-sufficiency.
3. An operating subsidy should be granted as soon as the Federation can demonstrate a desire through its actions, to adopt a business-like approach.

ANACH

This Association has an unacceptable financial condition with negative net worth. Another concern is the Association's lack of a business-like approach in its day-to-day activities. Until now, it has remained largely a political institution with little desire to try and adopt income producing services in order to achieve self-sufficiency. With that in mind, we recommend the following:

1. No equity capital is warranted at the present time to stabilize the institution.
2. Technical assistance should be granted to ANACH in order to immediately begin proper accounting and bookkeeping procedures, as well as commence the institutional development process, in order to identify key service programs that can generate sufficient income to allow the Association to achieve self-sufficiency.
3. An operating subsidy should be granted as soon as the Association can demonstrate a desire through its actions, to adopt a business-like approach.

FACACH

The FACACH stabilization effort focuses primarily on eliminating devaluation risk exposure and writing off a limited amount of bad debts. This needs to be combined with a reorganization to streamline operations and increase specialization, particularly in the areas of financial and credit management. New systems need to be developed and installed and personnel trained in their operation. Administrative costs must be reduced.

The profitability of the Integrated Agricultural Development projects needs to be determined and an appropriate organizational strategy implemented. FACACH's solvency will be further damaged if the projects' losses are not eliminated.

A strong and constant loan collection effort must be mounted to stabilize FACACH's cash flow. Poor collections has been the federations' greatest single financial problem.

Expansion of lending to solvent, creditworthy credit unions is needed to stabilize FACACH's earnings by increasing interest income without unduly increasing collection costs.

Stabilization of credit unions, focusing on mergers and liquidations, should be initiated as soon as possible, given FACACH's dependence on them for loan recoveries and savings mobilization.

FEHCOCAL

Stabilization of the coffee federation can proceed only after completion of intensive and extensive study of FEHCOCAL's and its affiliated cooperatives' operational and financial practices. If these are found to be acceptable and/or amenable to change, stabilization should include:

--Equity investments equal to the annual IHCAFE payments

--Revolving line of secured credit.

Operational areas which clearly will require changes during the stabilization effort are:

--Establishment of a transaction-based capitalization system

--Reduction or elimination of price speculation

--Implementation of a premium system for FEHCOCAL's loan guarantee service.

Feasibility studies need to be conducted before extending the line of inventory credit or making equity or debt investments for plant and equipment (drying facilities and warehouses).

Stabilization should also include establishing linkages with the coffee technification project.

Stabilization of the affiliated coffee cooperatives, focusing on reducing FEHCOCAL's exposure to their credit risks, should be initiated as soon as possible.

DEVELOPMENT RECOMMENDATIONS

The specific development strategies to be implemented in each sector will depend upon both the success of the respective Stabilization phase activities undertaken within each instituion and the economic needs and capabilities of the rural population served by each. These Development phase activities will involve the preparation of long-term investment and institutional development strategies and their implementation under the technical and financial support of the Agricultural Development Foundation and the Project Implementation Unit. The starting date of this phase will vary within each sector in accordance with the completion of Stabilization phase activities and the technical and financial strength of the participant institutions.

The Development phase activities will include stabilization support to the primary level affiliates of FACACH in the rural finance sector and FEHCOCAL in the coffee production and marketing sector. This phase will also include the establishment of linkages with other current and future USAID/Honduras development projects, particularly the Coffee Technification and Agricultural Production and Marketing Projects.

Development strategies within each sector are expected to continue current trends and can only be addressed here as descriptions of potential activities. The specific strategies of each institution and its affiliates will be developed in accordance with evolving market conditions and organizational capabilities. The focus of each strategy will be on increasing the productivity and earnings of each participating institution thereby improving its ability to provide services to its clientele which will increase rural incomes.

The recommended project implementation strategy for each of the participant institutions is shown graphically in Table 11. Inputs to each organization are based on the institutional profiles of each and include technical assistance (T/A), operating subsidies (Op. Sub.), stabilization investments (Equity) and loan capital (Credit). These would be supplied through the Agricultural Development Foundation. Additional credit resources may be provided through BAHNCAFE and BANADESA.

UNIOCOOP and Model Cooperatives

Reduce operating and export marketing costs.

Increase production yields and comparative advantage in export operations.

Expand basic grain marketing operations.

FACACH and Credit Unions

Increase savings mobilization through a Savings Guaranty Program.

Establish rural credit unions as major rural financial intermediaries serving the agricultural and small enterprise sectors.

Improve earnings and scope of basic grains production, storage, processing and marketing operations.

FEHCOCAL and Coffee Cooperatives

Expand coffee storage and drying facilities.

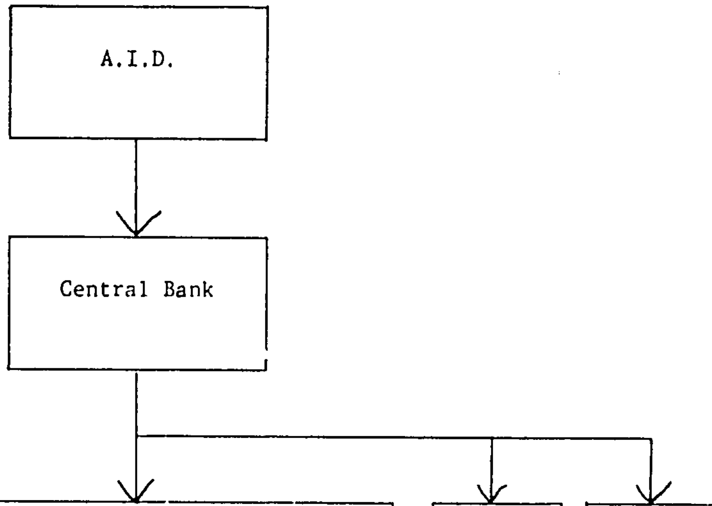
Increase market share and net prices for small producers.

FECORAH and ANACH

Establish service capability to meet operations, production and marketing needs of affiliated cooperatives.

Table 11

Recommended Project Implementation Strategy



	Agricultural Development Foundation				BAHNCAFE	BANADESA
Institution	T/A	Op. Sub	Equity	Credit	Credit	Credit
FACACH	X	X	X	X		
20 de Marzo	X	X				
Maya Occidental	X	X	X			
Fruta Sol	X	X	X			
CREHSUL	X	X	X			
FEHCOCAL	X	X				
FECORAH	X					
ANACH	X					

APPENDICES

Historical Financial Data and Adjusted Statements

Appendix 1	FACACH
Appendix 2	20 de Marzo
Appendix 3	Mayo Occidental
Appendix 4	Fruta del Sol
Appendix 5	CREHSUL
Appendix 6	FEHCOCAL

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Appendix 1

BALANCE SHEET AND INCOME STATEMENT OF FACACH

Historical Data

Assets	1979	1980	1981	1982	1983	1984
Liquid Assets...........	847,476	808,108	514,092	1,195,911	610,733	711,323
Shares in COLAC.........	NA	501,670	628,566	630,497	832,204	832,204
Loans Outstanding.......	9,729,040	10,663,933	10,874,097	10,046,104	8,217,123	8,754,967
Other assets............	2,642,998	2,912,863	2,740,925	5,957,776	8,072,948	9,369,569
Total Assets............	13,219,514	14,886,574	14,757,680	17,830,288	17,733,008	19,668,063
Liabilities and Net Worth						
Credit union deposits...	1,122,307	584,399	314,550	379,102	894,925	1,304,423
Notes payable...........	7,221,170	7,803,769	8,747,659	9,931,711	8,906,198	9,212,703
Paid-in Capital.........	2,155,145	2,648,094	2,867,237	2,324,715	2,432,328	2,567,123
Reserves................	458,729	508,729	561,788	398,221	264,894	315,473
Other accounts..........	2,262,163	3,341,583	2,266,446	4,796,539	5,234,663	6,268,341
Total Liabilities and Net Worth..............	13,219,514	14,886,574	14,757,680	17,830,288	17,733,008	19,668,063

FINANCIAL STRUCTURE: PERCENT OF TOTAL ASSETS

	1979	1980	1981	1982	1983	1984
Liquid Assets...........	6%	5%	3%	7%	3%	4%
Shares in COLAC.........	0%	3%	4%	4%	5%	4%
Loans Outstanding.......	74%	72%	74%	56%	46%	45%
Other assets............	20%	20%	19%	33%	46%	48%
Total Assets............	100%	100%	100%	100%	100%	100%
Liabilities and Net Worth						
Credit union deposits...	8%	4%	2%	2%	5%	7%
Notes payable...........	55%	52%	59%	56%	50%	47%
Paid-in Capital.........	16%	18%	19%	13%	14%	13%
Reserves................	3%	3%	4%	2%	1%	2%
Other accounts..........	17%	22%	15%	27%	30%	32%
Total Liabilities and Net Worth..............	100%	100%	100%	100%	100%	100%

	1980		1982		1984	
INCOME STATEMENT	% Assets	Lempiras	% Assets	Lempiras	% Assets	Lempiras
Interest income.........	8.95	1,257,099	8.55	1,393,129	7.05	1,317,709
Interest expense........	4.73	665,014	4.73	770,862	5.46	1,021,676
Gross Spread/Margin.....	4.21	592,085	3.82	622,267	1.58	296,033
Operating cost..........	9.59	1,348,159	10.28	1,675,018	11.76	2,198,755
Other income............	5.77	811,372	5.75	936,536	5.90	1,102,974
Net Operating Cost......	3.82	536,787	4.53	738,482	5.86	1,095,781
Operating Spread/Margin.	0.39	55,298	(0.71)	(116,215)	(4.28)	(799,748)

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Appendix 2

20 de Marzo Historical Data

	1984	1983	1982
ASSETS			
Liquid assets	229,332	73,035	22,296
Loans outstanding /1	449,185	221,144	132,973
Inventories	48,579	15,840	8,656
Net Fixed assets	95,155	73,705	12,363
Other assets	154,245	191,509	8,408
Total Assets	976,496	575,233	184,696
LIABILITIES			
Accounts payable	35,478	18,712	19,648
Notes payable	446,826	263,891	87,152
Other liabilities	14,883	25,609	942
Total Liabilities	497,187	308,212	107,742
NET WORTH			
Paid-in Capital	152,656	101,376	43,315
Preferred Capital			
Donated Capital	206,474	80,394	8,841
Retained earnings	42,014	30,499	21,078
Reserves	74,947	54,752	3,720
Other capital accounts	3,218		
Total Net Worth	479,309	267,021	76,954
Total Liabilities and Net Worth	976,496	575,233	184,696
INCOME STATEMENT			
Net sales	304,732	239,978	135,807
Interest	66,143	45,627	11,371
Other income			
Total Income	370,875	285,605	147,178
Cost of goods sold	248,976	192,787	117,392
Operating expense	172,245	152,825	60,052
Total Expenses	421,221	345,612	177,444
Income before interest	(50,346)	(60,007)	(30,266)
Interest cost			
Net Income	(50,346)	(60,007)	(30,266)
A.I.D. Subsidy	64,078	81,965	55,063
Net surplus	13,732	21,958	24,797

MODELS03
D:68,C-L-H

Appendix 2

20 de Marzo Historical Data Results

	1984	1983	1982
ANALYTICAL INCOME STATEMENT			
Net sales	304,732	239,978	135,807
Cost of goods sold	248,976	192,787	117,392
Sales margin	55,756	47,191	18,415
Interest	66,143	45,627	11,371
Other income	0	0	0
Gross margin	121,899	92,818	29,786
Operating expense	172,245	152,825	60,052
Income before interest	(50,346)	(60,007)	(30,266)
Interest cost	0	0	0
Net Income	(50,346)	(60,007)	(30,266)
A.I.D. Subsidy	64,078	81,965	55,063
Net surplus	13,732	21,958	24,797
FINANCIAL ANALYSIS Percent of Total Assets			
ASSETS			
Liquid assets	23	13	12
Loans outstanding	46	38	72
Inventories	5	3	5
Net Fixed assets	10	13	7
Other assets	16	33	5
Total Assets	100	100	100
LIABILITIES			
Accounts payable	4	3	11
Notes/interest payable	46	46	47
Other liabilities	2	4	1
Total Liabilities	51	54	58
NET WORTH			
Paid-in Capital	16	18	23
Preferred Capital	0	0	0
Donated Capital	21	14	5
Retained earnings	4	5	11
Reserves	8	10	2
Other capital accounts	0	0	0
Year-to-date earnings			
Total Net Worth	49	46	42
Debt:Equity	1.04	1.15	1.40

MODELS03
D:68,C-L-H

Appendix 2

20 de Marzo Historical Data

	1984	1983	1982
EARNINGS			
PERCENT OF SALES			
Net sales	100	100	100
Cost of goods sold	82	80	86
Sales margin	18	20	14
Interest	22	19	8
Other income	0	0	0
Gross margin	40	39	22
Operating expense	57	64	44
Income before interest	(17)	(25)	(22)
Interest cost	0	0	0
Net Income	(17)	(25)	(22)
A.I.D. Subsidy	21	34	41
Net surplus	5	9	18
RATIO ANALYSIS			
Inventory turnover	5.13	12.17	13.56
Sales margin/Sales	18.30	19.66	13.56
Sales marg/Gross marg	45.74	50.84	61.82
Operat Exp/Gross marg	141.30	164.65	201.61
Net income/Sales	(16.52)	(25.01)	(22.29)
Net income/Assets	(5.16)	(10.43)	(16.39)
Net income/ capital	(10.50)	(22.47)	(39.33)

NOTES:

1. Loans delinquent one year or more total L.28,280, less than reserves of L.74,946.

MODELS03 Appendix 3
D:68,C-L-H

Maya Occidental Historical Data

	1984	1983	1982
ASSETS			
Liquid assets	195,747	68,546	46,241
Loans outstanding /1	428,213	243,871	178,051
Inventories	56,722	15,755	5,177
Net Fixed assets	84,695	78,905	14,586
Other assets	43,273	17,288	22,614
Total Assets	808,650	424,365	266,669
LIABILITIES			
Accounts payable	13,474	7,295	6,854
Notes payable	321,124	163,170	160,732
Other liabilities	18,701	60	1,031
Total Liabilities	353,299	170,525	168,617
NET WORTH			
Paid-in Capital	161,636	114,509	65,225
Preferred Capital			
Donated Capital	218,849	82,213	11,025
Retained earnings	15,972	14,987	18,506
Reserves /2	58,894	42,131	3,267
Other capital accounts			29
Total Net Worth	455,351	253,840	98,052
Total Liabilities and Net Worth	808,650	424,365	266,669
INCOME STATEMENT			
Net sales	193,985	113,993	91,005
Interest	60,686	41,260	18,617
Other income			
Total Income	254,671	155,253	109,622
Cost of goods sold	159,238	91,510	80,102
Operating expense	164,274	134,830	66,962
Total Expenses	323,512	226,340	147,064
Income before interest	(68,841)	(71,087)	(37,442)
Interest cost			
Net Income	(68,841)	(71,087)	(37,442)
A.I.D. Subsidy	70,000	82,665	59,214
Net surplus	1,159	11,578	21,772

MODELS03 Appendix 3
D:68,C-L-H

Maya Occidental Historical Data

	1984	1983	1982
ANALYTICAL INCOME STATEMENT			
Net sales	193,985	113,993	91,005
Cost of goods sold	159,238	91,510	80,102
Sales margin	34,747	22,483	10,903
Interest	60,686	41,260	18,617
Other income	0	0	0
Gross margin	95,433	63,743	29,520
Operating expense	164,274	134,830	66,962
Income before interest	(68,841)	(71,087)	(37,442)
Interest cost	0	0	0
Net Income	(68,841)	(71,087)	(37,442)
A.I.D. Subsidy	70,000	82,665	59,214
Net surplus	1,159	11,578	21,772
FINANCIAL ANALYSIS Percent of Total Assets			
ASSETS			
Liquid assets	24	16	17
Loans outstanding	53	57	67
Inventories	7	4	2
Net Fixed assets	10	19	5
Other assets	5	4	8
Total Assets	100	100	100
LIABILITIES			
Accounts payable	2	2	3
Notes/interest payable	40	38	60
Other liabilities	2	0	0
Total Liabilities	44	40	63
NET WORTH			
Paid-in Capital	20	27	24
Preferred Capital	0	0	0
Donated Capital	27	19	4
Retained earnings	2	4	7
Reserves	7	10	1
Other capital accounts	0	0	0
Total Net Worth	56	60	37
Debt:Equity	0.78	0.67	1.72

MODELS03
D:68,C-L-H

Appendix 3

Maya Occidental Historical Data

	1984	1983	1982
EARNINGS			
PERCENT OF SALES			
Net sales	100	100	100
Cost of goods sold	82	80	88
Sales margin	18	20	12
Interest	31	36	20
Other income	0	0	0
Gross margin	49	56	32
Operating expense	85	118	74
Income before interest	(35)	(62)	(41)
Interest cost	0	0	0
Net Income	(35)	(62)	(41)
A.I.D. Subsidy	36	73	65
Net surplus	1	10	24
RATIO ANALYSIS			
Inventory turnover	2.81	5.81	15.47
Sales margin/Sales	17.91	19.72	11.98
Sales marg/Gross marg	36.41	35.27	36.93
Operat Exp/Gross marg	172.14	211.52	226.84
Net income/Sales	(35.49)	(62.36)	(41.14)
Net income/Assets	(8.51)	(16.75)	(14.04)
Net income/ capital	(15.12)	(28.00)	(38.19)

NOTES:

1. Delinquent loans more than two years are L.91,844 plus accrued interest of L.14,695.
2. Reserves excludes L.16,427 in labor law liability provisions.

MODELS03 Appendix 4 FINAL
D:68,C-L-H

Fruta del Sol Projected 1984-85 Operating Results

	TRIAL BALANCE	ADJUSTING ENTRIES Debits	Credits	ADJUSTED BALANCE
ASSETS				
Liquid assets /2	684,348		275,571	408,777
Loans outstanding /1	790,768		790,768	0
Inventories /3	415,917		415,917	0
Net Fixed assets	274,834			274,834
Other assets	252,920			252,920
Total Assets	2,418,787			936,531
LIABILITIES				
Accounts payable	377,056			377,056
Notes payable	1,433,726			1,433,726
Other liabilities	19,317			19,317
Total Liabilities	1,830,099			1,830,099
NET WORTH				
Paid-in Capital	269,306			269,306
Preferred Capital				0
Donated Capital	260,715			260,715
Retained earnings /4	(73,830)	1,482,256		(1,556,086)
Reserves	132,497			132,497
Other capital accounts				0
Year-to-date earnings				0
Total Net Worth	588,688			(893,568)
Total Liabilities and Net Worth	2,418,787			936,531
INCOME STATEMENT				
Net sales /5	1,821,766			848,000
Interest	56,564			0
Other income	22,668			22,668
Total Income	1,900,998			870,668
Cost of goods sold /6	1,701,315			2,204,430
Operating expense /3	343,497			0
Total Expenses	2,044,812			2,204,430
Income before interest	(143,814)			(1,333,762)
Interest cost	43,097			43,097
Net Income	(186,911)			(1,376,859)
A.I.D. Subsidy	119,924			0
Net surplus	(66,987)			(1,376,859)
Less loan losses				(125,826)
Adjusted loss				(1,502,685)
Total		1,482,256	1,482,256	

MODELS03 Appendix 4 FINAL
D:68,C-L-H

Fruta del Sol Projected 1984-85 Operating Results

	TRIAL BALANCE	ADJUSTING ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	1,821,766			848,000
Cost of goods sold	1,701,315			2,204,430
Sales margin	120,451			(1,356,430)
Interest	56,564			0
Other income	22,668			22,668
Gross margin	199,683			(1,333,762)
Operating expense	343,497			0
Income before interest	(143,814)			(1,333,762)
Interest cost	43,097			43,097
Net Income	(186,911)			(1,376,859)
A.I.D. Subsidy	119,924			0
Net surplus	(66,987)			(1,376,859)
FINANCIAL ANALYSIS Percent of Total Assets				
ASSETS				
Liquid assets	28			44
Loans outstanding	33			0
Inventories	17			0
Net Fixed assets	11			29
Other assets	10			27
Total Assets	100			100
LIABILITIES				
Accounts payable	16			40
Notes/interest payable	59			153
Other liabilities	1			2
Total Liabilities	76			195
NET WORTH				
Paid-in Capital	11			29
Preferred Capital	0			0
Donated Capital	11			28
Retained earnings	(3)			(166)
Reserves	5			14
Other capital accounts	0			0
Year-to-date earnings				0
Total Net Worth	24			(95)
Debt:Equity	3.11			(2.05)

MODELS03 Appendix 4 FINAL
D:68,C-L-H

Fruta del Sol Projected 1984-85 Operating Results

	TRIAL BALANCE	ADJUSTING ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	93			260
Sales margin	7			(160)
Interest	3			0
Other income	1			3
Gross margin	11			(157)
Operating expense	19			0
Income before interest	(8)			(157)
Interest cost	2			5
Net Income	(10)			(162)
A.I.D. Subsidy	7			0
Net surplus	(4)			(162)
RATIO ANALYSIS				
Inventory turnover	4.09			ERR
Sales margin/Sales	6.61			(159.96)
Sales marg/Gross marg	60.32			101.70
Operat Exp/Gross marg	172.02			0.00
Net income/Sales	(10.26)			(162.37)
Net income/Assets	(7.73)			(147.02)
Net income/ capital	(31.75)			154.09

NOTES:

1. Reduced by loans delinquent more than two years of L.108,471 plus accrued interest of L.17,355. Balance charged to retained earnings as part of 1985 operating loss.
2. Reduced by estimated losses in 1985 after write-off of loans and inventories.
3. Charged to retained earnings as part of 1985 operating loss.
4. Estimated operating loss of L.1,356,430 in 1985 plus loan losses of L.125,826 for total of L.1,482,256.
5. Estimated net sales of 106,000 boxes at L.8 per box.
6. Estimated 1985 production costs:

Items:	Amount
Production	795,478
Packing, etc.	422,063
Exporting, etc	986,889
Total	2,204,430

MODELS03 FINAL
D:68,C-L-H Appendix 4

Fruta del Sol Historical Data

	1984	1983
ASSETS		
Liquid assets	684,348	126,310
Loans outstanding	790,768	265,460
Inventories	415,917	46,772
Net Fixed assets	274,834	84,246
Other assets	252,920	27,376
Total Assets	2,418,787	550,164
LIABILITIES		
Accounts payable	377,056	11,184
Notes payable	1,433,726	371,716
Other liabilities	19,317	2,974
Total Liabilities	1,830,099	385,874
NET WORTH		
Paid-in Capital	269,306	78,201
Preferred Capital		
Donated Capital	260,715	64,765
Retained earnings	(73,830)	(6,931)
Reserves	132,497	28,255
Other capital accounts		
Total Net Worth	588,688	164,290
Total Liabilities and Net Worth	2,418,787	550,164
INCOME STATEMENT		
Net sales	1,821,766	164,236
Interest	56,564	7,625
Other income	22,668	
Total Income	1,900,998	171,861
Cost of goods sold	1,701,315	140,506
Operating expense	343,497	132,235
Total Expenses	2,044,812	272,741
Income before interest	(143,814)	(100,880)
Interest cost	43,097	
Net Income	(186,911)	(100,880)
A.I.D. Subsidy	119,924	93,949
Net surplus	(66,987)	(6,931)

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Fruta del Sol Historical Data

	1984	1983
ANALYTICAL INCOME STATEMENT		
Net sales	1,821,766	164,236
Cost of goods sold	1,701,315	140,506
Sales margin	120,451	23,730
Interest	56,564	7,625
Other income	22,668	0
Gross margin	199,683	31,355
Operating expense	343,497	132,235
Income before interest	(143,814)	(100,880)
Interest cost	43,097	0
Net Income	(186,911)	(100,880)
A.I.D. Subsidy	119,924	93,949
Net surplus	(66,987)	(6,931)
FINANCIAL ANALYSIS	Percent of Total Assets	
ASSETS		
Liquid assets	28	23
Loans outstanding	33	48
Inventories	17	9
Net Fixed assets	11	15
Other assets	10	5
Total Assets	100	100
LIABILITIES		
Accounts payable	16	2
Notes/interest payable	59	68
Other liabilities	1	1
Total Liabilities	76	70
NET WORTH		
Paid-in Capital	11	14
Preferred Capital	0	0
Donated Capital	11	12
Retained earnings	(3)	(1)
Reserves	5	5
Other capital accounts	0	0
Total Net Worth	24	30
Debt:Equity	3.11	2.35

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Fruta del Sol Historical Data

	1984	1983
EARNINGS		
PERCENT OF SALES		
Net sales	100	100
Cost of goods sold	93	86
Sales margin	7	14
Interest	3	5
Other income	!	0
Gross margin	11	19
Operating expense	19	81
Income before interest	(8)	(61)
Interest cost	2	0
Net Income	(10)	(61)
A.I.D. Subsidy	7	57
Net surplus	(4)	(4)
RATIO ANALYSIS		
Inventory turnover	4.09	3.00
Sales margin/Sales	6.61	14.45
Sales marg/Gross marg	60.32	75.68
Operat Exp/Gross marg	172.02	421.73
Net income/Sales	(10.26)	(61.42)
Net income/Assets	(7.73)	(18.34)
Net income/ capital	(31.75)	(61.40)

NOTES:
1. Delinquent loans more than two years of L.108,471 less reserves of L.85,909.

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Appendix 5

FINAL

CREHSUL Projected 1984-85 Operating Results

	TRIAL BALANCE	ADJUSTING ENTRIES Debits	Credits	ADJUSTED BALANCE
ASSETS				
Liquid assets /5	372,816		264,601	108,215
Loans outstanding /1	376,509			376,509
Inventories /4	746,633	454,000	746,633	454,000
Net Fixed assets	517,985			517,985
Other assets /6	117,647	378,724	214,602	281,769
Total Assets	2,131,590			1,738,478
LIABILITIES				
Accounts payable	647,487			647,487
Notes payable /8	2,443,575	429,203		2,014,372
Other liabilities	43,229			43,229
Total Liabilities	3,134,291			2,705,088
NET WORTH				
Paid-in Capital	194,000			194,000
Preferred Capital				0
Donated Capital	308,962			308,962
Retained earnings /2	(252,274)		156,022	(96,252)
Reserves	101,372			101,372
Other capital accounts				0
Year-to-date earnings	(1,354,761)			(1,354,761)
Total Net Worth	(1,002,701)			(846,679)
Total Liabilities and Net Worth	2,131,590			1,858,409
INCOME STATEMENT				
Net sales /6	770,063		378,724	1,148,787
Interest	59,303			59,303
Other income	1,296			1,296
Total Income	830,662			1,209,386
Cost of goods sold /7	1,944,825	902,655	454,000	2,393,480
Operating expense /3	253,667	50,000		303,667
Total Expenses	2,198,492			2,697,147
Income before interest	(1,367,830)			(1,487,761)
Interest cost	69,236			69,236
Net Income	(1,437,066)			(1,556,997)
A.I.D. Subsidy	82,305			82,305
Net surplus	(1,354,761)			(1,474,692)
Less loan losses	(275,262)			(275,262)
Adjusted loss	(1,630,023)			(1,749,954)
Totals		2,214,582	2,214,582	

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CREHSUL Projected 1984-85 Operating Results

	TRIAL BALANCE	ADJUSTING ENTRIES Debits	Credits	ADJUSTED BALANCE
ANALYTICAL INCOME STATEMENT				
Net sales	770,067			1,148,787
Cost of goods sold	1,944,825			2,393,480
Sales margin	(1,174,762)			(1,244,693)
Interest	59,303			59,303
Other income	1,296			1,296
Gross margin	(1,114,163)			(1,184,094)
Operating expense	253,667			303,667
Income before interest	(1,367,830)			(1,487,761)
Interest cost	69,236			69,236
Net Income	(1,437,066)			(1,556,997)
A.I.D. Subsidy	82,305			82,305
Net surplus	(1,354,761)			(1,474,692)
FINANCIAL ANALYSIS Percent of Total Assets				
ASSETS				
Liquid assets	17			6
Loans outstanding	18			22
Inventories	35			26
Net Fixed assets	24			30
Other assets	6			16
Total Assets	100			100
LIABILITIES				
Accounts payable	30			37
Notes/interest payable	115			116
Other liabilities	2			2
Total Liabilities	147			156
NET WORTH				
Paid-in Capital	9			11
Preferred Capital	0			0
Donated Capital	14			18
Retained earnings	(12)			(6)
Reserves	5			6
Other capital accounts	0			0
Year-to-date earnings	(64)			(78)
Total Net Worth	(47)			(49)
Debt:Equity	(3.13)			(3.19)

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CREHSUL Projected 1984-85 Operating Results

	TRIAL BALANCE	ADJUSTING ENTRIES Debits	Credits	ADJUSTED BALANCE
EARNINGS				
PERCENT OF SALES				
Net sales	100			100
Cost of goods sold	253			208
Sales margin	(153)			(108)
Interest	8			5
Other income	0			0
Gross margin	(145)			(103)
Operating expense	33			26
Income before interest	(178)			(130)
Interest cost	9			6
Net Income	(187)			(136)
A.I.D. Subsidy	11			7
Net surplus	(176)			(128)
RATIO ANALYSIS				
Inventory turnover	2.60			5.27
Sales margin/Sales	(152.55)			(108.35)
Sales marg/Gross marg	105.44			105.12
Operat Exp/Gross marg	(22.77)			(25.65)
Net income/Sales	(186.62)			(135.53)
Net income/Assets	(67.42)			(89.56)
Net income/ capital	143.32			183.89

NOTES:

1. Includes loans delinquent more than two years of L.265,520 plus accrued interest of L.9,742.
2. Retained earnings includes previous period accumulated losses of L.96,252; L.156,022 of fruit losses improperly charged directly to retained earnings have been transferred to cost of goods sold.
3. Operating results for ten months of L.253,667 plus estimated costs r two months of 1985 of L.50,000.
4. Estimated closing inventories.
5. Reduced by estimated operating costs for last two months of 1985 and by half of estimated amortization of notes payable.
6. Increased by value of reported net sales income from U.S. broker and decreased by half of estimated amortization of notes payable.
7. Increased by value of inventories and purchases (L.746,633) plus fruit losses (L.156,022) totaling L.902,655; reduced by value of of estimated closing inventory (L.454,000).
8. Reduced by (L.429,203) to estimated closing balance of L.2,014,372. payments have been charged to liquid assets (L.214,601) and to other assets (L.214,602).

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Appendix 5

CREHSUL Historical Data

	1984*	1983
ASSETS		
Liquid assets	374,566	152,588
Loans outstanding	376,509	115,511
Inventories	1,194,136	12,202
Net Fixed assets	517,985	209,624
Other assets	114,823	44,996
Total Assets	2,578,019	534,921
LIABILITIES		
Accounts payable	647,258	210
Notes payable	2,428,311	315,872
Other liabilities	45,263	5,033
Total Liabilities	3,120,832	321,115
NET WORTH		
Paid-in Capital	194,000	143,183
Preferred Capital		
Donated Capital	85,186	80,922
Retained earnings	(1,122,758)	(56,072)
Reserves	100,759	45,772
Other capital accounts	200,000	1
Total Net Worth	(542,813)	213,806
Total Liabilities and Net Worth	2,578,019	534,921
INCOME STATEMENT		
Net sales	770,062	794,750
Interest	60,599	53,296
Other income		
Total Income	830,661	848,046
Cost of goods sold**	1,657,878	737,038
Operating expense	322,901	164,086
Total Expenses	1,980,779	901,124
Income before interest	(1,150,118)	(53,078)
Interest cost		
Net Income	(1,150,118)	(53,078)
A.I.D. Subsidy	82,305	100,093
Net surplus	(1,067,813)	47,015

* Pre-closing trial balance data.

** Cost of goods sold includes L.156,844 charged as losses directly to profit and loss account.

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CREHSUL Historical Data

	1984*	1983
ANALYTICAL INCOME STATEMENT		
Net sales	770,062	794,750
Cost of goods sold	1,657,878	737,038
Sales margin	(887,816)	57,712
Interest	60,599	53,296
Other income	0	0
Gross margin	(827,217)	111,008
Operating expense	322,901	164,086
Income before interest	(1,150,118)	(53,078)
Interest cost	0	0
Net Income	(1,150,118)	(53,078)
A.I.D. Subsidy	82,305	100,093
Net surplus	(1,067,813)	47,015
FINANCIAL ANALYSIS		
ASSETS		
Liquid assets	15	29
Loans outstanding	15	22
Inventories	46	2
Net Fixed assets	20	39
Other assets	4	8
Total Assets	100	100
LIABILITIES		
Accounts payable	25	0
Notes/interest payable	94	59
Other liabilities	2	1
Total Liabilities	121	60
NET WORTH		
Paid-in Capital	8	27
Preferred Capital	0	0
Donated Capital	3	15
Retained earnings	(44)	(10)
Reserves	4	9
Other capital accounts	8	0
Total Net Worth	(21)	40
Debt:Equity	(5.75)	1.50

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Appendix 5

CREHSUL Historical Data

	1984*	1983
EARNINGS		
PERCENT OF SALES		
Net sales	100	100
Cost of goods sold	215	93
Sales margin	(115)	7
Interest	8	7
Other income	0	0
Gross margin	(107)	14
Operating expense	42	21
Income before interest	(149)	(7)
Interest cost	0	0
Net Income	(149)	(7)
A.I.D. Subsidy	11	13
Net surplus	(139)	6
RATIO ANALYSIS		
Inventory turnover	1.39	60.40
Sales margin/Sales	(115.29)	7.26
Sales marg/Gross marg	107.33	51.99
Operat Exp/Gross marg	(39.03)	147.81
Net income/Sales	(149.35)	(6.68)
Net income/Assets	(44.61)	(9.92)
Net income/ capital	211.88	(24.83)

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Appendix 6

FINAL

FEHCOCAL Historical Data

	1984	1983	1982	1980
ASSETS				
Liquid assets	1,007,435	906,451	256,987	78,114
Loans outstanding /1	9,381,208	4,735,497	17,420,954	4,404,996
Coop coffee advances/5	8,910,724	8,910,724	8,910,724	8,910,724
Inventories	16,263,638	18,329,265	1,707,196	3,179,858
Fixed assets (net)	2,671,469	2,616,955	2,420,517	2,104,315
Other assets	2,953,986	2,204,523	1,350,957	1,665,795
Total Assets /2	41,188,460	37,703,415	32,067,335	20,343,802
Adjusted TotalAssets/7	32,277,736	28,792,691	23,156,611	11,433,078
LIABILITIES				
Accounts payable	6,084,310	6,361,716	8,487,290	4,994,083
Notes payable (short)	29,313,356	19,108,049	11,922,324	5,157,321
Notes payable (long)	7,205,626	10,847,343	12,479,589	12,000,000
Other liabilities	0	0	0	0
Total Liabilities	42,603,292	36,317,308	32,889,203	22,151,404
Total notes payable	36,518,982	29,955,392	24,401,913	17,157,321
NET WORTH				
Paid-in Capital	27,000	26,000	26,000	26,000
Preferred Capital				
Donated Capital				
Retained earnings	(12,713,072)	(9,911,134)	(11,869,108)	(12,853,952)
Reserves /3	9,495,302	9,495,302	9,245,302	9,244,413
Other capital accounts	1,775,938	1,775,939	1,775,939	1,775,939
Total Net Worth	(1,414,832)	1,386,107	(821,867)	(1,807,600)
Total Liabilities and Net Worth	41,188,460	37,703,415	32,067,336	20,343,804
Adjusted Net Worth /6	(10,325,556)	(7,524,617)	(9,732,591)	(10,718,324)
INCOME STATEMENT				
Net sales	64,747,995	36,340,032	62,167,464	59,288,161
Interest	692,223	535,866	719,607	303,187
Other income	2,116,030	289,053	209,155	182,733
Total Income	67,556,248	37,164,951	63,096,226	59,774,081
Cost of goods sold	47,537,081	17,842,019	42,612,764	42,371,421
Operating expense	17,195,189	11,860,719	15,312,827	14,654,061
Total Expenses	64,732,270	29,702,738	57,925,591	57,025,482
Income before interest	2,823,978	7,462,213	5,170,635	2,748,599
Interest cost	7,265,144	5,254,239	4,443,534	1,629,181
Net Income	(4,441,166)	2,207,974	727,101	1,119,418
Adjustments /4	1,639,229	(250,000)	0	0
Net surplus	(2,801,937)	1,957,974	727,101	1,119,418

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Appendix 6

FEHCOCAL Historical Data

	1984	1983	1982	1980
ANALYTICAL INCOME STATEMENT				
Net sales	64,747,995	36,340,032	62,167,464	59,288,161
Cost of goods sold	47,537,081	17,842,019	42,612,764	42,371,421
Sales margin	17,210,914	18,498,013	19,554,700	16,916,740
Interest	692,223	535,866	719,607	303,187
Other income	2,116,030	289,053	209,155	182,733
Gross margin	20,019,167	19,322,932	20,483,462	17,402,660
Operating expense	17,195,189	11,860,719	15,312,827	14,654,061
Income before interest	2,823,978	7,462,213	5,170,635	2,748,599
Interest cost	7,265,144	5,254,239	4,443,534	1,629,181
Net Income	(4,441,166)	2,207,974	727,101	1,119,418
Adjustments /4	1,639,229	(250,000)	0	0
Net surplus	(2,801,937)	1,957,974	727,101	1,119,418
FINANCIAL ANALYSIS				
FINANCIAL STRUCTURE Percent of Total Assets				
ASSETS				
Liquid assets	2	2	1	0
Loans outstanding /1	23	13	54	22
Coop Coffee advances/5	22	24	28	44
Inventories	39	49	5	16
Fixed assets (net)	6	7	8	10
Other assets	7	6	4	8
Total Assets /2	100	100	100	100
Adjusted TotalAssets/7	78	76	72	56
LIABILITIES				
Accounts payable	15	17	26	25
Notes payable (short)	71	51	37	25
Notes payable (long)	17	29	39	59
Other liabilities	0	0	0	0
Total Liabilities	103	96	103	109
Total notes payable	89	79	76	84
NET WORTH				
Paid-in Capital	0	0	0	0
Preferred Capital	0	0	0	0
Donated Capital	0	0	0	0
Retained earnings	(31)	(26)	(37)	(63)
Reserves /3	23	25	29	45
Other capital accounts	4	5	6	9
Total Net Worth	(3)	4	(3)	(9)
Adjusted Net Worth /6	(25)	(20)	(30)	(53)
Debt:Equity	(30.11)	26.20	(40.02)	(12.25)
EARNINGS				

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Appendix 6

FEHCOCAL Historical Data

	1984	1983	1982	1980
PERCENT OF SALES				
Net sales	100	100	100	100
Cost of goods sold	73	49	69	71
Sales margin	27	51	31	29
Interest	1	1	1	1
Other income	3	1	0	0
Gross margin	31	53	33	29
Operating expense	27	33	25	25
Income before interest	4	21	8	5
Interest cost	11	14	7	3
Net Income	(7)	6	1	2
Adjustments /4	3	(1)	0	0
Net surplus	(4)	5	1	2
Inventory turnover	2.92	0.97	24.96	13.32
Sales margin/Sales	26.58	50.90	31.45	28.53
Sales marg/Gross marg	85.97	95.73	95.47	97.21
Operat Exp/Gross marg	85.89	61.38	74.76	84.21
Net income/Sales	(6.86)	6.08	1.17	1.89
Net income/Assets	(10.78)	5.86	2.27	5.50
Net income/ Capital	313.90	159.29	(88.47)	(61.93)

NOTES:

1. Anticipos Cafe of L.8,910,724 are not included. Prestamos and Documentos por Cobrar are included. In 1980 L.765,363 of Coffee Advances are included; the balance is in Coop. Coffee Advances. March 1985 delinquency is L.198,979 less than 120 days plus L.3,002,038 more than 120 days (L.3,201,017 total); total loans to coops are L.3,298,869 in the delinquency schedule.
2. Deficit Acumulado of L.12,802,264 is excluded.
3. Reserves are not net of Anticipos Cafe.
4. Adjustments:
   1984 is Diferencial 80% sobre 39% y Excedente Torrefaccion.
   1983 is Provision para cuentas de Lento Recaudo.
5. Coop. coffee advances are defaulted obligations assumed by FEHCOCAL in 1978 from its member cooperatives.
6. Net worth is reduced by the value of Coop. Coffee Advances outstanding.
7. Total assets are reduced by the value of Coop. Coffee Advances outstanding.