# AN ASSESSMENT OF THE CAMPESINO ASSOCIATIVE ENTERPRISE OF ISLETAS (EACI)

by

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## I. Introduction

The following report concerning the Empresa Asociativa Campesina de Isletas (EACI) was prepared under Contract No. DAN-5301-I-00-5025-00 between the Land Tenure Center of the University of Wisconsin, Madison, Wisconsin and the USAID Mission to Honduras. Field research and initial drafting of the report were conducted in Honduras during three weeks in August, 1987. Final report preparation was performed in Madison, Wisconsin during September, 1987.

The Team was composed of three members: Donald Jackson, Team Leader and agricultural economist; Jolyne Melmed, agricultural economist; and, Hugo Noe Pino, agricultural economist. David Stanfield, of the Land Tenure Center assisted in the initial methodological design for the study and in the final editing of the report.

The report is divided into several sections. These include:

-a brief history of the organization including a revision of several indicators which have experienced change since the Bolton/Chinchilla Report was prepared;

-a description of the organic structure of the organization;

-a discussion of the three issues identified in the Scope of Work;

-a discussion of additional issues identified by the Team; and,

-the Team's recommendations for solutions to the problems of the organization.

### A. Scope of Work

The original scope of work for the study contemplated three discrete outputs:

-a cost accounting system which would serve as a basis for formulating clear incentives for all divisions of the empresa;

-a process and mechanism for generating adequate investment capital to improve, replace and/or rebuild capital facilities; and,

-a structure and procedure for the valuation of an individual member's shares in the EACI with corresponding rights and obligations to provide a basis for the sale or transfer of the shares.

In the initial stages of methodological design for the study it was discovered that several factors had changed since the original scope of work had been drawn up. Some changes in the scope were discussed with the USAID/Honduras representatives and tentative approval was given pending the results of the first stages of the field investigations.

One important factor leading to a modification of the scope of work was the action already taken by the Instituto Nacional Agrario (INA) to carry out a detailed analysis of the accounting procedures of EACI during the month of July, 1987. This activity included bringing the organization's financial records up to date for the years 1975-1982, an inventory and valuation of current assets, and an analysis of the organization's entire accounting system. At the time of this writing INA is planning to implement several of the recommendations stemming from these reports. Although the report's recommendations are still under consideration by INA, a central idea is for INA to provide a manager and a financial supervisor (comisario) to EACI.

Given the completeness of the INA examination of the EACI accounting system, and the rather complete study of this aspect of EACI by Bolton and Chinchilla a few months ago, it was felt inappropriate for this team to deal with the details of the cost accounting system. Rather, it was decided that the Team's efforts should be focused on producing recommendations which would make a modified cost accounting system more efficient, improve member faith in the organization, and be less susceptible to corruption and debilitating outside influences.

Likewise, on the issue of mechanisms for capital accumulation, the bylaws and internal regulations of the organization specify that 80 percent of yearly profits be divided among three capital reserve accounts, and that only the remaining 20 percent de distributed among members. The legal structure of EACI, provides for capital accumulation, although the form and functioning of these provisions could be improved, as suggested in the report. Secondly, by both law (Codigo de Trabajo) and custom, the EACI is obliged to incur relatively large yearly expenses (worker health care, free elementary education for the children of workers, and internal road and irrigation system maintenance), which should rightly be paid out of the specified reserve accounts and be considered part of the organization's capitalization plan. A key barrier to the implementation of both these capitalization mechanisms, however, is the fact that the EACI has had only two profitable years (at least in terms of available accounting records) in the past twelve and has therefore not earned the necessary accounting profits for the programed capitalization to occur.

Lastly, the issue of member share valuation is a concept which is not provided for under the bylaws of the organization. Nor is the concept of individual alienable property part of the original notions for the establishment of the organization under the Agrarian Reform Law. These legal and institutional constraints to the concept of member share valuation are examined in the report and suggestions are made about how member incentives for greater productivity could be increased and member feelings of ownership within the organization could be heightened.

Given these conditions, and in agreement with USAID/Honduras, the scope of work expanded to include the identification and documentation of an additional set of critical issues which either influence the environment in which the EACI operates, or which also must be addressed if the organization is to become self-sufficient and self-sustainable over the long run. A detailed discussion of these issues follows in Section V.

B. The Methodology Followed

The methodology followed in the data collection and preparation of this report incorporated the extensive bibliography of materials concerning EACI which has been produced over the years as well as produced information from direct field work in Isletas. One team member compiled an appropriate bibliography of reference materials prior to the arrival in Tegucigalpa of the other members, building on a set of written reports which were available in the LTC library. These materials were reviewed in Madison and in Tegucigalpa before going to Isletas. Interviews were also held in Tegucigalpa with individuals in USAID, INA, the National Congress and others. Meetings were also held with the Managing Director of Standard Fruit Company and the Commander of the Fourth Army Battalion (whose jurisdiction includes Isletas) in the city of La Ceiba.

Following these preparations the Team spent ten days in and around the EACI and the community of Isletas. During this time interviews were held with all members of the EACI Board of Directors. Additionally, several employees and advisors to the organization were also interviewed, plus representatives of Standard Fruit Company stationed in Isletas. Five of the organization's nine production centers were also visited where individual and group interviews were held with members, permanent and temporary workers, and administrative staff.

Initially, a representative random sample of members to be interviewed was selected in an attempt to capture as broad a divergence of opinion as possible, knowing that serious divisions existed among the membership of EACI. The concern of the present Board of Directors of EACI with the interviews conducted by the team and the complexities of the social groupings in EACI let the team to abandon the random sample approach and instead invite all interested parties to the interview sessions regardless of their position in the organization. In the end, the Team felt that this technique provided for lively and far ranging discussions which served to reduce the importance of a lack of a random sample of respondents.

Lastly, debriefing sessions were held with key groups and individuals to corroborate the Team's conclusions and to discuss with them what recommendations seemed appropriate. These meetings were held with the EACI Board of Directors, Standard's Managing Director, INA representatives, and USAID/Honduras.

The Team wishes to acknowledge and praise the patience and good faith with which the above mentioned organizations and individuals collaborated in providing information for this study. This was especially the case in terms of the EACI Board of Directors and its membership whose close collaboration and goodwill were of great assistance to the Team.

## II. A Brief History of The Organization

EACI was formed as part of the Honduran agrarian reform in 1975. The year before, Hurricane Fifi destroyed nearly 10,000 acres of the Isletas banana plantation owned by Standard Fruit Company (SFCo.) on the north coast of Honduras, in the valley of the Aguan River. As a result of this loss, and in response to a proposed export tax of US $1.00 per box of bananas, SFCo. decided to abandon their damaged banana lands in Isletas. This left the former workers of SFCo. in Isletas without employment. The next year INA decreed the formal expropriation of these lands, and the EACI was created as an associative enterprise under the agrarian reform laws.

In 1976, the GOH defined and decreed the specific bylaws for all associative enterprises as well as the internal regulations of the EACI. The basic idea was to create a worker-managed enterprise, democratically organized and within the overall framework of governmental support for the agrarian reform process. Moreover, the creation of EACI was historically significant since it represented a decision by the Honduran government to redefine the traditional relations of Honduras to the multinational banana companies. Isletas was the first associative enterprise formed under the agrarian reform law. It is also one of the first of the agrarian reform enterprises to acquire a free and clear title to its land, which occurred in 1984 after EACI had paid its land debt to INA. EACI has in many ways been central to the agrarian reform of Honduras, despite its unique history and characteristics.

Following its creation in 1975, the ex-SFCo. employees who had become the original members of EACI, with substantial assistance from governmental and international agencies, brought the plantation back into cultivation; production reached levels equal to, or greater than production levels under the prior management of SFCo. EACI also began diversifying its production into basic grains and cattle.

However, the end of 1976 marked the beginning of a period of social and economic instability for the EACI which seriously undermined the decision making structures of the newly established worker managed enterprise. Under the leadership of Alvarez Martinez, the Commander of the 4th Army Battalion at that time, the first of several coups of EACI management occurred. Some of the members of the Board of Directors were imprisoned and others were replaced. This began a series of internal conflicts, imprisonments, assassinations, interventions, and intimidation of members. From 1977 until 1986, the Boards of Directors were largely imposed on the EACI by either the military or INA and COHBANA rather than being elected in a fair and democratic fashion.

It is the case that elections were held during these years, but it appears that the members who had been admitted into EACI for political reasons assumed disproportionate influence over the electoral processes. In the June, 1980 election, for example, only 300 of the 1150 socios participated in the voting. With this emphasis on political matters and the resulting internal conflicts, the member controls over the "elected" managers were severely weakened. The results were heightened suspicions of the management by the members and charges of corruption because of the unexplained losses of large sums of money. Martinez (1981) presents a list of specific actions which he and others allege drained EACI's financial resources such as the construction of homes in La Ceiba for military officials, the employment of highly paid consultants who never performed services, and the theft and misuses of millions of dollars. The team was not able to verify these charges, but in many interviews the misuses of EACI's resources and the role of outside groups in these misuses were mentioned and seemed widely accepted.

Within this atmosphere of conflict, corruption and intimidation, worker productivity decreased and the enterprise's economic situation deteriorated rapidly. In 1980 the situation had deteriorated such that the member-workers held a general strike, and the military intervened again to restore order. In October 1980, an election was held following the strike. The full body of members was present and a Board of Directors was selected. The military, however, refused to let them assume their leadership and another intervention began. In response, those members who supported the democratically elected leadership in October, 1980 decided to separate themselves from those who yielded to the leaders imposed from the outside. Six of EACI's nine production centers formed the "linea larga" which was intended to be a distinct enterprise under the guidance of national labor organization leadership. However, INA and the labor organizations could not agree over the assignment of legal responsibilities to govern the venture, and the new enterprise was never formed.

In 1985 another strike occurred in response to the inability of the EACI to pay wages for a five week period. This inability to pay wages reflected the decision of SFCo. to temporarily discontinue buying EACI's bananas. SFCo maintained that it was unable to support the high costs of production of EACI bananas. This strike ended when the organization signed a new contract with Standard, and in exchange, received a line of credit for L.2,000,000. This new arrangement enabled EACI to pay its workers. However, it implied many restrictions on the EACI's freedom as an independent producer. For example, during the period of the contract, neither the price of the bananas, nor the wage rates could be increased; furthermore managers and employees of SFCo. assumed almost complete control of the EACI's financial operations.

Since 1986, the financial situation of the EACI has finally begun to improve. Production levels are increasing and are expected to reach the levels of the early 70's by next year (see Table 2). Workers are now working full time and being paid on time. Table 1 indicates that labor costs decreased in 1986. Labor costs are predicted to be even lower in 1987. The misuse of funds has also subsided due in large part to the control which SFCo exercises over the financial resources of the enterprise.

The current Board of Directors was elected by the members of EACI. The Board, along with its advisors, are developing plans to enable the EACI to become financially viable once again. Additionally, the current leadership of the military battalion responsible for the region is working to improve the situation. Actions are being coordinated with those of the agrarian reform agency to help EACI out of its financial crisis and to limit the influence of SFCo and others over the profitability of the enterprise.

These events and the current situation gives rise to a certain optimism concerning the future of EACI. A number of issues remain to be resolved, however, which will be discussed in subsequent sections of the report.

TABLE 1
EACI Total Labor Costs

| YEAR | COST/BOX | COST/ACRE |
|---|---|---|
| 1983 | 2.68 | 1,733.57 |
| 1984 | 2.62 | 2,236.02 |
| 1985 | 2.86 | 2,085.58 |
| 1986 | 2.73 | 1,658.98 |

TABLE 2
EACI Banana Production (1976 - 1987)

| Year | Total (million boxes) | Boxes/acre |
|---|---|---|
| 1976 | 0.9 | n.d. |
| 1977 | 4.0 | 798 |
| 1978 | 5.2 | 1,038 |
| 1979 | 5.5 | 1,099 |
| 1980 | 5.3 | 1,061 |
| 1981 | 3.7 | 740 |
| 1982 | 4.6 | 927 |
| 1983 | 3.2 | 646 |
| 1984 | 4.3 | 854 |
| 1985 | 3.6 | 728 |
| 1986 | 3.0 | 607 |
| 1987* | 3.5 | 700 |
| 1988** | 4.3 | 860 |

* preliminary estimate
** forecasted
Source: Standard Fruit Company planners.

## III. The Organic Structure of the EACI

The purpose of this section is to describe the composition and organization of the land and labor resources of the EACI. The property of the organization surround the small town of Isletas and consists of 9,828 acres of fertile flat land appropriate for banana cultivation. Of this, 5,025 acres, or 51.1 percent, are currently planted to that crop, with the remaining 4,803 acres having been primarily left to fallow. Members are permitted to use this fallow land based on the amount of family labor and working capital available. For the most part, corn is grown for home consumption. Apparently, not many members have the necessary time and money available and this is not a wide spread activity.

The 5,025 acres of banana groves are divided into nine farms (see map) which are managed separately with central coordination of financial and social activities at the enterprise level. Six of the farms are of roughly equal agronomic condition, while three farms (Alianza, Carmen and Valley) suffer more frequent climactic damage, especially from strong winds. Banana cultivation and harvesting is continuous throughout the year with its cropping being scheduled according to thirteen, four-week periods.

The labor force of the organization is divided into two principal groups: 1) executive and administrative staff; and, 2) field workers. Under present arrangements, the administrative workers appear to be organized according to a well defined organizational chart (see Figure 1). Administration occurs at two levels. First the central management staff coordinates, plans and oversees the activities of each of the nine farms. Central management is responsible for the overall enterprise activities, those which occur beyond the borders of the nine production units, such as credit, education, health, security, infra-structural development, etc. and relations with external entities such as Standard Fruit Company, financial institutions and the military. The Board of Directors is the main decision making body of central management and is composed of elected members. The top executive, the Secretary General is also the chairman of the Board of Directors. Ostensibly, the General Assembly composed of all members is the highest decision making body. It is charged with electing officials and in ratifying major decisions such as changes in the bylaws.

The General Assembly currently meets every two years to elect new officers (this is a deviation from the bylaws which call for yearly elections). Another representative mechanism which has been used in the past is the assembly of delegates. Although established in the bylaws, this attempt to provide for a more manageable and efficient representative body (each elected delegate represents 10 members) which could meet more regularly, and with less prior preparation, has only rarely been relied upon.

The Board of Directors is advised by three professionals: a lawyer; and, two economists, one concerned with the financial administration of the organization, and the other concerned with lobbying on the organization's behalf in the capital. None of these advisors live in Isletas and visit only as the need requires. Other enterprise-level administrative staff (consisting of both members and salaried workers), support the Board of Directors by providing many auxiliary services such as accounting, mechanization and repair services.

At the decentralized level, each of the EACI's nine farms has a separate management staff which is charged with managing the daily operations of the unit and implementing production plans approved by higher level managers. These nine individual staffs are composed of a coordinator and an assistant, a paymaster who assigns and records the tasks and time of each worker, a store room manager, an irrigation manager, a packing plant manager (of which there are eight), a production staff coordinator, and three technical specialists who supervise work performance in the fields. The work of the farm staffs is monitored by two section leaders (the nine Isletas farms are linearly connected along two spurs of the mostly unused rail line, each spur composes a section) who are in turn responsible to the Board of Directors on farm management issues. Under the terms of the present marketing agreement with Standard Fruit Company, company employees oversee certain key functions of the production process. These include payroll and work assignments, quality control at the packaging plants, and input utilization. Technically, these 'overseers' are present only to observe, with no direct authority other than to report variations from stipulated practices to higher Standard employees. Standard does, however, have ultimate control over the organization's bank account which serves as an effective means of forcing compliance on the vast majority of issues.

The EACI, at least formally, has clear, well-defined lines of command and information flow. The organizational structure appears to be working at present, although based on past tales of disarray, disorganization and chaos it appears that the presence of Standard's overseers and managers, plus no doubt the recent visit by the INA accounting team, are principally responsible for recent improvements.

The field workers of the EACI are divided into four groups: male and female members, permanent laborers, and temporary laborers. The first two are distinguished because of the particular tasks which are assigned to them. The women primarily work in the packing plants where the jobs are said to be more intense and demanding. The field assignments of the permanent laborers are similar to those of male member labor, while the temporary workers are assigned the more rigorous and least-liked tasks. Table 3 shows the structure of the work force.

Table 3
EACI Labor Structure, July, 1987

| | | | |
|---|---|---|---|
| Members: | Male | 708 | |
| | Female | 213 | |
| | | | 921 |
| Permanent Workers | | | 343 |
| Temporary Workers | | | 354 |
| Administrative Workers | | | 43 |
| | Total Workers | | 1,661 |

While members and permanent workers receive equal treatment as far as labor assignments, the benefits obtainable differ between groups. Wage differentials between types of workers at the EACI are presented in Table 4.

Table 4
EACI Wage Structure*

| | |
|---|---|
| Members | L. 72.00 |
| Permanent Workers | 48.00 |
| Administrative Workers | 110.00 |

(* Guaranteed minimum, Lps. per week for hourly work, task/piece work paid at various levels depending on complexity and strenuous nature. As a comparison, permanent field workers earn an average of L 84 weekly at Standard's Coyoles farm)

Records from the organization show that there are 1,110 total members currently registered compared to the 666 who were present at its inception and the 921 who were on the payroll during July, 1987. Many of the newer members were apparently added in the early years of the enterprise in attempts to influence the outcomes of the voting process. No doubt that family and friendship ties also influenced the admission of other members combining to push the land/worker ratio to 3.0, below the 4.5-5.0 figure originally sought by INA when the EACI was organized. The ratio of 4.5-5.0 acres per worker is currently considered by Standard's management to be the industry-wide target for an efficiently managed banana plantation. It is calculated by dividing total acres in banana production by total workers in a given period. Standard's own farm, Coyoles, maintains a ratio of 4.5. The 3.0 ratio for EACI at present is up from a level of 2.4 a year ago before Standard began to effectively control the payroll.

For the period under consideration, there are 189 more people listed as members than are actually working. This difference is due to a combination of reasons including abandonment of the organization, illness, old age and other 'excused' causes. No precise statistics were available on the number of members who do not work due to old age, but those past retirement age are estimated to be approximately 100. For the most part, due to the organization's inability to liquidate the severance pay allotments, these 'less than fully able-bodied' members cannot be retired, but must be kept on the payroll where they are assigned less rigorous tasks such as field security. This provision of a form of social security in a country without this benefit is a positive feature of EACI, although the lack of financial mechanisms for generating the needed capital to cover these expenses creates yet another drain on yearly profits, which will certainly increase as more members reach the retirement age.

The extent of the EACI's land which is fallow, (almost 50 percent) and its underemployed labor force demonstrate the organization's problems in using its resources efficiently. Some suggestions as to how to confront these problems are made below in a later section.

## IV. Issues called for in the Scope of Work

The original scope of work for this study was framed in terms of three outputs: (1) the development of a cost accounting system; (2) the design of a mechanism for generating investment capital; and, (3) the development of mechanisms for the valuation of member shares in the organization. These issues are addressed below.

### A. The Use of Cost Accounting at the EACI

As part of the initial euphoria which surrounded the establishment of the EACI, the organization was provided with a cost accounting system through technical assistance provided by INA. This system is apparently still in place today as is evidenced by the yellowing accounts lists and manuals which are still consulted. Nevertheless, several factors over the years have produced a severe decline in the system's ability to provide accurate, reliable data on the financial status of the organization. These include:

-accounting, and record keeping in general, has been accorded a very low priority in the administration of the organization with the highest paid staff member, the Chief Accountant, having virtually no authority;

-blatant graft and corruption has involved leaders and advisors who have resorted to the destruction or alteration of accounting records to cover their actions;

-there has been a lack of training and supervision among members and employees involved in the system as to the proper use and function of accounting data;

-the sheer volume of the data which must be processed manually by employees and administrative members is overwhelming especially since they lack all but the most rudimentary accounting aids (i.e., there are only three calculators for the eleven Accounting Department employees at present); and,

-the management of accounting data by outside entities (INA and COHBANA in the past and Standard Fruit Company at present) has not provided the organization with a complete set of accurate and pertinent data over time.

As a result of these factors, the accounting records of the organization are in a shambles, and the data they provide are not "reliable", in the words of the Chief Accountant. INA has recently had a team of analysts performing reconstructive surgery on the earlier history of the organization, but to date the INA auditors have only been able to prepare balance sheets for the years up to the end of 1982. Meanwhile, the accounting staff, partially as a result of the impetus provided by the recent presence of the INA team (July, 1987), is attempting to adjust and reconstruct the records for the more recent years, although this is proving to be a difficult task.

A portion of the EACI's accounting system is presently being managed by the Standard Fruit Company as part of their management/price agreement.

Nevertheless, the data being provided is not that which can readily be used in a cost accounting system. Standard's interests are mainly in the areas of payroll, fruit delivery and debt management, rather than in providing cost data, especially on a per production center basis.

On a brighter note, however, the organization's Economic Advisor maintains his own 'shadow' accounting system which allows him to conduct the minimum amount of financial oversight which he is called on to perform. The results of this system are also used in whatever planning activities are performed by the organization, although great discrepancies between planned levels of effort and actual practice seem to be repeated from year to year. The existence of this system should be seen as a temporary stopgap measure which allows the organization to know where it approximately stands on a current basis.

Recommendations concerning improvements in the accounting system are to be found below in the appropriate section.

B. Capital Development at the EACI

On paper, the capital development needs of the organization appear to be well provided for. Both the bylaws and the internal regulations of the EACI stipulate that a lion's share of profits in each accounting period (January through December, broken into 13 four-week exercises), be placed in three capital accounts according to the following breakdown:

-10 percent to a Reserve Fund (limited to 25 percent of total equity;

-40 percent to a Social Welfare Fund; and,

-30 percent to a Capitalization Fund.

The remaining 20 percent can then be distributed to members according to their participation in the work activities of the organization. No provision is mentioned for the distribution of this 20 percent in the form of shares and it is therefore most likely that it was always intended that they be distributed in the form of cash. A change in the bylaws would therefore appear necessary if capitalization through member share capital is to be attempted (assuming relatively high profit levels in the future.).

An additional shortcoming of the rules and regulations governing capitalization concerns the fact that while the establishment of these capital accounts is clearly laid out, the purpose and use of these accounts is not even mentioned. In general practice with organizations of this type, especially in the case of cooperatives, the Reserve Fund is used as a hedge against uncollectible debts owed to the organization. The Social Welfare Fund, on the other hand, is used to provide for socially oriented programs of the organization, while the Capitalization Fund is used to provide for future capital investment needs.

In any event, these funds have never been established. The most common and immediately obvious reason for this is that profits have only been recorded during two of the earlier years of the organization's history and therefore have not been available to distribute either to members, or to the capital accounts. In some cases, however, it appears that either by design or default, a practice has evolved of charging many of the items normally paid for out of reserve accounts against yearly expenditures. On the one hand, this practice provides greater security that these expenditures will be made, while on the other it reduces the potential for profits while not reflecting the accurate condition of the organization through its financial statements.

For example, when the EACI was formed out of the ruins of the Standard Fruit Company's operations it inherited several financial traditions which the company had been providing. Among these were the provision of health care services to all members and their families, and elementary education to the children of all members. The National Labor Code also obliges the organization to provide these services to all permanent workers and their children, and some of these services to temporary workers as well. In 1986, the cost of these two services alone totaled over L. 1.0 million representing a severe financial drain on the organization. While a portion of this expense is currently being recuperated through several mechanisms (5 percent of a members pay is deducted for medical services, members with children attending high school pay a nominal fee, permanent workers pay a nominal fee for hospital visits and for children attending both elementary and high school, etc.) it is impossible to tell from the accounting records if the amounts collected are used at all to defray these costs. Although these are admirable activities for the organization and are extremely necessary since these services are not provided by the responsible government ministries, according to the bylaws they should be paid for out of the Social Welfare Fund based on some measure of profitability within the organization. Nevertheless, it could be interpreted that the originators of the present procedures felt that these services were too important to be based on profits, and therefore guaranteed their provision by treating them as yearly expenses.

This is also the case to some extent with the maintenance of the organization's internal road network and its irrigation and drainage systems. While a part of these costs should be seen as yearly expenditures charged against yearly income, the remaining part (that in which the benefits will be received for a period longer than a year) should be considered a capital expense and charges against the Capital Fund. If the formal procedures were followed, the financial situation of the enterprise would probably be brighter, although the likelihood of getting the funds necessary for the needed services would be delayed and subject to constant debate.

Another similar issue is the payment of the fourteenth period bonus commonly referred to as the aguinaldo, or Christmas bonus (the yearly payroll is based on thirteen, four-week periods, plus the 'aguinaldo'). Until Standard's recent intervention, this bonus was to have been paid by the EACI out of a L. 0.10 per box charge paid into a separate reserve fund. Nevertheless, as the end of each financial year approached, the EACI continually found itself in an financial bind giving rise to bonus payments far less than the average one month's salary anticipated by members. (In at least one year, the organization even borrowed funds from BANADESA to pay this bonus.) In order to avoid this situation, Standard is currently setting aside L. 0.10 per box to assure the availability of funds at the end of the year.

This activity, depending on how it is analyzed, can also be thought of as a form of capital accumulation, or as the payment of deferred payroll expenses. In either case, accepted accounting wisdom would counsel that such payment be made out of year-end profit distributions based on the economic viability of the organization for that year.

A final issue of note concerns the EACI's inability to attract long term investment capital by using the value of its assets as collateral. For example, the organization's approximately 5,000 acres under banana cultivation are worth an average of L. 10,000 per acre in development and replacement costs, for a total gross worth of L. 50.0 million. (Estimates as to this value vary widely. This is the figure used by the EACI and is the maximum figure encountered by the Team.) Adding to this figure a value of L. 1,000 per acre for the approximately 5,000 acres belonging to the organization but not planted to bananas results in a total land value of L. 55.0 million. This compares to the seemingly paltry value of L. 403,690 which the organization paid INA for the land, and which is the value carried on its books.

With such equity, getting loans should theoretically not be difficult. Currently, however, under the stipulations of the Agrarian Reform Law, it is very difficult for a financial institution to foreclose on a parcel of reform sector land in the case of default. This fact greatly diminishes the EACI's attractiveness as a potential borrower. If a lending institution wishes to foreclose and recuperate its investment through the sale of the property, the law stipulates that it must be done through an auction wherein only potential agrarian reform beneficiaries can bid. But even without this legal complication, banks are not overly interested in agricultural loans in Honduras, especially to clients which have had a history of not paying off loans in the past. Some sort of mechanism based on recuperating loans by discounting payments from the sales of bananas seems more likely to attract capital to Isletas than is the use of the land as collateral.

This latter option is in fact the means which Standard is using to secure its loans to EACI. The present marketing contract between Standard and the EACI provides among other things for an approximately L. 2.0 million line of credit to the organization in exchange for Standard being the sole buyer of EACI's production, management rights over the production process, a fixed banana price over the life of the contract, and a mortgage over the future production on one (Guanacaste B, the largest) of the nine production centers. The use of production mortgages could be a useful option, as the EACI begins to pay off its outstanding debt and proves its ability to meet its financial obligations.

### C. Member Share Valuation

At present, the EACI assets are jointly owned by all members of the association. The bylaws do not provide for individual share ownership. The ability of a member to accumulate capital equity could be a means of stimulating member support for collective investments in order to assure the long run well-being of the enterprise. While the mechanism of individual shares is currently unavailable to the EACI, several other incentives to membership and to member productivity have been introduced over the life of the organization. While they have not led to the desired feeling of ownership, nor to the highly developed work ethic which is thought to be necessary in an organization of this type, they are relevant to this objective.

Membership itself guarantees the right to work at a weekly flat rate which is normally 50 percent higher than the rate paid to permanent and temporary laborers. Additionally, membership rights include: the right to vote in the general elections and assemblies, the right to hold office, the right to review the records and accounts of the organization and to demand and receive information on its status, and the right to receive certain services. These services include free primary and secondary education for members and their children, regular clinic services at the local hospital, emergency medical transportation and treatment at the Standard Fruit Company's hospital in La Cieba, emergency loans made against payroll deductions, two weeks of paid vacation, and participation in education courses from time to time. Many of these services are rudimentary at best (especially education and health), but do represent a large yearly outlay for the organization and are the only available source of these services.

The EACI has also developed a custom of paying a L. 10,000 death benefit to the survivors of all members. This is presently paid through a two time, L. 5.00 payroll deduction for all working members which was agreed upon by the General Assembly. In similar fashion, there also appears to be a tradition of some members receiving the L. 10,000 for simply withdrawing from the organization. Since permanent laborers have a legal right to severance pay, but the member/owners do not, there has always been a tendency towards parity on the part of the General Assembly which is said to have approved this practice. Nevertheless, the current liquidity situation is having an expected result on this process. While the Team was at the EACI, one case was settled in which a retiring member accepted a payment of L. 2,000 in return for agreeing to drop all future claims against the organization.

The transfer of membership rights may occur when a person retires, dies, or voluntarily withdraws from the organization. In the first two cases, rights transfer to the spouse of the member, and if that person is already a member or is no longer living, they then transfer to the oldest child. In the case of voluntary withdrawal, the membership rights revert to the organization where they may, or may not, be redistributed by popular vote of the General Assembly.

Other incentives to member interest in increasing productivity include a remuneration system which links income to productivity whenever possible. Members, and other laborers alike, earn weekly wages based on a combination of piece-rate and time-rate task assignments. Piece-rates are used for tasks such as the cleaning of drainage ditches, fertilization, and the supporting of the banana trees. Harvesting is also paid on a piece-work basis, but in this case harvest teams composed of twelve workers each receive a group tonnage rate which is then divided equally among team members. The quality of piece-rate work is monitored by assigning a specific work area to each individual and a supervisor for each 30 to 40 workers. Tasks such as weed control, irrigation, machinery maintenance and supervisory functions are paid on an hourly basis. Accounting and other auxiliary personnel are paid a monthly salary.

All members are guaranteed the right to work enough to generate a minimum base income of L. 72.00 per week for non-administrative workers and L. 110.00 per week for administrative/supervisory staff. Non-member permanent labor is guaranteed L. 48 per week. A worker must work a full six-day week to receive this base income and may work more than the daily minimum to augment his/her base wage. In addition, members are technically entitled to receive a share of the enterprise's profit distributions in accordance with their labor contributions, although this has not been the case in the history of the organization. Permanent workers are legally entitled to a year-end bonus equal to the average pay for one four-week period. While not mentioned in the bylaws, it became the practice to make this same payment to members regardless of yearly profitability. Under the present marketing contract with Standard Fruit Company a deduction is made for the year-end bonus from the per box price of bananas. This is then paid into a reserve fund to be paid out at the end of the year in proportion to each worker's income.

A non-monetary mechanism in which members of the organization can potentially be motivated to contribute maximum effort and quality work to their enterprise is through the ability to participate in the decision making process. EACI members legally have a one person/one vote input into major decisions affecting the enterprise through their participation in the general assembly. Each production center is also required to hold periodic meetings in which member input is solicited. Nevertheless, it was the feeling of the Team that there was not much democratic decision making going on, and that the General Assembly was a two-year event for the sole purpose of electing a new directorate.

In summary, it can be said that the EACI structurally provides for an adequate remuneration system capable of providing incentives for maximum effort at least in the short run. Nevertheless, member motivation and productivity fell drastically after the organization's initial years and have only recently begun to improve as a result of the present directorate which is apparently more dedicated and industrious, and Standard's strict control of the payroll.

The reasons for this measurable decline in member motivation in the past are many. First, while the remuneration system was designed adequately, it was never used effectively. In the past, monitoring and recording of work performance was not carried out allowing some people to be paid for services not performed. In the literature on cooperative and associative agriculture, low labor effort and productivity are attributed in part to remuneration systems which do not directly link income to work performance. In cooperative organizations, member remuneration is considered as advance against future profits. However, associative enterprises in Honduras do not consider such remuneration as a debt when the enterprise shows negative returns. This had the tendency to make the advances seem more like wage payments to the members.

Additionally, informal conversation suggested that often the members who were brought into the enterprise for political reasons have no real interest in the EACI and would often work only a few hours a day while receiving a full day's pay. Likewise, stagnated wages (members have not received a pay increase since 1979) and the deteriorating standard of living caused members to loose interest in their work. Given the almost total vacuum in terms of worker supervision, combined with the atmosphere of graft and corruption provided by various leaders and managers, it should not be surprising that the situation turned out as it did. While the present agreement with Standard does provide for greater supervision and accomplishment of work tasks, it also freezes the price of bananas which in turn limits member wages. (The reader should be reminded that the contract further states that if the current loan with Standard is not paid off by April, 1988 the price will remain frozen until 1992.)

Of even greater importance, however, is the almost complete lack of long run benefits to group membership which separate and define the member as a true owner of his/her enterprise. Recommendations regarding the implementation of such a benefit program are found below in the appropriate section.

## V. Additional Issues Identified

While the Team endeavored to address the three discrete issues identified in the Scope of Work, it was agreed early on that other issues equally affected the long term viability of the organization. These, in no particular rank order, are presented below.

### A. Inappropriate Bylaws and Internal Regulations

The EACI is governed by two basic sets of rules and regulations which, in theory, are supposed to guide the behavior of the organization, its members and its leaders. While the bylaws ('Estatutos') cover the activities of all types of associative enterprises in Honduras, the internal regulations (Reglamento Interno) are written to the specific circumstances of the EACI. Both stem from the Agrarian Reform Law, and both were drawn up by INA and approved by the General Assembly of the organization. Nevertheless, it is the feeling of the Team that the rules governing the structure and operation of the enterprise, while not a principal cause of the current problems which the EACI suffers from, certainly contribute to the lack of an overall environment which is necessary for its long term viability.

Having been implemented during a period of social reform in the mid-seventies the law and the rules governing the organization represent an attempt to redress the wrongs of the past and to define and nurture the new worker managed enterprises they were designed to benefit. As such, the guiding philosophy for the basis of the organization attempts to balance social welfare and benefit with economic viability based on the generation of profits and the accumulation of capital. Embodied in this philosophy is also the spirit of group activity for the collective good and the control of individual gain which could threaten the enterprise.

For example, both the bylaws and the internal regulations specify that only beneficiaries of the Agrarian Reform Law can be members of the organization. The law then defines its target beneficiaries, among other requirements, as being those who are landless and for whom agriculture is their sole occupation (Article 79, b & c). This essentially limits membership to an almost 'poorest of the poor' classification which can mean, in the short run at least, that there will be an inherent shortage of management skills within the ranks of membership. At the same time the rules of the organization stipulate that the management be selected from the membership, making it difficult to acquire this expertise from the outside. Additionally, in a technical sense at least, the restriction of membership to the potential beneficiaries of the agrarian reform could preclude the incorporation of the children of members who have managed to educate themselves to a requisite level of professional competence. Should this occur, it again creates an impediment to the long term preparation of future leaders with an ability for indigenous management.

Another institutional problem is the distinction in Honduran law between for-profit enterprises (empresas mercantiles) and associative or cooperative enterprises whose objectives include the social welfare of its members and whose rules attempt to control the emergence of social inequalities among the membership. Past problems of certain cooperative organizations in Honduras, such as the transport cooperatives, had developed basically from the advantage which was taken by certain economic interests to avoid taxes by participating in cooperatives and by accumulating inordinate power in the organizations through the sheer volume of their transactions. The rules of the associative enterprises attempted to control these problems by prohibiting the involvement of members in profit making enterprises, as stated in Article 13 of the bylaws, prohibiting any "...direct or indirect involvement in the capital or benefits derived from its (a for profit enterprise) activities." There can develop a certain strain between the rules controlling individual gain at the group's expense and the capacity of the enterprise to operate in a free market environment, where other enterprises do not have these social objectives.

Another set of rules embodied in these documents can work against the individual motivation of members to perform their tasks, be they from the menial labor in the banana groves to the administrative obligations of the leaders. For example, Article 3 of the regulations states that, "...after one year, all employees shall receive the same benefits as the members." Article 5 of the same regulations goes on to state that "...the assets belonging to the enterprise belong to it alone and as such, no concept of private property can be allowed to exist." This is further supported by Article 21 which limits a member's rights upon retiring or leaving the organization to back pay, debts owed him/her by the organization, and any profit distribution from the present accounting cycle only. These clauses restrict the introduction of the notion of individual capital accumulation, and can limit the motivation to accumulate collectively as well as the "feeling of ownership" among members. Stated differently, the concept of individual share capital representing a member's ownership and participation in the organization (as is the case with agricultural cooperatives and other similar type organizations in Honduras and elsewhere) is at this point in time not likely to be introduced without substantial modification of the organization's bylaws.

A final observation concerning the rules under which the EACI was established deals with the various levels of decision making and organizational oversight which are mandated. In an attempt to promote the concept of worker self-management and to disperse these activities among as broad a number of members as possible, the rules create at least 12 separate levels of authority. Some of these levels, and the roles they create, overlap and conflict with one another. For example, there is both a Secretary General and a President, both a General Assembly and a General Assembly of Delegates, and both a Board of Directors and an Advisory Committee composed of many of the same members.

Not only does overlapping administrative structure give rise to an exorbitant number of leadership positions which are difficult to fill with appropriate people given the education and experience levels of members, but it also leads to a decision making hierarchy which is cumbersome, confusing and contradictory and which encourages the avoidance of the prescribed procedures when decisions have to be made. The current situation at the EACI has evolved to the point where almost none of the 12 authoritative levels function as they were designed, and power has become concentrated in the person of the Secretary General and a combination of the Board of Directors and Vigilance Committee acting in concert.

A most significant management problem, however, is the obvious lack of a paid, professional manager. In EACI, the Secretary General, the highest elected official, is also charged with being the highest administrative official as well. Chapter 5, Section 3 of the regulations and Chapter 8, Section 3 of the bylaws specify in great detail the administrative responsibilities of the Secretary General; including referring to the person as the 'member executive'. In the past, this has given elected officials direct access to the day to day financial resources of the organization. In some cases this combination of functional responsibilities has produced leaders of exceptional abilities, but more often it has contributed to the misuse of resources and many charges of corruption. No mention is made in either the bylaws or internal regulations of a paid, professional, and ostensibly impartial staff, their responsibilities or duties. The philosophy behind this, again, strongly embraces the concept of worker management but fails to take into account the complexity of the organization, and the forces with which it must interact, compared to the level of experience of the members.

B. Leadership Selection

The rules and regulations governing the EACI specify that the Board of Directors be filled according to a yearly majority vote. Every member has the right to one vote for each position. In practice, elections are held every two years. The election process is theoretically democratic, based on a secret ballot. In reality, however, they are not. Elections occur in a large assembly of the 1,100 members in which each person expresses his choice verbally. The votes are then marked on a chalkboard and tabulated on the spot. The scene is described as chaotic with it being almost impossible for members to gauge the accuracy or fairness of the elections. Additionally, the political character of the EACI is such that individuals have not always been free to express their choice. Rather, in the past, candidates were imposed on them by outside forces such as INA and the military, or from internal leaders. In fact, many of the members admitted to the organization in the late 1970's were incorporated to provide political support for 'imposed' candidates.

Once elected, the Board of Directors, presided over by the Secretary General, then names the various supervisory and administrative posts at the central office and throughout the nine production centers. This is normally thought to be done based on political patronage or extended family ties and is probably not in the long run best interest of the organization.

C. Current Debt Portfolio

Other documents (Bolton and Chinchilla, INA Report) have described the existence of the EACI's catastrophic debt and it will only be touched on here to summarize its impact on the organization. As of December, 1986 the INA accountants were able to establish that the EACI owed a total of L. 38,291,443 divided in the following way:

| | | | |
|---|---|---|---|
| Short Term Payables | L. | 286,213 | 286,213 |
| Long Term Loans: (New) | | | |
| Banco Atlantida | | 1,524,480 | |
| BANCOMER | | 1,500,000 | |
| BANCAHSA | | 2,200,000 | |
| SFCo. (Line of Credit) | | 1,137,483 | 6,361,963 |
| Long Term Loans: (Old) | | | |
| BANADESA | | 3,416,000 | |
| COHBANA | | 21,865,304 | 31,643,267 |
| | Total Potentially Owed L. | | 38,291,443 |

Of note in this breakdown is the fact that the debt with COHBANA has been reduced from a potential L. 35.0 million to L. 21.9 million. This came about as a result of an 'accounting error' on the part of COHBANA for not transferring several years of the EACI's loan payments on a debt owed to BANADESA and for which COHBANA had acted as guarantor. The payment of the remainder is still being negotiated with the GOH. The EACI contends that it too for the most part should be pardoned (L. 6.4 million alone is for interest payments) since it was incurred during the time of the INA and COHBANA imposed directorates. INA is currently studying the matter realizing that something must be done, yet not wanting to set a precedent for other groups.

Another point is that the organization no longer owes money to INA for its land. This debt was duly cancelled two years ago and the title now proudly hangs in the Secretary General's office. On a less positive note, however, aside from the money owed to BANADESA and COHBANA, the other bank loans are either co-signed or otherwise guaranteed by Standard Fruit Company. In most cases, these loans have been granted on the condition that they be paid off directly by Standard as discounts from the monthly sales of bananas. This further concentrates Standard's control over the organization and limits its potential sources of working capital. On the other hand, it is an attractive guarantee for the banks who otherwise would not have made the loans with the type of collateral offered by the EACI.

Presently, the EACI is dependent on the Standard Fruit Company's line of credit for L. 2.0 million for the majority of its working capital. More importantly, however, is that the payment of the line of credit is necessary to avoid the renewal of the banana marketing contract for four more years until 1992. This renewal would have the obvious effect of freezing the per box price paid by Standard for the bananas, and further affecting the profitability of the enterprise and the income of its members and workers.

The current prediction is that for 1987, productivity will have been increased, and costs will have been decreased, to the point where some profit can be expected by the end of the year. This prediction includes the payment of all pending short and long term accounts payable (aside from the COHBANA debt which is not accruing interest), including Standard's line of credit. Nevertheless, recent high winds have toppled a sizeable percentage of the banana trees on three of the nine farms casting some doubt on the expected outcome.

If the EACI is to overcome its present difficulties, it will require funds for both its working and development capital needs. Whatever the source of funds in the future, it is most likely that the lender will also require repayment through some type of discount mechanism which will necessarily require Standard's approval.

D. Inadequate Management Ability

Throughout most of its existence, EACI has suffered from a lack of sound professional management. This has been caused by the creation of the Secretary General position which must be elected from a membership which due to its class origins did not have an accumulated large scale enterprise management expertise. It is the case that in the early years of the enterprise, substantial attention was paid to the training of members, but much of the training was theoretical and without meaning for many members. It is also the case that EACI has existed long enough to expect that the members would have gotten enough experience to be able to handle the demands of management. However, the group of trained people is small, and whatever on-the-job management expertise is gained by leaders is quickly lost through rapid leader-turnover, either through the election process, or otherwise. Furthermore, for a variety of reasons professional employees who have been contracted tend to be marginated from the organization's decision making process.

This situation seems to originate in the enabling documents of the organization which make no mention of a hired professional staff. It was then further exacerbated by the military, INA and COHBANA who imposed a series of directorates and managers without sufficient consideration of the needs of the organization for long term self-sufficiency and sustainability, nor for controlling the excesses of a few of these "managers".

This lack of strong professional management at the EACI leads to three obvious voids in the organization's administration: 1) it has created an environment in which little planning is attempted, thereby encouraging haphazard and ad hoc decision making; 2) it increases the chances of deviations from the accepted rules and regulations of the organization, be they socially motivated or motivated through the prospect of personal gain; and, 3) it has been inefficient, resulting in high costs for substandard results. Recommendations concerning EACI's management structure can be found below.

E. The Lack of Two-Way Information Flow

The availability of timely and accurate information facilitates good management in any enterprise. In addition, experience has shown that the flow of information within an organization can provide a double benefit if it is provided in both directions; i.e., from the workers through the supervisors to the Board of Directors and vice versa. In such a system the information collected by managers is used for analytical and planning purposes and then returned to the members as part of an ongoing educational process.

The need for good information flow is especially important in an organization as large (both geographically and economically) as the EACI. Yet, while some information flow was observed at the EACI, bottlenecks were observed at two levels: among and between the various administrative levels; and, between decision makers at the top and the membership.

The production necessities of the EACI require that information flow in both directions between field level management and the highest management levels, i.e., from top to bottom; work to be performed, and inputs to be used, and from bottom to top; work performed, who performed it, and any problems encountered. This segment of the organization's information system currently works fairly well for some elements such as the payroll. Nevertheless, there are severe physical limitations to the timely and complete assembly and use of much of this information. For example, the nine production centers of the organization are spread out over 12 miles along the Aguan river. There are no telephones and the organization's radio system became inoperable several years ago. Additionally, public transportation is inadequate. and the organization has only one serviceable passenger vehicle. Given these conditions, the timely arrival of accurate information at the central offices of the organization is often impossible. Additionally, much of the data compilation is performed manually using only three calculators among an accounting staff of twelve. This means that what little analysis of the data is performed is often out of date and inaccurate.

This often chaotic information flow at the more functional levels is almost completely nonexistent at the lower levels, i.e. members and other workers and decision makers. In fact, in a letter signed by a representative sample of members to the Honduran Congress in 1986, it was stated that no economic information had been distributed to members since 1977. Given the history of corruption at the EACI, there is much interest on the part of the membership for information concerning the status of their organization. This right is also granted to members in the bylaws of the organization, and several of those interviewed stated that they wanted their leaders to be accountable for their actions and to inform them of their actions periodically.

Recommendations concerning the improvement of information flow within the organization can be found below in the appropriate section.

## F. The Level of Technology and the Lack of Capital Development Funds

The world market for fresh table bananas is extremely competitive. This applies to both the marketers of fruit such as Standard, as well as to the producers such as the EACI. Recent achievements in raising productivity and in lowering costs have improved the organization's competitive position. The prospects for further improvement are good, although much ground remains to be made up. Standard's Managing Directors informed the team that EACI bananas are the second most expensive bananas in the world (the most expensive being those produced on Standard's own farm, Coyoles, ostensibly due to the existence of a strong union). This is probably not the case since bananas from the West Indies and elsewhere entering protected markets in the U.K. and Europe face labor costs four times those of the EACI and do not benefit from most economies of scale. What is more likely the case is that Honduran bananas in general are more expensive when converted to dollars than the other producers in the region. There are several reasons for this but the most influential has been the fact that the Lempira has not been devalued in many years while the currencies of Honduras's competitors have been. This is a difficult situation to confront since the EACI has very little influence over the GOH in these matters.

An additional factor which affects the EACI's competitive position is the organization's ability to maintain and improve its technological base. The EACI currently values its land at L. 10,000 per acre. This relatively high figure is due to the land's fertility and other characteristics, and also to the large amounts of infrastructure which have to be provided in order for the land to produce. Drainage, flood control, irrigation, internal roads, a tree support system and other investments are all required for a productive banana enterprise. EACI's technological base is currently being eroded by two forces: 1) a lack of working capital to properly maintain and replace already existing technology; and, 2) a lack of development capital to keep current with the industry in terms of technological advancement.

On the maintenance side of the equation, the EACI's irrigation system is now over 30 years old and shows its years. Major work is required on several of the diesel pumps and many towers need to be replaced. Likewise, some of the large drainage canals and flood control structures show signs of severe deterioration. As these systems fail, or become inefficient, any downward trends in production costs are reversed, sometimes drastically.

The failure to be able to keep up with technological advancements is another problem facing the EACI. For example, drip irrigation shows great promise of reducing overall expenses while improving coverage and productivity. Likewise, overhead cables for the support of the bananas (instead of using poles or strings), would go a long way towards preventing wind damage to which the EACI lands are prone. Nevertheless, the organization does not have the required capital to undertake these and other innovations and faces the probability of loosing ground to technological advancement.

### G. Relations between the EACI and the Honduran Government

The EACI's interactions with the Honduran government are primarily with the national agrarian reform agency, INA and COHBANA, the national banana corporation. COHBANA has been responsible for defining and implementing the Honduran government policies with regard to banana production and marketing. One main task of COHBANA was is to act as a commercial intermediary between the associative enterprises which produce bananas and the banana exporting companies. EACI's first marketing contract with SFCo. was arranged by COHBANA and covered the period of 1976 to 1983. COHBANA was also responsible for providing technical assistance and for channeling credit to the associative enterprises. For these services the EACI was charged 5.5% of the value of each box of bananas sold, ostensibly to cover expenses. However, there are strong feelings at EACI that they did not receive sufficient assistance from COHBANA to justify the payment of the 5.5% fee. Subsequent non-payment for these services contributed to the debt problem facing EACI today. Additionally, credit received from COHBANA was subject to high interest rates. COHBANA obtained credit from the World Bank at an interest rate of 8 percent per annum and then lent this money to the EACI at an 15-17 percent claiming the increase was necessary to cover administrative costs.

The members of the EACI indicate that the intervention of COHBANA in the management of their enterprise was a important factor in its deteriorating economic status. According to COHBANA auditors, the EACI has a total debt of L. 21.9 million, L. 16.4 million until 1983 and L. 5.4 million alone in accumulated interest since 1983. Table 5 shows the debt history of the enterprise from 1976 to 1983 according to the organization's records.

The national agrarian reform agency, INA, is responsible for monitoring the progress of EACI. However, the previous interventions of INA did not succeed in resolving EACI's problems. Currently, the objective of INA is to develop a strategy for stabilizing the situation and helping the enterprise out of its financial predicament. The main issue concerning the role of the government agencies in the affairs of the EACI is the degree of independence of the enterprise and its ability to control its own future. While INA is devising plans to regenerate the profitability of EACI, members have developed a distrust for INA staff and fear future interventions. INA can play an important role in refinancing and restructuring EACI so that it can operate efficiently. However, any decisions as to the mechanisms and personnel employed must be made in conjunction with the EACI's members.

TABLE 5
Debt Owed by EACI to COHBANA
(by year 1976 - 1983)

| Year | Amount (Lps.) |
|---|---|
| 1976 | 4,701,350.77 |
| 1977 | 6,433,101.70 |
| 1978 | 6,243,570.77 |
| 1979 | 5,496,525.98 |
| 1980 | 8,253,736.47 |
| 1981 | 14,880,649.66 |
| 1982 | 17,285,220.13 |
| 1983 | 17,525,237.33 |
| Minus Adjustments | 1,085,158.86 |
| Total Owed | 16,440,078.47 |

Source : EACI records

## H. The Relationship between the EACI and Standard Fruit Company

Although SFCo. abandoned Isletas in 1974 leading to the creation of EACI, the organization has never operated completely independently of the company. Standard has monopoly control of the banana export market in the Bajo Aguan Valley and also controls sales of crucial inputs such as fertilizers and packaging materials. Additionally, SFCo. controls the sales of other essential goods such as chemical pesticides. It is reputed that this control often implies that the EACI pays very high prices for needed inputs.

The organization's transactions with SFCo. were made via COHBANA until 1983. In that year, a direct contract was signed between the EACI and SFCo. which is still valid. The termination date for the current contract is April, 1988 pending repayment of the L. 2,000,000 line of credit.

The contract signed in 1983 stipulated that SFCo. would buy 90 percent of the EACI's first class fruit and 10 percent of the second class fruit production at L. 5.53 and L 2.12 per 40 pound box, respectively. In 1985 the price of first class fruit was increased to L.5.73 per box. In addition, it extended an initial L. 1,000,000 line of credit to the EACI for working capital.

The contract was later amended in 1986. Standard offered to increase the line of credit to L. 2,000,000 and, in return, required that EACI sign an amended contract. The new contract stipulates the following:

1) SFCo. has the right to manage the cash accounts of EACI, its bank loans, and the future income streams through the contract period;

2) the price at which SFCo. purchases bananas from EACI is frozen until the contract is terminated;

3) that the SFCo. programs labor use in each production center;

4) that the SFCO. controls the inventory and use of materials such as fertilizers; and,

5) if EACI does not repay the L. 2,000,000 loan before April, 1988 the existing contract will be valid until 1992.

In other words, this contract enabled SFCo. to regain a large measure of control of the organization's management. The response of the EACI membership to the contract is mixed. On the one hand, they realize that with SFCo. managing their money, the workers are paid regularly and their work performance is adequately monitored. However, the price freeze means a freeze in wages. Wages have not increased since 1979; therefore, a further freeze imposed by SFCo. has been ill-received by the members.

Defining the relationship with Standard is an issue of primary importance to the current management of the EACI. Basically, they have only a few months to generate the resources to repay the L 2,000,000 line of credit and thereby release the enterprise from the constraints of the 1986 contract.

## I. Relations with the Honduran Military

As mentioned earlier, since the mid 70's the Honduran military has been involved in the EACI frequently, often with negative consequences. Rumors abound about these interventions, including the charge that EACI has been in the part required to pay protection money to officers of the 4th Army Battalion. It is hard to avoid the conclusion that the successive interventions by the military has severely damaged the democratic notions of the enterprise. Military pressures on the leadership and those competing for leadership, the reversal of decisions of the General Assembly, the arrest of the leadership, and the forced placement of non-members in positions of power within the organization characterize these interventions.

The actions of the military in some cases undoubtedly have been due to the breakdown of order and organization in EACI. For some officials, their actions were based on their fear of what they considered to be subversive activities and the threats of certain political groups to use the resources of EACI for their own political ends. It is also the case that the concern of the military for activities in the entire Bajo Aguan has been a fact of life in Honduras due to the nature and location of the region.

However, the degree of involvement with EACI could be more restrained and positive. Perhaps the model of the present commander can influence his successors. Ten. Col. Romero seems to be much more sensitive to the needs of EACI than some of his predecessors. Military intervention has decreased and become limited more to security patrols on the premises of Isletas. In fact, Coronel Romero is currently taking actions to improve the situation of EACI. For example, he is petitioning for a congressional change in the previously mentioned legislation which prohibits the sale of second class fruits to countries where SFCO. exports produce. Secondly, he is assisting EACI obtain a loan from the Workers Bank (Banco de Trabajadores).

Furthermore, the ability of the military, as well as others, to interfere in the operations of EACI is facilitated by structural problems in the design of the enterprise. In particular, the political character of the enterprise management and administrative staff potentially allows easy use of financial resources for political purposes. Inadequate accounting records minimizes the evidence of corruption and makes manipulation of funds easier. These issues were considered in developing recommendations for bettering the internal design for EACI. Nonetheless, even if the insulating mechanisms could be strengthened in the EACI administration, some structural means for reducing military concerns and temptation to manipulate how the enterprise is run seem a necessary part of improving its economic performance.

## VI. Recommendations

### A. The Overall Concept

Early in the field investigation phase of this study, it was jointly agreed between the Team and Mission personnel that any proposed assistance strategy for the EACI would conform to an integrated approach seeking support from several sources. This methodology fit well with the actual findings of the Team since the organization's needs are wide ranging and complex.

The overall concept of the recommendations is that the EACI be provided with various types of support and assistance through a coordinating agency, most likely INA. This support would center around a greatly improved management system for the organization, but would also include other elements. The management system would include the hiring of a professional manager who would be supported by a contract with a local, internationally recognized management firm. This firm would perform a monthly audit of the organization's accounts, install a computerized accounting system and train the staff in its use. The bylaws and internal regulations of the organization would be altered to reflect this change in powers and responsibilities.

Another element of the assistance package would include the provision of operating credit to be used in several ways including: paying off the Standard line of credit; paying the severance pay of approximately 200 members and permanent workers desiring to leave the organization; providing short term production credit for agricultural diversification activities using the organization's surplus land and labor; and the establishment of a capital development fund to finance some of the more pressing infrastructural needs.

Support would also be sought from the GOH whose ministries are woefully lacking in the region. The Ministry of Education would be requested to take over responsibility for the operating of the elementary and secondary schools. The Ministry of Health would be requested to either assume responsibility for the operation of the EACI hospital, or would be convinced to donate the hospital building in Isletas which is currently abandoned. Lastly, the National Housing Institute (INV) would be petitioned to begin a program of housing maintenance and construction for the members of the organization.

An educational/promotional campaign would also have to be implemented in order to train members and leaders concerning their responsibilities and benefits. The establishment of a credit union at the EACI would also be encouraged to take some of the financial burden of personal loans to members away from the organization. This mechanism would also be used to instill a savings ethic among the members. Finally, serious consideration should be given to modifying the bylaws in order to allow for individual share capital ownership by members. Such shares would be interest earning but would be negotiable only between the member and the organization.

Several of these components are developed in further detail below.

## B. The Assistance Components

### (1) A Management System

Everyone talked to during the interviews conducted by the Team agreed that the organization needs a manager, and most agreed that this manager would also have to be supervised and supported by an external audit mechanism. The selection of the manager should be done with the greatest of care to assure professional competence and dedication to the worker management model of cooperative farming, preferably with experience in the management of such enterprises. The person would also have to be willing to live under the somewhat isolated conditions of Isletas.

INA's current thinking on the topic of a manager includes their proposing 3 to 5 potential candidates to the EACI board of directors, and possibly to the General Assembly, and having the organization choose one. This person would then remain, or become, an INA employee and be paid from INA's payroll. An alternative which should be considered is for INA's role to be limited to approving the selection of the manager, and letting the EACI come up with the candidates. Furthermore, the having the manager paid by INA might facilitate finding someone for the job, but in the interests of the long term stability of the management position it seems more logical for the person named to be paid directly by the EACI. Past interventions by INA in the affairs and leadership of the organization have greatly raised member sensitivities against imposed solutions.

In general, it seems more desirable for he EACI to select its candidates through a bidding process open to all, with the candidates being selected based on a commonly understood ranking system. The person selected would then also have to be approved by INA and perhaps a donor, if one is involved. The financial considerations involving the manager would ideally be provided by a technical assistance grant to relieve the burden on the organization. This would be paid through the EACI, thereby helping to assure the person's allegiance. This grant would also most likely include funding for several other administrative staff members since additional, less senior positions would also have to be filled.

To support the manager, while at the same time providing supervision over the financial affairs of the organization, the EACI will also need for a time the services of a firm specializing in business management. This firm would be retained through a management contract which would provide for a monthly external audit of the financial affairs of the organization. It would also be contracted to set up a new computer-supported accounting system, and to train the staff in its use. External funds would be required to pay for the management contract and the provision of the computer system, including the training of a local staff in its operation.

### (2) Member Incentives

Member incentives to support an improved work ethic, investments in the enterprise and greater productivity are sorely necessary and will be key to achieving a profitable standing for the organization. A multi-pronged program is recommended to address this issue.

Central to this program would be the introduction of the concept of individual share capital for all members in order to stimulate commitment to the collectivity. In order to avoid the disproportionate accumulation of shares by few individuals, these shares would not be subject to open trading but would rather be limited to sales to the organization upon a member's withdrawal or to transfer to immediate family members upon the death of a share holder.

In order to equalize the differences between original and newer members, the shares could be originally granted according to the amount of time each person has been a member. From then on a member's capital would increase according to an annual interest dividend paid out of profits. The rate paid should approximate the opportunity cost of funds in a local savings account, or it could fluctuate with the level of yearly profits.

Additionally, year-end profit distributions approved by the enterprise could either be paid in cash or in additional shares, at the election of the member. The amount in either case would be a multiple of a person's annual wage earnings. In some years of low liquidation the General Assembly would have the option of voting to pay all profit distributions in the form of share capital. This type of mechanism is similar to that used by many cooperative enterprises, and is contemplated in the new Honduran cooperative law. The intention of this law is to stimulate member self-interest in the economic health of the organization, create a sense of ownership among members, and more equitably distribute the proceeds of the economic activities. These features of an associative enterprise have been lacking in EACI.

In order to implement this type of mechanism, full discussion should be encouraged and attempts made to assess the likely impact by looking at similar experiences elsewhere. Specific changes would be required in the bylaws and internal regulations. These, in turn, would have to be approved by INA. Nevertheless, given the recent approval of similar rules for cooperatives, it is thought that the present climate would be favorable. (This concept was presented to the Board of Directors who agreed with it and promised to study it further.)

Given such a mechanism, the organization will have to consider and define the validity of its current retirement policy for members wishing to leave. At the very least, the value of such a payment should be tied to the number of years, or work units each member has accumulated with the organization. It would also be necessary to limit the amount of capital that any retiree could receive yearly, gradually drawing down the capital which the member has accumulated in the enterprise. If such a practice is introduced, it should be tied to some measure of profitability, although this would duplicate the purpose of the recommended share capital. An innovation which might be attempted is similar to the U.S. Social Security system in which both the worker and the enterprise pay a fixed percentage of wages each payroll period. This would then accumulate in an interest-bearing bank account to be drawn upon when members retire.

Another facet in the program to improve member motivation includes an educational/promotional campaign for both rank and file members and leaders. On the one hand, promotional campaigns would be carried out among the membership to re-instill a sense of ownership in the organization, and to inform them of their duties and the benefits to membership. Additionally, members and leaders could receive educational classes in subjects such as literacy, simple accounting practices, and banana growing technology. For those leaders managing, monitoring or accounting for financial resources, special, higher level courses could be made available.

Several sources consulted thought that the National Institute for Professional Training (INFOP) would be an appropriate institution for implementing such a program. In this case, donor-provided grant funds could be used to contract the services of INFOP for the design and implementation of these activities.

Additionally, the members need to be shown some evidence of improvement in their standard of living in order to invigorate past work ethics and be given some promise for the future. In this regard, INA as coordinating agency should make every attempt to persuade the Ministries of Health and Education, and the National Housing Institute to begin programs in Isletas. If necessary, specific activities could be grant funded through support from several donors. The provision of improved health, education and housing services would go a long way towards achieving an immediate impact on the membership and in gaining their renewed spirit of commitment.

A final service which could be provided to stimulate worker motivation is the establishment of a credit union within the EACI. Currently, one of the more laborious tasks performed by the Board of Directors is the granting of short term wage advances to members in financial need. In the judgment of the Team this is not an appropriate function of the board which is not equipped to carry out such financial transactions; especially when many of them stem from emotionally charged situations. The payment of loans could still be discounted from wages owed, and loans could be made based on earning potential. Additionally, part of the educational/promotional campaign could be targeted at the mobilization of member savings through regular payroll deductions.

## C. The Role of Credit

At least four types of credit will be needed by the EACI to put its economic house in order. These could be provided by one, or several, donors and would most likely be channeled through BANADESA and guaranteed by INA. Nevertheless, the Team sees no fundamental difficulty in using the private banking sector.

(1) Immediate working capital to replace Standard's line of credit

The current marketing agreement with Standard must be allowed to run out in April, 1988 so that a new price for bananas can be negotiated, and so that the EACI can begin its process of independence. In order for this to happen, however, the line of credit with Standard will have to be paid off and an alternate source of approximately L. 2.0 million in working capital will have to be found. Making the situation even more urgent is the fact that the EACI must notify Standard by October, 1987 of its intention to comply with the present contract and repay the credit line.

INA is currently studying the possibility of requesting financial support through BANADESA for this purpose. If this happens, it is most likely that INA will demand to name its own manager unless their planners can be negotiated away from this point. Preliminary discussions between the Team and INA representatives revealed that they would be open to having the EACI name its own manager if a management contract with an external audit firm could be arranged.

Likewise, the Board of Directors has recently submitted a loan request for L. 5.0 million to the Banco de los Trabajadores for what they call their, "independence loan". The five million would include funds to pay off the Standard line of credit, provide operating capital, pay off smaller amounts owed to other banks, improve some of the most needed repairs on the irrigation and drainage systems, and purchase a cardboard box factory and two small airplanes. The organization's economic advisor argued that these last items were necessary on the grounds of needing to become as independent as possible from Standard. The multi-national is currently the sole source of the boxes in which the fruit is exported, as well as being the provider of the current aerial spraying for Black Sigatoka control. While this argument is compelling, it is the Team's belief that the EACI administration will have enough to do in fulfilling its present obligations without having to manage two more potentially complex activities. If these services are necessary, it would be better to contract for the supply of boxes and for the spraying of the groves.

(2) Severance Pay Credit

It is estimated by both Standard and the EACI that approximately 200 members and permanent workers should be retired from the organization due to age, health or motivational reasons. The effect of this would be to lower unit labor costs and improve the morale of the remaining members and workers. Nevertheless, due to a situation of tight liquidity and the non-existance of a reserve fund for these payments, medium term credit will be required.

Since the retirement of these members and workers is critical to reducing production costs, it will most likely be part of a package loan program answering several needs. It could be made through BANADESA or through a private bank with payments being automatically discounted from the banana sales receipts. It has been estimated by the EACI that L. 2.0 million would be necessary for such an activity although a careful examination of actual claims could reduce this substantially.

(3) Production Credit Needs

Even once the members and workers desiring to leave the EACI are paid off, there will still be 300-400 potentially redundant members and workers within the organization. At the same time, the organization holds title to almost 5,000 acres of land which is only being marginally exploited. The reason for this appears to be a lack of short term production credit since it has always been a part of the EACI philosophy from the start to stress diversification.

The idea would be to initially plant up to 500 acres in basic grains such as corn and beans. Crops which are known to most of the members, can be stored for relatively long periods of time, and for which there is a ready market. The labor for this activity would come from the over-supplied pool of workers on the banana farms. The crop could be sold on the open market, sold to members at cost, or distributed to members and workers as a production dividend. It has been estimated that a production fund of approximately L. 500,000 would be necessary and would include an amount for machinery purchase. At a later date, a decision concerning the expansion into other crops, possibly for export, could be taken. Due to their experience with production credit to small farmer organizations, BANADESA is probably the best channel for these funds.

The implementation of such an activity would help to resolve the organization's problems from two directions. First, it would improve the land/worker ratio and reduce per unit production costs, and second, it would bring an idle resource into production thereby broadening the organization's resource and production base.

(4) Capital Development Needs

Lastly, the EACI will need access to long term capital development funds to modernize its physical plant and to stay current with technological innovations. This will include maintenance of the irrigation and drainage systems, the internal road network, and the boxing plant facilities, plus the introduction of drip irrigation and an overhead cable system.

Using conservative estimates, it is thought that the current long term capital development needs are approximately L. 4.0 million to L. 6.0 million. Loans for these purposes could be sought through the private banking sector and could include an automatic repayment mechanism such as is the practice at present.

## D. The Leadership Selection Process

The leadership selection process at the EACI has traditionally been marred with influence peddling, extortion, intimidation and violence. In order that the delicate process of restoring member confidence in the organization's leadership be initiated, great pains will have to be taken to assure adherence to strict democratic principals. To this end, we would recommend that the elections be based on a secret ballot, with a color/symbol system used to benefit the illiterate. Furthermore, the elections and campaign process should be supervised by an impartial board of observers composed of people such as the area priest, INA, and perhaps the Regional Directors for BANADESA. Lastly, as part of the educational/promotional campaign discussed above, members should be educated as to the importance of leader selection based on qualifications rather than family, friendship or political ties.

E. Required Changes in the Bylaws and Internal Regulations

In order for the various activities and programs recommended above to be successful, several structural changes will have to take place in the way the EACI organizes and administers its enterprise. This in many cases will require alterations i· ·e bylaws and the internal regulations of the organization. All c · will have to be approved by the General Assembly and agreed upon by INA, .though this is not certain since no provision is cited in either document for alterations. Some general comments are presented first. These are then followed by specific recommendations.

It is the feeling of the Team that the entire set of enabling documents of the EACI needs to be re-examined to take on many of the characteristics of the agricultural production cooperatives, while remaining within the legal structure of an associative enterprise. This is seen as being politically far easier than converting the organization to a cooperative. Additionally, the documents need to be modified to reflect the realities of the organization's management and ownership requirements. They should also reflect a management orientation which is flexible enough to adapt to changing conditions in the marketplace.

F. The Role of the General Manager

The bylaws and the internal regulations would both have to be modified to re-define the much more restricted powers and responsibilities of the Secretary General position and creating the position of a hired general manager. The lines of authority would have to be clearly spelled out, i.e., General Assembly to the Board of Directors to the manager. Some of the current duties of the Secretary General would also have to be redistributed to the President of the Board of Directors.

G. The Creation of Share Capital

Members need to be motivated through a feeling of ownership in their organization. Likewise, members need to be financially rewarded through an easily understood, trustworthy mechanism based on each person's contribution to the organization. Currently, the only possibility of this type of orientation exists in the short run with the potential distribution of a portion of each year's profits. In the Team's view, (even leaving aside the lack of profits to distribute over the years) this is simply not enough to provide for a commitment to the organization, the development of a sense of ownership and a spirit of industriousness within the organization.

It is certainly the case that no share distribution mechanism can be successful without a profitable organization. Nevertheless, it is also most likely that an organization cannot remain profitable for long without the support of well-motivated workers. Combining these two objectives is the basic rationale behind the need for a share valuation mechanism. However, in order to implement such a mechanism changes and additions will be required in both the bylaws and internal regulations. It is very likely, for example, that a new section will be required called 'Capital Equity and Ownership', which will set fourth the method of share valuation, transfer rights, interest rate calculation, and voting rights, if any. Other sections in the documents such as those on: profit distribution, economic order, and dissolution and liquidation will also have to be modified.

## H. A Streamlining of the Management Structure

Fully 75 percent of the clauses of the bylaws and internal regulations deal with the various levels of assemblies, committees, and boards which are supposedly required to 'worker manage' the organization. The obligations and duties of almost every person in the administrative structure are mandated by official decree. This makes for a highly inflexible management structure should changes be required. Furthermore, many of the decision making levels, while almost wholly inoperative at present, call for group action and consensus on many issues. In other cases, the various levels of bureaucracy created in the documents often compete and overlap with one another making for further inefficiencies.

It is not appropriate for the Team to make specific recommendations concerning organizational changes in the bylaws and internal regulations. Nevertheless, we do recommend that they be given detailed consideration as to their appropriateness to an efficient and viable worker managed enterprise concerned with the long run economic interests of its members. An additional part of the management contract with the firm described above, should include a study of the various organizational levels and decision making at the EACI. Based on the outcome of this study, appropriate changes would be made in the bylaws and internal regulations.

## VII. Persons Interviewed

U.S. Agency for International Development (USAID)

Richard Peters    Peter Lara
Lee Arbuckle

Honduran National Congress

Efrian Diaz Arrevillaga

Agrarian Reform Institute (INA)

Amparo Matamoros    Pedro Salustio Hernandez
Hector Carrasco

Central Bank of Honduras

Jose Ramon Alvarenga

Honduran Military

Lt. Coronel Alvaro Romero; Commander, 4th Infantry Batallion
Lt. Ortiz; 4th Infantry Batallion, Isletas

Empresa Asociativa Campesina de Isletas (EACI)

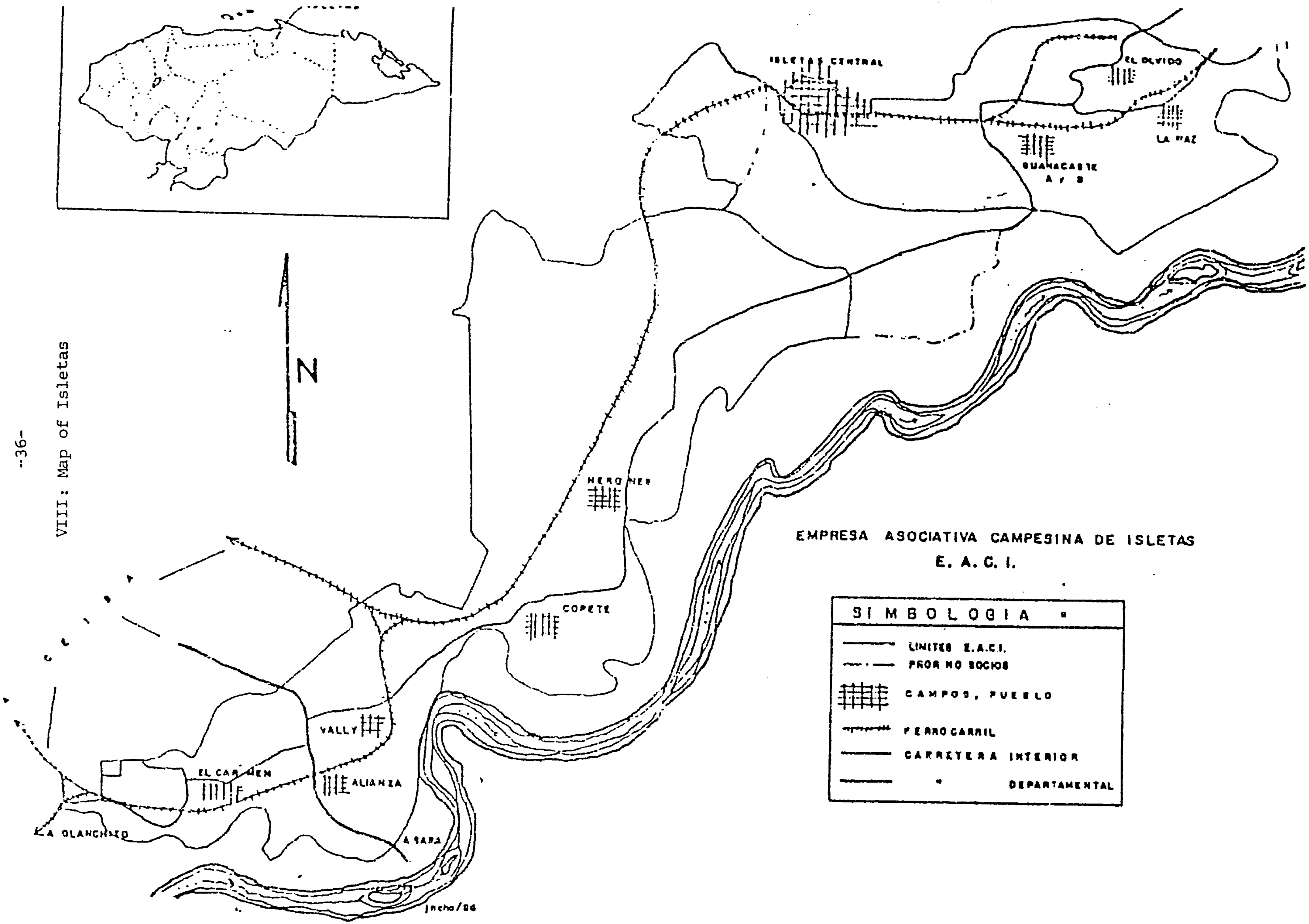
Carlos H. Midence (manager of section one farms)
Jose Rosendo Andrade Ovando (President)
Jose Antonio Gonzalez (Vice-president)
Teofilo Trejo (Secretary General)
Jose Vidal Lobo (Treasurer)
Elisel Garcia Cano (Security)
Joaquin Manzanares (President of Vigilance Committee)
Jorge Sandoval (Secretary of Vigilance Committee)
Mauro Bonilla G. (Vigilance Committee)
Eduardo Reyes (Farm Manager, Guanacaste B)
Obdulia Reyes (Public Relations Officer)
Erice Murillo (Packing Plant Manager)
Mauricio Murillo (Farm Manager, Copete)
Roberto Antonio Rodas (Farm Manager, Carmen)
Jose Enrique Downing (Economic Advisor)
Osli Rivera (Accountant)
Walter Reyes (Economic Assessor)
various working members and employees

Standard Fruit Company

Randy Flemming (General Manager)
Wilbur Montiel (Acting Production Manager, Isletas)
Abraham Arauz (Auditor)
Alfredo Zeron (Paymaster)

Others

Gautama Fonseca




VIII: Map of Isletas

## IX: A Proposal for a Member Share Credit System for Production Cooperatives

An agricultural production cooperative (APC) has three basic characteristics: (1) the members of the enterprise share the income generated from the production and marketing processes according to the work contributed by each member; (2) a significant part of the agricultural work is done by the members, who also manage the enterprise collectively; and (3) the enterprise is the owner of the land and other capital items.

Such enterprises have been created throughout Latin America and the Caribbean as part of agrarian reform efforts, as well as responses to economic crises in large scale capitalist enterprises whose ownership passes to the workers. Such enterprises involve a large segment of the rural population in some countries, contribute to agricultural production in important ways, and are significant users of credit and other agricultural inputs.

Such enterprises encounter serious challenges, however, in that their management structure and the motivational environment for the worker-owners is substantially different from the more widely known and traditional, hierarchical capitalist enterprise. One such challenge is how to stimulate the owner-workers to approve long term investments in the enterprise. One possible solution is the creation of an ownership device peculiar to such enterprises, namely the "Member Share Credit".

The following ideas are presented for discussion purposes about how a Member Share Credit System might work. The objectives of such a system are (1) the motivation of APC members to support the capitalization of the enterprise, and (2) to provide greater long term financial security for members following their retirement or for their heirs upon their death. This greater security will also provide greater incentives for APC members to support the enterprise and help overcome the divisive influences which such an enterprise often experiences.

In preparing these suggestions, ideas were adapted from the experience of producer cooperatives with over 90 years of experimentation with different notions of member share credit. Certainly local conditions differ as do legal structures in any particular jurisdiction. The application of these ideas to a specific APC will have to continue this tradition of experimentation, and find ways to facilitate change and creativity with whatever system is introduced.

The idea of share credit differs in important ways from stock in corporations, since the APC operates as a particular type of worker owned enterprise, analogous in many ways to a family owned and operated farm. Moreover, the unification of ownership, labor and management in one decision making structure is a new idea in many places.

Great care has to be taken in applying organizational rules used in traditional corporate organizations to APC. Finally, the legal and political environment of any jurisdiction will have to be taken into account should these suggestions be adapted for use in an APC. There may be some changes required in basic legislation to introduce a more flexible and adequate management and incentive structure into the APC.

1. What are share credits?

   A share credit is the proportion of capital investment in the APC which is credited to the account of a member in the enterprise. A share credit account is set up for each member, and the account is credited periodically with a payment as decided by the Association's Board of Directors.

2. How would share credits be acquired?

   The amount of share credits accumulated by a member would depend on the amount of salary received as a worker in APC and on the amount of profits the enterprise generated during the period of time the member worked. The share credit acquisition probably would be calculated on a yearly basis at the time that the Board decided on the amount of capital which would be invested out of the profits generated.

   For any particular member, the amount of share credit received would be proportional to the pay received during that year. The total capitalized profits (TCP) would be the period's total net profits minus the amount paid out to the members in cash dividends. The TCP would be divided by the total member payroll to get the value of the capitalized investments for each lempira paid in wages. This figure would be multiplied by the total wage for each member, and the resulting amount would be added to the member's share credit account.

3. Do share credits pay interest or dividends?

   Share credits are not capital investments provided by the members, but rather are capitalized earnings of the members as the result of their labors. As in any farm operation, the farmer does not pay himself interest on investments which he makes in the farm. If such investments are not made, the farm soon fails, as will the APC.

4. How might the share credits be retired?

a. In the case of the death of a member, the Board could decide to make a cash payment equal to the value of the accumulated share credits to the heirs of the member as determined by the will, or in accordance with other law or agreements which may have been drawn up previously. If the financial situation of the enterprise is not strong any particular year, or if the member's heirs do not wish to receive the cash settlement immediately, its payment could be scheduled over a period of time.

b. In the case of a member who reaches a certain age, e.g. 65 years old, the Board can vote to pay a certain proportion of the value of the accumulated share credits, in some cases the figure is 15%, each year to the member to help provide assistance during retirement. The proportion paid yearly after the specified age would be a Board decision.

c. In either case in times of severe economic stress, the Board may decide to reduce the payment for a predetermined and relative short period of time.

5. What happens when a member resigns or withdraws from an APC?

The accumulated share credit at the time of withdrawal is held on account for the member until he/she reaches 65 years of age, or until the member's death at which time the above mentioned rules come into effect.

If a member leaves the area and the Board cannot find the person for a specified number of years, the accumulated share credits could be donated to a charity or otherwise disposed according to law.

6. Would the share credits be negotiable?

The share credits would not be freely negotiable. Should a member wish to transfer all or part of his/her accumulated share credits to another person, the Board could be petitioned to authorize that transfer. The Board holds final authority over the share credits. In the instance of a member acquiring a debt with the enterprise, the enterprise would hold a first lien on the member's share credits.

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