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AGRICULTURAL COOPERATIVE STABILIZATION
IN GUATEMALA

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TABLE OF CONTENTS

Introduction	Page 1
Differences between an ag cooperative and a credit union	Page 2
Stabilization of agricultural cooperatives	Page 4
Factors affecting stabilization	Page 5
Explanation of Key Result Areas (KRAs)	Page 7
1. Economic justification	Page 7
2. Member commitment	Page 7
3. Leadership	Page 7
4. Financial position	Page 8
5. Member service and satisfaction	Page 8
6. Growth	Page 8
Levels of stability...an evaluative process.	Page 9
Application of the evaluative process	Page 10
Stable agricultural cooperatives and federations	Page 12
Shaky agricultural cooperatives and federations	Page 15
Unstable agricultural cooperatives and federations	Page 22
Conclusions	Page 22
Recommendations	Page 23

AGRICULTURAL COOPERATIVE STABILIZATION IN GUATEMALA

Introduction

Financial stabilization is one of three major objectives being pursued by the Cooperative Strengthening Project in Guatemala. While the initial stabilization efforts have been aimed at credit unions through innovative financial techniques, there has been discussion of ways and means to provide stabilization and financial assistance to agricultural cooperatives.

Project activities have centered around three principal programs -- institutional development; investment of stabilization funds; and provision of credit resources to client organizations. While the investment of stabilization funds is closely related to compliance with institutional development efforts, the three efforts are independent of one another.

The purpose of this consultancy was to focus on agricultural cooperatives and report a range of specific, concrete stabilization efforts which can be used with the agricultural cooperatives in Guatemala. Steps necessary to implement each mechanism will be outlined.

In order to accomplish this assignment, it was necessary to gain an understanding of the financial situation existing in the agricultural cooperatives and federations, the specific obstacles they face, their potential for viability and the problems which exist in their administration and operations.

A representative group of agricultural cooperatives and federations were selected for review by David Richardson, Chief of Party and his staff. Included in this group were three agricultural federations, a regional store of one of the federations, and thirteen agricultural cooperatives. The diagnostic reports on these selected organizations previously prepared by the project staff were analyzed. Discussing these reports with staff provided an opportunity to gain an understanding of how these staff member perceive the obstacles and the financial stabilization program. Field visits were then conducted with all but one of the organizations selected. During these visits, interviews were held with the manager, directors and in some cases, members of the cooperatives.

The cooperatives in the study group included:

1. Magdalena Cooperative
2. Caji Juyu Cooperative
3. FEDECOAG, Guatemala
4. FEDECOCAGUA, Guatemala
5. Santiago Agricola Cooperative, Champerico

6. Fuerza del Pueblo Cooperative, San Sebastian
7. FEDECOVERA, Coban
8. Chilte Cooperative, Coban
9. Saxoc Cooperative, Coban
10. Casvachi Cooperative, Chiquimula
11. Usumatlan (Casvu) Cooperative, Usumatlan
12. Motagua Cooperative, Cabanas
13. Rincon Grande Cooperative, Chimaltenango
14. Los Manzaneros Cooperative, Chichicastenango
15. FEDECOAG Store, Quetzaltenango
16. San Juan Argueta Cooperative, Solola
17. Las Ilusiones, San Martin

It is recognized that the number of organizations visited is small in relation to all agricultural cooperatives in Guatemala. However, due to the diversity in the agricultural cooperatives visited, it is believed the information received fairly represents the broad spectrum of agricultural cooperatives. Based on the knowledge and information gained through this cursory examination of these agricultural cooperatives, valid observations and applicable conclusions can be presented.

Differences between an ag cooperative and a credit union

Before discussing the different stabilization mechanisms and techniques applicable to agricultural cooperatives, it is important to understand some of the basic differences between an agricultural cooperative and a credit union. Table 1 describes the consultants' context of each and our perspective of the differences.

Table 1. Agricultural cooperatives and credit unions

Area	Ag cooperative	Credit Union
Basic intent	To provide economic functions and benefits to members as a group. Functions are related to the business activity of the group and involve marketing of production; purchase of required inputs; joint ownership of assets, etc.	To provide economic benefit to individual member through financial means. Benefits are unrelated to the members' business and include savings, credit and related services.
Operations	Business is multidimensional and may include processing, warehousing, inventory control, bulk buying, shipping, packaging, etc. As a result, costs are necessarily incurred unrelated to credit operations.	Business is usually less complex. Activities relate to savings mobilization and credit administration. Most all costs are related to credit operations.
Net income	The realized or potential net income is <u>not</u> from interest collections. Margins on the sale of members' production or sale of inputs to members has potential that far exceeds interest income.	Interest income is the dominant source of revenue. Sales of related services, if provided, are low-margin producers.
Type of credit	Majority of credit is A/R financing and involves credit in-kind.	Majority of credit extended is cash.
Purpose of credit	Credit is generally productive or used for self-liquidating purposes. It is business credit used to produce income.	Credit is generally consumptive. Cash is used for personal or non self-liquidating purposes.
Mobilizing funds	Mobilizes members' resources for equity purposes; does not pay interest on funds; and does not emphasize this activity.	Mobilizes members resources for the purpose of generating loanable funds and pays interest. Is a major activity.

Although both may be organized as cooperatives, it is essential to recognize these significant differences between credit unions and agricultural cooperatives.

Stabilization of agricultural cooperatives

The problems which face the agricultural cooperatives and federations in Guatemala are not unlike the problems faced by agricultural cooperatives around the world. However, in Guatemala as in other places, these problems have been so broadly defined they provide little or no guidance for the development of stabilization mechanisms. The strengthening or stabilizing of the cooperative movement in Guatemala will only be achieved through the strengthening of individual cooperatives and federations. While this seems to be a very simple and obvious statement, it is often overlooked in designing and implementing broad based development programs.

It may be true that the broadly defined problems so identified do permeate the agricultural cooperatives in Guatemala but the extent and magnitude of the problems vary greatly between cooperatives and federations. The danger in designing programs and processes aimed to resolve broadly defined problems lies in the tendency to develop formulas that will be consistently and rigidly followed. This approach may be easy to defend and monitor but it may not achieve the best results. It certainly will not train and develop project staff to thoroughly analyze the businesses and determine specific solutions unique to that cooperative. Nor does the formula approach encourage staff to develop new ideas or think creatively.

The agricultural cooperatives and federations studied during this consultancy have a variety of problems. While the results of the evaluation might change with a more in-depth study than the one done here, the cooperatives categorized "stable" show evidence they have been operating on a sound basis and their financial condition is solid. These cooperatives have received institutional development assistance from the Project and this should be continued. In addition, the cooperatives in the "stable" classification can benefit from financial and technical services provided by the Project to expand their business and improve their financial performance. These agricultural cooperatives should be used as models of viable, successful and stable organizations.

The businesses classified "shaky" or "unstable" represent the largest number of cooperatives but deserve further study. The Project staff needs to carry out a more thorough examination of each cooperative or federation to fully understand the weaknesses and the impact each weakness has on overall performance.

The emphasis that has been placed on administrative and financial management by the Project is important and will force desired changes to be made by the cooperatives and federations. The issue being raised here is whether the required changes address the right areas of operations. To illustrate, the diagnostic report on Usumatlan indicated the financial condition was not bad and the infusion of stabilization funds, along with some credit funds, might be warranted. The visit with the board of directors by the consultant revealed serious problems in membership commitment and leadership. There is a split in the membership, the board has been completely replaced, and some members are apparently threatening to sell their melons outside the cooperative. If all this is true, provision of stabilization funds or any project assistance would appear to be very risky.

There is no argument with the creative approach being used by the Project to force the cooperatives to earn the stabilization funds over time. As long as the required changes are not tied exclusively to the balance sheet and operating statement, the cooperatives will benefit. There are many off-balance sheet areas that are just as important, if not more so, where changes must be made to assure long term success.

In some cases, a multifaceted approach will be necessary to bring about stability in the agricultural cooperative even though the level of risk, liquidity and control for the project funds may be more or less than desired. There are many problems of instability in agricultural cooperatives and federations that may not fit nicely within the framework of the present project mechanism.

Factors affecting stabilization

There are several key and interrelated areas of operations that impact the stability of agricultural cooperatives. All are important.

In the first part of this section, we will elaborate on "stable" versus "unstable" as it relates to agricultural cooperatives. It is not practical or useful to describe an agricultural cooperative as stable or unstable unless one understands the nature and extent of the instability.

Before describing an agricultural cooperative as stable or unstable, there must first be an understanding of what "stable" means. Table 2 details each of six areas that are of vital importance to the successful operation of agricultural cooperatives followed by a simple definition of "stable".

Table 2. Key result areas for agricultural cooperatives.

KEY RESULT AREA (KRA)	STABLE MEANS...
1. Economic justification.	There is an economic reason for the business to exist. Sufficient profit potential exists for the farmers and the cooperative. There is a market-driven need for goods or services.
2. Member commitment. (Farmers understanding and acceptance of cooperative)	Farmers have a common bond and are accustomed to working together and trusting one another. Farming operations are similar and the need for goods or services is uniform. Farmers understand the need for and benefits derived from a jointly-owned business operation. They demonstrate a willingness to commit time and money to the business.
3. Leadership (Personnel readiness)	Farmers have identified local leadership to SERVE on the board of directors. Those selected can and will determine management needs and hire an effective person to manage the day-to-day operations.
4. Financial position	The cooperative business has a sufficient base of owner equity and generates adequate profit from operations.
5. Member service and satisfaction.	The farmer-members are satisfied with the goods or services being provided and demonstrate that satisfaction through loyal patronage.
6. Growth (Market potential and penetration)	The cooperative is expanding sales and increasing profits. They are providing the same goods or services to new members or providing new goods/services to existing members.

Explanation of Key Result Areas (KRAs)

1. Economic justification: As will be seen later in this section, the KRAs are presented and considered in priority order of importance. Economic justification is critical. There is a scale of economic justification from non-viable to fully justified. If there is no chance of economic viability for the business, the cooperative will not survive and the balance of the factors are immaterial. Some components of economic justification are:

- a. Sufficient volume of business (economies of scale)
- b. Lack of alternative supplies or market.
- c. Adequate demand for production.
- d. Ample price flexibility to allow adequate margins.

If there is a valid economic reason for the cooperative to exist, deficiencies in the other areas can be overcome given adequate resources and time. Very few, if any, cooperative business organization can be considered perfect. Deficiencies or weaknesses can be found in all organizations but in varying degrees of severity.

2. Member commitment: Member commitment is the next important area to consider. Farmers who are or will be members of the cooperative must belong willingly and with full understanding and acceptance of the cooperative way of doing business. Some components of member commitment are:

- a. Evidence of farmers working harmoniously together for other purposes.
- b. Attendance at village or business meetings.
- c. Behavior at village or business meetings.
- d. Willingness to serve on board of directors or committees.
- e. Willingness to invest money in capital stock of the cooperative or leave earnings in the cooperative.
- f. Member education practices.

If farmers do not have the proper attitude about the cooperative business, it will not be successful regardless of its strength in the remaining four KRAs.

3. Leadership: Leadership has to do with farmers ability to come together, verbalize a vision for the future, and motivate others to carry out activities that will make the vision a reality. Leadership includes farmer/directors hiring and retaining appropriate managerial talent. Some components of leadership are:

- a. Verbal communications skills.

- b. Demonstrated willingness to sacrifice personal gain for the benefit of the group.
- c. Personal success measured by community standards.
- d. Organized and able to facilitate group decision making.
- e. Staffing patterns

4. Financial position: The degree to which farmer-users actually own the business enterprise and the capacity to generate a reasonable profit are the key elements of financial position. Some components of financial position to consider are:

- a. Acceptable ratio of owners equity to total assets.
- b. Appropriate relationship of current assets to current liabilities.
- c. Constructive use of borrowed funds - long term debt used for fixed assets; unsecured debt used for self-liquidating purposes; etc.
- d. Sound credit administration if credit is provided to members.
- e. Proper balance of fixed assets.
- f. Adequate sales volume and margins (profit)
- g. Expense control.

It should be noted here that financial difficulties is not, in many cases, always the most pressing problem. And applying financial assistance incorrectly often exacerbates the real problem or creates others.

5. Member service and satisfaction: The quality of service and/or goods provided by the cooperative and the level of customer satisfaction is another important area of operations for an agricultural cooperative. Some components of member service and satisfaction are:

- a. Member loyalty to the cooperative.
- b. Level of member patronage.
- c. Amount of non-member patronage.
- d. Member attitude when discussing the cooperative.
- e. Employee turnover.

6. Growth: The final key area of operations for the agricultural cooperative is growth. Some components of growth to consider are:

- a. Percent of eligible farmers doing business with the cooperative.
- b. Percent of total market volume held.
- c. Potential new markets/services.
- d. Sales promotion practices.
- e. Increase in business over previous periods.

It is the experience of the writers that managers or supervisors must constantly monitor all six result areas to ensure that any one area is not being overemphasized to the detriment of other areas.

Levels of stability...an evaluative process.

Efforts to stabilize an agricultural cooperative (or any business for that matter) is a function of the seriousness of the problem to be corrected and the time available to correct that problem.

One could surmise that the agricultural cooperative that is not "stable" is logically "unstable". However, we suggest there is a middle ground or a category between stable and unstable. Each category is characterized by a different level of concern or degree of seriousness and a different time frame within which the cooperative has to solve its major problems. The three levels of stability are:

A. Stable - The cooperative is performing at satisfactory levels of normalcy...all of the six KRAs are being addressed and/or performed satisfactorily. There are no major weaknesses in the operation.

B. Shaky - The cooperative is performing at acceptable levels on KRA 1,2,& 3 but is not performing at satisfactory levels on KRA 4,5, or 6. Has demonstrated potential for improvement in weak areas. It is necessary to recognize improvement within 12 - 18 months or the next operational cycle.

C. Unstable - The cooperative is not performing at acceptable levels in KRA 2,3, or 4. Performance in KRA 5 & 6 is immaterial in the case of this cooperative. Improvement is required during the current year or operating cycle.

Table 3 demonstrates another way of seeing the gradations of acceptable performance and a method for categorizing an agricultural cooperative into one of the three levels of stability described above.

Table 3. Criteria for three categories of agricultural cooperatives.

KRA	Stable	Shaky	Unstable
1. Economic purpose	A	A	A
2. Member commitment	A	A or B	C or D
3. Leadership	A	B or C	C or D
4. Financial position	A	C or D	F
5. Member service	A or B	D or F	n/a
6. Growth	A to C	D or F	n/a

The letters in the table relate to the grading system used in most schools, i.e. A=very good; C=average; F=failing; etc.

Application of the evaluative process

By using the process described in Part 1, the trained analyst will be able to draw a more accurate picture of the relative strengths and weaknesses of an agricultural cooperative. Once the information has been assembled and thoroughly analyzed, a strengthening program can be designed and implemented to bring about improvement.

There are various strategies or actions that can be taken and several are described in this section. It is left to the discretion of the leadership of the cooperative (or outside consultants, advisors, lenders, etc.) to select the most appropriate action recognizing such things as timing, culture, cost, urgency, readiness for change, etc.

It is possible -- perhaps even desirable in some cases -- to carry out significant institutional development efforts before committing any stabilization or credit funds to the agricultural cooperatives.

The agricultural cooperatives and federations studied for this report were analyzed to determine their relative position in the six areas that impact on stability. Again, this is a cursory analysis and significant qualitative judgement was used, but the information presented in Table 4, taken as a whole, will indicate the relative stability of these agricultural cooperatives. It is recognized that a more in-depth analysis might change the grades assigned.

Table 4. Illustrative classification of agricultural cooperatives in study group.

Cooperative	Key Result Areas						Class
	1	2	3	4	5	6	
1. Magdalena	A	A	A	B	A	C	ST
2. FEDECOAG	B	C	C	C	C	C	SH
3. FEDECOCAGUA	A	B	B	C	C	C	SH
4. Santiago Agricola	C	B	C	F	C	D	US
5. Fuerza del Pueblo	C	B	C	F	C	D	US
6. FEDECOVERA	B	C	B	C	C	C	SH
7. Chilte	D	C	C	C	B	D	US
8. Saxoc	D	C	C	D	B	D	US
9. Casvachi	A	A	A	B+	A	C	ST
10. Usumatlan	C-	F	D	C	D	D	US
11. Motaqua	A	A	A	B	A	B	ST
12. Rincon Grande	C	D	D	F	C	C	US
13. Los Manzaneros	C	C	B	D	B	C	SH
14. San Juan Argueta	C	B	C	C	B	D	SH
15. Las Ilusiones	D	C	C	C	D	D	US

KEY RESULT AREAS:

1. Economic justification
2. Member commitment
3. Leadership
4. Financial position
5. Member service/satisfaction
6. Growth

CLASSIFICATIONS:

- ST = Stable
 SH = Shaky
 US = Unstable

Table 4 illustrates how agricultural cooperatives and federations can be evaluated using the six interrelated key result areas required for stability and long term success. Further, it helps to identify the areas of deficiency that need to be addressed with a stabilization mechanism or program. Experience in the field of agricultural cooperative stabilization has shown that instability usually results from deficiencies in two or more of the key areas. Therefore, a single approach cannot be taken to bring about stabilization, if any long term effect is expected.

While the grades shown in Table 4 involve some subjective judgement, it is possible to quantify the process. Figure 1 illustrates the weights placed on each KRA and the resulting calculations for key result areas in each of the cooperatives visited.

Figure 1. Classification of ag cooperatives in Guatemala.

COOPERATIVE	Weight	Key Result Areas						TOTAL	CLASS
		I 40%	II 15%	III 15%	IV 20%	V 5%	VI 5%		
1. Magdalena		4	4	4	3	4	2	3.70	STABLE
2. Fedecoag		3	2	2	2	2	2	2.40	SHAKY
3. Fedecocagua		4	3	3	2	2	2	3.10	STABLE
4. Santiago		2	3	2	0	2	1	1.70	UNSTBL
5. F. del Pueblo		2	3	2	0	2	1	1.70	UNSTBL
6. Fedecovera		3	2	3	2	2	2	2.55	SHAKY
7. Chilte		1	2	2	2	3	1	1.60	UNSTBL
8. Saxoc		1	2	2	1	3	1	1.40	UNSTBL
9. Casvachi		4	4	4	3	4	2	3.70	STABLE
10. Usumatlan		2	0	1	2	1	1	1.45	UNSTBL
11. Motagua		4	4	4	3	4	3	3.75	STABLE
12. Rincon Grande		2	1	1	0	2	2	1.30	UNSTBL
13. Los Manzaneros		2	2	3	1	3	2	2.00	SHAKY
14. SanJuan Argueta		2	3	2	2	3	1	2.15	SHAKY
15. Las Ilusiones		1	2	2	2	1	1	1.50	UNSTBL

Grading scale: A=4; B=3; C=2; D=1; F=0.

3.00 or more = Stable

2.00 - 2.99 = Shaky

1.99 or less = Unstable

While cooperatives classified the same have some similarities, the differences and their magnitude stand out. It is these differences, all of them, that give rise to the differential application of stabilization mechanisms.

Stable agricultural cooperatives and federations

Several agricultural cooperatives are considered to be fairly stable. The weaknesses are not considered to be major and the organizations will, quite likely, correct their problems without much outside assistance. In fact, management of these organizations indicated they were aware of the problems and have initiated actions to bring about improvements.

The group classified as stable need to improve their financial position. More specifically, they need improvements in

the areas of loan administration and accounting, permanent equity capital and growth, both in membership and volume of business.

The stabilization mechanism being used with credit unions -- investing stabilization funds to offset worthless assets -- could be used in agricultural cooperatives provided (1) the cooperative is providing significant amounts of credit to their members; (2) the cooperative has uncollectible debts from members; and (3) the key result areas of economic justification, member commitment, and leadership are acceptable.

The specific mechanisms recommended to bring about improvements in the stable agricultural cooperatives are:

► MECHANISM - INITIATE A MODERN CREDIT ADMINISTRATION PROGRAM.

* ACTIONS:

- A. Work with management to develop a credit policy to be adopted by the Board of Directors.
- B. Prepare a procedures manual setting out the steps and actions to be taken in extending, supervising and collecting credit to members.
- C. Develop credit application forms to be completed by or for the member requesting credit and providing other information/analysis.
- D. Develop required legal documentation to provide adequate protection for the cooperative.

► MECHANISM - ESTABLISH ACCOUNTING PROCEDURES TO PROVIDE FOR A RESERVE OR PROVISION FOR BAD LOANS OR ACCOUNTS.

* ACTIONS:

- A. Work with management to develop a policy regarding reserves or provision for bad debts to be adopted by the Board of Directors.
- B. Establish a written procedure setting forth the basis for determining the amount to be added to the reserve for bad debts each year considering past collection experience, loan volume, anticipated losses, etc.
- C. Establish the necessary accounts in the accounting system to reflect the amount of bad debts as an operating expense and to record the amount placed in the reserve account.

- ▶ MECHANISM -- INITIATE A PROGRAM TO INCREASE THE AMOUNT OF PAID-IN CAPITAL EACH MEMBER MUST HAVE IN THE COOPERATIVE.

* ACTIONS:

- A. Work with management to determine appropriate level or amount of paid-in capital that is desirable based on current needs and future growth expected.
- B. Work with management to present program to the Board of Directors to gain positive recommendation to the membership.
- C. Assist in making presentation of the recommended program to the membership and assure approval of amendment to bylaws (statutes) to reflect change.
- D. Help analyze and select basis for collecting the increased amounts of capital, i.e.
 - * Cash immediately.
 - * Part cash immediately, balance over time.
 - * Capital retained based on patronage.
 - * Some other method.
- E. Monitor collection carefully to insure it is received and accounted for properly.

- ▶ MECHANISM - ESTABLISH A MEANS FOR ANNUAL CONTRIBUTIONS TO THE FUND FOR UNDIVIDED OR UNALLOCATED RESERVES ON APPROVAL OF THE BOARD OF DIRECTORS.

* ACTIONS:

- A. Work with management to develop appropriate recommendation to the Board of Directors. Help to gain approval.
- B. Assist in presenting proposal to membership and gain approval.
- C. Amend bylaws (statutes) to reflect change.
- D. Monitor to insure appropriate and accurate accounting entries made.

- ▶ MECHANISM - DEVELOP AN AGGRESSIVE PROGRAM TO INCREASE THE VOLUME OF BUSINESS THROUGH MARKETING OR PURCHASING ACTIVITIES WITH CURRENT MEMBERSHIP.

* ACTIONS:

- A. Develop ways and means to encourage members to use their cooperative more. Personal contact programs and advertising might be useful.

- B. Develop more product lines, marketing programs or services based on determined needs of the members.
 - C. Arrange for adequate short term financing for the increased volume through:
 - * arranging short term bank loans.
 - * securing interest bearing loan from CSP.
 - * using interest earned from designated invested Stabilization Funds for program expense incurred; as guarantee of payment on bank loan; or to subsidize the interest expense on the bank loan.
 - D. Extend term credit to cooperative for the purchase of fixed assets (equipment, fixtures, etc.). At the same time, make a corresponding investment of stabilization funds as a "guarantee" of repayment. These hard assets will generate revenue for the cooperative and provide collateral for the project loan.
- MECHANISM - ACTIVELY SOLICIT NEW MEMBERS.
- * ACTIONS:
 - A. Identify and contact prospective members and promote the cooperative way of doing business, promote the goods or services provided by the cooperative and explain the benefits of cooperative membership.
 - B. Develop program to encourage existing members to contact prospective members and recommend them to the cooperative as members. Consider providing incentive to existing member.
 - C. Involve new members in the activities of the cooperative by inviting them to meetings, asking them to serve on committees, etc.

Shaky agricultural cooperatives and federations

The next group of agricultural cooperatives and federations to be considered are the ones classified Shaky in Table 4. These organizations are characterized as having weaknesses of varying degrees in several of the six Key Result Areas. It needs to be emphasized again that long term stabilization and strengthening of an agricultural cooperative or federation cannot be achieved by targeting only one area of weakness, i.e. financial. Because of the impact one area has on another, the desired stabilization in a cooperative can be achieved only if the weaknesses in all KRAs are addressed simultaneously.

The mechanisms presented for consideration to bring about stabilization are discussed in the order of importance as outlined in Table 2. All of the agricultural cooperatives in the

Shaky classification have similar weaknesses but in varying degrees. As a result, all of them may not necessarily need application of all the general mechanisms that follow.

Some of the mechanisms or actions outlined for Shaky cooperatives may need to be or could be used with Stable cooperatives as well.

The first area that must be dealt with is member commitment. Some mechanisms to strengthen this area follow.

► MECHANISM - INCREASE THE LEVEL OF MEMBERS' UNDERSTANDING AND ACCEPTANCE OF THE COOPERATIVE WAY OF DOING BUSINESS.

* ACTIONS:

- A. Develop and assist with the implementation of a member information campaign.
 1. Carry out a survey to identify the level of member understanding related to the cooperative way of doing business.
 2. Work with the cooperative management to determine goals of the campaign and most effective means of accomplishing goals.
 3. If appropriate, invite knowledgeable individuals from the agricultural cooperatives, federations, government agencies, universities, or other organizations who can address members on relevant principles and practices common to agricultural cooperatives.
 4. To the extent practical, provide members with printed or audiovisual materials to reinforce ideas presented at the sessions described in 3.
- B. Develop and carry out (or support) training programs for managers and directors on selected topics.
 1. Cooperative business principles
 2. Effective communications
 3. How to conduct business meetings
 4. Influencing and motivating others
- C. Encourage members to attend all of the meetings held by the cooperative perhaps by providing the appropriate incentive.

► MECHANISM - BUILDING ON THE PREVIOUS GOAL, IMPROVE MEMBERS ATTITUDE REGARDING OWNERSHIP OF THE COOPERATIVE.

* ACTIONS:

- A. Carry out educational or information campaign regarding the responsibilities of the member.

In order to improve and strengthen the **leadership** of the cooperative, the following mechanisms should be considered.

► **MECHANISM - INCREASE LEVEL OF UNDERSTANDING AND ACCEPTANCE OF THE RESPONSIBILITIES OF MANAGEMENT AND THE DIRECTORS.**

* **ACTIONS:**

- A. Assess directors and staff understanding and needs in this area.
- B. Design and carry out appropriate and relevant training programs.
- C. Develop and make available an orientation program to provide training to new employees hired and new directors elected in the future.

The financial strength of the agricultural cooperatives classified as Shaky varied widely. The mechanisms selected and their application must likewise vary. The following range of mechanisms must be analyzed, adapted, and employed to suit the specific situation in an individual agricultural cooperative. Then, several of the **financial** mechanisms may need to be employed at the same time.

► **MECHANISM - IMPROVE THE MANNER IN WHICH MEMBERS ARE EXTENDED BOTH IN-KIND AND CASH LOANS.**

* **ACTIONS:**

- A. Provide management and the board of directors a written credit policy for their approval and use.
- B. Provide management with written credit procedures, forms to be used, and guidelines for extension and administration of credit.
- C. Provide the board of directors with a written policy providing for a reserve or provision for bad debts that acknowledges bad debts as an expense and provides for proper accounting.
- D. Provided the agricultural cooperative has worthless A/R from members, use stabilization funds in the agricultural cooperative in the same manner as is being done with credit unions to resolve the bad debts situation.
- E. Provide guidance and assistance on proper legal documentation required.

F. Follow-up to monitor performance and assure adherence to policies and procedures.

- MECHANISM - PROVIDE ADEQUATE SHORT TERM CREDIT TO AGRICULTURAL COOPERATIVES AND FEDERATIONS TO PURCHASE MEMBERS PRODUCTION AT HARVEST TIME.

* ACTIONS:

- A. Determine amount of funds needed based on volume to be handled, price and turnover time.
- B. Rather than establish a direct line of credit using project funds, work with a commercial bank or Bandesa to provide line of credit to the cooperative using the Stabilization Funds as a guarantee for full or partial payment of the interest and/or principal.
- C. Arrange for local bank or credit union to serve as custodian of funds and documents.
- D. Develop control measures that effectively reduce the risk of funds being misused.
 1. Require presentation of documents to custodian to verify funds have been or will be used for approved purpose.
 2. Require daily or weekly inventory report to custodian and assigned project officer.
 3. Carry out periodic inspections of commodity/supplies, reports, custodian records, etc.
- E. Insure execution of proper and appropriate legal documents.

- MECHANISM - REDUCE LOSS EXPOSURE OF THE COOPERATIVE BY CREATING "INSTANT" PROVISION FOR LOSSES.

* ACTIONS:

- A. Carefully analyze the operating loan granted in the above mechanism to determine appropriate reserve requirements.
- B. Invest stabilization funds in an amount sufficient to generate interest income to cover anticipated losses.
- C. If losses are less than anticipated, ensure the cooperative uses excess interest earned to increase their reserve for bad debts account.

► MECHANISM - REDUCE LONG TERM INDEBTEDNESS OF AGRICULTURAL COOPERATIVES AND FEDERATIONS.

* ACTIONS:

- A. Initiate meetings with external creditors and attempt to negotiate write-downs or restructuring to provide cooperative a workable plan and time to repay the debt from future earnings (profits) and member assessments.
- B. Investigate possibilities of principal buy-down; interest rate reduction; or other concession with primary creditors. It may be possible for the Project or other appropriate entity to purchase the debt (at concessionary rate) and renegotiate with the cooperative.
- C. Use the stabilization funds to establish a sinking fund for the future retirement of existing debt that the cooperative is not able to pay out of current operations.

► MECHANISM - RESTRUCTURE THE CAPITALIZATION OF AGRICULTURAL COOPERATIVES AND FEDERATIONS.

* ACTIONS:

- A. Increase the amount of paid-in permanent capital each member must have in the cooperative.
 1. Amend the bylaws to reflect the amount required.
 2. Develop and implement a method of accomplishing the increase tailored to the individual cooperative, e.g.
 - * Some cash immediately with balance paid in next 2-3 crop cycles.
 - * A percentage of the value of crops delivered to or supplies purchased.
 - * A percentage of the amount of each loan extended or a fixed amount (capital fee).
 - * A fixed amount per crate or box delivered, stored, or processed.
- B. Require an addition to the unallocated corporate reserve account each year before any profit distributions can be made.
 1. Amend bylaws (and statutes) to provide for Board of Directors approval of an minimum annual addition to the account.
 2. Determine the minimum amount to be added to the reserve each year for each specific agricultural cooperative.

- C. Examine the possibility of the Project or other entity taking an equity position in the cooperative with the purchase of a special class of stock. The redemption of the stock could be pre-arranged for some future date and a sinking fund established for the express purpose to redeem the stock. Other conditions could be a part of the agreement for this investment.
 - D. Develop a program or techniques to present these changes to the members of agricultural cooperatives and federations to gain their understanding and support for them.
- **MECHANISM - INCREASE THE PROFITABILITY OF THE AGRICULTURAL COOPERATIVES AND FEDERATIONS.**

*** ACTIONS:**

- A. Review each and every income generating activity to determine if volume and margins are making adequate contributions to net profits.
- B. Analyze sales activities generating minimal or negative gross margins to determine ways and means to increase margins.
- C. Determine income or sales activities not producing positive results and discontinue.
- D. Review each and every expense item charged and determine its necessity and reasonableness; develop control measures.
- E. Develop or provide "normal" income and expense data on agricultural cooperatives so as to provide comparative information for cooperative and project personnel.
- F. If any or all of the above mechanisms fail to produce positive results within 18 months, consider
 - a) merging the cooperative or federation with a more stable organization;
 - b) consolidating several Shaky agricultural cooperatives with similar business interests;
 - c) creating joint ventures between cooperatives or non-cooperatives that are reasonable and appropriate; or
 - d) liquidate the cooperative or federation.

Member service appears to be limited in many of the Shaky cooperatives due in part to their financial condition. The managers of the federations indicated they are looking for additional services to provide members. The manager of

FEDECOVERA, for instance, said they are beginning to offer input supplies to members.

► MECHANISM - INCREASE THE SERVICES OFFERED TO MEMBERS.

* ACTIONS:

- A. Survey members and prospective members to determine additional services desired and the level of willingness to patronize the cooperative for those services.
- B. Carefully analyze each potential new service/product to determine requirements in terms of manpower, facilities, financing, technical assistance, etc.
- C. Conduct feasibility study on each new service or product line to determine anticipated profitability.
- D. Select and promote new products or services.

The need for growth in the Shaky agricultural cooperatives and federations is apparent from an operational point of view. Growth can be measured in terms of economic activity and the number of members. It is clear from the field visits that many of the agricultural cooperatives have potential for growth. Increased volume of current services, additional services, and/or additional member recruitment all seem to be possibilities for growth.

► MECHANISM - INCREASE BUSINESS ACTIVITY IN THE AGRICULTURAL COOPERATIVES OR FEDERATIONS.

* ACTIONS:

- A. Identify potential new members involved in the same enterprise as current members.
- B. Develop promotion campaign to communicate with potential members.
- C. Determine reasons for former members becoming inactive and, if appropriate, reactivate these members.
- D. Aggressively promote the services or products of the cooperative to members and non-members. Provide incentives to staff and members for increased sales or patronage.
- E. Provide value-added services such as technical assistance to members. Determine potential for providing these services in conjunction with another agricultural cooperative in the area. For instance, an agronomist may be employed by 2-3 cooperatives to provide crop production advise and counsel to farmers in a fairly large geographical area. Care must be taken to assure this service facilitates the purchase and use of cooperative products.

Unstable agricultural cooperatives and federations

The final group of agricultural cooperatives and federations to be considered are the ones classified Unstable in Table 4. These organizations are characterized as having significant weaknesses in most all of the Key Result Areas. The interrelationships of the six key result areas are more vivid in this group.

As a group, these agricultural cooperatives have questionable economic justification. Five of the cooperatives in this classification operate at the subsistence level. It is unlikely they will ever move above this level -- certainly not during the life of the Cooperative Strengthening Project. The other two (Rincon Grande and Usumatlan) could make some progress if they brought about some major correction in the areas of member commitment, leadership, and financial position.

Most of the Unstable cooperatives do not have a sufficient volume of business or membership to become a profitable business over the long term. Due to their location, merger or consolidation does not appear to be a viable option. These organizations may be performing a needed role in their community but they are more social than economic. Consideration should be given to changing the laws or regulations whereby these organizations would cease to operate as separate businesses and become a retail outlet or distribution point for a larger cooperative or a federation.

Given the limited resources available in this project and the time constraints under which it is working, the Unstable cooperatives provide limited opportunity for economic impact or sustainable development.

Conclusions

Based on everything we have been told, seen and know from experience working with agricultural cooperatives in other parts of the world, there are some general conclusions that can be drawn from the exposure in Guatemala.

We found some viable and stable agricultural cooperatives operating today in Guatemala. There is a larger group of agricultural cooperatives that, with assistance being provided through the Cooperative Strengthening Project, will make a contribution to the economic development of Guatemala.

Agricultural cooperatives and federations are unstable for a variety of reasons -- not all related to a weak financial position. It is necessary, therefore to clearly identify the reason for the instability and design assistance efforts to meet the specific needs of that cooperative. This does not mean that

every organization is absolutely unique or has nothing in common with other agricultural cooperatives. But, to use a medical analogy, the medicine has to fit the illness.

While there are similarities in credit unions and agricultural cooperatives, there are distinct differences in the key result areas required to be performed. All agricultural cooperatives are not in the credit business and some, where there is a reliable alternative source, should be encouraged to get out of extending credit to members.

Although the project leadership recognizes the essential differences between the two types of organizations, they have applied one stabilization fund mechanism to the similarities of the two types of organizations. For instance, whether the organization be a credit union or agricultural cooperative, if they have "bad paper", they are eligible for the injection of stabilization funds. The challenge is to develop mechanisms more applicable, relevant, effective, etc. that address the differences in the two types of organizations. It became apparent at the end of this consultancy that a central question is, "Is it possible to provide STABILIZATION FUNDS to agricultural cooperatives in the same manner and at the same levels of liquidity and risk now being taken with credit unions?" Because of the differences in the two types of cooperatives, it may be impractical or impossible. Nevertheless, pondering that question should stand in the way of implementing some of the actions detailed in this report.

Recommendations

1. While other creative techniques are being sought, the Project should continue providing appropriate assistance to agricultural cooperatives. The useful assistance that can be provided to these cooperatives are outlined in this report and should not be ignored. If participation were not dependent on "bad paper", the agricultural cooperatives might be eligible for stabilization funds for the purchase of productive assets, infusion of working capital, etc.
2. The CSP ought to further refine and develop an analytical approach based on the work presented in this report to more accurately and logically evaluate agricultural cooperatives and federations. The evaluative system ought to consider the totality of agricultural cooperative operations.
3. The CSP should, after more fully developing the evaluative process for agricultural cooperatives, select a group of cooperatives that can be effectively assisted within the limited resources and time available in this project. Efforts should be directed toward those organizations where resource utilization

can be maximized and the greatest impact realized. Other criteria may need to be included in the selection process.

4. The project should have a more distinct organizational focus on stabilizing agricultural cooperatives. The project staff needs to be reorganized to direct more resources and assistance to agricultural cooperatives and federations. Beginning with a more global evaluation of agricultural cooperatives, an adviser with specific agricultural cooperative experience should be added to the team to provide day-to-day leadership and counsel to the Guatemalan staff. The additional staff person should have 8-10 years experience in cooperative general management or cooperative lending and be skilled in accounting, financial analysis, and human resource management.