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FUNDACION NICARAGUENSE DE DESARROLLO
(FUNDE)

AN EVALUATION OF
EXPERIENCE, CAPABILITY AND POTENTIAL

By

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PREFACE

In the consulting business, it is an extremely rare treat to be allowed to study a success story, a system that works. In too many cases, including the general area of cooperative development, evaluations such as this are faced with the need to rationalize failures. The case with this evaluation was the exact opposite. The greatest challenge was to adequately document success factors. As will be seen throughout the study, FUNDE represents a sharp deviation from the norm of the standard donor assisted cooperative system, all too often bogged down in a morass of managerial and technical constraints.

In the experience of the analyst, the most critical factor in any system, especially in cooperative systems, is management. In the case of FUNDE, the remarkable achievements of the past seven years can be primarily attributed to the quality of management, both in FUNDE and at the cooperative level. If only such management could be spread more broadly to other countries and systems, the history of cooperative and other development efforts in Latin America would be dramatically different than it is.

An earlier draft of this study, was labeled "euphoric". This may be true, but the reader is challenged to find a more impressive AID assisted cooperative system or record of accomplishments at comparable cost. The evaluator did bend over backwards to be skeptical and critical, as the Executive Director and other FUNDE personnel will testify. Constraints and problems were identified and described wherever they were found.

There are indeed problems, but they are recognized by FUNDE as such, which is half the battle. If past experience is any indicator, they can and will be overcome. This is a system that overachieves. Goals are reached. Targets are exceeded. The organization and the system which it represents richly deserve the support that is recommended. It is sincerely hoped that this study will be useful to FUNDE, AID, and other interested organizations in the provision of that support.

CHAPTER I

INTRODUCTION

A. Purpose and Scope of the Study

As expressed in the scope of work for the study, the purpose was to evaluate the "effectiveness, capability and efficiency" of FUNDE and its cooperative program. The future role and potential of the system was also to be appraised as well as the effectiveness of past AID assistance. Finally, the need and alternatives for future assistance were to be analyzed. In short, AID wanted the complete picture, past, present and future. This is what the study attempts to provide and why it is so long.

B. Methodology and Sources

The nature of the study required the tapping of every available source of information.

In terms of the literature, AID and FUNDE files were reviewed as far back as they were accessible, primarily from 1975 on. Earlier evaluations of FUNDE were sought but were found to be few and mainly focussed on particular sub-programs or projects. One exception was the 1977 AID financed cooperative assessment ^{1/} (in which the author participated) which covered FUNDE as part of a national cooperative sub-sector study. This study was limited by time and nature, however, to a comparatively light treatment of individual

^{1/} Heard, John, et.al. "Cooperatives as a Vehicle for Rural Development in Nicaragua, An Assessment for the Purpose of Foreign Assistance Strategy Formulation," January 1978. The author was general coordinator and editor for the effort. The credit union portion was carried out by Dr. Christopher Baker of the Credit Union National Association (CUNA).

organizations, No other AID evaluation was discovered with the exception of one isolated Project Appraisal report prepared in 1976. Other evaluations encountered were vintage 1977 and 1978 and covered the CFER and CECOOP programs respectively. These were performed under contract with FUNDE itself.

The principal and most valuable source of information was a series of extensive interviews, primarily within the FUNDE system. Many hours were spent with the Executive Director of the organization going over material and brainstorming on issues. All department heads ("jefes de centro") were interviewed in depth an average of two to three times each as work progressed. In addition, several sessions were held with center chiefs as a group for collective feedback and discussion. Another excellent opportunity came on field trips when long hours in the AID carryall permitted conversations on a full range of relevant subjects.

Outside the FUNDE system, interviews were limited and included relatively brief meetings with the Vice-Minister of Labor, (responsible for regulation of cooperative activity for the government), the Manager of the Nicaraguan credit union federation (FECACNIC), and the former chief of the cooperative section of the National Development Bank (BND). It was not possible, unfortunately, to directly approach the GRN establishment for the agricultural sector. Finally, AID capital development and project management personnel were consulted as needed.

In the field, 12 cooperatives were visited over the course of a week of trips. They included a cross section of types, experiences and conditions. They were selected for diversity, area, and illustrative value relative to areas of particular interest to the evaluation. Long interviews were held with managers in each case. Facilities were inspected, and directors and members were interviewed where available. Field discussions provided a rich source of very relevant information. Cooperative Managers were found to be articulate, well informed, and highly motivated.

Finally, a major and very significant source of material consisted of a series of analytical tasks which the writer requested of FUNDE's new Research and Development Center and other

departments, particularly from the Chief of Technical Assistance. Some of these exercises are still going on, as of this writing, and will be useful in the preparation of supporting documentation for the project proposed in Chapter VIII.

C. Content of the Study

Study material, findings, recommendations are broken down and organized in the following manner.

1. Chapter II consists of a detailed summary of findings, conclusions and recommendations of the study, starting with the general and then working through the various following detailed treatments. For the reader with no time, this is the place to go, although for supporting evidence one must refer to appropriate sections in latter chapters. Findings and recommendations are cross referenced with their respective supporting sections.

2. Chapter III provides a historical treatment of the growth and development of FUNDE and its cooperatives. This provides the background dimension and is helpful for an appreciation of the present state of the system and its potential.

3. Chapter IV attempts to evaluate the effect of prior AID and Inter-American Foundation (IAF) financing. It was found impossible to isolate prior AID grants in terms of impact. For the most part, AID and IAF together have supported the development of the cooperative program during the main period of its growth and of this evaluation, (1975 - 1980).

4. Chapter V is a complete institutional analysis of FUNDE today and its cooperative system. This is the most important chapter with respect to existing capability.

5. Chapter VI attempts to answer those portions of the scope of work calling for an assessment of FUNDE's potential, both in general and specifically with reference to the three principal areas in which the program is focussed (agriculture, small commerce and industry and housing).

6. Chapter VII is a financial analysis of FUNDE and its cooperative system. The numbers with respect to the future should be considered illustrative, but nevertheless provide a reasonable idea of the relative order of magnitude of capital and budgetary gaps that will have to be filled in one form or another for the system to achieve financial equilibrium and security.

7. Chapter VIII proposes a major, phased, multi-donor project for the provision of necessary capital, technical and budget support to FUNDE in line with its current strategy, which was found to be basically sound. A consortium approach is recommended consisting of FUNDE's traditional donors. AID support is to be mainly capital for lending with modest short-term technical assistance, primarily for those areas found to be weakest in the institutional analysis, data management and planning.

CHAPTER II

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

This chapter draws the entire evaluation together in summary form. Conclusions, findings and recommendations are presented in the same basic order that they are developed in the full evaluation text (Chapter IV - VIII). In each case, appropriate chapters and sections are indicated for reference to supporting analytical and descriptive material.

A. General

1. General Conclusions

The FUNDE cooperative system represents an extraordinarily effective and proven institutional vehicle for meeting the financial, economic, and social needs of its members and of the communities in which they live. The potential for utilization of this vehicle in the future for equitable rural development throughout Nicaragua, and for valuable experimentation with replicable systems and models, is almost without limit. Under present conditions and known resources, however, in the latter half of 1980 FUNDE will face very serious capital and operational liquidity constraints. If new resources required on both counts cannot be secured, both credit and service operations will have to be severely curtailed in order to preserve organizational solvency. Cuts of the magnitude necessary, moreover, would do grave damage to current growth and diversification trends. Given the lack of other private sector alternatives of similar promise and performance, to not respond would be a serious mistake on the part of FUNDE's traditional donors.

2. General Recommendations

The required budget and capital support should be provided over a medium-term period (1980 - 1985), through a consortium of currently involved donor agencies, in order to allow the system to: a) reach a state of lasting financial stability and b) realize its full potential over the long term for effective social and economic impact in rural Nicaragua. A major multi-donor project is proposed for system strengthening, expansion and diversification in accordance with FUNDE's current strategy. (See Chapter VIII, Options for Support.)

B. The Cooperative Development Program: Evaluation of AID/IAF Assistance. (Chapter IV)

1. General Findings Relative to Donor Financing

Donor financing ^{1/} has been of overriding importance to the development of FUNDE and its cooperative system. Clearly the foundation would not have made a fraction of the impact that it has without a heavy and continuing stream of external support, nor would today's cooperative system have been built in the first place. Beyond leadership and management factors (provided and financed directly by the foundation) the secret of FUNDE's success has come down to two principal elements: a) first rate talent for program design and implementation and b) financial resources to be channeled to and through member organizations. Without the abundance of both elements, both donor financed, little would have been achieved.

2. Cost vs. Impact of the Program. (IV.C.)

Cooperative development program results clearly justified the costs (some \$2.4 million for AID/IAF giving - representing the vast majority of all grants over the period). One need only

^{1/} The general term donor financing is used here due to the variety of support from several sources received during the period. The great majority of support critical to the development of the cooperative program, however, came from IAF and AID grants.

look at the system today (see Chapter V), its members, its response to the crises of the war, and its present rates of growth, diversification and innovation. In addition, total affected population by the end of 1979 was estimated at 46,020. Directly or indirectly the \$2.4 million probably benefitted nearly all of these, coming to a cost per person figure of about \$52.00. Even if only half of these actually benefitted, however, the figure of \$100 would still be respectable compared to similar projects throughout Latin America; and this does not take into account the employment and income generation effect of the financing for other thousands of other families.

3. Equity (IV.C.)

Field visits and a recent sampling of FUNDE loan files both indicated that the program was reaching a solid cross-section of what can be termed the "rural poor." Annual per capita income ranged between approximately \$100 and \$2,000, with the average falling in the vicinity of \$500.

4. Benefits (IV.C.)

a) Production

The vast majority of all lending (almost 100% in FUNDE's case and over 80% of the cooperative level portfolio) is going for "productive purposes" in terms of small enterprise development (on and off-farm), most of which is highly labor intensive and economically beneficial in the rural Nicaraguan context.

b) Savings Generation

FUNDE cooperatives have been an effective vehicle for savings mobilization and rural capital formation over the years. Most of this would not have occurred without AID/IAF program donations. Share capital in the system increased from \$150,000 to \$1.7 million during the period, and savings per member increased from \$43 to \$98.

c) Other Financial Benefits

Financial benefits to the FUNDE member from utilizing his cooperative have been substantial in terms of

interest (vs. money lender rates), time, transportation and other costs associated with national and commercial bank borrowing (not available at all to many members) in addition to automatically increasing borrowing and investment capacity stimulated by the savings promotion feature of the system.

d) Social Benefits

The system has been a strong supporter of social and community action. Each of the cooperatives visited was either involved in some sort of community action activity or planning one or more new ones. In many cases, projects had been initiated in collaboration with local government and included the reconstruction of markets destroyed in the war, day-care centers, road improvements, health improvements, housing projects and adult education activity.

5. Innovation, Diversification and Appropriate Technology (IV.C.)

Since the beginning, FUNDE never stopped experimenting, which eventually lead to the multi-service, diversified model being pursued today. Building on the base of the credit union, one pilot initiative after another was tried; procedures were refined and streamlined; and new activities were introduced in agriculture, marketing, retailing, education and other areas.

C. Institutional Analysis; Present Capacity of the FUNDE System (Chapter V)

1. FUNDE

a) General Finding (V.A.)

Despite the fact at least half of FUNDE's professional staff is new since the recent civil war (July 1979) the organization is now stronger than it was before in terms of institutional resources, systems, methodology and technical capacity in general. The present degree of professionalism, organizational efficiency, and quality output per staff unit is exceptionally high.

b) Organization (V.A.2.)

(1) Findings

Positive features which stand out relative to FUNDE's organizational structure and style of operation include great flexibility and a rapid response capability, excellent vertical communication, and a true lack of bureaucratic barriers which normally plague such institutions. On the negative side, the only problem at present is the risk associated with what appears to be an over-dependence on the Executive Director. (See Management below).

(2) Recommendations

None are offered at present. As the institution grows in size and complexity in the future, however, elements of a more traditional organizational structure will have to be introduced. The less the better, however.

c) Management (V.A.3.)

(1) Findings

The Executive Director (with FUNDE since the beginning) is without parallel in terms of dynamic leadership and management ability. The entire organization reflects his commitment and talent. To a large degree the sustained high level of production within FUNDE over the years is a direct product of the Director's skill in obtaining a maximum effort from his staff. FUNDE management also must be credited for the action oriented style of the organization and its commitment to move forward despite existing and potential obstacles. The fluid and personal management style in FUNDE, however, brings with it a certain risk. This is especially true now with all but one of the Center Chiefs (department heads) new since the war. At this point only one person has a complete grasp of program operations. 1/

1/ It is only fair to point out that FUNDE is still in a period of post-war transition. Gradually, the Executive Director intends to shift more of the management burden to the Chief of Administration and various department heads as they develop the necessary experience.

(2) Recommendations

(2.1) FUNDE should consider the establishment of a "Centro Ejecutivo" incorporating the permanent full-time position of the Executive Assistant (now only part-time).

(2.2) The position of the Chief of Administration should be strengthened in such a way that he could devote additional time to developing a solid grasp of management level issues and overall operations.

d) Administration. (V.A.4.)

(1) Findings

The professional quality of the Chief and his staff is excellent. They are managing a very high volume of activity under considerable pressure. The chief's agility in simultaneously dealing with a multitude of diverse actions is impressive and apparently equal to the task. There is little time, however, to develop the background and understanding necessary to replace the Executive Director effectively, if and when this is called for (thus, the corresponding recommendation under management above).

Administrative constraints relate to the lack of manuals and operating guidelines (to be developed by the new R&D Center), sufficient office facilities and equipment, and adequate document control and central filing systems.

(2) Recommendations

(2.1) The staff of the division should be expanded modestly to allow the Chief to delegate more daily activity to subordinates and concentrate to a greater extent on overall management of the organization.

(2.2) Specialized short-term consulting assistance is recommended to analyze the possibility of increased automation of accounting and other systems. A small computer might also serve research and other ends in FUNDE. (See Research and Development Recommendations below).

(2.3) Resources should be sought for the design and installation of improved systems for document control and filing.

e) Research and Development (R&D)-Planning.
(V.A.5)

(1) Findings

(1.1) Positive. The R&D Center is exactly what FUNDE has needed for years. It is especially important at present due the current rapid growth of the program and its increasing variety and complexity. The rest of FUNDE has little time to stop and reflect on what's happening. The Center is critically needed for this and other reasons. The Center also offers a real opportunity for replication of the FUNDE experience. In addition to the valuable documentation to be produced, the R&D program could lead to the development of on-the-job training opportunities in FUNDE for personnel from other organizations wrestling with some of the same constraints that FUNDE has faced and successfully overcome over the years.

(1.2). Problem Areas and Gaps. There are two basic and serious gaps in the scope of the Center at present which require priority treatment:

- Socio-economic data: There is no system in FUNDE for the collection and processing of member level social and economic data, now vitally needed for policy formulation, planning, resource mobilization and other purposes. Some data is available in disaggregated form in cooperative loan files, but no systematic attempt has been made to aggregate, analyze and use it.

- Planning: Operational centers in FUNDE appear to have highly developed programming capabilities for periods of up to a year. Short-term and annual cooperative level planning is also carried out effectively thanks to a strong focus under the technical assistance program. Lacking, however, is a serious attempt at medium or long-range planning for FUNDE itself

and its cooperative system as a whole. 1/

In the past, FUNDE and its programs grew and prospered on a trial and error basis. Experiments were carried out and models and strategies evolved. Management was sufficiently agile to avoid the most serious pitfalls normally experienced from the lack of thorough planning. Now, however, the need for basic multi-year planning is becoming critical. FUNDE is faced with a growing need to define its role relative to the Revolution, the new government, and the growth and diversification of its own system within this context. Long-range planning will also aid considerably in the area of resource mobilization.

(2) Recommendations

(2.1) Data Collection. Specialized short-term technical assistance is recommended for the development of a relatively modest program of social and economic data collection and analysis focused on the impact of cooperative activities at member and community levels. System design should include a simple mechanism for the updating and comparative analysis of time series data. The possible utility and feasibility of a small or "mini"-computer at FUNDE for processing of research as well as financial and other operational and planning data, should also be studied.

(2.2) Planning: Specialized short-term technical assistance is recommended to assist the Research and Development Center and FUNDE management carry out a thorough medium-range planning exercise (two to three years) within the next six months (prior to the end of 1980). A mechanism for periodic review and updating of the plan also should be developed. The data collection and processing system to be established should obviously be geared into the planning system.

1 This is understandable. Under prevailing conditions it has been very difficult to make any assumptions (on which planning can be based) with any degree of confidence for more than a few months at a time.

(2.3) Role and Functions of the

R&D Center: The Research and Development Center should definitely become a permanent fixture of FUNDE's organizational structure. The staff also needs to be strengthened relative to the data collection, processing, and planning functions recommended. Eventually, the Center should develop a full-fledged management information system incorporating both socio-economic and operational data. This may also be the place to locate and maintain a documentation and reference center.

(2.4) Increased External Support:

In addition to technical assistance recommended for the proposed AID project (Chapter VIII) continued and increased budget support is recommended from Appropriate Technology International. The return from such support in replicable technology for credit and cooperative system development would more than justify the continuing investment.

f) Training (V.A.6)

(1) Findings

(1.1) Positive Features: Without question the training center (CECOOP) is doing a first rate job of meeting the continuing need for basic cooperative organization and management training. Programming, methodology, and delivery are excellent. The intensive training activity of the past three years has clearly contributed to the ability of the system to withstand and take advantage of the crises of the 1978-1980 period.

(1.2) Limiting Factors:

♦ Volume vs. Capacity: Due to the magnitude of the need represented by the sixty-cooperative system, courses have had to be programmed so tightly that there is little time for reflection, analysis, planning and curriculum development. The problem is exacerbated this year by the demand for reorientation training relative to the Revolution.

♦ Exclusivity of the Program: FUNDE training is offered only to FUNDE cooperatives. This is not

viewed as a fault. Nevertheless, "cooperation" with other networks (such as they are) should probably be explored for political as well as for practical reasons.

♦ Costs: Total training cost would appear to be in excess of \$100,000 per year. Cooperatives do contribute in the form of local facilities, and some per diem and transport, but little else. For both financial and conceptual reasons, the stronger cooperatives should commence accepting a larger share of the burden.

(2) Recommendations

(2.1) A medium term plan should be developed by CECOOP which, among other things, would show how capacity is to be developed for meeting the increasingly technical needs of the more advanced cooperatives as they diversify.

(2.2) Along the same lines, a special sub-program is recommended for the area of educational research and curriculum development relative to the evolving complexity of needs in the system. (This effort could be carried out by CECOOP itself or within the scope of the R&D Center.)

(2.3) FUNDE should develop and negotiate a fee structure for certain courses, even if only at very modest levels. One idea already raised would be for the cooperatives to dedicate a portion of their "ganancias" (20% of which are required by law to be deposited in a special reserve "fondo de educación") to covering a greater portion of direct training costs.

(2.4) CECOOP should make an honest attempt to explore ways and means of collaborating with other cooperative systems and organizations.

g) Technical Assistance (V.A.7)

(1) Findings

(1.1) Positive: The center is offering high quality services in very efficient form. Benefits are

distributed equitably. The mix of skills in the Center accurately reflects system needs. The volume of assistance provided, given staff size, is extraordinary, and cooperative level planning and programming has been significantly improved over the years.

(1.2) Limiting Factors

♦ Linkages: At present there is no active linkage between FUNDE and sources of technological innovation in agriculture. FUNDE recognizes the problem and intends to subscribe to journals which will provide at least some exposure to new findings. An in-country (or neighboring country) source is needed, however.

♦ Data Collection: There is no ongoing program to capture farm level data that could be utilized for improving the technology package, planning, resource mobilization, and demonstrating the utility of FUNDE's systems and models to the government and others. (This is obviously part of the larger data and planning problem.)

♦ Volume vs. Capacity: As with training, there is almost no time to stop, reflect, plan, and catch up on technology.

♦ Transport: The Center only has two vehicles at present and is severely hampered in terms of transport. At least one additional four-wheel drive vehicle is needed immediately, and more will be required in 1981.

(2) Recommendations

(2.1) Linkage with an available source of agricultural technology should be established. (A source outside the country may have to serve.)

(2.2) Given the linkage problem, periodic short-term observation and technical training trips are recommended to programs in other Latin American countries and possibly the United States.

(2.3) A staff increase is recommended including at least one additional agronomist and a finance technician ("administrador de empresas").

(2.4) An agricultural data collection activity should be designed into the program which would feed into FUNDE's overall research effort as well as provide for improving the technology mix and extension services in general. Such data would also help in documenting a case for GRN collaboration (See Chapter VI.A.3)

(2.5) Several new four-wheel drive vehicles should be procured for the Center.

(2.6) The incorporation within the Center of the special commercialization program (see following section) should be considered.

h) Commercialization (V.A.8.)

(1) Findings

(1.1) Positive Features: The program is responding to an urgently felt need at the community level (both retailers and consumers). Especially since the war, repeated shortages have become commonplace in rural areas. Prices are high. The centers (according to early experience and feasibility studies) should be able to market a more complete line of products at reduced prices (than wholesale competitors) and still count on respectable earnings. The program also offers the intriguing prospect of an inter-cooperative trading system where direct exchanges of goods could be made to the advantage of both organizations. Intermediary and transport costs also could be reduced. Thus far the program has the cooperation of INRA and the Ministry of Internal Commerce as well as local government.

(1.2) Limiting Factors: Although the Executive Assistant (currently responsible for the program) is doing an excellent job on a part-time basis, the effort merits at least one full-time person, and probably more. Research is lacking relative to system-wide potential and integration with agricultural supply and marketing activity.

(2) Recommendations

(2.1) Either a separate center or a sub-center of the Technical Assistance Department should be established with at least one full-time person dedicated to commercialization. ^{1/}

(2.2) A system-wide survey should be carried out to determine the potential of the program for planning purposes and resource mobilization. Further study should be devoted to possibilities in the area of integrated agricultural supply and marketing operations.

i) Housing (V.A.9)

(1) Findings

(1.1) Positive: The housing program has outstanding potential for valuable experimentation, and for meeting a seriously felt social need in rural Nicaragua. (Demand appears unlimited.) Existing cooperative structures provide an excellent organizational vehicle, already in place, which should be exploited further to meet housing and other community needs. (Also see Chapter VI.B.3 relative to experimental potential of the housing program.)

♦ The staff of the Housing Center is of excellent quality, and FUNDE appears to be receiving first rate technical assistance from FCH, which will be critical in the future as FUNDE moves into more complex integrated housing schemes and experiments with sites, services, materials, organizational forms.

♦ FUNDE has established a positive relationship with the Ministry of Housing, from which technical support is expected on several projects. This is a valuable precedent with the new government.

¹ A grant is currently being negotiated with the IAF which would finance both FUNDE and cooperative costs on a pilot basis.

(1.2) Limiting Factors: Additional personnel and financing will be needed in 1980 and 1981 in order to manage the volume and complexity of activity proposed.

♦ Housing financing is long term in nature and requires the tying up of substantial amounts of capital for relatively long periods of time.

(2) Recommendations

(2.1) A system for charging professional service fees, although modest, should be established, at least for individual housing and home improvement related work.

(2.2) Continued support (beyond the estimated 1982 cut off) on the part of PACT and FCH is urged for the development of further technical capability and to facilitate program expansion contemplated.

j) Audit (V.A.10.)

(1) Findings: The audit program appears outstanding. No limiting factor were noted.

(2) Recommendations

(2.1) FUNDE should consider initiating a schedule of charges to the stronger cooperatives to cover a reasonable portion of the cost of auditing services performed.

(2.2) Routine monthly cash audits should be reduced to the extent feasible to allow time for more innovative and productive analytical work and a greater focus on new and less experienced cooperatives.

k) The CFER Program. (V.A.11.)

(1) Findings

(1.1) Positive Features: In concept,

the CFER program is outstanding for its social and educational outreach nature and appears to be reaching the poorest elements of the rural economy. It is also very much in line with Revolutionary doctrine and should be a plus factor for FUNDDE in future dealings with the government. The program will definitely contribute to the broadening of impact of the cooperatives where it is in place. The plan for establishing the viability of each CFER appears sound, although long-term periods are required in each case.

(1.2) Limiting Factors

- The CFER program appears expensive relative to the number of graduates produced. The two-year cycle, when operating at optimum size and pace, produces 50 graduates per year per center at a grant financed cost per student of close to \$500.

- There has been a lack of attention to needed follow-up activity with graduated students to assure that learning has been retained and is being applied.

- Although the program has been evaluated, there has been no systematic effort to collect data relative to the impact of the program on standards of living and levels of production of participating families.

- The program is very long term in nature, and it is suspected that cooperatives will be reluctant to assume full financial responsibilities until a given CFER has proven its viability. The program will require external grant support for many years to come.

(2) Recommendations

(2.1) Financing should be sought for a sound program of follow-up activity with CFER graduates and a system of data collection and analysis to establish the true social and economic impact of the program on participating families.

(2.2) A series of feasibility analyses should be carried out relative to the potential viability of the CFER

system in order to confirm current thinking and determine exactly what mix of land, crops, and productive endeavor will in fact produce self-sufficiency for a given CFER. Planning and fund raising should be based on these analyses.

(2.3) AID and IAF support for the CFER program should continue due to the high degree of social outreach to the rural poor embodied in the activity. The model, as it has been refined, should be given a fair chance to prove itself. Potential impact will only be assessable, however, with an adequate complementary data collection and analysis effort.

1) Other Elements - Institutional Capacity (V.A.12.)

(1) General Systems and Procedures: FUNDE has done a remarkable job of developing efficient procedures for almost every facet of its program, especially at the cooperative level. Particularly impressive are those that relate to accounting, budget control, and financial management. Despite the fast pace of activity, controls are everywhere to assure that jobs get done at the cooperative level and in FUNDE itself. Action formats are established for literally all activities (including meetings of center chiefs) in terms of pending actions, responsibilities and timetables

(2) The Credit Program: In general the credit program was found to be highly responsive to member and cooperative needs. Resources are moved expeditiously and professionally. Policy and criteria are sound in terms of economics, development and equity.

(3) Delinquency Control

(3.1) Findings: FUNDE does have a delinquency problem but not of the dimensions of earlier years; and the situation is improving. ^{1/} New control and reporting measures are in place and others are being developed by the Research and Development Center.

^{1/} FUNDE's current delinquency rate is approximately 17%, down from over 30% two years ago. Of the current rate, over half is less than 60 days old.

(3.2) Recommendations: The delinquency control system being developed should include analysis by age, by cooperative group, by cooperative, by fund, and by loan destination and period. A similar standardized reporting system should be developed for the cooperatives. A variety of correlations should be performed to obtain a better understanding of the true causes of the problem. The data processing burden relative to delinquency analysis should be assessed in light of earlier recommendations related to socio-economic and agricultural data and planning needs.

(4) Resource Mobilization

(4.1) Findings: The resource mobilization situation reflects earlier findings concerning FUNDE management and organization. At present, resource mobilization is handled by the Executive Director almost exclusively. Responsibilities are gradually being shifted, but this takes time. Secondly, there is no up-to-date master plan for the medium term future. A more institutionalized approach is needed in general.

(4.2) Recommendation: FUNDE should consider the utility of establishing a "sub-centro" in the Department of Administration with responsibility for maintaining all information relating to the status and nature of existing externally financed projects, the production of resource mobilization strategies and proposals, identification of new sources of assistance and means of approaching them, and the development and maintenance of a master resource mobilization plan.

2. The Cooperatives. (Institutional Capacity) (V.B.)

a) General Finding

As shown below relative to five key indicators, FUNDE cooperatives today represent a strong and basically viable system. To a greater or lesser degree they are all still dependent on FUNDE for capital and technical resources, but they are rapidly approaching a point where they can begin to contribute a significantly larger share of the costs of the system. In the meantime,

subsidies are going, as they should, to system strengthening rather than being passed on to the beneficiary group. Finally, the accelerated growth pattern established after the war appears to be continuing; and there are some real opportunities now for economies of scale. (For further commentary on system potential, see Chapter VI.)

b) Leadership. (V.B.2.)

The quality of leadership in the FUNDE cooperative system is exceptionally high compared to other Latin American movements studied by the analyst. By and large cooperative boards are taking an aggressive role in the development of both their organizations and their communities. Leadership is still a limiting factor and there is great variety in the quality of direction; but the material is there, and leaders are anxious to learn. A heavy percentage of FUNDE training is targeted at this level.

c) Participation. (V.B.3.)

Rates of participation and loyalty in FUNDE cooperatives are high. To a great extent participation is a function of benefits and services received, and FUNDE cooperatives have had resources in Nicaragua when there has been no other accessible source in the community, especially after the war. FUNDE training and promotional activity has also played an important role. Another key factor has been that FUNDE cooperatives know how to have a good time, and so does FUNDE. Enthusiasm is infectious.

d) Management. (V.B.3.)

All FUNDE cooperatives have professional full-time management. Where possible managers are drawn from the local community and are selected for existing skills and experience, education, and attitude. They are also extensively trained by FUNDE in required systems, procedures and other relevant skills, including management itself. This may be the most important factor of all. There are some exceptional examples of dynamic management.

e) Technical Capability. (V.B.4.)

Wide variation in technical capacity is

found throughout the FUNDE system. Financial capability is generally sound (budget, loan portfolio, delinquency and other controls). A growing number of cooperatives hire separate accountants. In such areas as agriculture, commercialization and housing, the cooperatives are learning by doing, supported by heavy inputs of technical assistance from FUNDE advisors.

f) Financial Viability (V.B.5.)

The cooperative system is financially viable, barely; operating costs are covered. There are normally modest surpluses at the end of the year, and basic ratios appear favorable. (Of the 58 unit system, 43 reported net surpluses for 1979.) It can be argued, however, that much of this is due to heavy grant inputs in the past, subsidized loans and free services. (See Chapter VII, A.2. for financial analysis of the cooperative system.)

D. Potential of the Funde System. (Chapter VI)

1. System as a Whole (VI A.)

a) Demand. (VI.A.1)

Since the end of the war (July 1979), due to the nationalization of the banking system, the earmarking of almost all credit in the field for agricultural production, and the strong tilt toward collectivized production, there has literally been an explosion of credit demand vis-a-vis the FUNDE system; and, from figures coming in for the first quarter of 1980, this is continuing. On the basis of existing requests, the following loan placement schedule was developed for the six-year period commencing in 1980: (figures in \$000,000) 1/

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
2.6	3.1	3.6	4.0	4.4	4.8

The potential exists for a very significant expansion of FUNDE's lending activity over the next few years. Substantial economies of scale can also be realized, because the delivery system is already in place and operating smoothly. Overhead can be spread and savings dedicated to improving services and viability of the system as a whole.

b) General Expansion of the System (V.A.2)

(1) Growth

It has been estimated that if FUNDE had the personnel and financial resources it could easily form 20 new cooperatives over the next three years. In the past, FUNDE has formed an average of over ten new units a year, and today community delegations are constantly approaching the organization for assistance in promoting new ones. In the long-term, potential expansion is practically unlimited. With an existing socio membership of only a little over 17,000, FUNDE is now only scratching the surface of potential growth.

(2) Diversification and the Multi-Service Model.

The basic FUNDE model is the credit

1/ Loan placement estimates are very conservative. (See Chapter VII B.)

union, with gradually expanding service functions. The success of the program in exploiting the credit union mechanism to achieve a variety of ends is in great part owed to the simplicity and solidness of the base structure. (It is also owed to a host of other factors, especially management). In any case, through trial and error, FUNDE seems to have discovered a winning combination and the correct order of things. Once the credit union is successfully established and operating with professional management, new functions can be added slowly, after due study, preparation and technical assistance.

c) The FUNDE System Relative to GRN Policy and Programs. (VI.A.3)

(1) Existing Situation.

• General Policy: GRN policy is that cooperativism should play a very important role in the Revolutionary process. Cooperatives are to be encouraged as long as they are not permitted to become instruments of vested and personal interests. Collective production is to be promoted and paternalism eliminated. Above all, the cooperative should project to the "community".

• New Model: In line with Revolutionary precepts, a new expanded structure for cooperative organization was developed. (See diagram, Chapter VI.A.3.a). The purpose of the change was to promote a higher level of participation in the direction and management of the organization (up to 18 directors in six separate centers). FUNDE is promoting adoption of the structure throughout its system.

• Ministry of Labor: The ministry, responsible for legalization and regulation of cooperatives, maintains a neutral attitude concerning the FUNDE system. Several requests for registration of new FUNDE cooperatives have been pending for some time, however.

• The National Development Bank (BND): The pre-revolutionary cooperative section of the bank has been abolished and the function of the rural credit department has become primarily that of financing agent. Promotion, technical assistance, and training functions have been assumed by the ATC and PROCAMPO respectively. All loans for small farmers and businesses must now be approved by committees including PROCAMPO and ATC representatives. Thus far there has been no loan to a FUNDE cooperative, although the first one should be made shortly from a recently approved IDB loan. This loan, originally negotiated to be channeled through FUNDE, is now to be disbursed directly to cooperatives. Rollovers are untied to the system.1/

1/ Management of this loan could be a significant indicator for the future (See VI, A, 3 a), (4)).

Other Government Agencies: With respect to the Ministry of Agriculture and the Public Sector establishment in agriculture in general, the impression from field trips is that a negative bias exists toward FUNDE cooperatives. In the case of the Ministries of Education, Housing and Internal Commerce, however, much more positive relationships have been established.

(2) FUNDE Strategy Relative to the GRN.

Faced with an evolving panorama of GRN attitudes and factors, FUNDE has opted for an action oriented strategy. The program has, and will continue, to proceed full speed ahead on all fronts. This will be maintained at least until a consistent national policy on the role and functions of private cooperatives has been formulated and promulgated. Key elements of this strategy include; a) proving the case for the FUNDE model, b) consolidating and strengthening the program, c) promoting precepts of the Revolution, d) collaborating with the government wherever possible, and e) broadening participation in the direction of FUNDE through both cooperative and government representation (most probably from the Ministry of Housing).

The foregoing strategy is believed to be both effective and prudent. In another few years, the system should have proven itself and secured general government acquiescence if not support.

(d) The FUNDE System Relative to the Rest of the Cooperative Movement. (VI.A.4)

(1) Findings

At the moment, existing cooperative systems in Nicaragua do not have an overall integrating structure. The place of any one system is difficult to determine. In terms of general affinity, FUNDE relates most to other credit unions (primarily FECACNIC's rural affiliates). Because of substantial prior experience with coffee, FUNDE could also assist the new regional coffee central in Matagalpa. How FUNDE might relate to the rest of the cooperative world at this point, one can only speculate, given the lack of current information and ostensible linkages.

(2) Recommendations

(2.1) FUNDE and FECACNIC should carry out exploratory talks relative to the advisability of a merging of the two credit cooperative systems (only rural coops in FECACNIC's case). The form such

a merger would take would require special study. There are political and other factors to consider relative to the GRN and the Latin American Credit Cooperative Movement.

(2.2) FUNDE and the Regional Cooperative Central of Matagalpa should explore the possibility of affiliation for purposes of provision of credit, technical assistance, training and other services to the coffee producers and their committees. A feasibility study is probably warranted.

(2.3) Concerning the rest of the movement, the establishment of new relationships would have to be based on analyses of a host of political, economic, technical, and financial factors.

2. Potential of the FUNDE System as an Experimental Vehicle. (VI.B.)

This portion of the study was devoted to an examination of potential in the principal technical areas in which FUNDE is currently operating. These areas are presented in order of priority relative to experimental potential, socio-economic productivity, and the meeting of perceived community needs in rural areas.

a) Agricultural Production and Marketing (V.B.1.)

(1) Rationale for Priority.

Demand for agricultural credit in the FUNDE system is skyrocketing, both within its own terms and relative to the total portfolio. The principal cause appears to be a scarcity of total credit availability from the nationalized banking system. Regardless of the merits of public financing of agriculture, it would not appear possible for the government establishment to meet the credit and complementary service needs of more than a limited portion of the sector. For those outside the public sector program, there is no extension, relatively high cost supplies due to scarcities and, in some cases, exploitation of isolated communities by intermediaries.

In summary, there is a need for alternatives. Existing organizational infrastructure (public and private) should be exploited to the extent possible.

(2) FUNDE Potential in Agriculture

The potential for growth, valuable experimentation, and impact from the FUNDE program in agriculture is practi-

cally unlimited for the following reasons:

• Track Record. Within the FUNDE system, growth of agricultural membership and lending over the past three years has been dramatic. At the end of 1979 there were 2,570 members in 10 cooperatives classified as agricultural, not including growing farmer membership in at least 14 other units of the system. The agricultural coops as a group now represent the most viable category of the FUNDE program. At the end of 1979, the net returns from these cooperatives exceeded those of the rest of the system put together.

• Experimentation and Diversification. Possibilities for profitable experimentation within the agricultural sphere are almost endless. One particularly intriguing possibility relates to the integration of supply and marketing functions and the development of an inter-cooperative trading system. Other areas include collective (cooperative owned land) production, and diversified farm planning.

• Investment and Agro-Industry. There is strong demand for increased lending for farm and infrastructure improvements related to production, marketing, processing, and supply. The agro-industrial opportunities on a small and medium scale are excellent. High potential areas include coffee and milk processing, cattle finishing, chicken and egg production, and processing of fruits and vegetables.

• The Strength and Quality of FUNDE's Technical Assistance Program: FUNDE is equipped with a highly qualified staff dedicated to agricultural technical assistance. They are overworked, but they are competent.

b) Commerce and Industry. (V.B.2)

(1) Rationale for Priority

In almost all of the cooperatives visited it was reported that bank credit had been sharply reduced for small commerce and industry. Especially during the recovery period, there is a vital need for working capital and resources to rebuild inventory and facilities. Finally, as has been demonstrated in a number of studies, the employment generation effect of the financing of small enterprise development in Latin America is high relative to other areas of economic activity.

(2) FUNDE System Potential

• Experience. This is the area where

FUNDE has the most experience. Systems and methodology are tried and proven.

• Experimentation. As with agriculture, possibilities are almost without limit. The commercialization program is a good example in both spheres and cuts across categorical lines. In the area of production, a number of experimental activities are either in process or planned in such areas as clothes, shoes, bricks, and handicrafts (furniture). Other possibilities include inter-cooperative technical assistance and community action experiments with local government.

• Horizontal Expansion and Integration. There are seven cooperatives now with branches. Many more can be established. Most are of the small commerce/industry variety. Experiments can be carried out to improve economies of scale in credit management and other services (information, promotion, education).

c) Housing

(1) Rationale for Priority

Public sector investment in rural housing has been minimal for years, the need is widespread and severe. The Ministry of Housing is primarily focused on the greater Managua metropolitan area. FUNDE represents one of the very few existing mechanisms for professional planning, financing, and supervision of low-income rural housing and facilities construction. Cooperatives in place provide appropriate and efficient organizational infrastructure. The creation of new channels would not be cost effective. In the case of every coop that FUNDE has approached with the program, demand has been many times that which could be financed or managed in the short or medium term future.

(2) FUNDE System Potential in Housing

• Capability. The FUNDE housing staff is excellent and technical assistance (FCH) is effective.

• Experimentation. The potential for social and economic innovation within FUNDE's housing program is outstanding. Innovation is occurring and will continue in construction techniques, community planning and organization, and social action areas in general.

Employment and the Development of Local Skills: The majority of FUNDE's

housing activity involves local construction supervision and labor. Employment is provided; skills are developed; the community economy is stimulated.

Demand. Based on existing assessed needs and delivery capability contemplated projects between 1980 and 1984 could amount to approximately \$5.0 million, which would barely scratch the surface of the true demand.

E. Financial Analysis (Chapter VII)

(In the case of the Financial Analysis, it is most important to refer to the full treatment in Chapter VII for a quantified appreciation of the system's condition and potential).

1. Existing Condition of the System:

a) FUNDE

While at first glance FUNDE appears to be in a highly solvent position due to accumulated capital, this is more apparent than real due to the almost total dependency of the organization on international grant financing. Well over 90% of operating costs are financed by international donations.

b) The Cooperatives

The system is viable, barely. In 1979, 34 of the 58 cooperatives produced net surpluses for the year. The system as a whole has shown modest gains in four of the last seven years. Some of the stronger cooperatives are now in a position to assume a much greater share of the financial burden of their own development.

2. Prospects for Future Viability. (1980-1985).

a) Lending Capital Shortfall

In a very conservative projection, total required new lending capital over the period comes to US\$8.75 million (non-inflated), none of which is contracted at present. Approximately \$1.8 million additional is needed to meet the estimated 1980 disbursement schedule alone. (FUNDE's total portfolio with the cooperatives at the end of 1979 was US\$1.3 million).

b) Budget Shortfall

Based on increased lending to match the above credit program, in addition to gradually increasing income from cooperative service charges, a budget shortfall (non-inflated) of some US\$665,000 is indicated for the period. By 1985 FUNDE should be covering approximately 63% of operating costs from the margin on lending. In 1980, if additional grant funding is not forthcoming, a deficit of US\$128,000 is estimated.

c) General Observation

FUNDE management has faced such situations in the past and has consistently raised the required resources, not only to cover projected deficits but also to sustain substantial expansion of the program. FUNDE is a foundation. It has operated all along on the basis of a continuing need to cover operating expenses with contributions from a variety of external sources. It has only really been in the post-war period (due to the decline of other private sector options) that it has become essential for FUNDE to maintain and expand the direct credit and services relationships with all of its cooperatives. There is little other choice under the circumstances. FUNDE is thus faced with a greater need than ever before to assure the financial soundness of its own future.

d) Conclusion

Under present conditions and known (contracted) resources, commencing in the last half of 1980 FUNDE will face very serious capital and operational liquidity constraints. If new resources on both counts cannot be secured to provide the necessary support, both credit and service operations will have to be severely curtailed in order to preserve organizational solvency. Cuts of the magnitude necessary, moreover, would do grave damage to current growth and diversification trends, and would create conditions under which both the foundation and its system would be highly vulnerable to unforeseen events and eventual stagnation through over-extension and decapitalization.

3. Recommendation

The required budget and capital support should be provided as described below and in Chapter VIII.

F. Options for Support to the FUNDE System. Chapter VIII

1. Alternatives

On the basis of institutional and financial analysis, the type and relative magnitude of support required are clear. Substantially lower levels would result in varying degrees of stagnation and/or decline.

2. The Preferred Option

a) The Consortium Approach

FUNDE has three basic needs; capital, budget, and technical. Based on experience and known AID policy and preferences, it is proposed that AID provide the majority of the required capital and technical support while other donors continue to provide the necessary budget support in those areas where they are presently involved. A consortium approach is recommended.

A rough estimate of capital and budget support required through 1985 is as follows (\$000).

	<u>1980</u>	<u>1981 - 1982</u>	<u>1983 - 1985</u>	<u>Total</u>
Capital	1,500	4,000	7,000	12,500
Budget	128	444	104	676

It should be stressed that the above numbers are illustrative only, although they do reflect a relatively sound (non-inflated) picture of the general dimensions of the need. (For the support structure and tentative levels of financing recommended, see Chapter VIII, Figure VIII A, and Table VIII A.)

b) The Proposed AID Project

Proposed AID financing would cover the first two phases of what is hoped will be a three-phased project totalling five to six years. The rationale behind the phasing has to do with the number of variables and unknown factors currently facing FUNDE as well as the country as a whole. It also relates with the lack of medium and long-range planning (discussed in Chapter V). There is a need for flexibility and an implementation mode that will allow for experimentation and program changes as new factors, methods and models evolve.

(1) Goal Structure of Project

AID Program Goal: Improved social and economic conditions for the rural poor.

Project Goal: Improved social and economic impact of FUNDE's cooperative system within rural communities of Nicaragua.

Project Purpose: Strengthened, expanded, and diversified system for responding to social and economic needs of current and potential system membership.

(2) Project Areas and Activities

♦ Strengthening of the System: This area includes the two main subcategories of finance and organization. In the case of finance, the thrust will be to obtain a high degree of solvency and financial security for both FUNDE and its cooperatives. On the organizational side, the emphasis will be on the development of stronger data management and planning systems.

♦ Expansion of the System: This refers to the area of membership and cooperative growth. For the next two years FUNDE will focus primarily on a consolidation strategy; that is, the strengthening of the existing cooperative network. Membership will probably continue to grow at an accelerated pace, however. In 1983, a period of major new expansion is anticipated to be built

on the organizational, financial and planning base to be established in the interim.

• Diversification of the System:

Under the project, the diversification trend will be continued and expanded. The general thrust will be to further develop the "multi-service" model, building on the base of the primary credit cooperative mechanism. At the FUNDE level, technical capacity will be strengthened across the board.

(3) Implementation: Project Plan

• Phase I: Short Term: Last

half of 1980. This phase would consist of an initial traunch of lending capital to meet a major portion of the projected 1980 shortfall in addition to the provision of specialized short-term technical assistance to set up data collection processing and planning mechanisms. A medium term planning exercise will be carried out in collaboration with the current Research and Development program which will provide the basis for detailed programming of Phase II.

• Phase II: Medium-Term:

(1981 and 1982). This will consist mainly of the strengthening of current operations in line with the consolidation strategy. At the same time, the data collection, research and planning functions will explore alternatives for expansion of the system via new cooperatives, new activities, new technologies, etc. Through these efforts the technical and analytical foundation (including the meeting of AID program criteria) will be developed for a major expansion and broader diversification in Phase III.

• Phase III: Long-Term: (1983-1985)

This will be dedicated to a major expansion and diversification along lines to be developed in Phase II planning exercises. Funding (also to be based on Phase II analysis) will hopefully draw from a broader spectrum of international and multi-national donors and lenders.

c) Summary

Essentially what the proposed project does is support what has become a de facto FUNDE strategy of growth and

diversification, a strategy that has been found sound relative to the system itself, the government, and the international donor community. The idea is to take advantage of an existing success model and to assure its survival and continued development.

CHAPTER III

HISTORICAL FRAMEWORK

This Chapter provides a historical framework within which FUNDE and its cooperative system should be viewed today. The background is essential in order to understand evaluative sections to follow and appreciate the potential of the system in years to come.

A. The Beginning

FUNDE and its parent organization, The Institute for Development (INDE), are both outgrowths of Nicaraguan private sector initiatives.^{1/} INDE, formed in the mid-1960s, began by financing social promoters to work in some of the poorer communities of the country. Eventually, in 1969, INDE, with the help of the Pan American Development Foundation, established FUNDE as a nonprofit Nicaraguan Development Foundation to facilitate resource mobilization, planning, and execution of social and economic development activities amongst low income communities and groups throughout the country.

Over the years FUNDE and its program have passed through four principal stages as described in the following sections.

B. The Early Years (1969-1972)

As with a number of other private development foundations formed during this period, FUNDE's initial focus was on small informal groups at the community level and the provision of commercial credit for socially and economically productive activities; crafts, fishing, marketing and small business and industry in general. A strong emphasis was placed on self-help and popular participation in the resolution of group and community problems. It was also in this early period that FUNDE

^{1/} Today, control of both organizations is still totally in private sector hands, although there has been some discussion of the possibility of providing for mixed (private, public, and cooperative) participation on the FUNDE board of directors. See Sections V.A.2 and VI.A.3.b.(5).

established a relationship with its heaviest and most consistent donor over the years, the Inter-American Foundation (IAF). A \$0.5 million grant was signed with the IAF in September 1972 for the provision of training, technical assistance, marketing and credit services for community groups.

C. Transition and Incorporation of the Cooperative Model
1973-1974

As the program of the young foundation grew in complexity and scope, it was found that small informal groups, especially at the lower end of the poverty scale, often did not have the organizational cohesion, leadership and minimal economic basis for sustained growth. In addition, it was found difficult to enforce loan repayment provisions with such non-legally constituted organizations. It became clear that a new strategy was called for and that the foundation's program had to be strengthened administratively and technically. Stress was shifted, therefore, to an upgrading of the competence of the organization and a more technical (feasibility) orientation in the field.

In 1973, FUNDE began to form cooperatives (credit unions) for the first time amongst women in public markets of the principal secondary cities of the country. By the end of 1974, 14 had been formed with almost 3,500 members. The initial success and popularity of the model was striking and paved the way for FUNDE's almost exclusive focus on cooperatives in the years to come. The credit union was a clear answer to the financial problem of market stall operators who commonly were forced to pay rates of interest of 200% and more to the local money lenders "prestamistas" for working capital. At this point, AID became interested due to the obvious potential of the program and provided what is believed to be one of the earliest Operational Program Grants (OPG) for the formation and strengthening of "Market Women Cooperatives." 1/

It was also in this period (1973) that FUNDE's experimental rural family education program (CFER - "Centros Familiares de Educación Rural") was initiated with support from the Ministries of

1/ Chapter IV. evaluates this and other AID and IAF grants for the period 1975-1979.

Agriculture and Education, the Land Reform Institute (IAN), and the French Mission.

Finally, in 1973 (primarily in response to the 1972 earthquake) FUNDE entered the housing field with modest programs in minimum shelter and model communities (Estelí and Granada), in addition to the formation and financing of five potable water cooperatives. ^{1/}

D. The Maturing of FUNDE and its Program, Development of the Cooperative System: 1975-mid-1979

If the preceding period can be labeled adolescence, the latter half of the seventies marked the coming of age of FUNDE and its cooperative system. Above all, the period was marked by sustained growth in terms of the organization itself, resources mobilized, cooperatives formed and strengthened, and diversification of services and activity (agriculture, housing, and community action). Overall growth of the system is illustrated in Table III A below.

Table III A

GROWTH OF FUNDE PROMOTED COOPERATIVE SYSTEM

1974-1978

(Figures in C\$000,000) ^{2/}

End of Year	1974	1975	1976	1977	1978
Cooperatives	14	25	33	39	42
Members	3,490	3,820	6,028	8,172	9,270
Capital	1.5	1.8	4.5	7.2	8.9
Portfolio	3.4	3.3	7.1	12.0	16.5
Owed to FUNDE	1.9	1.6	1.7	3.0	5.2
Annual Growth (%)					
Total Assets	438%	3%	136%	65%	38%
Portfolio	467%	-	129%	63%	39%

Source: FUNDE: Balances Consolidados

^{1/} The CFER and housing programs are covered in Chapter V.A., Sections 9 and 11 respectively.

^{2/} The official exchange rate is now C\$10 = \$1.00 U.S. Before the 1979 devaluation, however, the rate was C\$7 = \$1.00 U.S. The "Street" rate in Managua is now (May 1980) approximately C\$17 to \$1.00 U.S.

Several principal factors contributed to the high growth rate of the period, most of which are still true today (see following section). Chief among these was the combined leadership and talents of the executive director. His success throughout the period in guiding FUNDE to new and more productive program strategies, in recruiting and motivating highly skilled people, in promotion of cooperative and pre-cooperative groups, and in the mobilization of resources from the international donor community, is without precedent in the experience of the author in comparison with similar organizations during the period. As the AID financed 1977 study of the cooperative movement in Nicaragua pointed out "...management of FUNDE is outstanding by any standard." 1/

The second major factor was the quality of staff recruited and trained. As the same study pointed out "...the FUNDE staff is dynamic and innovative. Questioning is promoted at all levels of the organization. Observed dedication is extraordinary..." 2/ By mid-1977 the staff had grown to 22 professionals, including the director and departments for administration, technical assistance, social promotion and cooperative training. At that time there were also 11 Peace Corps volunteers working in the program.

At the cooperative level, FUNDE insisted on good management. Managers were sometimes recruited and almost always approved by FUNDE. A "no interest" system of management loans (up to 18 months) was set up to allow new cooperatives to have professional, full time management from the beginning; and a rigorous training program was provided for both managers and board members. 3/

1/ Heard, John, et. al. "Cooperatives as a Vehicle for Rural Development in Nicaragua, An Assessment for the Purpose of Foreign Assistance Strategy Formulation", January 1978, p. 189. The Credit Union portion of this study was carried out by Dr. Christopher Baker of the Credit Union National Association (CUNA).

2/ Ibid, p. 189.

3/ A new cooperative training department was established in 1977 (Centro de Entrenamiento Cooperativo - CECOOP) thanks to a grant from Private Agencies Collaborating Together (PACT). See Chapter V.A.6. for history and description of the CECOOP program.

Thirdly, throughout the period FUNDE was able to develop and maintain a relationship of mutual trust and respect with its cooperatives, a condition which persists today. Cooperatives were visited at least two or three days each month without fail; communication and feedback was excellent; a variety of community action initiatives were launched around the focal point of the credit union (day care centers, medical dispensaries, adult education, etc.) by the department of social promotion; and a number of incentives were set up to stimulate performance at the credit union level; awards, citations, and regular meetings with managers. 1/ Communication and feedback activities were excellent. Above all, FUNDE came through with both excellent service and substantial financial resources. 1/

A fourth major factor had to do with systems and procedures developed during the period. The principal focus was on accounting. Simple and effective record keeping and financial control functions were developed and checked on continually. By 1977 financial statements were produced accurately within three days of closing in most of the cooperatives. A sense of order and control was established which has lasted to this day.

Finally, but by no means least important as a factor, the level of international and domestic support for the foundation and its program during the period was extraordinarily high, thanks to both the promotional efforts of the director and the success of the program itself as it evolved. FUNDE literally tapped every source it could identify. From the private banking system in Nicaragua millions of cordobas were lent directly (and through FUNDE) to the cooperatives (a portion of which was backed by FED guarantees). 2/ The IAF, FUNDE's most consistent supporter, provided large and continuing grants for staff support, cooperative lending and capitalization, and the CFER program.

1/ Op. Cit. Heard, pp. 187-189

2/ Fondo Especial de Desarrollo, a government guarantee fund managed by the Central Bank and backed by AID's centrally managed community credit guarantee program. (FUNDE no longer has access to this program.)

AID financed a total of four operational program grants for cooperative development and lending plus others for the CFER program. SOLIDARIOS ^{1/} made its first loan to FUNDE in 1977 (\$50,000, to be followed by over \$1 million in two other loans in 1978 and early 1980). The Pan American Development Foundation also continued to support FUNDE over the period and small grants were received from diverse sources in Nicaragua, the United States, and Europe.

As a result of all the above factors, FUNDE's operations quadrupled during the period in terms of resources, beneficiaries, services offered and activities in general. By 1979 the staff grew to 56 full time employees, 77% of whom were working constantly in the field. Of these some 30 could be considered professional or technical level. By the end of 1978 the outstanding FUNDE portfolio had grown to C\$7.5 million (C\$4.2 million actually lent during 1978) and corresponding cooperative lending amounted to 17.7 million. By the end of 1978 there were a total of 42 cooperatives which FUNDE had founded and with whom the organization maintained an official relationship. Of these approximately 32 were credit unions, six others were classified as agricultural, and two each were dedicated to housing and transport. A number of other groups were in various stages of formation at that point contributing to a large increase in cooperatives and members the following year (see following section).

Throughout the period, FUNDE concentrated almost entirely on cooperatives, and technical assistance, training and promotion activities were sharply increased thanks to large and continuing infusions of grant funding and substantial domestic borrowing. The model utilized throughout the period for cooperative development was that of the credit union. In fact most of the cooperatives classified as agricultural were originally credit unions which had diversified over time to include agricultural and "multi service" functions. ^{2/}

The only other significant and continuing activity over the period was the CFER program, which experienced substantial growth in

^{1/} Consejo de Fundaciones Americanas de Desarrollo (SOLIDARIOS), the Confederation of National Development Foundations, headquartered in the Dominican Republic. SOLIDARIOS has financing from both AID/W and the IDB.

^{2/} For further discussion of the FUNDE cooperative model, see Chapter VI. A.2.

the early years and then considerable difficulty as the country approached the civil disturbance and war era of 1978-79. (See V.A. 11.)

E. Civil War and the Aftermath: 1979 -Present (May 1980)

Despite the severe and growing civil disturbances in Nicaragua during the period September 1978 through May 1979, leading to full scale war in June, the FUNDE program proceeded with only minor interruptions. A number of new cooperatives were formed and lending operations continued to expand at a substantial rate, especially in response to the sharply increased need for emergency, rehabilitation and working capital financing after the widespread fighting of September 1978. Throughout the period, both the national and private banking systems were experiencing increasing liquidity shortages. After the crisis of September 1978, FUNDE succeeded in securing donations and commitments within a period of weeks in the amount of almost C\$3 million in response to the emergency from a combination of donors (the Pan American Development Foundation, the IAF and Agri-Accion of Germany). On the basis of a rapid survey of damages in the most seriously affected communities (over 600 members interviewed in Masaya, Chinandega, Matagalpa, and other cities) other activities were suspended for the rest of the year and a program of emergency financing was set in motion. This was shortly converted to a system-wide effort; and between mid-October and the end of the year, the entire C\$3 million was disbursed, representing a record for that point in FUNDE's growth, only to be exceeded by what came after the revolution.

The period from the end of the War (July 19, 1979) to the present (May 1980) has been a totally remarkable phase in the development of the FUNDE's program and warrants discussion here because of what it demonstrates with respect to the resiliency of the system, its leadership, its response capability and its potential for the future. Almost immediately after the war ended, mainly by the first of August, most of FUNDE's existing cooperatives opened and commenced operations, often in the face of heavy war related damages and adverse circumstances. For a period of months, and in some cases still, the FUNDE cooperative was the only place in the community where members and non-members alike could go for urgently needed financial resources for emergency repairs, damaged or destroyed housing, wiped out inventories, personal emergencies, etc. The Banking system, for practical purposes, was

paralyzed; and even when it did become active again under its new nationalized state, with few exceptions, credit was available for agricultural production only, and (to most borrowers) only under the terms of the new government's collective production oriented program. Consequently, the FUNDE cooperatives were flooded with old and new members, not only seeking credit, but also looking for a safe place to deposit existing savings and proceeds of operations. In every one of the 12 cooperatives visited by the analyst, for example, membership, loans, and share capital had increased at unprecedented rates since the war, especially from August through the end of the year. In most cases, these indicators jumped between 75% and 150% in seven months. New members are still pouring in today to each cooperative at the rate of 10-30 per month. In terms of the cooperative system as a whole, Table III. B. below compares key indicators at the end of 1979 with those of a year earlier.

Table III.B.

THE FUNDE COOPERATIVE SYSTEM

GROWTH INDICATORS: 1978-1979

(figures in C\$ millions)

	<u>1978</u>	<u>1979</u>	<u>% Growth</u>
Membership	9,270	17,700	91%
Affected Population <u>1/</u>	24,102	46,020	91%
Outstanding Loans to Members	16.5	33.4	100%
Outstanding Loans from FUNDE to coops	5.2	13.3	156%
Share Capital (aportaciones)	8.9	17.4	96%
Donations	1.5	4.1	173%
Total Assets	19.3	48.3	150%
Cooperatives <u>2/</u>	42	58	38%

Source: FUNDE: Balances Consolidados

1/ Derived by multiplying heads of households by five and adding to other members. Approximately 40% of members are heads of households.

2/ Most of the new cooperatives were in various stages of formation before the war, many from 1978.

With respect to FUNDE itself, the organization operated in a state of emergency throughout the remainder of 1979, first in order to raise the capital and provide the services called for by the situation and secondly because of an internal crisis brought on by external factors. As it was described to the analyst, late in the year a "psychosis of fear" took over in FUNDE, due to circulating rumors that the organization was going to be liquidated. Department heads and professionals alike felt severe pressure to protect their security in one form or another in the uncertain environment that prevailed. In addition, a number of the more outstanding professionals were hired by the government in its search for good talent at the time. By the end of the year FUNDE was operating at half staff. Only one of the original department heads now remains, and at present something in excess of 50% of professional personnel are new since the war. ^{1/} The fact that the organization was not only able to survive under these circumstances but to double its program in terms of the volume of operations and introduce a number innovations in the process (see Chapter V.A.) is extraordinary and a testimonial to the quality of management and leadership, which, fortunately, was one consistent feature throughout the crisis.

Also since the war, FUNDE's organizational structure and program have been substantially revised and improved. Two new departments (now called "centros") were created for Housing and Research and Development. The Department of Audit was strengthened and set up for the first time independently of Technical Assistance, and its role changed to one of pure audit as opposed to technical assistance focussed on accounting, as it was previously. The Department of Social Promotion (losing its chief to the government) was eliminated, and two social workers were added to the Housing Department. An executive assistant was hired and attached to the office of the Executive Director and also made responsible for a new and promising cooperative commercialization program. Other changes were made in the administrative area. The CFER program was also reorganized and replanned. The net effect of the above, as will be seen in greater detail in sections to follow, has been that FUNDE is now capable of offering a broader and more professional range of services at a higher volume than ever. The

^{1/} As of the end of 1979, 25 of 57 total employees (43%) had left FUNDE. If the CFER program is removed from the total, the rate climbs to 50%. It is believed to have been somewhat higher, however, if only professional personnel are counted.

organization still faces serious constraints and considerable uncertainty, 1/ but it came through the emergency stronger than before, and most indicators are highly favorable.

As with previous periods, it must also be noted here that both the survival and growth of the program are still dependent on a heavy and continuing stream of donor financing. Basic operations (technical assistance, training, audit) continue to be covered in large part by the Inter-American Foundation. The CFER program is supported jointly by AID and the IAF; the new housing department is covered by a grant from Private Agencies Collaborating Together (PACT); and the new Research and Development Center is funded by Appropriate Technology International (ATI). In addition, lending capital since the war includes \$1 million from the IDB (to be channeled direct to FUNDE cooperatives from the National Development Bank), just over \$1 million from SOLIDARIOS, and \$.5 million from AID in the form of an emergency grant in September 1979. Since the War, FUNDE and its cooperatives, for all intents and purposes, have been cut off from domestic bank financing. 2/

1/ Constraints and limiting factors are discussed in Chapter V. None are insurmountable. "Uncertainty" refers to the political climate in which the FUNDE system must operate. This is discussed at length in Chapter VI. A.3.

2/ An exception to this will be the IDB project referenced above, (to be channeled through the National Development Bank) although it remains to see how well this money will move for reasons explained in Section VI.A.3 below. (The first sub-loan under this project, C\$1.0 million, for the agricultural cooperative at Jalapa, was approved in May 1980.) There are also one or more cases of pending FUNDE cooperative loan requests with the BND; but none, as yet, have been approved.

CHAPTER IV

THE COOPERATIVE DEVELOPMENT PROGRAM HISTORY AND EVALUATION OF AID/IAF FINANCING

As will be seen, the complementary, continuing and overlapping nature of external donor and lender financed projects with FUNDE over the years, in addition to the growing complexity of the cooperative development effort, has made straight cause and effect relationships between individual projects and impacts almost impossible to delineate in clear cut form. In most cases donor inputs have been mutually reinforcing, however, along with FUNDE's own resources and those of the banking sector. Also, institutional memories have faded over time, as have old files and reports. Finally, there is a serious lack of valid social and economic data, which is badly needed, not only for impact evaluation, but for charting the course of the organization in the future. ^{1/}

This element of the evaluation, therefore, will focus more on the overall cooperative program than on individual projects, the period from 1975 on, and institutional and system accomplishments more than actual social-economic gains (although some valid observations and tentative conclusions can be drawn from proxie indicators, as will be illustrated in Section C. below.)

For the sake of presentation, a general finding is offered first, which is then followed by two major sub-divisions dealing with AID and IAF financing respectively. In a concluding section, the overall impact of the cooperative development program is summarized along with a series of achievement indicators.

^{1/} See Chapter V.A.5 for recommendations related to data collection and planning.

A. General Finding:

Donor financing has been of overriding importance to the development of FUNDE and its cooperative system. FUNDE is a foundation. It was not designed to become viable on the basis of operations (although this has now become part of its strategy for future self-sufficiency). Clearly the foundation would not have made a fraction of the impact that it has without a heavy and continuing stream of donor financing, nor would today's cooperative system have been built in the first place. Beyond leadership and management factors (in place since the beginning and financed by the Foundation itself) the secret of FUNDE's success over the years has come down to two simple elements; a) first rate talent for program design and implementation, and b) financial resources to be channeled to and through beneficiary groups. Without the abundance of both elements, donor financed over the years, only a small fraction of what has been achieved would in fact have been realized.

There have been times when outside observers have criticized FUNDE for being too dependent on donor financing (normally above 80% of operating budget). A conclusion of this analysis, however, is that this view misses the real point, which is success in terms of outreach and impact at the community level. From available reports, FUNDE has succeeded in Nicaragua to a degree that no other system has in combined terms of low cost social and economic benefits to the community, numbers of families affected, savings generated, and rural development stimulated (small enterprise development, agricultural and small industrial production, education and social services), and not least important, the generation of hope in what at times appeared to be a hopeless situation. As stated by a FUNDE cooperative director in a 1977 interview, "Before our credit union was established, this was a community without aspirations." ^{1/}

In summary, the results have justified the costs, which have been relatively modest (some \$2.4 million for AID/IAF giving, representing the vast majority of all grants over the period 1975-1979). One need only look at the system today (see Chapter V), its members, the response to the crises of the war, and its present rates of growth, diversification and innovation. Continued substantial donor funding is warranted over the medium term future, although at levels that can

^{1/} Op.cit. Heard, p. 155

be reduced over time as a growing share of operating budget and capital costs are generated by the system itself. (See Financial Analysis, Chapter VII). There is nothing wrong with this as long as equitable social and economic benefits continues to expand and the cooperatives themselves can be brought to a state of self-sufficiency for the unforeseen eventuality that the system breaks down. This becomes less and less likely as time goes on however, The chances are that FUNDE has already been through its worst crisis 1/ for years to come.

B. AID and IAF Assistance, 1975-1979

In reviewing the history of AID and IAF inputs to the cooperative program over the years, the degree of collaboration and joint planning on the part of the two donors is not clear. It doesn't matter now, given results, but could well in the future. (See Chapter VIII relative to the need for a consortium approach to future assistance.) In any case, the donors complemented each other nicely over the period, with or without planning it that way, thanks in large part to FUNDE's own well developed capability to orchestrate contributions. AID and IAF are taken up separately below for the sake of clarity, although both have been contributing to the same ends all along. 2/

1. AID

For the first time in early 1975 both AID and the IAF 3/ launched substantial projects specifically for cooperative development. In the case of AID, this took the form of an OPG (signed in January 1975 for \$75,000) for the formation of rural market

1/ The post-revolutionary period, August-December 1975

2/ Although this Chapter is focussed on the cooperative development program, both AID and the IAF have also contributed substantially to the CFER program. (See Chapter V.A.11.)

3/ As mentioned in the historical framework, the IAF had already become a major donor to FUNDE prior to 1975 with at least \$.5 million for training and financing of marginal community groups.

women's cooperatives (credit unions.) Support was continued until mid-1978 through an amendment and a follow-on OPG for small merchant cooperatives. 1/ Total cost to AID amounted to approximately \$205,000, of which \$85,000 went for new cooperative managers' salaries, another \$150,000 for FUNDE staff and promotional costs (salaries) and the remainder for equipment (vehicles, cooperative office equipment, etc.) Seed Capital for cooperative lending was drawn from the private banking system.

Although the only evaluative document located that focussed on this project exclusively was a PAR drafted in January 1976 2/ the PP for the second OPG in January 1977 stated "The experience, as this project nears its conclusion, has been sufficiently successful to have generated spontaneous new demands in towns of similar size and economic activity." At the time, Nicaragua had approximately 35 towns of between 2,000 and 10,000 population. The first OPG project had set up cooperatives in 20 of these, and the goal of the second became to cover the remaining 15, at which point the country would be blanketed at that level. (It should be pointed out that by the end of 1974 market credit unions had also been established in 14 other larger urban centers.)

The January 1977 Grant Agreement was for one year (\$75,000) and was followed by lower cost amendment covering 1978 activity. By the end of 1978, there were 42 officially recognized cooperatives in the FUNDE system with over 9,000 members and at least eight or ten other cooperatives in various stages of formation and recognition. It is likely, therefore, that FUNDE was fairly much on target at the time the grant ended. In any case, the program can be considered one of AID's OPG success stories, not only in terms of growth (coops, members, share capital, etc.) and socio-economic impact, but also because the grants helped FUNDE at a critical point

1/ The same model as that for market women, but with a somewhat broader membership base of small merchants in and outside of the market.

2/ The PAR, drafted by the AID Project Manager, Charlotte Jones, showed all targets being exceeded except membership and provided a very positive reading in general. The only recommendation was to reduce subsidies to credit union managers from 24 to 18 months. These were in the form of a grant at the time. Now FUNDE's policy is to provide no interest management loans for new cooperatives.

when it was developing and refining a model which has survived the test of time and become the foundation for the entire cooperative system.

In terms of follow-on assistance from AID, by mid-1977 FUNDE was soliciting for a proposed "diversification" program in line with an evolving strategy to superimpose a "multi-service" structure (including agriculture, housing, commercialization, etc.) on the base established by the credit union. At the time, AID was interested in the development of general cooperative program for Nicaragua and was planning an assessment of the movement as a whole in order to formulate an overall strategy. AID's response to the Diversification proposal, therefore, was delayed so that the assessment could analyze it within the broader light of the movement and other programs. The study, carried out in the late fall of 1977, was asked, among other things, to evaluate the FUNDE proposal as well as the effectiveness of the FUNDE system in responding to member needs.

With respect to the Diversification proposal, the study recommended that it be approved after a supplement had been added dealing with technical questions related to diversified service capability. In addition, a plan was recommended prior to the second year of the grant in order to respond to long-range questions regarding where FUNDE was headed and how certain issues would be handled in the future, i.e., capital mobilization, incorporation of the cooperatives within some sort of integrative structure, the development of new required technical capability, etc.) With respect to FUNDE and its cooperatives as a whole and the system's response to member needs, the study in general found that a first rate and highly responsive job was being done.

The Diversification grant was signed in March 1978 for a total of \$200,000 and disbursements commenced in May. Within four months (by September) the grant had been entirely disbursed and placed at the cooperative level. It was not until March of 1979, however, that the Mission was able to respond with an amendment and additional funding to bring the package up to the \$.5 million originally solicited. The additional \$300,000 was disbursed by the end of 1979 and assisted FUNDE in responding to the crisis of liquidity in the countryside after the war. Approximately 50% of the total amount went for working capital (mainly small business and industry). Housing

absorbed about \$130,000, and the remainder went for fixed investment and agricultural production.

Finally, in its most recent grant to the program (September 1977) AID provided an additional \$500,000 to be channeled through cooperatives in response to the emergency created by war damage to members throughout the system. This OPG was likewise totally disbursed by the end of the year. As of December 31, \$438,000 was outstanding at the cooperative level (breaking the earlier disbursement record), \$240,000 of which was for small business, \$170,000 for agriculture, \$29,000 for housing and \$41,000 for infrastructure and services.

Concerning the success of the Diversification and Emergency grants, not only did they serve their intended purposes in terms of credit diversification (also strongly supported by IAF - see below) and responding to emergency needs, but also directly strengthened the overall cooperative system. The reason the system experienced such spectacular growth in 1979 was precisely because it was able to respond in a meaningful way ("con los reales") to the critical needs of the time. In visits of the analyst to cooperatives throughout the country, almost all of those visited had outstanding balances in the two categories and stressed the great utility of these funds at the time in addition to considerable additional need at present due to current and projected growth.

2. The IAF

On February 12, 1975 a two-year grant agreement was signed with the IAF for \$531,000 to "expand and improve services," strengthen the 14 previously formed market women's cooperatives and organize seven new urban versions. These were to be linked through a national association ^{1/} to the 20 other cooperatives to be promoted and financed by AID. Membership was to increase from 3,500

^{1/} The formation of the national association never took place due to an unforeseen conflict with the cooperative law of Nicaragua which specifically prohibited the formation of more than one federation or second level organization for a given type of cooperative. The Credit Union Federation (FECACNIC) occupied the space for credit unions. There is a plan to rewrite the law over the next year or so in line with precepts of the revolution.

in existing coops to 8,000, plus 1,400 more in the seven new ones. Share capital was to increase to \$600,000. Linkages to other incipient central american market women's cooperatives were to be made. 1/

The grant financed five professional staff members for a strengthened program of cooperative education and training in addition to four others for a specialized technical assistance group including administration, audit and promotion. For cooperative lending \$300,000 was provided, to be matched by \$200,000 from local banks. The \$300,000 was to form a rotating loan fund which would be passed to participating cooperatives in the form of capitalization grants at the rate of \$1.00 for every \$2.00 in share capital mobilized by the cooperatives, leading to total capital accumulation of \$900,000 at the local level. FUNDE was to hold the funds in trust, while using them in the credit program, until the required \$600,000 in member contributions had actually been raised. The deadline was February 1977.

In late 1976 it became clear that the capitalization target would not be met in time and the agreement was extended for an additional year and then again through August 1978. By that point, all grant resources had been exhausted, including the \$300,000 for lending, which by then had been disbursed to 21 different cooperatives as capitalization grants ranging in size from \$2,900 to \$13,700. It was also during this period that the current training center, CECOOP (Centro de Entrenamiento Cooperativo) was established, with specialized technical assistance from the Institute for Cooperative Research and Development (IFC) of Honduras (Instituto de Investigación y Formación Cooperativista). 2/

In October 1978 the grant was amended again in response to the urgent need for lending capital generated by the

1/ The relationship with other Central American programs was to be made through the National Association and was not attempted.

2/ The creation of CECOOP and IFC technical assistance was financed by PACT. The IFC itself has a general support grant from the IAF.

September political crisis, and \$355,000 was provided for emergency loans, almost all of which was disbursed by the end of the year. Additional budget support was also funded for continuing impact evaluation of the credit provided. 1/ Although this final amendment was to run three years (until September 1981) there remained a continuing need for budget support for the program at large, which was eventually handled through an entirely new grant package described below.

In July 1979 a major new three-year grant was signed with the IAF for "Diversification" of the cooperative program. The plan was based on the shift in strategy which had been evolving since early 1977 when FUNDE first approached AID along the same lines. In addition, resource mobilization and programming by type or group of cooperatives was given up in favor of concentrating on the diversification of the system as a whole. All coops were to eventually become "centros de servicios múltiples" offering a broad range of services, on the base of the original credit union. 2/ The IAF grant, therefore, was structured to provide budget support for the overall cooperative program over the three year period ending in September 1982.

Financing under the grant, amounting to \$905,000, is totally dedicated to budget support over the period. All complimentary lending capital is to be raised by FUNDE from sources such as SOLIDARIOS, AID, the IDB, etc. Of the total, over half, (\$498,000) is for a considerably strengthened program of technical assistance and audit, including the development of new capability in the agricultural area. Of the remainder, \$286,000 is programmed for the training center (CECOOP) and the rest (\$120,000) is for new cooperative promotion. Other donor funding for housing and research and development (see V.A.5.& 9.) is taken into account.

1/ Much of the preliminary work for sample surveys to capture social and economic impact data from the emergency program was carried out in early 1979. The surveys themselves, however, were never realized due to the press of other commitments after the war.

2/ There are a handful of special exceptions to this such as the housing cooperatives in Granada and Masaya and the taxi cooperative in Managua.

The grant was also based on a new FUNDE strategy for self-sufficiency which called for eventual viability of the foundation on the basis of increased lending and a phased program of levying service charges on cooperatives that reached determined levels of financial and technical strength. Incorporated in the plan is the notion that this will be the last IAF grant for general budget support to the program. 1/

In addition to the above series, other IAF grants have been made over the years to individual coops in the system, the coffee coop at Bocaycitos, for example, and the taxi coop in Managua. For reasons of time and space, these are not covered here, but they have definitely contributed to the overall strengthening of the system. With respect to the success of IAF giving in general to the cooperative program, one must look at collective impact over the period, including inputs from AID and other donors. This is covered in the following section.

C. Impact of the Cooperative Program (Combined AID/IAF Giving)

AID and IAF giving combined has amounted to approximately \$2.4 million for the five-year period 1975-1979. Of this, about \$700,000 was for budget support with the remainder going for lending and capitalization of the cooperatives. 2/ As is illustrated below, the conclusion of this analysis is that the above figures represent a very modest price for impact attained in comparison with other cooperative development projects around the world. These resources were significantly augmented during the period by substantial borrowing from the Pan American Development Foundation (PADF), local banks, and SOLIDARIOS; but in general AID/IAF grants can be considered to have been the mainstay of the program. 3/ With the above in mind, estimated impact of the program and relevant success indicators are described below.

1/ "Proyecto de Autosuficiencia de FUNDE en el Futuro, Período 1979-1983" produced and submitted to the IAF in February 1979. FUNDE's resources and projected viability are discussed at length in Chapter VII.

2/ AID's contribution consisted of \$1 million for lending, plus approximately \$285,000 for budget support. Corresponding figures for IAF grants are \$655,000 and about \$400,000 respectively, including 1979 disbursements from the present grant.

3/ Grant funds from AID and the IAF combined represented 94% of all grant inputs received by FUNDE during 1979. (Includes the CFER program.)

1. Growth and Cost per Beneficiary

Growth indicators are provided in the historical perspective and Chapter VII (Financial Analysis). Here it is sufficient to reiterate that the system grew by 44 cooperatives over the period and some 14,200 members. Total affected population by the end of 1979 was estimated at 46,020. Directly or indirectly the \$2.4 million probably benefitted nearly all of these, coming to a cost per person figure of about \$52.00. Even if only half of these actually benefitted, however, the figure of \$100 (in a cost/benefit sense) ^{1/} would still be respectable compared to similar projects throughout Latin America; and this does not take into account the employment and income generation effect of the financing for other thousands of families, still outside the system, but who benefitted one way or another from the enterprises financed. In field visits, coops reported that new members are still coming in at a rate which varied between 10 and 30 per month. The multiplier effect of these resources has been very high. ^{2/}

2. Equity and the Rural Poor

Although solid statistics are not available, a recent sampling from FUNDE loan files found current ranges of family income as shown below.

^{1/} Due to lack of data it was not possible to perform a meaningful cost/benefit analysis of AID/IAF giving over the period. Nevertheless, AID financed cooperative development projects in Latin America have typically ranged from several hundred dollars per member to well over \$1,000. In Africa costs of over \$5,000 per family are not uncommon. In the experience of the analyst, this is the lowest cost program of its type that AID has financed.

^{2/} The multiplier effect refers primarily to the fact that cooperative lending (in the FUNDE system) exceeds by approximately three times financing received from FUNDE thanks mainly to lending ratio requirements and a corresponding savings generation effect. (See Section 4 below). AID and IAF contributions have also made possible the securing of bank and SOLIDARIOS financing.

TABLE IV A

COOPERATIVE MEMBER INCOME LEVELS

	<u>C\$/Month/Family</u>	<u>Dollars Per Capita/Year</u> <u>1/</u>
Small Business	500 - 3,000	120 - 720
Small Industry	500 - 5,000	120 - 1,200
Farmers		
Coffee	1,000 - 8,000	240 - 1,920
Basic Grains	500 - 3,000	120 - 720

Source: Cooperative Loan Applications - FUNDE (Miscellaneous Sampling.)

The above rates generally correspond to those the analyst gathered during field visits. In general, incomes appeared to range between C\$500 and C\$3,000 for the vast majority of socios.

Another indicator of rural poor outreach is average loan size. In most cases, average loans for small business and industry ranged from \$100 to 500. In agriculture, figures varied more substantially, but for the most part between \$500 and \$2,000 per socio, with coffee producers receiving somewhat larger loans. FUNDE's stated policy is that the maximum loan for working capital should be no more than \$2,000 and \$3,000 for agricultural production. 2/ Almost all farmer members work from 1 to 10 Mzs. 3/

The above figures provide some idea as to the economic level of the majority of FUNDE memberships. In the future, much more comprehensive indicators should be available through a recommended data collection and processing system to be established under the AID project proposed by this evaluation.

1/ The ten to one official rate is used here for conversion of cordobas to dollar income per annum, although the street rate is around 17 to 1 at the time of this writing. Five members per family is assumed.

2/ This was the policy as of August 1979. Undoubtedly the figures have increased since, although the point is still valid.

3/ Manzana (Mz): Standard unit of land measurement in Nicaragua. 1 Manzana = 1.7 acres, approximately.

3. Production vs Consumption

As of the latest breakdown available, approximately 70% of the FUNDE portfolio was dedicated to small commerce and industry with another 27% going to agriculture. The remainder was divided between housing and infrastructure. This generally ran true in cooperatives visited. In almost all cases at the cooperative level, lending for pure consumption (family expenses and purchases not related to some productive end) was either absent altogether or below 20%.

The vast majority of all lending, therefore, is going to "productive purposes" in terms of small enterprise development, most of which is highly labor intensive and economically beneficial in the Nicaraguan context. (This is the case in both market town and agricultural settings.) Furthermore, lending for agricultural production has taken a strong surge since the war. Between 1974 and the end of 1978, total FUNDE lending through cooperatives classed as agricultural came to no more than about 13% of total lending. Agricultural lending is projected to increase substantially again in 1980 relative to other portfolio classifications. 1/

4. Savings Generation

As can be seen from the figures in the Table IV B below, FUNDE cooperatives have been an effective vehicle for savings mobilization over the years. Much of this would not have occurred without the program. A significant portion of the system's members have not been accustomed to dealing with banks in any form, but especially in the area of savings. The success of the vehicle in this case rests largely on the nature of cooperative lending. Normally, loans are granted on a 3:1 ratio basis (credit to share capital contributed by the member).2/ Also, at the time of joining the cooperative,

1/ See Chapters V.7. and VI.B.1 for discussion of this trend. As a matter of policy, FUNDE has approached agriculture cautiously because of the higher risks associated with agricultural credit. Now, with an established base to work from (primarily through the credit union vehicle) it is possible to increase agricultural lending much more rapidly.

2/ In some cases, especially agriculture, the ratio can go as high as 6:1.

the new member commits himself to a determined savings rate and must save for a minimum of six weeks before the first loan. During field visits all coops reported regular contributions by the great majority of members. Monthly contributions were found to average on the order of C\$25 to C\$50. Members often contributed on a daily basis, especially in the public market linked cooperatives. In addition to standard capital contributions ("aportaciones") selected cooperatives are now starting up regular passbook type savings accounts ("ahorro retirable") ^{1/} for the first time. It is expected that results in this area will be less impressive due to the more voluntary nature of the activity.

TABLE IV B

MOBILIZATION OF SAVINGS BY FUNDE COOPERATIVES
(Share Capital Contributed)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Share Capital (C\$000,000)	1.5	1.7	4.5	7.2	8.9	17.4
Share Cap/member (Cordobas)	430	445	565	881	960	983
Rate of Growth/ member/year (%)	66	3.4	30	55	9	2.3 ^{2/}

Source: FUNDE Balances Consolidados

^{1/} The only cooperative interviewed which had a program that had been established for any length of time was Santo Tomás in Chontales. It had C\$190,000 in withdrawable savings and paid 7% interest.

^{2/} The sharp drop in the rate of growth/socio in 1978 and 1979 may be due in part to heavy emergency and reconstruction lending associated with the war which had more lenient loan/capital ratio requirements. The rate should increase substantially in 1980 given very positive experience in the early months of the year. Also, the large increase in new members in 1979 contributed to the rate drop in that year. In fact, that there was any increase at all per member in 1979 is a very healthy sign under the circumstances.

5. Financial Benefits

As has been observed and reported time and again with respect to the low income commercial sector of Nicaragua, local money lender rates for short term working capital range from 5% to 20% per month and more in some cases. This is especially true in public market settings. To socios able to borrow from the local cooperative, even at rates up to 2% per month (most are in the annual range of 14%-16%) this represents a substantial savings, which are then free for increased capital contributions and in turn greater borrowing capacity. Capital is short in rural Nicaragua and the real cost is high, especially since the war. In virtually all cooperatives visited a substantial unmet demand was reported (see Chapter VI.A.1.) The only cheap credit available, according to the cooperatives interviewed, was through the Nationalized Banking system, most of which is targeted for agricultural production. In the case of the National Development Bank (BND), financing is only available for collective and group efforts approved by PROCAMPO. (See Chapter VI.A.2.) Even in the past, however, most of the socios could not qualify for commercial bank borrowing and were likewise discouraged by time consuming procedural requirements and the cost and bother of repeated trips to the nearest agency of the National Bank. The financial benefits to the socio from utilizing his cooperative, therefore, have been substantial in terms of interest (vs. money lender rates), time, transportation and other costs saved plus the automatically increasing borrowing and investment capacity stimulated by the savings feature described above.

6. Social Benefits

Each of the cooperatives visited was either involved in some sort of community action activity or planning one or more new ones. In many cases, projects had been initiated in collaboration with the local "junta de gobierno" and included the reconstruction of markets destroyed in the war, day care centers, road improvements, latrines and other health improvements, housing projects, adult education, etc. The list could go on. For years, FUNDE had a department dedicated exclusively to social promotion 1/ which was responsible for

1/ The department was dismantled with the departure of its dynamic chief in late 1979, although two social promoters were added to the new housing department. The former chief, now working for the Institute for Natural Resources (IRENA) in the Atlantic Zone, was famous for her promotional and organizational talents.

much of the strong local orientation today. The community outreach philosophy is now well installed in most of the cooperatives and is incorporated heavily in FUNDE's training program. The orientation is strengthened additionally now by precepts of the revolution calling for strong projection to the community, social action, and popular participation.

7. Innovation, Diversification and Appropriate Technology

Since the beginning, FUNDE never stopped experimenting, which eventually lead to the multi-service, diversified model being pursued today. Building on the base of the credit union, one pilot initiative after another has been tried; procedures have been refined and streamlined; and new activities have been introduced in agriculture, marketing, retailing, education, etc. This was found to be the case in almost all of the cooperatives visited. (See Chapter V and VI for greater detail). A testimonial to this is the current grant from Appropriate Technology International (ATI) for the new department of Research and Development. One of the purposes behind the giving was to document a number of the more successful FUNDE models and schemes for replication elsewhere. In this case, cooperative development and management methodology in and of itself, as employed by FUNDE, is considered a "technology" qualifying for the "appropriate" label relative to the rural Nicaraguan setting. (Also see Chapter V.A.5. Research and Development.)

8. Other Benefits

For other benefits in terms of the financial development of the system, leadership, popular participation, management, etc., see Chapter V.B. below.

CHAPTER V
INSTITUTIONAL ANALYSIS
PRESENT CAPACITY OF THE FUNDE SYSTEM

This chapter is divided into two basic parts dealing first with FUNDE as an institution and then turning to the cooperatives which make up the field end of the system. In the case of FUNDE itself, findings and recommendations are shown in each sub-section, as well as in summary form in Chapter II.

A. FUNDE

1. General Finding

As will be illustrated below, despite the fact at least half of FUNDE's professional staff is new since the war, the organization is now stronger than it was before in terms of institutional resources, systems, methodology and technical capacity in general. This is not to say that there are not problems and constraints to be overcome for the program to continue expanding and realize its medium and long-term potential. These are covered below, and a variety of recommendations are offered, including measures which could be financed by the proposed AID project. Nevertheless, the present degree of professionalism, organizational efficiency, and quality output per staff unit is exceptionally high.

2. Organization

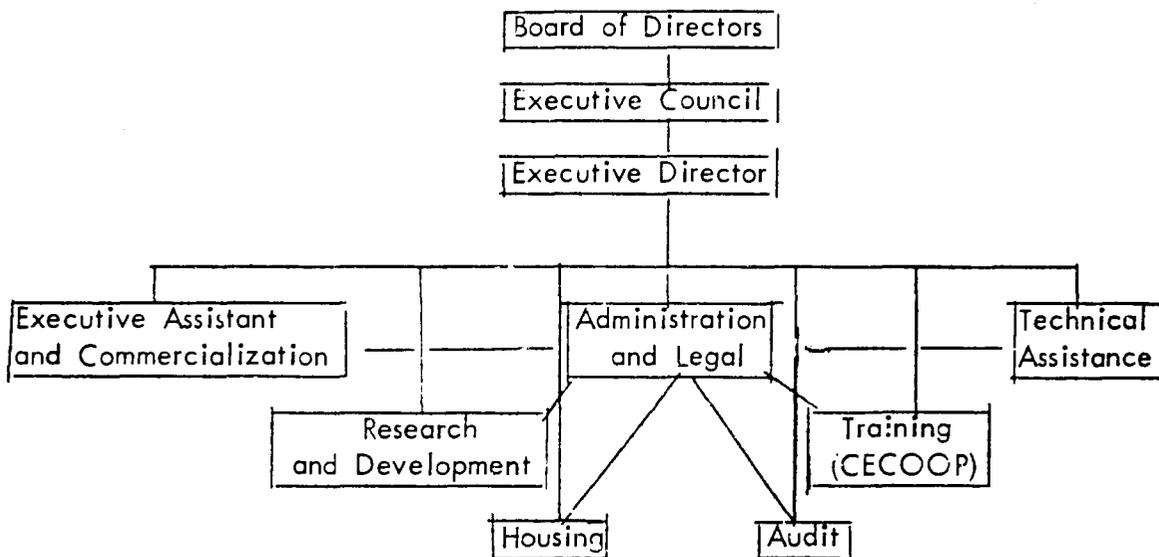
FUNDE is a non-profit civil association and has legal status under Nicaraguan law. At the highest level it is governed by a 16 member board of directors (Consejo Superior) which includes three representatives of the National Development Institute (INDE). Other members

are elected on their merits from the Private Sector at large. 1/ Under the board is an eight member executive council which meets twice a month for program review and required decision making. The third layer is represented by the executive director who is dedicated "full time" to the daily operation and administration of the foundation. 2/ At present he is assisted by a part-time executive assistant (also responsible for the new commercialization program).

With respect to working level organization, all lines of authority radiate from the office of the executive director. This, in fact, is how the organization operates, (as shown in Figure V A below) although in the Director's absence the Chief of the Administrative Center takes over. 3/

Figure V A

FUNDE's Current Organizational Structure



1/ There has been some discussion at the Board level of the possibility of incorporating some representatives from the cooperatives themselves as well as a possible government representative (most likely from the Ministry of Housing). This is still at the idea stage, however.

2/ The Director is also Executive Secretary of INDE which requires an undetermined but relatively modest amount of his time.

3/ FUNDE departments are known as "Centros" and Chiefs as "Jefes de Centro".

a) Findings

In assessing the merits of the above structure, positive features which stand out include great flexibility and a rapid response capability, excellent vertical communication, and a true lack of bureaucratic barriers which normally plague such institutions. Horizontal coordination and communications are maintained through weekly meetings of the "Jefes de Centro." Agendas are used, and detailed control sheets are prepared and distributed after each meeting indicating actions, responsibilities, timing of task completion dates.

On the negative side, the only problem at the moment is the risk associated with what appears to be an over-dependence on the Executive Director. (See Management below). Also, the system places a heavy burden on management to be constantly and personally on top of all functional areas. Present management is capable of this. The average manager would not be.

b) Recommendations

None are offered at present (with the exception of those under Management below). As the institution grows in size and complexity in the future, there will come a point at which elements of a more traditional organizational structure will have to be introduced. The less the better, however, as part of FUNDE's dynamism as an organization springs from this highly personal and flexible structure.

3. Management

a) Findings

(1) Positive Factors

In the experience of the analyst, the current Executive Director (with FUNDE since the beginning) is without parallel in terms of dynamic leadership and management ability. Today FUNDE is basically what the Director has made it over time, and the entire organization reflects his commitment and talent. To a large degree the sustained high level of production within FUNDE over the years is a direct product of the Director's skill in obtaining a maximum effort from his staff. The Executive Director is also famous for his consistent success in resource mobilization and in the "orchestration" of donor inputs in a variety of complementary packages. Finally, FUNDE management must be credited for the action oriented style of the organization and its commitment to move forward despite existing and potential obstacles. This was amply demonstrated by the effort made after the war to gear up the program overnight in the face of the gene-

ralized chaos facing the nation at the time. The variety of the FUNDE program and the manner of its evolution also reflect this quality.

(2) Limiting Factors

As in the case of the organizational structure, the fluid management style in FUNDE allows for great efficiency and flexibility, but also brings with it certain risk. This is especially true now with all but one of the Center Chiefs new since the war. At this point only one person has a complete grasp of operations, and during his absence a void of information and decision making capability is evident. A variety of questions can be answered only by the Director, especially those dealing with overall policy, strategy and resource mobilization issues, relations with the government and other organizations and major questions related to cooperative financing. One recent and highly positive step in response to the issue was taken only in March 1980, when it was decided that FUNDE's credit committee would be able to meet in the Director's absence and approve loans on its own.^{1/} More such decisions will have to be made in the future.

As mentioned, the Chief of the Administrative Center takes over as acting manager in the absence of the Executive Director. He is working at top speed, however, in order to keep up with day to day administrative operations. (See Administration below). The Director is also assisted in a variety of specialized tasks by his executive assistant. She is likewise limited, though, by the major added burden of operational responsibility for FUNDE's cooperative marketing program. (See Commercialization, Section 8 below).

It is only fair to point out that FUNDE is still in a period of post-war transition. Gradually, the Executive Director intends to shift more and more responsibility to the Chief of Administration and various department heads as they develop the necessary experience and facility to accept greater management challenges.

b) Recommendations

(1) FUNDE should consider the establishment of a "Centro Ejecutivo" incorporating the permanent full-time position of the Executive Assistant (now only part-time).

^{1/} Prior to this move, FUNDE was powerless to respond to loan requests whenever the Director was traveling, and significant backlogs would develop.

(2) The position of the Chief of Administration should be strengthened in such a way that he could devote additional time to developing a solid grasp of management level issues and overall operations. (See following section).

4. Administration

The basic staff of the Administrative Center includes the Chief, Legal Counsel, three accountants, a portfolio manager and a secretary. Other employees of a general servicer nature are also attached to the center (receptionist, more secretaries, cashier, messenger, etc.)

In terms of functions, the Center is responsible for all traditional administrative and general services type activities, accounting, financial and portfolio management, questions related to cooperative personnel, and attention to the general public. The Chief is also charged with management of projects and relations with SOLIDARIOS, 1/ and plays a general "trouble shooter" role in the organization. Finally, as mentioned, the Chief takes over general management of FUNDE in the absence of the Executive Director.

a) Findings

The professional quality of the Chief and his staff appears excellent. They are managing an enormous volume of activity in the area of accounting alone, for example, both for general operations (including a payroll of 68) 2/ and the credit program (over sixty borrowers). An added complexity is that almost all of FUNDE's donors require separate and detailed fiscal reporting.

The second largest time consuming function has to do with a constant stream of cooperative directors and managers pursuing new projects, loan disbursements and a variety of other services and problem solving actions on FUNDE's part. In any given day, three to five cooperatives visit the central office. In approximately four weeks of work within FUNDE, the analyst did not manage to catch the Chief once alone in his office. His agility, however, in simultaneously dealing with a multitude of diverse actions is impressive and apparently equal to the task. The only problem is, there is little time to develop the background and understanding necessary to replace the Executive Director effectively, if and when this is called for; thus the corresponding recommendations

1/ As part of the "transition" exercise described above, little by little the Executive Director is turning over management of various donor financed activities to selected staff members of proven ability. (Also see Section 12.d) below, Capital Mobilization).

2/ Includes 17 employees dedicated to the CFER program.

under Management above.

Another administrative constraint at this point relates to the lack of manuals and operating guidelines. These are to be an output from the work of the new Research and Development Center (see Section 5 below); but in the meantime administrative and credit systems depend on the knowledge of existing personnel. New personnel are forced to learn procedures on the job through observation and practice.

A final problem area relates to a general lack of space (four or more work to a room), the need for an improved document control and retrieval system, ^{1/} and the lack of sufficient office equipment in good operating condition. FUNDE is moving so fast that questions of non-immediate importance of this type have had to slip. This is understandable, but there is now a need to attend to the area before systems begin to bog down from lack of adequate support of this nature.

b) Recommendations

(1) The staff of the division should be expanded modestly to allow the Chief to delegate more of his daily activity to subordinates and concentrate to a greater extent on overall management of the organization.

(2) Specialized short-term consulting assistance recommended to analyze the possibility of increased automation of the accounting and other systems. A small computer, for example, could also serve a variety research and other ends in FUNDE. (See Research and Development Recommendations below).

(3) Resources should be sought for the design and installation of an improved system for document control and retrieval. A historical and technical reference center for both FUNDE personnel and visitors would have great utility for the organization as it expands in the future.

5. Research and Development - Planning

The Department of Research and Development was formed in October 1979 through support from a grant by Appropriate Technology

^{1/} FUNDE personnel, especially the Chief of Administration, were generous in assisting the analyst locate files and documents. Time could have been saved, however, with a more adequate document control and retrieval system.

International (ATI). The original idea (when the grant was signed in January 1979) was to develop accounting and financial systems and carry out feasibility work for the establishment of a cooperative bank. 1/ Due to the nationalization of the Nicaraguan Banking system since the war, however, and the increasing need for appraisal of existing systems and models as a whole, the scope and objectives of the center were modified considerably and made more encompassing. The objective now is that the unit will essentially evaluate all operating systems and models at both FUNDE and Cooperative levels in order to develop and document those of greatest utility and efficiency. Manuals and guidelines are to be produced across the board.

Although the Center was formed in November 1979, only the chief (an economist and development planner) was on board until March 1980 when the full four-person staff was assembled. New personnel include a public accountant, a business administrator and a sociologist.

A comprehensive work plan has now been developed for the center. The plan, commencing in April 1980, runs for 40 weeks, at which point funding will be exhausted. (It is understood that FUNDE intends to approach ATI shortly for a second year of support, a need strongly supported by this evaluation. (See Recommendations below).

The work plan, for the time allotted to it, is immensely ambitious. Research is to cover all three levels in the FUNDE system; FUNDE itself as an institution and its historical evolution (1973-1980), affiliated cooperatives, and the beneficiary group. The plan calls for four basic stages; a diagnostic evaluation, design of new systems and models to be installed, implementation, and control or monitoring. FUNDE and its cooperatives are to be covered first, while most of the last nine weeks of the plan will be devoted to the member level. Specified areas of concentration include organization, administrative systems and procedures, (including personnel, budget and accounting) information systems and the development of a cooperative model. 2/ Data and information is to be drawn from survey work at all three levels, statistical and account-

1/ The grant was originally sold to ATI on the basis of the need to develop a model of appropriate technology in the area of cooperative credit system development.

2/ The cooperative model portion of the exercise will produce a complete manual, including description and instructions with respect to how to go about establishing and developing a diversified cooperative according to FUNDE's experience about what works and what doesn't. Included will be policy, methodology, procedures, criteria, etc., as they have evolved in the FUNDE system.

ing systems, extensive interviewing and available literature. The design phase of the project is to produce manuals in all of the areas of concentration. Once these systems and instruments are installed, the Centro is to convert itself into an evaluation unit for a continuing program of follow-up and monitoring.

a) Findings

(1) Positive

The R and D Center is exactly what FUNDE has needed for years. It is especially important at present due to the current rapid growth of the program and its increasing variety and complexity. Without such a unit, the situation could eventually become unmanageable, and serious mistakes could be made.

Personnel of the Division appear dedicated and well qualified, and are presently engaged in painstaking process of collecting, aggregating, and ordering existing data and material. The fact that it is so painstaking demonstrates how necessary the effort is. The Executive Director views the R and D Center as FUNDE's think tank. The rest of FUNDE has little time to stop and reflect on what's happening. The Center is critically needed for this and other reasons, as will be seen below.

Finally, the Center offers a real opportunity for replication of the FUNDE experience, not only in Nicaragua, but throughout Central and South America. In addition to the valuable documentation to be produced, the exercise could (and probably should) lead to the development of on-the-job training opportunities in FUNDE for personnel from other systems, as well as the provision of direct technical assistance from FUNDE to other organizations wrestling with many of the same constraints that FUNDE has faced and successfully overcome over the years. 1/

(2) Problem Areas and Gaps

There are two basic and serious gaps in the scope of the Research and Development Center at present which require priority treatment.

1/ Such a program might be an eventual source of income for the foundation.

• Socio-economic data:

There is no system in FUNDE currently for the collection and processing of member level social and economic data, now vitally needed for policy formulation, planning, resource mobilization and other purposes. Most of the available data is of an accounting nature, which serves well to document general system growth and financial requirements, but contributes little to the process of determining social and economic feasibility and priorities or evaluating impact effectively at the community level. Some data is available in disaggregated form in cooperative loan files (estimated income, size of holdings, assets, etc.), but no systematic attempt has been made to aggregate, tabulate, update, compare, analyze and use it. (Also see Section 7 below, Technical Assistance, relative to the need for agricultural data collection and analysis).

In fairness, it should be stressed that this is an area that FUNDE has been concerned about for some time. Plans for survey work have been developed in the past. The fact that they have not been carried out has been due primarily to the political turmoil of the past three years and the press of demand in the area of mainline operational functions - credit and services geared to loan placement and utilization.

Planning

Operational centers in FUNDE appear to have highly developed programming capabilities for periods of time of a year or less. The annual plans for training and the CFER programs are particularly impressive. Week by week activities and responsibilities are spelled out along with other necessary details. Short-term and annual cooperative level planning is also carried out effectively thanks to a strong focus on this under the technical assistance program. ^{1/} What is lacking, however, is a serious attempt at medium or long range planning for FUNDE itself and its cooperative system as a whole. Again, this is understandable. Under prevailing conditions it has been very difficult to make any assumptions (on which planning can be based) with any degree of confidence for more than a few months at a time.

In the past, as illustrated in earlier sections, FUNDE and its programs have grown and prospered on a trial and error

^{1/} Detailed annual plans can be found in FUNDE for each and every cooperative in the system, including month by month targets, activities and responsibilities. The same is true of the CFERS.

basis. Experiments were carried out and strategies evolved. Models were developed. Management was sufficiently agile to avoid the most serious pitfalls normally experienced from the lack of thorough planning.

Now, however, the need for basic multi-year planning is becoming critical. FUNDE is at a crossroad. Fundamental questions face the organization about its future. FUNDE is faced with a growing need, for example, to define its role relative to the Revolution, the new government and government programs, the rest of the cooperative movement, and the growth and diversification of its own system within this context. Long range planning will also aid considerably in the area of resource mobilization in terms of both donor and government negotiations.

(b) Recommendations

(1) Data Collection

Specialized short-term technical assistance is recommended for the development of a relatively modest program of social and economic data collection and analysis focussed on impact of cooperative activities (including the CFER program) at member and community levels. System design should include a simple mechanism for the updating and comparative analysis of time series data. It is suspected that much of the necessary raw data is already in place in member loan files ("expedientes"). The possible utility and feasibility of a small or "mini"-computer at FUNDE for processing of research as well as accounting and other operational data, should also be studied. ^{1/}

(2) Planning

Specialized short-term technical assistance is recommended to assist the Research and Development Center and FUNDE management carry out a thorough medium-range planning exercise (two to three years) within the next six months (prior to the end of 1980). The exercise should involve key FUNDE board, management, and staff personnel in addition to cooperative level representatives. In addition, a mechanism for periodic review and updating of the plan should be developed and incorporated within the scope of the R & D Center. The data collection and processing system to be established should obviously be geared into the planning system. Planning methodology should be based on current

^{1/} See Phase I of recommended AID project, Chapter VIII B.

"management by objectives" technology, available from a variety of sources in the U.S. and Latin America.

(3) Role and Functions of the R&D Center

The Research and Development Center should definitely become a permanent fixture of FUNDE's organizational structure. The staff also needs to be strengthened relative to the data collection, processing, and planning functions recommended above. Eventually, the Center should develop a full fledged management information system incorporating both socio-economic and operational data. This would also be the place to locate and maintain a documentation and reference center for use by both staff and visiting researchers, consultants, etc.

(4) Increased External Support

In addition to technical assistance recommended for the proposed AID project (Chapter VIII continued and increased budget support is recommended to Appropriate Technology International. The technological return from such support in replicable methodology for credit and cooperative system development will more than justify the continuing investment. (See Recommendations relative to the Consortium Approach described in Chapter VIII.)

6. Training: Centro de Entrenamiento Cooperativo
(CECOOP)

CECOOP was formed in early 1977 with assistance from PACT and the IAF. Technical assistance has been provided over the past three years by the Instituto de Investigación y Formación Cooperativista (IFC) of Honduras. 1/

The early years of the Center were difficult but highly productive in terms of evolution of approach, methodology, and material. Early goals were ambitious, and there was much disruption from the two periods of fighting. 2/ Today, the learning process continues with each course conducted. (All are evaluated by the participants themselves). Methodology and content are

1/ The author visited the IFC in Tegucigalpa in 1979 while working on a different project. The staff is well qualified and works with a highly developed and effective training methodology. The IFC receives continuing budget support from IAF.

2/ From September 1978 until the end of the year, for example, gatherings of over ten people under one roof were prohibited, effectively paralyzing the program.

constantly being refined. Monthly sessions are scheduled to evaluate the previous month's results and adjust content and delivery accordingly.

At present, the staff of CECOOP consists of the Director (specialist in social organization and adult education) and five trainers ("educadores") including two former secondary teachers, two marketing specialists, and a technician in social promotion. The Director is the only holdover from before the war. All others came on board in 1980. From interviews, observation, and attendance at one of the courses, they appear very professional and highly motivated. They teach most of the basic courses themselves, but also draw on the technical assistance and auditing centers for specialized presentation. This year, for the first time, they are also responsible for design and management of an internal training program for personnel of FUNDE itself, for which they are drawing on INCAE and outside consultants. Finally, they are in charge of FUNDE's publications program, including cooperative management and technical manuals, bulletins, etc.

The program for 1980 has been conditioned to a great extent by events related to the Revolution. Over two thirds of the entire program, for example, will be devoted to a series of 60 courses (one for each individual coop) which will concentrate on the new model of cooperation approved by the current government ^{1/} along with basic cooperative doctrine (revised according to precepts of the revolution calling for greater participation, social action and projection toward the community.) In the process some 1,800 socios, directors, and managers are to be trained. Each course lasts a full week and is conducted in the evening in facilities supplied by the cooperatives themselves. For most of 16 weeks, spread over the year, four courses will be running simultaneously.

In addition to the basic program above, 11 regional courses are to be held for cooperative directors in planning, education, production and marketing. Directors will be drawn mainly from recently established com-

^{1/} The First National Cooperation Seminar "Carlos Fonseca Amador" was held in Managua in November 1979 with participation from principal government and private agencies involved with cooperatives. They produced a new model of cooperative organization and a series of guidelines which are now serving until a new law can be developed. (See Chapter VI, Section A.3.)

mittees for these functions in accordance with the new organizational structure promoted by the government. 1/ Some 360 committee members (including managers) are to be trained. These are one-week courses held at regional locations during the day. Finally, all 60 managers are to receive a course in basic project design ("elaboración de proyectos") and 30 of these, selected for their experience, will receive an advanced course in accounting techniques. In all, 74 separate courses are to be held for cooperative level training during the year. Eight others are programmed for FUNDE personnel.

In terms of methodology, CECOOP utilizes modern techniques for the development of active student participation. 2/ Learning by doing is stressed throughout. In the basic course, for example, skits and socio-dramas are utilized extensively. The analyst attended one evening long session for a small cooperative near Managua and was impressed with the dynamic manner in which the material was presented and the success of the instructor in drawing students into active involvement relative to important issues facing the organization. Attendance was excellent and the atmosphere was stimulating and enjoyable.

In order to achieve a multiplier effect from its program, one of CECOOP's goals is to develop trained "educadores" in each cooperative who will carry on the work of basic education in cooperative participation with members at large. These are normally directors on cooperative "comités de educación" and are provided with both doctrine and simple adult education techniques. Learning material is periodically distributed.

In the conduct of its program CECOOP coordinates training activity with the Technical Assistance Center and others in order to promote complementarity of effort and mutual reinforcement at the cooperative level. In weekly meetings of Jefes de Centro plans are compared and reconciled. CECOOP also tries to structure or restructure each course so that it responds to the reality of the given cooperative or group. A variety of different needs, levels, and problems are exhibited within the sixty-unit system.

1/ New committees, elected directly by the socios, are (or will be) established in each cooperative for production, marketing, education, vigilance, social welfare and other functions. These, in turn, elect one member each to serve on a Coordination and Planning Committee which takes the place of the old "Consejo de Administración." (See Chapter VI A.3.)

2/ The methodology is described and debated in the 1979 report, "Informe del Programa de Capacitación Centroamericana", by Tito Quirós, Aldo Cardona, and Ricardo Puerta, published by the Centro de Investigación y Capacitación, San José, Costa Rica.

In another area, CECOOP is heavily involved in the coordination and preparation of cooperative assemblies (annual meetings) 1/ and tries to attend all of them, usually in the first three months of the year. CECOOP also is generally responsible for new cooperative promotion and the provision of initial training and orientation.

With respect to facilities, the co-ops themselves provide or rent space for courses dedicated to themselves on an individual basis. For regional courses, FUNDE rents or borrows space. CECOOP recently made a proposal to CARE for the financing of a badly needed national training center. Initial response was positive, but CARE, understandably, did not want to finance a unilateral effort. It was felt that such a facility should more appropriately be considered in light of the needs of at least two or more programs in collaboration.

Concerning the future, CECOOP intends to gradually raise the technical level and diversity of its training to respond to increasing needs of this type as the cooperatives themselves diversify. CECOOP will be pushing the multi-service model and will become more active in such areas as production, commercialization mechanisms, housing, social services and other areas. This year, however, due to the need for reorientation along the lines of the Revolution, the program must concentrate at the most basic cooperative organization level.

a) Findings

(1) Positive Features

Without question, CECOOP is doing a first rate job of meeting the continuing need for basic cooperative organization and management training. Programming, methodology, and delivery are excellent and conducive to the stimulation of lasting interest in self-help and further learning relative to system needs and challenges. The intensive training activity of the past three years has clearly contributed to the ability of the system to withstand and take advantage of the crises of the 1978-1980 period.

(2) Limiting Factors

Constraints related to long-term development are as follows:

1/ New government guidelines call for quarterly assemblies.

• Volume vs. Capacity and the Need for Over-Programming:

Due to the magnitude of the need represented by the sixty-cooperative system, courses have had to be programmed so tightly that there is little time for reflection, analysis, planning and curriculum development (a not unusual condition in FUNDE.) Also, there is no slack. In the event a trainer becomes unavailable for sickness or other reasons, the program has to give. The problem is exacerbated this year by the demand for reorientation training relative to the Revolution. 1/

• Exclusivity of the Program:

FUNDE training is offered only to FUNDE cooperatives. This is not viewed as a fault, but it may be a limiting factor and a "bone of contention" in the future. It is suspected that active collaboration between CECOOP and other cooperative systems might result in an uneven exchange, in that other sources probably do not have nearly as much to offer at this point as does FUNDE. Nevertheless, "cooperation" with other networks (such as they are) should probably be explored for political as much as for practical reasons. (Also see Chapter VI A.4. relative to potential collaboration in general between FUNDE and the rest of the cooperative movement.)

• Cost:

Training is expensive. The exercise of calculating total training cost has not been carried out, but it would appear to be in excess of \$100,000 per year. Cooperatives do contribute in the form of local facilities, and materials and some per diem and transport, but little else. For both financial and conceptual reasons, the cooperatives, at least the stronger ones, should commence accepting a larger share of the burden.

b) Recommendations:

(1) A medium term plan should be developed by CECOOP (as part of the larger planning exercise recommended) which, among other things, would show how capacity is to be developed for meeting the increasingly technical needs of the more advanced cooperatives as they diversify, both in terms

1/ The basic training being given this year is also essential in terms of reassuring cooperatives that the system is in fact alive, well, and able to respond to their needs. The confidence building aspect is important after what communities have been through.

of instruction and dissemination of informative and technical materials.

(2) Along the same lines, a special sub-program is recommended for the area of educational research and curriculum development relative to the evolving complexity of needs in the system. With funding, this effort could be carried out by CECOOP itself or within the scope of the R & D Center.

(3) FUNDE should develop and negotiate a fee structure for certain courses, even if only at very modest levels. One idea already raised would be for the cooperatives to dedicate a portion of their "ganancias" (20% of which are required by law to be deposited in a special reserve "fondo de educación") to covering a greater portion of direct training costs. Utilizing this system, the more prosperous the cooperative, the more it would pay. It seems an equitable way to commence and should be considered relative to other services as well.

(4) CECOOP should make an honest attempt to explore ways and means of collaborating with other cooperative systems and organizations. One possible benefit might be the training center for which FUNDE is seeking financing from CARE. It would also be good public relations.

7. Technical Assistance

The Technical Assistance Center in FUNDE has evolved through several stages over the years to its present form. It used to include the audit function, for example, and concentrated mainly on cooperative finance and management. Now the center is focussed on two basic activities, project development and finance (a loan office type function) and regular technical assistance covering both overall cooperative administration and specialized technical needs (related to agricultural development for the most part).

The Center Director, an agriculturist ("Ingeniero Agrónomo") with a strong background in animal sciences, manages a staff of seven consisting of two business management graduates, an economist, three additional agronomists and a livestock specialist. The two business managers work on project and finance questions; the economist focuses on marketing; and the agronomists provide agricultural assistance where required. 1/ Two of the agronomists are perma-

1/ A total of 12 cooperatives are considered "agricultural" while 12 others have agricultural projects of one kind or another.

nently stationed in the field; one in the Department of Matagalpa serving Esquipulas and San Dionisio (primarily coffee producing with some basic grains) and the other north of Jinotega working with Yalí and San Rafael del Norte (also primarily coffee producing.) According to the Director, the work of the department is dedicated about 55% to finance and project development with the remainder going to straight technical assistance functions.

In the credit area, the Center assists cooperatives with loan applications, establishes feasibility, carries out necessary projections, etc. In addition, the staff is responsible for the preparation of all loans for review and approval by FUNDE's credit committee (see Section 12 below) and prepares all projections of credit demand for use by the Executive Director and the Administrative Center in the mobilization and management of lending capital. Each Savings and Loan Cooperative requires three to four loans a year in accordance with rural business cycles. In the case of agriculture, one or two loans per year are provided in accordance with its own cycle. In the case of a number of the cooperatives, the two cycles are found together.

Most of the assessment effort with respect to lending in the past has had mainly to do with the establishment of the credit-worthiness of the cooperative itself. Now, however, much more actual feasibility work is necessary in connection with agricultural and commercialization projects, a rapidly growing area.

In the case of technical assistance, the majority of the effort goes into the development and monitoring of cooperative management and credit systems. Each cooperative is visited once a month, on the average. Detailed budget control and financial programming forms are filled out and updated monthly which reflect the maintenance of a series of financial and budgetary targets. Goals and actions are periodically established and monitored. Technicians resolve pending issues and problems as they arise. They are constantly on the road, including the Director.

In the agricultural area, feasibility studies are carried out; investment and farm plans are made; and advice is provided with respect to inputs, equipment, and marketing, FUNDE is currently financing both production and investment (in some cases) for basic grains, coffee, vegetables, cattle finishing, equipment (5 to 6-year loans), land rental; and in two cases (Sébaco and Ciudad Darío) loans are being considered for land acquisition. In the case of Sébaco the loan request is for the downpayment on 600 Mz. of land on which the National Bank is foreclosing against present owners. (Total cost of the project is approximately C\$8 million.)

It is the view of the Director, backed up by last year's figures and this year's requests, that agricultural credit demand in the FUNDE system relative to the rest of the primarily small business portfolio is growing dramatically. This year, for example, agricultural credit should come to over half of all loan placement, while the sector's share in the outstanding portfolio as of December 1979 was around 27%. The year before it was only 13%. It should be noted, however, that a disproportionately large percentage of this increase will be represented by a small number of cooperatives. 1/

A final point worth observing about the Technical Assistance program in general is its excellent system of control relative to the equitable distribution of services. Records of hours and services (including signed receipts from each coop for each visit) are kept and are posted monthly on a large display panel and spread sheets. One can tell at a glance which coops are receiving how much service for what end. All FUNDE departments do this and the Executive Director receives consolidated monthly reports. It is an excellent system and deserves replication in other programs. (Also see Chapter II relative to the overall importance of this practice.)

a) Findings

(1) Positive

The center is offering high quality services in very efficient form. Benefits are distributed equitably, thanks to the control system described above, and the mix of skills in the Center accurately reflects system needs. Coordination between the Technical Assistance, Training and Audit (see Section 10 below) is maintained at a high level. The volume of assistance provided, given staff size, is extraordinary, and cooperative level planning and programming has

1/ Principal among these is the regional cooperative at Jalapa in the Department of Nueva Segovia in the extreme north. This year the coop is requesting C\$5.6 million for basic grain and coffee production. The coop has 196 members (expected to increase to 280 by the end of the year.) It is a large, integrated operation offering supply, marketing, equipment and technical services through its own full-time agronomist. Through previous financing and grant assistance, the coop acquired two grain dryers, four silos (120,000 quintals), a warehouse for inputs, and three tractors. Membership consists of mainly small and medium farmers with an average asset value of approximately \$6,270 each. The cooperative began as a savings and credit operation in 1973.

been improved sharply over the past two years. 1/

(2) Limiting Factors

• Linkage: At present there is no active linkage between FUNDE and sources of agricultural technology. Relations with the Public Sector's agricultural establishment are very limited. The atmosphere in the field between FUNDE and PROCAMPO, which manages the new government's extension program, are strained, making for the lack of what could be valuable collaboration in such areas as agricultural production, marketing, finance and cooperative development. The status of the pre-war research program carried out by INTA 2/ is not known. FUNDE recognizes the problem and intends to subscribe to journals which will provide at least some exposure to new findings. An in-country (or neighboring country) source is needed, however.

• Data Collection: There is no ongoing program to capture farm level data that could be utilized for improving the technology package, planning, resource mobilization, and demonstrating the utility of FUNDE's systems and models to the government and others. This is obviously part of the larger data and planning problem described in Section A.5. above.

• Volume vs. Capacity: As with training, there is almost no time to stop, reflect, plan, and catch up on technology.

• Transport: The Center only has two vehicles at present and is severely hampered in terms of transport. At least one additional four-wheel drive vehicle is needed now, and more will be required in the next two to three years due to the heavy toll exacted by the condition of rural roads throughout Nicaragua. (The technical assistance staff spends about 80% of its time in the field).

b) Recommendations

1/ The 1977 cooperative assessment described the lack of planning capability as "perhaps the most serious deficiency observed at the cooperative level". (Heard, et al. pp 171 and 172.)

2/ Instituto Nacional de Tecnología Agropecuaria.

(1) Linkage with whatever form of on-going agricultural research is available should be established. (A source outside the country may have to serve.)

(2) A program of farm management type data collection should be designed into the program which would feed into FUNDE's overall research effort as well as provide for improving the technology mix and extension services in general. Such data would also help in documenting a case for GRN collaboration (See Chapter VI.A.3.)

(3) A staff increase is recommended, including at least one additional agronomist and a finance technician ("administrador de empresas").

(4) Given the linkage problem, periodic short term observations and technical training trips are recommended to programs in other Latin American countries and possibly the United States. (See Proposed AID project, Chapter VIII.)

(5) At least one new four-wheel drive vehicle should be procured for the Center as soon as possible.

(6) The incorporation within the Center of the special commercialization program, described in the following section, should be considered. (See below.)

8. Commercialization

FUNDE has been involved in marketing and agricultural and consumer supply for a number of years with several of its cooperatives. In early 1980, however, a new program was launched which focuses on the development of a unique and high potential system for wholesaling basic commodities with prospects for the development of an inter-cooperative trading system to the advantage of both producers and consumers. The program, which has secured the initial acquiescence of the Ministry of Commerce, ^{1/} is designed to establish a network of commercial centers in cooperatives which would buy in bulk and wholesale to local retailer members (market stall operators and a variety of small stores and shops) as well as to each other.

^{1/} Vice Minister for Internal Commerce.

At present, the program is managed by the Executive Assistant to the Director of FUNDE in her spare time.^{1/} A \$460,000 grant has been solicited from the IAF for the provision of both grant and loan financing to the cooperatives (furniture and equipment and inventory respectively). Approval is expected shortly. There are currently four projects under active consideration as shown below:

- La Union in Matagalpa, primarily a market and small business cooperative. The cooperative has already commenced a modest program of distributing a few basic products to its members and is anxious to develop a full scale system along the lines of Sébaco (below). Of its 900 plus members, approximately 350 are market operators and the remainder are mainly small business ventures. The cooperative is interested in purchasing vegetables from Sébaco in exchange for beans produced by Matagalpa members. A retail demand survey is underway.
- La Hermandad in Sébaco, a mixed agricultural and small business cooperative heavily involved in vegetable production. This is the furthest advanced of the four projects. Originally with financing from the Bank of America, the coop has been able to set up a "centro de consumo" with an impressive line of food and household commodities, including clothing (purchased from another cooperative). Chicken, beans, sugar, and eggs are purchased from INRA. Additional financing from FUNDE (C\$120,000) was received in February 1980 to pay off the earlier loan and add furniture, equipment and working capital. New financing is now sought to expand into a wholesaling operation and develop a new center for the distribution of agricultural supplies. Management is dynamic, and cooperation with the local Junta de Gobierno has been excellent.
- Cacpic in Jinotega, a small business oriented cooperative. The cooperative is just beginning to distribute a very few key food items to members. An administratively separate "centro" has been established. No financing has been received as yet. Jinotega suffers from shortages of key items and very high prices. This is the principal motivation for the center. (505 members.)

^{2/} The Executive Assistant spends about 40% of her time on the commercialization program. She has a degree in business administration and considerable experience. Thus far, she has done all feasibility work for the program herself.

• El Socorro in Diriamba: An association of small business operators is seeking financing through the cooperative to establish a center for the marketing of basic grains and other products of a general food and household nature. A feasibility study calculated that the weekly volume of the center could be C\$250,000. Financing of C\$500,000 is sought for working capital. Furniture and equipment will be financed by the socios themselves.

a) Positive Features

(1) The program is responding to an urgently felt need at the community level (both retailers and consumers). Especially since the war, repeated shortages have become commonplace in rural areas. Prices are high. Commercial wholesalers are sometimes exploiting the situation ^{1/} The centers, according to feasibility studies carried out so far, will be able to market a more complete line of products at reduced prices (than wholesale competitors) and still count on respectable earnings which can then be utilized for improved services to members and expansion.

(2) The program offers the intriguing prospect of an inter-cooperative trading system where direct exchanges of goods could be made to the advantage of both organizations. Intermediary and transport costs also could be reduced.

(3) Thus far the program has the cooperation of INRA and the Ministry of Commerce as well as local government. This could establish a valuable precedent.

b) Limiting Factors:

Although the Executive Assistant is doing an excellent job on a part-time basis, the program deserves at least one full-time person and possibly more. There is great potential here that deserves increasing attention, both for project identification and development and for research.

^{1/} This assertion was drawn from cooperative manager and member interviews, primarily in the Jinotega area.

c) Recommendations

(1) Either a separate center or a sub-center of the Technical Assistance Department should be established with at least one full-time person dedicated to commercialization.

(2) The integration of agricultural and consumer supply operations merits special study.

(3) A preliminary system-wide survey should be carried out to determine the potential of the program for planning purposes and resource mobilization.

9. Housing

FUNDE first become involved with housing in the post earthquake period of reconstruction (1973) with two projects in Masaya, one a housing coop and the other a credit union. Between then and 1979 three other housing projects were carried out through cooperatives in Granada, Estelí and Matiguas. ^{1/} Also, individual housing and home improvement loans were made, principally through Avances, a credit union at Santo Tomás in Chontales. In all, over 100 units were constructed, 80 of them in the form of community projects or "urbanizaciones". This was all carried out with no staff dedicated specifically to housing. AID financed a small amount of housing for the first time through its 1978 diversification grant to FUNDE (individual construction and home improvement loans.)

In response to rising pressure from system cooperatives in the late 1970s ^{2/} FUNDE set about mobilizing financing and technical support culminating in a collaborative arrangement in early 1979 between the Pan American Development Foundation (PADF), Private Agencies Collaborating Together (PACT), and the

^{1/} Granada is a housing cooperative, the other two are credit unions.

^{2/} Traditionally little or no low income rural housing assistance has been available from the government or other sources.

Foundation for Cooperative Housing (FCH), all of the U.S. The agreement provides for PACT-financed budget support for the establishment of a new office in FUNDE dedicated exclusively to housing. Technical support in housing itself is provided by FCH, while PADF provides consulting assistance in socio-economic assessment and the design of employment generation and other community activities for housing beneficiaries. Financing is for three years and will expire in mid-1982. For the first two years PACT covers all direct costs for housing center personnel and travel. In the third year FUNDE is to assume half the cost, based on expected revenues from housing loans and service fees. The office was not actually opened until after the war, August 1979.

The housing office is currently staffed by a Brazilian trained architect who acts as director, two engineers, two social promoters and a draftsman. The architect and engineers form a technical section which is in charge of project design, construction and construction supervision. The social section is responsible for related surveys, promotion, cooperative organization and education.

Very shortly after the new program commenced, demand was found to be almost unlimited. When the program was first explained to cooperatives they responded without reservation and still do. Repeatedly, during field trips by the analyst, this demand was expressed, and pressure was constantly put on accompanying FUNDE personnel to have housing people visit the cooperative and start the process going. In several instances surveys were either underway or planned. The need appears to be universal.

The present program is composed of two principal elements: community housing projects ("urbanizaciones") and individual houses on separate lots. In the case of housing projects, these are composed of cluster arrangements on common sites and include ancillary infrastructure, i.e. roads, electricity, water, etc. For these projects FUNDE provides a complete package of services including design, arrangements for financing, supervision of construction or construction contractors, training of project managers and organizational and educational activity amongst the beneficiaries.

With respect to individual lots, FUNDE visits and approves proposed sites, provides standard house plans and assists in the preparation of contracts with the cooperative and builders (if necessary). Often arrangements can be worked out where cooperative members provide much of the labor and only the services of a local "maestro de obra" are necessary. Where possible, FUNDE tries to provide designs where local material will be utilized to reduce costs and stimulate small industry and employment in the area. A member of the Santo Tomás cooperative, for example, is a brick maker and has developed a special larger brick which has been found ideal for local construction. Member financing is carried out under a strict disbursement plan and rigorous controls. Payments are made directly to the suppliers for the most part. The current average home size is about 42 square meters and costs approximately \$2,000.

Concerning home improvements, the process is more or less the same, only less demanding and time consuming. Types of improvements include floors, bedrooms, baths, and roofs. Much of this activity so far has been related to war damaged sections of Matagalpa, Rivas, and other cities.

In addition to the principal activities, the housing center provides services related to a variety of other types of community and cooperative related initiatives such as day care centers, co-operatives, community centers, stadiums and family centers (CFER program). FUNDE has designed and financed the construction of new provisional ^{1/} public markets in Matagalpa (two) and Rivas in collaboration with the local Junta de Gobierno. In both cases, financing was channeled through the cooperative, which in turn lent to the Junta for actual construction. In Santo Tomás, FUNDE designed and is financing a portion of an impressive baseball stadium which should be an excellent money maker for the cooperative in the future. (The next national championship is to be held in this stadium).

In terms of the existing program, activities planned for 1980 include the following:

^{1/} Provisional in that they had to be designed and constructed very rapidly under emergency conditions. There was not time or funds for construction of truly permanent facilities. The markets will probably last five years or so.

- Disbursed individual housing:

65 units are proposed for Santo Tomás, Ciudad Darío and Matiguás at a total cost of \$130,000. Financing of \$50,000 has been secured for 20 units at Santo Tomás only.

- Housing Projects:

-Coyotepe-Masaya: 85 units at a total cost of \$246,500. This project will relocate 85 families, originally earthquake refugees, who have been living in temporary igloo type polyurethane structures outside of Masaya for the past 7 years. Construction should commence in May 1980. Financing is from the Rolling Stones (the rock group) for \$230,000, and from the German Government for \$50,000. 1/

-La Unión-Granada: Five experimental houses will be constructed on donated land. Different materials and methods will be used (block, adobe, frame, etc.) Construction will be along side of the 30-unit complex originally constructed by FUNDE (1974). The Ministry of Housing will cooperate with technical support and testing.

-Monimbó - Masaya: 82 units at a cost of \$255,000. In collaboration with the San Jerónimo credit union, this project will require two years for the settlement of an indigenous group of artisans accustomed to living in a clan type setting. A special interdisciplinary team has been formed for analysis, organization and implementation, including a sociologist. The group itself is now being organized. Land was purchased by the cooperative with a FUNDE loan. 2/

1/ The Coyotepe group was visited in its "igloos" by the analyst. Members are overjoyed with the project, to put it mildly. FCH has proposed retrofitting the polyurethane igloos for use as roof for a community facility of some sort. A competition for design is proposed for architectural students at the University of Nicaragua.

2/ FCH has recommended to FUNDE that a proposal be submitted to PACT for the financing of an integrated community development design effort to accompany this project including technical assistance from FCH, a baseline survey, feasibility and additional design work, etc. The project is delicate, both sociologically and politically.

- Home Improvement Loans

50 loans of an average of \$800 each are programmed for Matagalpa this year. Financing has been secured.

- Community Projects

- Yalf - Jinotega: The family center at the Yalf CFER is now under construction utilizing lumber and mud blocks that are produced on the spot. Both cooperative and general community involvement is very strong. Local formen supervise both construction and production of materials. Total cost of construction is approximately \$70,000, of which FUNDE is financing \$51,000. The remainder is being contributed by the cooperative. CARE donated an additional \$36,000 in materials. Construction should be completed in time for the CFER to open in September 1980.

- Santo Tomás - Chontales: FUNDE is financing \$55,000 of a \$200,000 baseball stadium. The cooperative will raise the remainder through various fund raising events.

- La Paz de Carazo: Construction should commence in May 1980 of the family center at the La Paz CFER. FUNDE is financing \$28,000 of building costs.

- Candalaria - Chichigalpa: Construction should be completed within the next month or two on a large day care center.

- Ciudad Darío: A new combined community center and cooperative office is now being completed.

In addition to the above, it is likely that FUNDE will finance a certain amount of other housing and improvement activity during the year in such areas as Juigalpa, Estelí, and others where strong demand is known, but where proposals have not yet been put in concrete form. (For medium term growth potential of the housing program, see Chapter VI, Section B.3.)

- a) Findings

- (1) Positive

The housing program has outstanding potential for growth and for meeting a seriously felt social need in rural Nicaragua.

Existing cooperative structures provide an excellent organizational vehicle, already in place, which should be exploited further to meet housing and other community needs.

The staff of the Housing Center is of excellent quality, especially the Director, who exhibits considerable experience and energy. 1/ The social workers have had years of previous experience in FUNDE cooperative development programs.

FUNDE appears to be receiving first rate technical assistance from FCH 2/. This assistance will be critical in the future as FUNDE moves into more complex integrated housing schemes and experiments with sites, services, materials, organizational forms, etc.

FUNDE appears to have established a positive relationship with the Ministry of Housing. Technical support is expected on several projects. This is a valuable precedent with the new government. Good contacts are also maintained with the School of Architecture at the University of Nicaragua.

Demand appears to be unlimited.

(2) Limiting Factors

Despite the quality of the present staff, as the Center Director has pointed out, additional personnel will be needed this year and next in order to manage the volume and complexity of activity proposed.

A substantial amount of lending capital remains to be raised for projects contemplated over the next five years. Also, housing financing is long-term in nature and requires the tying up of significant sums for relatively long periods of time. (Terms run up to ten years).

b) Recommendations

(1) A schedule and system for charging professional service fees, although modest, should be established as soon as possible, at least for individual housing and home improvement related work.

1/ Also represents technical judgement of FCH personnel.

2/ The analyst had the opportunity to observe both the FCH project manager and a housing cooperative organization specialist in sessions with FUNDE personnel.

(2) Continued support (beyond the estimated mid-1982 cut off) on the part of PACT and FCH is urged for the development of further technical capability and to facilitate program expansion contemplated.

10. Audit

Before the 1979 war, the auditing function was incorporated within the department of technical assistance. This also characterized its principal thrust, which was primarily one of accounting training for managers in the form of specialized technical assistance. It was highly successful in this role. A set of excellent procedures and systems were set up over time which facilitated the rapid and accurate production of financial statements and other reports needed by boards and management. (The 1977 cooperative assessment discussed the outstanding nature of the system).

After the war, the auditing program was shifted out of technical assistance and given its own department under the direction of one of the auditors from the local firm (Horwath and Horwath) that had been auditing FUNDE's books under the terms of international agreements. He then proceeded to transform the department to one of pure audit from the mixed functions that it had before. The shift was profitable because it allowed for a much more efficient operation in terms of staff relative to the magnitude of the job of keeping track of the accounts of the cooperatives in the system.

At present each co-op receives a quick cash audit once a month and a more substantial audit to close the books once a quarter. This in turn allows for a much more rapid closing at the end of the year. Problems are not permitted to drag.

The current staff of the audit center includes the chief, a highly qualified and energetic CPA with over 8 years of professional experience, plus six others, four of whom are university graduates. Two are high school graduates with some university training and experience in the field.

In terms of organization and methods, the department does an impressive job of maintaining meticulous and timely records of findings, pending actions, problem accounts, etc. from each audit visit, no matter how short. Signed receipts are always obtained from managers. These are all placed in annual comprehensive files which are updated weekly (each coop has a separate file). Audit reports always go to the board rather than the manager as they sometimes highlight incompetence, mismanagement, or other problems that can be attributed to management. A special effort is made

to spot check the agreement of member passbooks and cooperative registers.

Other activities of the audit staff include collaboration with FUNDE's accounting department in the area of loan portfolio management and assistance to cooperative "juntas de vigilancia" in improving the performance of their function (essentially of an audit nature). About 90% of these juntas do not perform properly.

Approximately 95% of the time of the audit staff is actually spent in the field. They meet once a week on Saturday to compare notes and schedules for the following week. There are times when auditors join forces with technical assistance personnel for special problem solving missions.

c) Findings

The Audit Program appears outstanding. No limiting factors were noted. As cooperative accountants become more competent in the future through training and experience ^{1/} is likely that the audit load will diminish, leaving more time for innovative analytical work by the Center and a focus on new branch and cooperative formation.

b) Recommendations

As soon as possible, FUNDE should initiate a schedule of charges to the stronger cooperatives to cover a reasonable portion of the cost of auditing services performed. Routine monthly cash audits should be reduced to the extent feasible to allow time for more innovative and productive analytical work and a greater focus on new and less experienced cooperatives.

11. The CFER Program: Rural Family Education Centers

As the CFER program has not been a mainstream cooperative development activity in the past, it has not received attention earlier in this study. Nevertheless, the two programs are now more closely linked and should complement each other effectively in the future. For this reason, some consideration is given to the effort here.

^{1/} The audit process itself is a form of on the job training for cooperative managers and accountants, usually the same person.

The objective of the CFER program has always been to improve the economic and social condition of the campesino family through education focussed on preparation of younger (aged 15-20) members to cope more effectively with the social and economic environment and responsibilities they must face as they enter adulthood. The methodology (basically unchanged over the years) involves parents and students in a mutually reinforcing round of practical activity and learning. Parents are organized and assisted in making basic decisions concerning policies, goals, curriculum, and activities, of the given CFER.

The CFER program runs for two years with students attending during alternating weeks (a week at the center/a week at home) known as "alternancias". The idea is that each week the student will educate his family as to what he has learned, stimulate family interest and transfer technology in theory and practice. Curriculum includes basic literacy and primary education, rudimentary agricultural skills, human relations, rights and laws affecting Nicaraguan campesinos and workers, etc.; in sum, preparation for life. Participatory and on-the-job training techniques are utilized.

The CFER program began in 1973 as a collaborative effort between the Ministry of Education, the Ministry of Agriculture, the National Agrarian Institute (IAN) and FUNDE, which acted as principal administrator. Two centers were opened initially at La Paz de Carazo and Nueva Guinea (Rigoberto Cabezas colonization project in the Atlantic zone). The Ministry of Education paid for most personnel.

By 1978 there were nine centers with a staff of 21 field agents, of which the Ministry of Education was paying for 19. IAN provided one, and FUNDE one, along with the Director of the program 1/. A national committee for oversight of the program included representatives from each of the Government Ministries, FUNDE, and a advisor from the French Mission 2/.

An evaluation dated March 1978 pronounced the program moderately successful and gave it high marks for concept, intent, effort, etc. Impact was felt to be limited however, because of lack of resources in general, lack of demonstration plots, and lack of family owned land in the

1/ Both AID and the IAF provided modest support in the late 1970s.

2/ The program was advised from the beginning by the French Mission to Nicaragua. Program design was adopted from a French model. Several trainees were sent to France and other countries (Brazil, Spain, Argentina, Senegal) to study versions of the program and its methodology.

Pacific region CFERs. In the Atlantic colonies the effort was somewhat more successful, because students and their families could immediately apply lessons learned to government supplied parcels.

In mid-1978 the program was seriously affected by the growing political crisis. Apparently because of outspoken declarations by the President of INDE and personnel associated with the CFER program, involved government agencies met and decided to stop supporting the program altogether. At the same time, FUNDE lost access to all centers in the IAN colonies of the Atlantic zone, and managed to retain only five along with much reduced support from its own resources and those remaining from earlier AID and IAF grants.

In early 1979 FUNDE succeeded in securing a much more substantial assistance package to revitalize the program, consisting of the combination of an AID OPG and an IAF grant which will carry the effort until February 1982. During the war period following the renewing of support, the program was again affected seriously in the form of disrupted sessions, loss of students, loss of personnel (a number took up arms) and general paralysis from the economic chaos of the time. Recently the program has been hampered further by the "Cruzada de Alfabetización" which has siphoned off a number of teachers.

Today the CFER program includes six centers, two in the Pacific zone (Gilbert Merle at La Paz de Carazo and San Pedro de Potrero Grande in the department of Chinandega) and four in the North Central Zone (Jalapa, San Juan del Río Coco, Bocaycito, and Yalí). The two Pacific centers are mixed, i.e., coeducational. In five of the above cases there is an associated FUNDE cooperative, although the relationship varies.

The current staff of the program includes the Director (the only "Jefe de Centro" remaining from before the war), six agricultural technicians (one for each center), eight teachers (one for each center and two each at the mixed centers), six "economos" also known as "amas de casa" (responsible for food preparation), and a supervisor. At the moment, there are two vacancies (one supervisor and one agronomist). AID covers salaries for the agronomists and the head office staff in addition to vehicles and center furniture and equipment. IAF funds pay for the teachers and "economos" plus other equipment (education and recreational).

The long range plan is now for all of the rural cooperatives that meet certain criteria (agriculturally based surrounding population

and a sufficient potential radius of action) to have a CFER. Likewise, co-operatives are to be developed along side existing CFERs. (There is now only one unattached to a cooperative). The idea is for the cooperative to eventually take over responsibility for management and support of the center through the mechanism of the "comité de educación". A mutually reinforcing relationship is to be formed which will contribute to the overall educational and social impact of the cooperative in its community. Participation of socios, and particularly of the parent group, is to be stimulated and broadened. The concept goes well with precepts of the Revolution.

A second major element of the current strategy is that each CFER is to become viable in its own right through productive activity. It is calculated that with 50 Mz. of land this can be accomplished through both cash and food crop production as well as small industry where possible. It is believed, for example, that 10 Mz. of coffee will provide for the cash income needs of most CFER's. Each CFER is also to have its own building including learning, cooking, and sleeping facilities. All CFERs are to eventually become coeducational, although FUNDE has had difficulty finding teachers with requisite capacity in home economics, tailoring, and other skills appropriate for female students.

In general, much progress has been made; but the program, in essence, is now making a new beginning after the disruptions and crises of the past two years. Four of the existing centers now have their own land donated by the local community or government (Yalt, San Juan del Río Coco, Bocaycitos and Jalapa). Only one center currently has its own building (Gilbert Merle) and another is under construction (Yalt). A new, seventh, CFER is now being developed at Cinco Pinos in the northwest, near the Honduran border, where it will be possible to draw from four municipalities simultaneously; and land is available. Given past experience and the pace of development in general, however, it will be many years before a viable network has been established.

Finally, the Nicaraguan Government, through the Ministry of Education, has expressed some interest in the program. The Ministry is developing a program of its own known as "Escuelas Agropecuarias Campesinas". Scholarships of C\$180/month are awarded to students for a year of constant attendance. (There is no "alternancia"). There were eight of these schools at last count, and may be more now. INRA also has indicated some interest. 1/

1/ There is a possibility that the program might be taken over by the government at some point in the future. If this is the case, FUNDE's Program Director believes that its most appropriate home would be the Ministry of Education.

a) Findings

(1) Positive Factors

• In concept, the CFER program is outstanding for its social and educational outreach nature and appears to be reaching the poorest elements of the rural economy.

• The program will definitely contribute to the broadening of impact of the cooperatives where it is in place.

• The approach is very much in line with Revolutionary doctrine and should be a plus factor for FUNDE in future dealings with the government.

• The plan for establishing the viability of each CFER appears sound, but will take long periods of time to bring to fruition.

(2) Limiting Factors

• The CFER program appears expensive relative to the number of graduates produced. The two-year cycle, when operating at optimum size and pace, produces only 50 graduates per year per center. 1/

• There has been a lack of attention to needed follow up activity with graduated students to assure that learning has been retained and is being applied.

• Although the program has been evaluated, there has been no systematic effort to collect data relative to the impact of the program on standards of living or levels of production of participating families.

• The program is very long-term in nature, and it is suspected that cooperatives will be reluctant to assume full financial responsibilities until a given CFER has proven its viability. The program will require external grant support for many years to come.

1/ Although a precise estimate has not been made, utilizing only AID and IAF grant funds budgeted for 1980, approximately C\$1.2 million, this would amount to a cost of C\$2,400 for each student-year, assuming maximum enrollment at each of the five centers, or a cost per graduate of at least C\$4,800 (close to \$500 per student for the two-year cycle), and this does not include FUNDE overhead and the Program Director or additional investments being made in land and facilities.

The program is apparently having a difficult time recruiting high quality people for the field. Lack of good management (at the CFER level) has been a problem. 1/

b) Recommendations

(1) Financing should be sought for a sound program of follow-up activity with CFER graduates and a system of data collection and analysis to establish the true social and economic impact of the program on participating families.

(2) A series of feasibility analysis should be carried out relative to the potential viability of the CFER system in order to confirm current thinking and determine exactly what mix of land, crops, and productive endeavor will in fact produce self-sufficiency for a given CFER. Planning and fund-raising should be based on these analyses.

(3) AID and IAF support for the CFER program should continue due to the high degree of social outreach to the rural poor embodied in the activity. The model, as it has been refined, should be given a fair chance to prove itself. Potential impact will only be assessable, however, with an adequate complementary data collection and analysis effort. ((1) above).

12. Other Observations Relevant to Institutional Capacity.

a) Systems/Procedures - General

FUNDE has done a remarkable job of developing smooth and efficiently functioning procedures for almost every facet of its program, especially at the cooperative level. Particularly impressive are those that relate to accounting, budget control, and financial management. In visits by the analyst, cooperative managers were able to provide answers to all questions related to finances as of the end of the previous month. Statements are produced rapidly and accurately. Much of this is due to FUNDE's outstanding audit program, as described earlier.

Despite the fast pace of activity, controls are everywhere to assure that jobs get done both at the cooperative level and in FUNDE itself. Action control formats are established for literally all activities (including meetings of "Jefes de Centro") in terms of pending actions, responsibilities and timetables, what will be done by the next meeting, etc.

1/ Interview with CFER Center Director.

b) The Credit Program

(1) Policy

According to FUNDE's "Reglamento de Crédito" the general policy of the organization is to utilize credit as a means of bringing about socially and economically beneficial impact amongst low-income groups who have no access to other sources of institutional credit. The philosophy is to promote self-help and stimulate local resolution of local problems. A strong emphasis is placed on increasing productivity and diversification. Additional objectives include increasing professional capacity in the community and the stimulation of socially and economically productive involvement of the private sector in the development process. A final important point is that FUNDE is not out to compete with the Banking System. The objective is to complement, not replace, other sources of financing for those in need. The policy is very much in line with the Revolution and with the AID mandate.

(2) Criteria

At present FUNDE credit is available for the following categories:

- Working Capital: (This is the most common and is primarily directed to small business and industry).
- Agricultural Production and Investment.
- Small Industrial Production and Investment.
- Improvement, Repair, and Construction of Housing.
- Emergency Credit. (Both for personal emergencies and for situations such as those which arose from the war).
- Educational Credit. (Includes both technical studies and the purchase of learning material).

With respect to eligibility, the cooperative must have been promoted by FUNDE, have legal status, have participated in CECOOP training programs, have solid administration, and have its financial statements up to date and correct. A demand analysis must have been performed.

Projects, in general, must conform to the policy described under (1) above. Detailed cooperative level credit policies are also required which spell out amounts, terms, conditions, and eligible purposes within the various categories. Technical and feasibility criteria are constantly evolving as experience is gained in the system. Increasingly, the emphasis in loan analysis is on financial soundness of the venture or activity to be financed as opposed to a stronger earlier more exclusive focus on the credit-worthiness of the cooperative.

(3) Process and Procedures

FUNDE conducts workshops at the beginning of each year for the financial programming of all the cooperatives, the principal output from these exercises is the amount of external financing that the cooperatives will require and the timing of disbursements.

Once the magnitude of funding has been determined, the cooperative, often with assistance from FUNDE Technical Assistance Center personnel (finance advisors) proceeds to formulate a written request which includes the amount, period, investment plan, financial condition of the borrower, social and economic objectives, and other key elements of information.

When FUNDE receives the request, it is turned over to the finance advisor responsible for that particular cooperative for analysis. The request is analyzed for compliance with FUNDE policy, debt carrying capacity, the capability of the board of directors and the financial and technical soundness of the investment plan. ^{1/} Upon completion, the advisor submits the package, with his comments, to the Credit Committee, which includes the Executive Director and the chiefs of administration, technical assistance and CECOOP. The Executive Assistant attends all meetings and records findings. Others are pulled in where needed for technical or other reasons. The responsible analyst presents the project. The Committee approves or rejects the credit along with conditions precedent and others to be completed during implementation and/or before submitting a new request. There is only one Credit Committee, which meets at least once a week and deals with all outstanding requests). ^{2/}

^{1/} In the case of agricultural and other projects deviating from the standard small business/industry request, the submission is analyzed by the appropriate technician.

^{2/} All loan analyses are to be completed and distributed by Friday in preparation for Credit Committee meetings every Monday morning.

Once approved, the package goes to the Accounting Department where the loan is legalized, a guarantee signed, and disbursements realized or commenced. Responsibility is then passed to the Portfolio Manager, also in the Administrative Center, for custody, general management, and delinquency control. (See following Section).

(4) Findings

In general, the Credit Program was found to be highly responsive to member and cooperative needs. The process is efficient, flexible, and well managed. There is almost never a "pipeline" or backlog problem in FUNDE. Resources are moved expeditiously and professionally.

c) Delinquency Control

According to the 1977 cooperative assessment, FUNDE's delinquency rate (co-ops to FUNDE) was on the order of 35%. 1/ At the time, this represented a curious anomaly, given other signs of good financial management and the effort devoted to strict controls at the cooperative level. It was speculated that high short-term delinquency represented a policy of allowing cooperatives the benefit of slightly longer use of working capital at a time of need or low liquidity. 2/

Today, however, the situation has improved considerably as can be seen in Table VA below. The overall rate on the active portfolio has now dropped to 17%, and of that, almost half is less than 60 days old. Almost all of the amount delinquent for less than 120 days is considered recoverable (FUNDE has only actually had to write off loans from one cooperative failure in its history).

1/ Heard, op.cit., p. 190.

2/ This is true today although to a lesser degree.

TABLE V.A.

FUNDE COOPERATIVE DELINQUENCY BY AGE
(As of April 30, 1980)

	<u>Amount</u> <u>(C\$000)</u>	<u>% of Portfolio</u> <u>Analyzed 1/</u>
Cooperative Portfolio Analyzed	14,065	
Non-Delinquent Balance	11,718	83
Delinquent Balance	2,347	17 <u>2/</u>
Delinquent from 1-30 days	647	5
Delinquent from 30-60 days	503	3.5
Delinquent from 60-90 days	287	2
Delinquent from 90-120 days	117	1
Delinquent from 120-150 days	69	.5
Delinquent over 150 days	722	5

Source: FUNDE R & D Center

(1) Findings

It is clear that FUNDE does have a delinquency problem, but not of the dimensions of earlier years. Causes of the delinquency vary, as they do at the cooperative level. Part of the reason, as before, is that during periods of low system liquidity, as is true at present,

1/ Percentages rounded to nearest 0.5%

2/ This does not include a category known as "Préstamos de Plazos no identificados" of C\$757,306 which, if included, brings the overall rate to 21%. Exactly what this category relates to was not determined.

delinquency is allowed to rise to some extent. Some of the delinquency has resulted from war related deaths and dislocations. There may be a hard core of older delinquency which will probably be difficult to recover, but the situation appears to be improving.

In terms of controls, some measures are in place and others are being developed. There is now a full-time person under the Portfolio Manager responsible exclusively for repayments and delinquency control, for example. Delinquency figures are now aggregated and reported monthly by fund at FUNDE, a new practice this year. Still missing is delinquency analysis by type of loan. Cooperative level delinquency can be extracted from individual statements, but an aggregated reporting system has not yet been developed. ^{1/}

Delinquency is one of the areas that the R & D Center will cover in their work plan, the intent being to develop a truly effective reporting and control system. Again, an increased data processing capability is called for.

(2) Recommendations

The delinquency control system to be developed should include analysis by age, by cooperative group, by cooperative, by fund, and by loan destination and period. A similar standardized reporting system should be developed for the cooperatives. A variety of correlations and analyses should be performed to obtain a better understanding of the true causes of the problem. (The return to such an effort could be high in terms of program design). As the data processing burden of such an effort may prove too high for FUNDE and system cooperatives at present, however, further consider-

^{1/} During visits by the analyst, reported membership rates varied from a low of near 0 for one of the newer cooperatives to a high of about 20%. The norm was less than 10%. In a consolidated calculation based on forty cooperative balance sheets as of March 31, 1980, overall delinquency at the cooperative level came to approximately 12.8%. Rates fluctuated from 0 to 33.4%. Only three cooperatives, however, had rates of over 25% while 20 had less than 10%.

ation should be given to the need for an automatic data processing facility and program of some sort, (This should be assessed in light of earlier recommendations related to socio-economic and agricultural data and planning recommendations. (See Section 5, R & D above).

d) Resource Mobilization

(1) Findings

The Resource Mobilization situation reflects earlier findings and observations concerning FUNDE management and organization and the fact that the organization is still passing through a period of transition with a relatively new staff since the war. Responsibilities are gradually being shifted, but this takes time.

At present, Resource Mobilization is handled by the Executive Director almost exclusively. He personally proposes and negotiates each project drawing as necessary on staff for the preparation of material. Once a project has been secured, a staff person is named as Project Coordinator, who generally remains on top of the given agreement. This is fine as far as it goes, but it makes for a certain confusion if one cannot deal either directly with the Executive Director or the given Project Coordinator. Many questions relating to external support of FUNDE (past and future) can be answered by the Director alone.

In addition, there is no one place where one can find an aggregated presentation of existing Donor support either in terms of funds or activities. One has to plough innumerable files and piece it together as well as possible. Trying to trace the history of external giving and lending to FUNDE is difficult.

Finally, there is no up to date master plan for the medium term future in terms of Resource Mobilization. A document was prepared in 1979 describing and diagraming how existing and expected donors were to collaborate in financing the overall program of "Fortalecimiento y Diversificación". This is helpful, but lacking in substantive supporting analysis. Another document, also prepared in 1979, and submitted to the IAF in support of the argument for the current diversification grant, attempts to show how FUNDE will become viable within three years through additional borrowing, the margin on lending, a graduated fee imposition program and continued donations at a modest level. This is considerably out of date at this point. In summary, there is a serious need for a more institutionalized and systematic approach to Resource Mobilization.

(2) Recommendations

FUNDE should consider the utility of establishing a "sub-centro" in the Department of Administration with responsibility for maintaining all information relating to the status and nature of existing externally financed projects, the production of Resource Mobilization strategies and proposals, identification of new sources of assistance and means of exploiting them, and the development and maintenance of a master Resource Mobilization plan.

B. The Cooperatives

1. General Finding

As discussed below relative to five key indicators, FUNDE cooperatives today represent a strong and basically viable system. To a greater or lesser degree they are all still dependent on FUNDE, of course, for capital and technical resources, but they are rapidly approaching a point where they can begin to contribute a much larger share of the costs of the system. (They do cover their own operating costs). In the meantime, subsidies are going, as they should, to system strengthening rather than being passed on to the beneficiary group. Finally, from recent figures on membership and share capital contributions (now being tabulated for the first quarter of this year), the accelerated growth pattern established after the war appears to be continuing, and there are some real opportunities now for economies of scale. (For further commentary on system potential, see following chapter).

2. Leadership

The quality of leadership in the FUNDE cooperative system is exceptionally high compared to other Latin American movements studied by the analyst. By and large cooperative boards are taking an aggressive role in the development of both their cooperatives and their communities. There are a variety of indicators.

One sign of quality is the degree to which boards have collaborated with local "Junta de Gobierno" in tackling the problems of reconstruction after the war. (See Chapter IV. C). Another is the diversification process in general that has been going on. Leaders are not afraid to tackle new areas, to take risks. An indicator of the skills and understanding of many board members is the quality of the annual reports which they produce. These reports contain, by and large, excellent narrative descriptions of the progress and problems over the year. Growth is charted accurately and financial material is professionally presented. Still another sign is the aggressive manner in

which leaders pursue FUNDE for resources. They have learned that FUNDE can deliver and they intend to receive their share. Finally, there is a lot of "mística" in the movement. Leaders appear to be turned on to what co-operativism stand for, and what it can do for them and their communities.

It is suspected that the reasons for the quality of leadership exhibited in the FUNDE system probably come down to a few key factors. First, most board members have had heavy doses of training and "concientización" over the years at the hands of FUNDE training, technical assistance and social promotion staffs. They have been conditioned to expect performance from both their cooperatives and FUNDE itself. Secondly, board members in most cases are drawn from the small industry, professional (teachers) and business sectors of their communities. They understand the system and probably have a higher level of education than the membership at large or the average rural production cooperative. Thirdly, they have seen the utility of the cooperative in terms of resources and opportunities that it can provide, and they want more. Boards are constantly demanding increased and better services. Finally, to some extent boards have been trained by the professional managers that work for them. They understand their cooperatives and how they work, what they can do and what their problems are.

All of the above is not to say that leadership is not a limiting factor. It is; and there is great variety in the quality of direction. This is one reason why the FUNDE training is so heavily targeted at the leadership level this year and in the future. Leadership will become even more critical in the future with the broadening of the organizational structure of the cooperative, in accordance with the new government promoted model, which will involve a number of additional people in leadership positions (as many as 18 in some cases). Nevertheless, the material is there, and leaders are willing to learn.

3. Participation

Rates of participation in FUNDE cooperatives are high. During field visits, the analyst always asked for a breakdown between active and inactive membership. In many instances there was no such distinction, the implication being that all members were active. In others inactive membership came to no more than 20%. To a great extent, of course, activeness is a function of the benefits and services received, and FUNDE cooperatives have had resources in Nicaragua when there has been no other accessible source in the community, especially after the war. Loyalty is high. Several cooperatives reported how PROCAMPO agents had been attempting to interest FUNDE members in joining government schemes and receiving government

credit and services at subsidized rates. Some members had been lost, but very few; and it was estimated that many of those who did leave would come back before long. They have in the past.

Another factor, which, although non-technical, is believed to contribute to loyalty and motivation, is the fact that the FUNDE cooperatives know how to have a good time, and so does FUNDE. A variety of occasions call for parties, especially the annual meeting. The enthusiasm is infectious. The atmosphere is upbeat. During visits of the analyst, photographs were constantly produced of the most recent meeting or inauguration. (The Executive Director was in all of them). ^{1/} Finally, FUNDE training and social promotion activity has played a substantial role in this area.

4. Management:

All FUNDE cooperatives have professional full-time management. When possible they are drawn from the local community and are selected for existing skills and experience, education, and attitude. They are also extensively trained by FUNDE in required systems, procedures and other relevant skills, including management itself. For the most part they have a secondary education and are often accountants by training. They earn between C\$1,000 and C\$3,000 per month. Out of the 12 cooperatives visited, all of the managers were judged competent in their jobs, with five demonstrating superior talent and dedication. Two were local versions of FUNDE's Executive Director. (Santo Tomás and Sébaco).

5. Technical Capability

As could be expected, in the technical capability area, there is wide variation found throughout the FUNDE system. In general, financial management is relatively good, primarily because of the very intense focus of FUNDE audit, technical assistance and training programs on this area. Budget, loan portfolio, delinquency and other financial controls are sound throughout the system with very few exceptions. A growing number of cooperatives are able to hire separate accountants. (Traditionally, managers have done their own accounting).

^{1/} It was emphasized to the writer that this phenomenon is recognized and treated as a factor of enormous importance. Parties and celebrations are promoted on purpose.

In such areas as agriculture, commercialization and housing, the cooperatives are learning by doing, backed up by heavy infusions of technical assistance by FUNDE technicians. In one case, Jalapa, the co-op employs its own agronomist and enjoys a very high level of technification in the production and marketing of basic grains. In other cases, primarily the coffee growing cooperatives, FUNDE technicians are in residence and are training as they provide assistance in such aspects as farm investment plans and technology packages to be financed. In the area of commercialization, participating cooperatives are learning rapidly what is involved in the process of running retail and wholesale operations. The store at Sébaco is particularly impressive. With respect to housing, there is not much capability now, but there will be in the future from experience to be gained over the next few years. In every way possible FUNDE exploits existing human resources in the cooperative to contribute to the project, whatever it happens to be. Where possible, cooperative supervisors are selected and trained.

With respect to educational capability, a major CECOOP activity for the past three years has been in the preparation of educators at the cooperative level. A strong push is on this year through regional seminars in addition to the general focus on overall cooperative orientation through individual seminars with each unit.

Another measure of general ability is that several (approximately 7) cooperatives have formed branches, and there is pressure to continue this trend. The fact that the cooperatives are able to do this and assume the added managerial and technical responsibility is a sign that they are in fact learning from experience and able to extend their talents over broader areas and groups.

6. Financial Viability

As can be seen in consolidated statements for the cooperatives as a whole, the system is financially viable, barely. 1/ That is, costs are covered. There are normally modest surpluses at the end of the year, and basic ratios appear favorable. It can be argued, however, that much of this is due to heavy gran. inputs in the past, subsidized loans, free services, etc. 2/ This is all true, and increasing attention to viability will

1/ For the year 1979, 43 cooperatives reported surpluses "excedentes" totalling \$42,300 while 15 others showed losses amounting to \$15,400.

2/ FUNDE argues that such services are indispensable to fortify the organization and provide for the establishment of a financial and institutional base from which the cooperative can grow on its own.

have to be paid in the future in order to establish a lasting condition and provide for greater coverage of service costs at the local level. A sampling of financial statements indicates, however, that a number of the cooperatives are quite strong already and capable of assuming an increasing portion of the cost of service from FUNDE in the future. In other cases it will take more time. To a great extent this is a function of the economic condition of the community and its members. (See Chapter VII A 2 for analysis of cooperative system viability).

CHAPTER VI
POTENTIAL OF THE FUNDE SYSTEM

A. System as a Whole:

1. Demand

One of the general findings of the 1977 study of Nicaraguan cooperative systems 1/ was as follows:

While the team found that needs varied considerably from one group to another, depending on local conditions and circumstances, one need, above all, remained consistent. This was for credit in a variety of forms. In many cases production credit was available. Often it just served to maintain the status quo in a "poverty production system". The larger need was for longer term credit for improvement, investment, land, growth, etc. Also, credit was badly needed for general needs such as consumption, working capital, and emergencies. This was especially true in the credit unions.

Particularly in the case of FUNDE cooperatives, the study found a strong need for additional working capital financing for small business and industry. 2/ This is still true today, with the exception that sources of credit to FUNDE members and potential

1/ Heard, op. cit., p.11

2/ IBID, p. 157 and 158

members (small independent operators for the most part -both agricultural and commercial) have diminished since the war. Due to the nationalization of the banking system, the earmarking of almost all credit in the field for agricultural production, and the strong tilt toward collectivized production, there has literally been an explosion of demand vis-a-vis the FUNDE system; and, from figures coming in for the first quarter of 1980, this is continuing. In a number of the cooperatives visited by the analyst, the fear was expressed that the strong and continuing influx of new members was going to be a problem due to the inability to meet the demand that they would place on the cooperative for new lending. All reported a substantial need in excess of what they expected to be able to mobilize.

Other factors contributing to sustained and accelerated demand include the fact FUNDE's cooperatives have demonstrated through good times and crises that they can produce the needed resources. Credibility is very high. Also the cooperatives have been found to be more "agile" than the banking system. They can respond quickly to unforeseen needs. Credit has been available when required. Procedures are simple and can be accelerated when necessary. In addition, the cooperative represents an "alternative" to BND requirements relative to group borrowing, collective production and controlled marketing. (See B.1. below) Finally, the cooperative is "ours" and the bank is "theirs" in the eyes of a significant portion of the socios. 1/

The above demand situation is not only true in commerce and industry, but, as discussed earlier, is also happening in agriculture which is growing rapidly as a percentage of the total portfolio. The cooperative at Jalapa is an excellent case in point. Based on earlier membership figures, at the beginning of 1980, FUNDE calculated that it would need to provide C\$1.4 million in production credit to the cooperative. The actual loan request when it came in, however, was for almost C\$5.6 million for the cultivation of 2,600 Mz

1/ For a major portion of FUNDE's members, of course, the question of alternative sources of institutional credit has been academic for years, because they have had no access to any source outside the cooperative, friends, relatives and the local "prestamista." Distance and transportation also represent important factors. Frequently the cooperative is the only source of credit in the community (See Chapter IV.C.)

of corn and rice primarily. The same phenomenon is occurring with La Hermandad at Sebaco, La Perla at Bocaycito, Esquipulas and other cooperatives with a major agricultural membership.

On the basis of existing requests and financial programming seminars with the cooperatives early in the year, FUNDE has developed the following loan placement schedule for the six year period commencing in 1980: (figures in C\$000,000)

<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
26.0	31.3	35.7	39.7	43.6	47.7

It should be noted that the above figures are based on a "consolidation" strategy, that is, the formation of no new cooperatives. (Some new coops surely will be formed as well as branches of those existing.) Nor do they include the contemplated expansion of housing financing. (See B.3. below and Chapter VII Financial Analysis). In any case, the estimate is conservative. (At the end of 1979, FUNDE's total portfolio with the cooperatives stood at only C\$13.3 million.)

With the above in mind, it can safely be observed that the potential exists for a very significant expansion of FUNDE's lending activity over the next few years. Also, it is important to stress that the above demand is through existing vehicles and organizational infrastructure, both in terms of FUNDE and its cooperatives. Substantial economies of scale can now be realized, because the system is in place and operating smoothly. Overhead can be spread and savings can be dedicated to improving service and viability of the system as a whole. The above figures also represent a similar expansion in capital formation ("aportaciones") and lending at the cooperative level. (In 1979, total member contributed capital stood at C\$17.4 million and the outstanding portfolio was C\$33.4 million.)

2. General Expansion and Strengthening of the System

a) Growth

It has been estimated that if FUNDE had the personnel and financial resources it could easily form 20 new

cooperatives over the next three years. (In the past FUNDE has formed 10 cooperatives a year, with some variations.) Even now, municipal delegations are constantly approaching FUNDE for assistance in the start up of local cooperatives. Under present circumstances FUNDE has opted for a strategy of consolidation, a prudent course given the diversity and needs of the present system. In the long term, however, potential expansion is practically unlimited, both in terms of existing (new members, new branches) and new cooperatives. With an existing membership of only a little over 17,000, FUNDE is now just scratching the surface of potential growth.

b) Diversification and the Multi-Service Model

In the consolidated statements for the FUNDE system, the 58 cooperatives covered are broken down by type as follows:

Multi-Service	23
Commerce and Industry	20
Agricultural	10
Coffee	4
Ag	5
Livestock	1
Housing	3
Transport	2
	<u>58</u>

Despite the complexity implied by these figures, the basic model is the credit union, with gradually expanding lending and service functions. At least 48 of the above cooperatives are credit unions and at least another five started out the way, Jalapa, for example, which is now almost purely agricultural. In the long run, the FUNDE strategy is for almost all of its cooperatives to be of a true multi-service nature.

The success of the FUNDE program in exploiting the credit union mechanism to achieve a variety of ends is in great part owed to the simplicity and solidness of the base structure. It is also owed to a host of other factors (superior management at the coop level, comprehensive technical assistance and training programs, etc.) In any case, through trial and error, FUNDE seems to have

hit on a winning combination and on the correct order of things. Agricultural cooperatives often flounder, for example, because upon formation they must trackle the complex and taxing functions of supply, extension, marketing, etc. associated with the area. Capital formation is slow. The organizations are highly subject to price and economic cycles as well as natural disasters and other constraints. On the original base of the market town or semi-rural credit union operation, however, these risks are buffered. Once the credit union is successfully established and operating with professional management, new functions can be added slowly after due study, preparation, technical assistance. etc.

This being the case, why have other credit union systems in Latin America not experienced growth and lasting success similar to that of FUNDE's? In only one other country in Latin America has the analyst seen a comparable success story in terms of growth, diversity and dynamism. This is the case of the federated system in Guatemala, FENACOAC, a forty thousand member plus system based primarily in the Indian Highlands. In the Guatemala case, as in FUNDE's, the principal reason has had to do with superior management, the ability to learn from experience, and the aggressive tendency of leadership to experiment, to test new ground and to seek support from all quarters. The Guatemalan system has had strong government backing in addition to a long prior history of AID support (terminated some five years ago), but the point is still valid. Other systems have also had strong AID support and government backing (including FECACNIC in the late 1960s and early 1970s) and have not taken off. Again, management stands out as the principal and overriding reason, both at secondary and base levels.

There is almost nothing that can't be added on to a credit union successfully, if it is done properly and carefully enough. The potential is there in the FUNDE system for practically unlimited diversification in commerce, industry, agriculture, housing, social services, and education. This will be illustrated further below in dealing with the potential of particular areas.

3. FUNDE System Relative to GRN Policy and Programs

a) Existing Situation

Officially the new government is in the process of sorting out and establishing policy on cooperatives. A new law will eventually be drafted, to be based on post-revolutionary experience. Until the new law is published, the old 1971 law (as regulated in 1975) will remain in effect. The National Cooperation Directorate is still located in the Ministry of Labor (with a slight name change) and is responsible, as before, for legalization and regulatory functions relative to the cooperative world in general. Beyond this, however, not much is left of the old public sector cooperative establishment -not that there was much there before either.

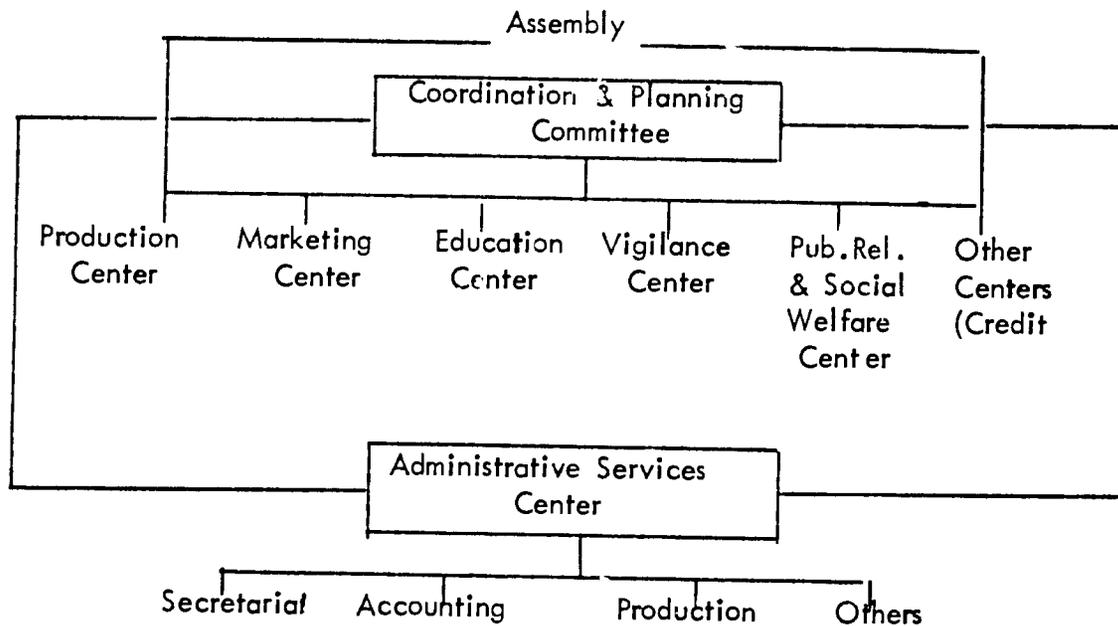
(1) General Policy

The clearest expression of general government policy concerning cooperatives appears to be that produced in the conference report of the "Primer Seminario Nacional de la Cooperación Carlos Fonseca Amador". The seminar, held in November 1979, was attended by representatives from all major public and private sector organizations involved in the promotion and development of cooperatives. In the conclusions and resolutions of the conference, it was agreed that cooperativism should play a very important role in the revolutionary process, that it constitutes a powerful weapon against monopoly power, that it is an excellent "school of democracy", and that it is a "forum" where traditionally marginal classes can be heard subject to the economic, social and political initiative of the community. In sum, cooperatives are acceptable, as long as they are not permitted to become instruments of vested and personal interests, as it was claimed they were prior to the Revolution.

In its statement of objectives, the conference reported that cooperatives should be promoted as effective instruments for the collective resolution of social and economic problems of the community and for the strengthening of solidarity, fraternity, and equality in general. The orientation is horizontal. Popular participation is a fundamental precept. Maximum benefits should accrue to the community rather than to the individual. Collective production is to be promoted. Paternalism is to be eliminated. The notion of "service" is elevated to the highest degree.

(2) The New Model

In line with these precepts, a new structure for cooperative organization was developed as illustrated below.



Under the new scheme, the assembly is still the supreme authority of the cooperative, but now the various centers are to be elected directly (three members each) by the assembly. Each center then elects one of its members to serve on the Coordination and Planning Committee, which in turn elects its own set of officers. The principal idea of the change is to promote a much higher level of participation in the direction and management of the cooperative. ^{1/}

Upon conclusion of the conference, a special commission was named to study ways and means to facilitate the contribution of the cooperative movement to national development and

^{1/} FUNDE has distributed literature on the new model and is promoting its adoption through its general training program.

other revolutionary goals. Among other things it was to develop a new law. Participating on the commission were delegates from the principal organizations attending the conference (FUNDE, FECACNIC and other private entities among them.) Recently, however, the commission was suspended because of differences that had to be ironed out between the Government, the ATC, and the CST. Once the situation is clarified, the commission is to be reconvened. 1/

(3) Ministry of Labor

With respect to the attitude of the Ministry of Labor, according to the Vice-Minister, cooperatives are to be promoted provided that they conform to established precepts. 2/ There are cooperative types that are clearly unacceptable, especially those that are formed for the greater profit of members rather than the community at large. In addition, the government is in favor of mixed participation in cooperatives between socios and the state. With respect to FUNDE in general, a neutral attitude is expressed.

Since the revolution, some five new cooperatives in the FUNDE system have submitted requests for legal status to the National Cooperation Directorate of the Ministry. Thus far, none have been approved. Why, is not known. In the meantime the cooperatives are continuing to operate as if they were legal. There have been no ostensible problems, although it is suspected that they might not be able to borrow from the Nationalized Banking System.

(4) The National Development Bank (BND):

Prior to the Revolution, the National Bank of Nicaragua was a major promotor of cooperatives, and a special section within the Rural Credit Department was responsible for cooperative development and financing. Technical assistance was provided by both headquarters and field personnel. The cooperative section has since been abolished and the function of the rural credit department

1/ Interview with Vice-Minister of Labor, Edgar Macfas

2/ Ibid

has now become primarily that of financing agent. Promotion, technical assistance and training have been assumed by the ATC and PROCAMPO respectively. 1/

With respect to credit allocation, the BND finances everything related to agricultural production. Credit is also provided for small rural business, but reportedly a break has been put on non-agricultural production and commercial financing of this type. A strong preference has been established for collective production and small groups in general.

The National Bank is now apparently incapable of acting independently in the matter of selection and approval of cooperative and other projects. All loans, depending on size, are to be approved by local, departmental or national committees composed of representatives from PROCAMPO, the BND and the ATC. A "National Committee of Small Production", with representatives from PROCAMPO, the Department of Rural Credit of the BND, ENABAS, FSLN, INRA and the production section of ATC, establishes policy and makes decisions with respect to agriculture, small commerce and industry, and livestock.

Thus far, there has been no loan from the above establishment to FUNDE cooperatives. An exception to this in the future will be a recently approved IDB loan to FUNDE cooperatives which is to be channeled through the rural credit department of the BND. The way this loan has evolved, however, is instructive.

As the IDB loan was originally developed and negotiated, it was to be disbursed entirely through FUNDE as an intermediary lender to system cooperatives. Late in 1979, however, the loan was renegotiated and restructured in such a way that it will be lent directly to the cooperatives by the BND with FUNDE acting as facilitating and technical agent. For its services, FUNDE is to receive a 1% spread on the outstanding balance.

1/ Interview with Noel Delgado, Rural Credit Department, BND.

Although the first disbursement is to be lent to cooperatives and projects selected and approved by FUNDE, rollovers are free for placement outside the FUNDE system. Sub-loans are to be approved by the local, departmental, or national committee as the case may be, depending on size. Faced with the above situation, FUNDE will attempt to place most of the loan in long-term credit for fixed assets. How this program works out in fact will be an important indicator for the future. 1/

(5) Other Government Agencies

In the course of the study, it was not possible to interview other government agencies involved with cooperatives or in a position to collaborate or otherwise affect FUNDE activity. With respect to the Ministry of Agriculture and the Public Sector establishment in agriculture in general, the impression from field trips is that a negative bias exists toward FUNDE cooperatives. According to the coops, PROCAMPO agents are attempting to draw clientele from FUNDE cooperatives and are telling potential coop members that the government can provide them with a much better and cheaper package.

With respect to the Ministries of Education and Housing and the Vice-Ministry of Internal Commerce, a much more positive relationship is supposed to exist. The Ministry of Housing has been actively engaged in meetings with FUNDE relative to several projects, and the Ministry of Education is supposed to be interested in possible collaboration with the CFER program. The Vice-Ministry of Internal Commerce has given FUNDE a "carta blanca" to proceed with its commercialization program, and INRA is collaborating in at least one instance (Sébaco) in the provision of basic food commodities at subsidized rates.

1/ This first loan disbursement request was just approved as of this writing (May 1980). It consists of C\$1 million for production credit to the agricultural cooperative at Jalapa. FUNDE was forced to turn to this source to meet Jalapa's need due to a current liquidity shortage. In the future, where possible, IDB resources will be placed in medium and long term productive investments.

b) FUNDE Strategy Relative to the GRN

When the war ended in July 1979, FUNDE did not wait to find out how government policy would evolve relative to cooperatives or the private sector in general. A strategy of action was adopted and an emergency recovery program was immediately set in motion throughout the system. As it turned out, this was the right decision; and both the system and FUNDE are now much stronger for it.

The same is true today. Faced with the above unclear and evolving panorama of GRN attitudes and factors, FUNDE has again opted -de facto- for an action oriented strategy. The program has, and will continue, to proceed full speed ahead on all fronts. This will be maintained at least until a consistent national policy on the role and functions of private cooperatives has been formulated or otherwise becomes clear, which may not be for an extended period of time. Key elements of this strategy are as follows:

(1) Prove the case for the FUNDE model.

FUNDE is convinced that over time the superiority of the diversified, private multi-service model described above will become clear relative to alternative cooperation and production schemes being pursued in the Public Sector. It is a matter of time. Soon or later the volume of production and social and economic benefits accruing to cooperatives and communities participating in the FUNDE system will become so impressive compared to the output of the collective model that it will be possible to prevail in terms of arguing the case for acquiescence, and (possibly) support on the part of the GRN. Also, if the current rate of growth continues, the growing popular preference for the model will be hard to ignore. (For this reason, the above recommendations on data collection become even more important. The case must be documented.)

(2) Consolidate the Program. While the

FUNDE system is expected to continue to experience accelerated growth over the next few years, the strategy is to strengthen the existing system. There will be no active program of new cooperative formation in the short term future, although branches of existing coops will be established on the basis of popular demand. During this period the program thrust will be to strengthen and diversify current system cooperatives to the point that lasting viability and effective

economic and social impact at the community will be assured.

(3) Promote Precepts of the Revolution

FUNDE, in all possible ways, is promoting the practical application of fundamental revolutionary doctrine in the implementation of its cooperative development program. This is not difficult, because it has really been this way all along. The notions of service, projection to the community, brotherhood, equality, participation, and collective decision making for the greater good of all members are really what cooperativism is all about in its purest sense; and FUNDE has consistently furthered the application of these ideals in its promotion, training, and technical assistance efforts. These principals are now receiving an especially strong emphasis in the system wide basic cooperative training program described in Chapter V. In addition, the new government backed structure for cooperative organization is being explained and promoted to the fullest extent. By the end of 1980 it is expected that almost all participating cooperatives will have officially adopted the structure (ratification by assembly and establishment of centers and planning committee).

(4) Collaborate wherever possible. In

all cases where collaboration is feasible, FUNDE will attempt to work together with GRN agencies. The brightest prospect for this at the moment is with the Ministry of Housing and a series of meetings have already taken place regarding several projects where Ministry support is expected. Beyond this, the CFER program and the Ministry of Education offer a possibility. Another may be INRA and the Ministry of Commerce in the case of the commercialization program.

(5) Broader Participation in the Direction

of FUNDE. FUNDE is considering the possibility of broadening participation on its board of directors (Consejo Superior) on the part of both the cooperatives and the Government. One alternative mentioned thus far would be three cooperative representatives and one from the Government, probably the Ministry of Housing. (At present FUNDE's 16 member board is all from the Private Sector, including three from INDE).

4. FUNDE System Relative to the Rest of the Cooperative Movement

Investigation in this area was minimal due to limits of time and circumstance. Nevertheless some observations can be made based on limited conversations within and outside of FUNDE and earlier experience (the 1977 cooperative assessment).

a) The Cooperative Movement

(1) Composition. Before the war, the movement consisted of essentially three cooperative systems, FUNDE, FECACNIC, and the National Bank (BNN), plus a number of scattered cooperatives of various types that had been formed by private and voluntary agencies (CEPAD, INPHRU, etc.) Other cooperative forms included "colonias" formed by the Land Reform Institute (IAN), "juntas comunitarias" formed by INVIERNO (now PROCAMPO) and "clubes agrícolas" assisted by the National Technological Institute (INTA) and the BNN. The BNN system consisted of 16 agricultural cooperatives with a total membership of approximately 3,000 families. Within these there were four large regional cooperatives in León Chinandega, Rivas, and Masaya. It was not really a movement ^{1/} as such, but organizational infrastructure and delivery systems were in place, and potential for use of the cooperative vehicle in rural development throughout the country was high.

Today the FUNDE and FECACNIC systems remain basically unchanged. The BNN's group has been cut loose from any special attendance by the Rural Credit Department. (It is believed that they relate more now to National Union of Agricultural Producers (UPANIC.) Some of them have undoubtedly been taken over by PROCAMPO, especially the smaller ones. The IAN colonies, of course, are now being managed by INRA. It was not possible to verify the status of the juntas comunitarias. They have probably become CASs for the

^{1/} The closest things to "movements" were the two credit union systems, FUNDE and FECACNIC. FECACNIC relates to the Latin American Credit Union Movement represented by the Confederation of Credit Unions (COLAC) in Panama. The Bank's cooperatives, at one time, tried to form an agricultural cooperative federation but were never able to obtain the necessary financing.

most part (Cooperativas Agrícolas Sandinistas) and CCSs (Cooperativas de Crédito y Servicio.) The status of the other PVO cooperatives is also unknown. A new central coffee cooperative has been formed in Matagalpa, with some 152 member "comités", which relates primarily to UPANIC.

With respect to the notion of "movement" in a national sense (unified goals and some sort of integrative structure) the only thing resembling this today is the Revolution itself in terms of its goals relative to "cooperación" at the base or mass level.

(2) FUNDE's place in the Movement. As the above cooperative systems and organizations do not have, at the moment, an overall unifying or integrating structure, the place of any one system within the movement is difficult to determine. In terms of general affinity, FUNDE obviously relates most to other credit unions (primarily FECACNIC's rural affiliates). FUNDE could also relate to the Coffee Central due to its own work with coffee cooperatives and proximity (FUNDE coops in Matagalpa, Esquipulas and San Dionisio.) Beyond this, how FUNDE might relate to the rest of the cooperative world in Nicaragua one can only speculate, given the lack of current information and research. With this in mind, the only two external systems covered in this treatment are FECACNIC and the Coffee Central in Matagalpa.

b) Potential Role of FUNDE

(1) Relative to the FECACNIC System.

The FECACNIC system at present includes 42 active cooperative members of which 20 are considered rural. The urban cooperatives are mainly of the "employee" variety such as the AID credit union. Information at the disposal of the analyst concerning the rural cooperatives dates to the 1977 assessment and is seriously out of date. At that time there were 19 rural coops with 6,000 members, 3,000 of whom belonged to the impressive, diversified credit union in Estelí (San Antonio). This cooperative, however, has since moved over to FUNDE.

In late 1977, in addition to Estelí, five other rural cooperatives were considered sufficiently advanced to parti-

cipate in the initial tranche of the \$1 million COLAC (IDB financed) loan being developed at the time. An ambitious plan, to be financed by AID, was also formulated for the formation of a substantial number of new cooperatives and the strengthening of the existing membership. The system, including the federation, was to become financially self-sustaining within five years. This plan, however, was overtaken by events of the past two years and never got off the ground. 1/

In January 1978, FECACNIC (on the verge of financial collapse) received a bridge grant (six months of budget support) from AID to allow time for the development of feasible plan and proposal for longer term support. This grant expired just as the IDB loan was coming on stream in the summer of 1978. AID support was not renewed and FECACNIC (again on the verge of collapse) was forced to depend on COLAC financing for operating costs. By the end of 1978 the FECACNIC staff had been cut from 23 to 10. Somehow, mainly thanks to COLAC support and sheer determination, the federation survived until September 1979 when AID support was renewed. Also during this period, the already serious delinquency problem of the federation became more serious, and heavy losses were experienced due to the political crises of the period among other factors. 2/ With the renewal of AID budget support (good until September 1981 according to FECACNIC's Manager) the federation rebuilt its staff (currently 16 of whom 8 are dedicated to technical assistance) and has set about trying to develop a viable program.

The current FECACNIC strategy, according to the manager, is rigorously conditioned by goals and precepts of the Revolution. Member cooperatives have been informed that if they don't entirely commit themselves to those principles they should not expect services or collaboration from FECACNIC. Closed credit unions, for example, must convert to the open variety. There must be an active effort to project to the community, etc. Beyond this, FECACNIC is now focussed almost exclusively on the rural cooperatives.

1/ Information relative to FECACNIC over the past two and one half years was drawn from an interview with the Manager, José María Rodríguez. He was also manager at the time of the 1977 assessment.

2/ Other factors included the loss of the COLAC advisor in late 1978, loss of Peace Corps volunteers in 1979, the loss of staff etc.

The urban coopes have not responded to FECACNIC initiatives by and large. Collective production is stressed. Credit, technical assistance and auditing services are provided.

In terms of lending capital, in addition to the remainder of the COLAC loan 1/ a \$400,000 grant was approved by the IAF in January 1980 for reconstruction and rehabilitation loans (\$300,000) and collective production schemes (100,000). At the moment FECACNIC is also attempting to negotiate a new credit direct from the IDB for \$.5 million.

With respect to potential collaboration with FUNDE, this is a subject explored on several occasions in the past, but with no success due to the problem of ingrained institutional biases and rivalry. In 1977 an attempt was made to try and get the two organizations together with assistance from the President of COLAC and CUNA. Nothing came of the meeting, however, because FUNDE calculated at the time that it did not stand to gain very much relative to what it could offer. This, in fact, was the case, and still is for the most part. The one service that the Federation can offer that FUNDE does not already have is a program of credit Life Insurance through the CUNA mutual system plus access to certain COLAC services (possibly financing).

Now, however, the manager of FECACNIC is expressing renewed interest in establishing a substantive relationship with FUNDE 2/. The form this might take merits exploration, not so much because of what the federation could offer, but because of the desirability of taking advantage of existing organizational infrastructure in the countryside, reducing overhead, and realizing economies of scale. Also, for a FECACNIC cooperative, conversion to FUNDE systems and procedures would not be that difficult. 3/ What

1/ Approximately C\$3.8 million remained to be disbursed as of early May 1980.

2/ The degree of this interest and the extent to which it is shared by FECACNIC's board is not known.

3/ San Antonio de Estelf (around 4,000 members) has moved over. Several others have approached FUNDE in the past two years. Three have accepted loans from FUNDE since the war.

would be hard, however, would be the merging of FUNDE and FECACNIC as organizations. Under present circumstances, FECACNIC could almost certainly lose identity as an institution through such a move. 1/

(2) Relative to the Regional Coffee Cooperative Central at Matagalpa.

Information for adequate coverage in this report of the coffee central is lacking. Observations are based on a brief meeting with the President of the Central (also president of UPANIC.) 2/

The cooperative was formed in August 1979 in an attempt to meet the needs of the large number of small coffee producers in the region who stood to lose substantially from war related disruption of credit and services. Committees were then rapidly formed (of no more than 30 producers each) for the provision of credit and marketing services. Financing for the 1979-80 harvest was obtained from the National Development Bank, which was channeled to over 4,500 family producers in 152 committees scattered in the mountains of the region. Today there are some 7,000 participating members.

Neither the organizational nor financial viability of the central has been explored. Coffee is a viable crop in Nicaragua, however, as it is throughout Central America (although subject to world market cycles). It is also one of the few export crops that can be profitably produced by very small farmers, provided that there is even a modest degree of "technification". In the case of the Matagalpa cooperative, it would appear that there is sufficient volume represented by current membership to adequately support cooperative overhead for credit, technical and marketing services administration.

With respect to potential for collabora-

1/ Also, most of FECACNIC's rural cooperatives are very poor (according to the manager). A major investment in institution building would be required.

2/ Interview with Jorge Salazar Arguello, Presidente Consejo Directivo de la Cooperativa Central de Cafetaleros de Matagalpa.

tion with FUNDE, a relatively strong case could be made because of FUNDE's prior experience with the formation and development of coffee cooperatives. Four of FUNDE's present cooperatives are predominantly coffee producing, two of which are in the Matagalpa area (Esquipulas and San Dionisio). Areas of collaboration could include the provision of credit, technical and managerial assistance to the committees and the central itself, and (perhaps) an investment in processing of whatever level makes sense technically and financially. Although the coffee export business has been nationalized in the form of the new parastatal corporation, EMCAFE ^{1/} there are still major savings to be made in collection, processing, and marketing (including transportation) of the crop. Another FUNDE cooperative, Yall, in the Department of Jinotega, is studying the feasibility of investing in its own "beneficio" (30,000 quintal capacity).

c) Recommendations

(1) FUNDE and FECACNIC should carry out exploratory talks relative to the advisability of a merging of the two credit cooperative systems (only rural coops in FECACNIC's case). The form such a merger would take would require special study. There are political and other factors to consider relative to the GRN and the Latin American Credit Union Movement. If a basis for collaboration or further study is discovered AID, the IAF, and COLAC should be consulted relative to potential support for measures contemplated.

(2) FUNDE and the Regional Cooperative Central of Matagalpa should explore the possibility of affiliation for purposes of provision of credit, technical assistance, training and other services to the coffee producers and their committees. A feasibility study is probably warranted.

(3) Concerning the rest of the movement, the establishment of new relationships would have to be based on analyses of a host of political, economic, technical and financial factors. (No other recommendation is offered at present).

^{1/} Empresa Nacional de Café.

B. Potential of the FUNDE System as an Experimental Vehicle.

In the foregoing section on diversification and the multi-service model, the flexibility and potential of the basic FUNDE cooperative for experimentation was discussed. This will not be repeated here. Rather this section will be devoted to brief specific examinations of potential in the principal technical areas in which FUNDE is operating. In addition, the following areas are presented in order of priority relative to socio-economic productivity and the meeting of perceived community needs in rural areas. No pretense is made of a serious quantified analysis. The priorities reflected below arise from judgments made by the analyst for reasons stated in each case.

I. Agricultural Production and Marketing.

a) Rationale for Priority.

Agriculture, marketing and associated activity was selected as the number one priority for the following reasons:

(1) Demand: Demand does not always represent need, but in this case it is believed that it does. In the first place, the agricultural sector is engaged in a national recovery program. There is critical need for credit to put land back into production that had been idled or neglected due to the war. In addition, expropriated land is now being put into collective production schemes. It is speculated that of total credit availabilities in the public sector, the majority will be dedicated to this end. (This was reinforced time and again during field visits by comments concerning the availability of bank financing). For those small producers who farm individual plots or who desire a selection of marketing alternatives, there would not appear to be many options. As a result, the demand for agricultural credit in the FUNDE system is skyrocketing, both within its own terms and relative to the total portfolio. Percentage share of total demand represented by agriculture has essentially doubled twice in the past year. At the end of 1978, agriculture occupied only 13 percent of the portfolio. By the end of 1979, it had jumped to 27%. This year's projections place it at over 60%.

(2) The need for Alternatives. This was

touched on above, but it deserves more emphasis. There is a need for private sector alternatives for agricultural production. Regardless of the merits of Public financing of agriculture, it will not be possible for the government establishment to meet the credit and complementary service needs of more than limited portion of the sector. The financial resources do not exist nor the infrastructure (organizational and physical). Alternatives should be supported that can tap external resources, both international donors and private capital markets. Existing private organizational and other infrastructure should be exploited to the extent possible. The need is big enough for both systems. 1/

(3) The Need for Integration of Services and Systems: Effective supply, extension, and marketing services, essential for increased production, are also in short supply in rural Nicaragua. For those outside the public sector program, there is no government extension, relatively high cost supplies due to scarcities and, in some cases, exploitation of isolated communities by intermediaries. 2/ Marketing options are often also of high cost for the same reason in addition to the lack of infrastructure and transport capability. Again it is a question of capacity. The absorptive capacity of ENABAS, the national grain marketing agency, for example, is not adequate to meet the needs of a majority of producers. Alternatives are necessary. The FUNDE cooperatives represent a viable complementary alternative. (See following section).

1/ These observations are drawn primarily from interviews in the field and prior experience in Nicaragua and other Central American countries. In the course of the study it was not possible to explore the magnitude of existing and potential resources available for Public Financing of agriculture. These may be greater than envisioned. On the basis of infrastructure, however, in addition to planning and manpower requirements, the point is believed to be valid.

2/ This point was stressed in field interviews, most particularly in Jinotega.

b) Potential for FUNDE's agricultural program.

The potential for growth, valuable experimentation, and impact from the FUNDE program in agriculture is practically unlimited for the reasons below:

(1) Track Record. Although initial growth by FUNDE coops in the agricultural area was slow, for the past three years it has been dramatic. There are now 10 coops classified as agricultural (4 coffee, 5 agriculture, and 1 cattle). At the end of 1979 there were 2,570 members in these specifically. This does not include, however, the farmer members of the other coops. There are 24 cooperatives in all with agricultural lending and more are coming on stream all the time. A number of cooperatives are experimenting for the first time with agricultural memberships.

The agricultural coops as a group now represent the most viable segment of the FUNDE system. At the end of 1979, the net returns "excedentes" from these cooperatives exceeded those of the rest of the system put together. It is understood that there are basically two "problem cases" both classified as "agropecuario", but the others are in good to exceptional shape. In terms of volume of operations and net returns, the coffee cooperatives are the strongest of all, especially Yalf and La Perla (Bocaycito). This is natural given the comparative advantage of coffee. (Jalapa, an agricultural cooperative, dedicated primarily to basic grains, shows good prospects for challenging the coffee coops on volume this year. Management, by and large, is strong. Delinquency rates for small farm borrowers are low, often better than for small business and industry.

(2) Experimentation and Diversification. Possibilities for profitable experimentation within the agricultural sphere are almost endless. One particularly intriguing possibility relates to the integration of supply and marketing functions and the development of an inter-cooperative trading system. The commercialization program (while now managed as a separate unit in FUNDE) could easily be integrated into the technical assistance program related to marketing and production in general. The most advanced example of this notion is the cooperative at Sébaco which has a

successful established "centro de comercialización." Soon the coop will be adding a supply operation for agricultural inputs. Already the Matagalpa coop has expressed interest in buying Sebaco's vegetables in return for its beans. Sébaco is now selling clothes made by another cooperative. Several cooperatives are currently engaged in both agricultural input supply and marketing. With the addition of the commercialization program (basically consumer wholesaling) possibilities multiply.

Other options for experimentation include cooperative (as opposed to individual) production. Two cooperatives are now attempting to buy land for this purpose. This would be particularly valuable relative to analytical comparison with public sector activity. The feasibility of collective production of this type can be studied within the system from a farm management point of view. (See recommendations on data collection). Experiments also are being carried out with diversification. Several coops are combining coffee with basic grains. In the case of the CFER at the Yali cooperative, a complete diversified farm plan is being developed including coffee, grain, fruits and vegetables and livestock.

(3) Investment in Fixed Assets. As of now the great majority of all FUNDE lending is for short-term production credit. This is fine in terms of maintenance of production levels. There is a real need, however, and strong demand, for increased lending for farm and infrastructure improvements related to production, marketing, processing, and supply. The agro-industrial opportunities on a small and medium scale are excellent over the long term, provided that such enterprises are allowed to operate in a relatively free market setting. Two high potential areas for this type of investment observed by the consultant were coffee and milk processing. Other areas within the system include cattle finishing, chicken and egg production, processing of fruits and vegetables. ^{1/}

(4) The Strength and Quality of FUNDE's Technical Assistance Program. As described in Chapter V, FUNDE

^{1/} Drawn from field interviews and the 1977 cooperative assessment. Heard, *op. cit.* Chapter III, Government Assisted Agricultural Production - Based Cooperatives and Related Systems.

is equipped with a highly qualified staff dedicated to agricultural technical assistance. They are overworked, but they are competent. Additional staff is needed, but this will come with volume. The two missing elements (data collection and linkage with sources of research) are treated by the proposed AID project. (See Chapter VIII).

2. Commerce and Industry

a) Rationale for Priority

(1) Need. In almost all of the co-operatives visited it was reported that bank credit had been sharply reduced for small commerce and industry. The vast majority of financing, especially from the BND, appears to be going to agricultural production through the PROCAMPO program. Especially during the recovery period, there is a vital need for working capital and resources to rebuild inventory and facilities. The principal reason that total demand for commercial and industrial credit has not grown as fast as that for agriculture in the FUNDE system is that the level of lending per borrower is so much lower. The average loan for this category varies between \$100 and \$500. In agriculture lending ranges from \$500 to \$3,000.

(2) Largest Number of Socios. Although it is not possible to cite a precise figure, the number of current members in this category probably comes to something over 12,000, with a total affected population of well over 30,000. Also, in terms of beneficiaries per amount of dollars invested, this is the area of greatest potential due to the low average loan level typical of the category.

(3) Employment and Income Generation. As has been demonstrated in a number of studies, the employment generation effect of the financing of small enterprise development in Latin America is high relative to other areas of economic activity. (the figure of \$5,000 per job for invested capital has turned up in studies from South America. A 1977 agro-industrial assessment in El Salvador ^{1/} showed rates of return for small business development

^{1/} Part of AID's agricultural assessment for El Salvador. The analysis was performed by Practical Concepts Inc. 1970 survey data was used.

in rural areas which considerably outperformed more capital intensive industries in metropolitan areas. In terms of employment impact, superiority was clearly established.

(4) Development of Market Towns and Secondary Cities. For years Nicaragua has had a serious rural/urban migration problem, especially to Managua. The financing of labor intensive commerce and industry in secondary cities and market towns throughout the country attacks this problem. The problem of inefficient distribution is also treated to the extent that transport of goods and services back and forth from the capital and principal cities can be reduced. Finally, financing of the type of rural enterprise represented by the FUNDE system facilitates the constructive inter-action of agricultural commercial and industrial activities. New industries and employment are generated.

(5) Women-in-Development. There are more women beneficiaries in this group than in any other including a significant number who run their own businesses. (Market operators, "pulperas", handicrafts.)

(6) Savings Generation. The savings generation feature of commercial and industrial credit through the FUNDE system outperforms all others combined ("aportaciones"). ^{1/} This is principally because of the lending ratio requirement of 3:1 normally applied in this category. This appears to be the most effective means for rural capital formation and the stimulation of investment. The vast majority of all loans are for productive ends.

b) Potential (Commerce and Industry)

(1) Experience. This is the area where FUNDE has the most experience. Systems and methodology are tried and proven.

(2) Experimentation. As with agriculture, possibilities are almost without limit. The commercialization

^{1/} Of total system contributed capital as of the end of 1979, C\$17.4 million, C\$7.5 million is attributed to the 20 Small Commerce and Industry cooperatives and C\$6.4 million more to those 23 classed as "multi-service," a major portion of the membership of which consists of small commerce and industry borrowers.

program is a good example in both spheres and cuts across categorical lines. In the area of production, a number of experimental activities are either in process or planned in such areas as clothes, shoes, bricks and handicrafts (furniture). Good possibilities exist for more effective internal cooperative distribution (producer members selling to market operators). One cooperative (Sébacó) is starting to import raw material (cloth) from Costa Rica.

In a different sense, a number of experimental projects have been carried out jointly between coops in this category and "juntas locales de gobierno", the construction of markets in Matagalpa and Rivas, street improvement in Santo Tomás, parks and recreational activities. This is an area where FUNDE can cement a strong and helpful relationship with local government and community leadership. It is also in the spirit of the Revolution. Possibilities for social action are endless (dispensaries, day care centers, health facilities, adult education, libraries, etc.)

Another intriguing area to be explored has to do with inter-cooperative technical assistance, primarily in the area of small manufacturing. Skilled craftsmen can be sent from one cooperative to another in return for similar favors, goods, or services.

(3) Horizontal Expansion and Integration.

There are seven cooperatives now with branches. Many more can be established. Most of them are of the multi-service and small commerce/industry variety. Branch operations have several advantages. They make for increased coverage at lower cost, spread good management more broadly, and promote inter-community commerce and interaction. Experiments in the future can be carried out in terms of improving economies of scale in credit management and other services (information, promotion, education.)

3. Housing

a) Rationale for Priority

(1) Need. The 1972 Nicaraguan housing census reported that of all rural shelter, 50% had a thatch roof; 84% had dirt floors; 88% had no electricity. It is suspected

that conditions haven't improved that much. Investments in rural housing have been minimal. 1/

In the case of the FUNDE cooperatives, data is lacking to estimate the true scale of the need; but in typical cases 85% of a given cooperative membership will live in rented, sub-standard housing. In the case of every coop that FUNDE has approached with the program, demand has been many times that which could be financed or managed in the short or medium term future (1-2 years.)

(2) Lack of Alternatives. Most housing projects over the past few years have been associated with earthquake recovery. The Ministry of Housing is focused on the greater Managua metropolitan area. FUNDE represents one of the very few existing mechanisms for professional planning, financing, and supervision of low-income rural housing and facilities construction. Cooperatives in place provide appropriate and efficient organizational infrastructure. The creation of new channels would not be cost effective.

(3) Social and Economic Infrastructure. The need for new and improved facilities at the community level is everywhere apparent in Rural Nicaragua; health centers, marketing and distribution facilities, schools, day care centers, sanitary installations, community centers. etc.

b) Potential (housing)

(1) Capability. The FUNDE housing staff is excellent and technical assistance (FCH) is effective. (See Chapter V., Section A.9.)

(2) Experimentation. The potential for social and economic innovation within FUNDE's housing program is outstanding. Innovation is occurring and will continue in the following areas:

1/ FUNDE, A Proposal for Shelter and Community Service Program, Nicaragua; submitted to PACT Inc. in February 1979, p.2.

- Construction techniques: design, materials, methods.
- Community Planning: innovative housing/work/social facilities arrangements.
- Community organization: training and organizational innovation before, during, and after construction for socially and economically productive activity.
- Variety of Projects: Houses, home improvement, markets, education, etc.
- Opportunities for Productive Collaboration: Local government, community organizations, Ministry of Housing.

(3) Employment and the Development of Local Skills: The majority of FUNDE's housing activity involves local construction supervision and labor. Normally a cooperative member is the "maestro de obra". Other members provide much of the labor, carpentry, masonry, etc. Employment is provided; skills are developed; the community economy is stimulated.

(4) Demand. Based on existing assessed needs and staff capability (adding an additional architect, one engineer, and a social promotor), contemplated projects between 1980 and 1984 amount to approximately \$5.0 million. This includes 600 individual housing units, 833 project housing units (urbanizaciones) in ten projects, 395 home improvement loans, and 11 community projects (CFERs, day care center, handicraft center, school, community centers, etc. From all reports, this barely scratches the surface of the true demand. 1/

1/ Projections prepared by FUNDE's Housing Center with FCH assistance, April 1980.

CHAPTER VII
FINANCIAL ANALYSIS

A. Existing Financial Condition of the System

1. FUNDE

As of the end of 1979, FUNDE had total assets of approximately C\$18 million including an outstanding portfolio of C\$15 million against total financing C\$7.8 million. Of this about C\$4 million was long term (mainly from SOLIDARIOS). Net capital was C\$8.9 million, of which C\$6.5 (73%) had been derived from the surplus from operations during the year (100% grant funded). Total operating costs for the year were C\$5.5 million while grant financing received during the year came to C\$11.4 million resulting in the extraordinary surplus. ^{1/}

The financial evolution of FUNDE over the past three years is reflected in key indicators of Table VII A below. At first glance the Federation appears to be in a highly solvent position. This is more apparent than real, however, when one considers the almost total dependency of the organization on grant financing. For most of the last few years, over 90% of operating costs have been covered by international donations. In 1979 interest income came to only 8% of actual expenditures.

In 1980, a total operating budget is projected of approximately C\$7.3 million. Of this, approximately 75% is

^{1/} Data for most of this section was drawn from official financial statements as of December 31, 1977, 1978 and 1979.

funded by established grants with the Inter-American Foundation, AID, PACT and Appropriate Technology International. The shortfall will have to be made up through interest income and additional grants (which the Foundation is now seeking) or drawdowns on capital which, fortunately, is fairly substantial at the moment. (With respect to prospects for future viability, see Section B. below.)

TABLE VII, A.

FINANCIAL CONDITION OF FUNDE
(Selected Indicators)
1977-1979
(C\$000)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	
<u>Total Assets</u>	6,115	7,820	17,948	
Loan Portfolio	5,019	6,326	14,990	<u>1/</u>
Financing - Total	4,448	4,208	7,797	
National Bank Loans	3,538	3,298	3,023	
Long-Term International Loans	663	399	3,991	
Surplus from Operations	(882)	2,424	6,494	
Net Capital	340	2,765	8,870	
Income - Total	3,101	6,036	11,993	
Interest	251	336	430	
Local Donations	101	86	23	
Foreign Donations	2,688	5,589	11,381	
Operating Costs	3,983	3,611	5,498	
<u>Financial Ratios</u>				
Debt/Equity	13	1.52	.88	
Portfolio/Borrowing	1.12	1.5	1.9	
Grants/Income	.87	.92	.95	

1/ Of this amount approximately C\$13.3 million was in loans to cooperatives.

2. The Cooperatives

As of the end of 1979, the 58 cooperatives in the FUNDE system had total assets of C\$48.3 million, a total outstanding portfolio of C\$33.4 million and external financing of C\$16.1 million, not all of which was from FUNDE. (Approximately C\$2.8 million came from local banks.) Total "aportaciones" came to C\$17.5 million with accumulated reserves and grants of an additional C\$4.2 million and a net surplus of C\$534,000.^{1/} With respect to general financial viability, 34 of the 58 had produced net surpluses during the year. The system as a whole has shown modest surpluses in 4 of the last 7 years, with the others showing a zero balance.^{2/}

At the end of 1979 the overall debt equity ratio for the coops was .97 which compares favorably with other Latin American cooperatives in similar programs. Table VII B below shows indicators for the system as a whole over the past three years. As mentioned earlier, the system is viable, barely; but much of this is due to heavy grant inputs in the past, subsidized loans, free services, etc. As seen in the following tables, however, some of the cooperatives (Table VII C) are now in a position to assume a greater share of the financial burden of their own development. With respect to relative viability of the various categories of cooperatives, Table VII D shows indicators demonstrating strengths, weaknesses and characteristics of the different groups.

^{1/} The surplus can be entirely attributed to the ten agricultural cooperatives.

^{2/} Data for this section was drawn from a series of consolidated cooperative statements recently prepared by FUNDE's R&D center.

TABLE VII B
FINANCIAL CONDITION OF FUNDE COOPERATIVES
(Selected Indicators)
1977-1979
(C\$000,000)

	<u>1977</u>	<u>1978</u>	<u>1979</u>
No. of Coops	39	42	58
Total Assets	14	19.3	48
Loan Portfolio	12	16.5	33.4
Owed to FUNDE	3	5.2	13.3
Other Liabilities	2.1	3.4	13.4 ^{1/}
Aportaciones	7.2	8.9	17.4
Total Capital	8.9	10.7	21.7
Donations	1.6	1.5	4.1
Excedentes	0	.2	.5
Liabilities/Capital	.57	.8	1.23
FUNDE Loans/Total Liabilities	.59	.6	.50

TABLE VII C
SAMPLE OF MOST VIABLE COOPERATIVES
(Selected Indicators)
Dec. 31, 1979
(C\$000)

	La Moderna (multi-service)	Avances (multi-serv.)	Juigalpa (commerce- industry)	La Perla (coffee)	Jalapa (Ag.)
Members	289	587	279	280	179
Portfolio	963	1,267	408	1,374	309
FUNDE Loans	458	478	142	75	3
Aportaciones	457	957	185	580	89
Total Capital	490	1,078	224	1,676	917
Interest Income	127	262	102	274 ^{2/}	9 ^{2/}
Excedentes	31	28	22	344	98

^{1/} Includes C\$2.1 million in non-FUNDE loans and C\$6.3 million in "other obligations," of which a major portion relates to coffee held by the Cooperative at Yali.

^{2/} La Perla and Jalapa received other income from agricultural marketing of C\$420,000 and C\$151,000 respectively.

TABLE VII D

FINANCIAL COMPARISON OF COOPERATIVE CATEGORIES

(Selected Indicators)

Dec. 31, 1979

(C\$000,000)

	<u>Ag.</u>	<u>Commerce Industry</u>	<u>Multi- Service</u>	<u>Transport</u>	<u>Housing</u>
Coops	10	20	23	2	3
Members	2,570	8,153	6,231	428	323
Total Assets	15.6	15.5	14.2	2	1
Portfolio	6.7	13.7	12.9	.6	.4
FUNDE Loans	3.8	4.1	4.6	.1	.7
Aportaciones	2.7	7.5	6.4	.8	.1
Total Cap.	4.8	8.4	7.0	1.2	.3
Interest Inc.	7.08	1.16	1.48	-	.016
Other Inc.	.8	.09	.029	.414	.005
Excedentes (Loss)	.587	(.129)	.144	(.061)	(.007)

B. Prospects for Future Viability (medium term, 1980-1985)

1. General

FUNDE's plan for viability, as spelled out in a paper prepared for the IAF in early 1979, had the foundation becoming viable on the basis of a combination of interest income, sale of services to coops, and modest continuing donations. The calculations included \$500,000 from interest income in 1982 (with a portfolio of \$6.9 million) and \$235,000 from the sale of service. This plan is now out of date and, in light of experience over the past year, was extremely optimistic.

A newer strategy, prepared after the war, calls for overall development of the system on the basis of a consortium approach to funding. The three major components are technical (budget support), economic (capital support), expansion (budget support), and diversification (PACT, AID, and IAF support). This, however, does not solve the problem. If existing grants expire on schedule in early 1982, FUNDE will be in serious trouble. Even

now, a sharp deficit will occur in 1980 without a substantial increase in grant funding:

(C\$000)

1980 Budget	C\$7,305
Established Grant Funding	5,508
Cash on Hand	517
Deficit	<u>C\$1,280</u> ^{1/}

With respect to lending capital, FUNDE's sources are now considerably diminished from what was anticipated a year ago. No more will be available for the next year or two from SOLIDARIOS, for example, FUNDE's only current sources of international loan financing. ^{2/} The \$1.0 million worth of credits from the IDB will bypass FUNDE altogether and be disbursed directly to the cooperatives. ^{3/} In terms of the existing portfolio, amortization of principal of only C\$7.1 million is expected for the year. As of this writing (May 1980) total availabilities for 1980 come to only about C\$13.6 million against a projected need to place C\$26 million (not including housing).

With respect to the medium term future, projected budget and lending deficits rapidly become more serious, as illustrated in the following section.

^{1/} Interest income for the year will be negligible due to the high cost of funds borrowed from local banks before the war (12-14%) which were lent at a loss to the cooperatives.

^{2/} \$550,000 of SOLIDARIOS financing is available for disbursement in 1980, which will exhaust that source for the next year or two in FUNDE's case, given available financing and terms from AID/W and the IDB.

^{3/} FUNDE will receive an annual margin of 1% on the outstanding balance of sub-loans from this credit.

2. The Medium Term Gap

a) Lending Capital Shortfall

Table VII E below reflects the latest available estimate of the need for new lending capital over the coming five and one half year period (through 1985). It is based on projections now being finalized by FUNDE's Research and Development Center. 1/

In general, the numbers are believed to be extremely conservative. They are based on FUNDE's strategy of "consolidation", i.e., no new cooperatives, although almost certainly by 1983 a number of new units will be started up, depending on near-term experience. Also, growth of membership and demand in existing cooperatives is felt to be seriously underestimated, especially if current conditions continue to prevail (scarcity of capital in the countryside and limited availabilities through the nationalized banking system). The increase in housing lending is purposely maintained at a level lower than what could be placed in order to maintain its share of the portfolio at something less than 20%. 2/ Finally, the projections do not take inflation into account, a factor which could easily increase the expected gap by 50% or more over the period.

b) Budget Shortfall

The operating budget deficit for the period 1980-1985 is shown in Table VII F below. As in the case of the capital budget, projections are still being reviewed by the FUNDE R&D center in preparation of the analysis to support the project proposed in Chapter VIII. Figures should be considered illustrative of the relative order of magnitude of the deficit rather than precise indicators. There are still too many variables which require further

1/ Final projections along with detailed assumptions and back-up tables will be available for the financial analysis for the proposed AID project. (See Chapter VIII).

2/ Based on preliminary negotiations with AID relative to the project proposed below.

TABLE VII E

FUNDE LENDING CAPITAL REQUIREMENTS

1980 - 1985

(C\$000,000)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>General Portfolio</u>						
Placement <u>1/</u>	26.0	31.2	35.7	39.6	43.4	47.5
Amortization <u>2/</u>	7.1	20.3	27.2	32.1	36.4	40.4
Annual Increase in Portfolio	18.9	10.9	8.6	7.4	7.0	7.1
<u>Housing Portfolio</u>						
Placement	4.9	5.0	6.7	8.5	5.9	-0-
Amortization <u>3/</u>		0.2	0.3	0.5	0.8	1.1
Annual Increase in Portfolio	4.9	4.8	6.4	8.0	5.1	(1.1)
Total Annual Increase in Lending	23.8	15.8	15.1	15.4	12.3	6.1
Amortization of Principal of Existing Credits <u>4/</u>	1.3	1.6	1.2	.6	.4	.4
New Lending Capital Requirement	25.1	17.4	16.3	16	12.7	6.5
Currently Contracted Financing	6.5	-	-	-	-	-
The Gap	18.6	17.4	16.3	16	12.7	6.5

Total Gap: C\$87.5 million or US\$8.75 million (non-inflated.)

- 1/ General portfolio figures are based on projections from financial planning seminars held with all cooperatives in the first quarter of 1980.
- 2/ Separate amortization schedules were prepared for each group of cooperatives based on prior experience.
- 3/ Housing amortization is based on 20 year loans for consolidated projects ("urbanizaciones") and 10 years for housing on individual lots.
- 4/ Includes total existing national and international bank financing as of the end of 1979 of C\$3.1 million, of which C\$2.4 million (77%) will have to be paid in 1980 and 1981.

TABLE VII F
OPERATING BUDGET REQUIREMENTS
(C\$000)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Sources</u>						
Cash Available <u>1/</u>	517					
Interest Income <u>2/</u>	835	2,393	3,450	4,367	5,430	6,160
Income from IDB Loan <u>3/</u>		100	100	100	100	100
Grant Financing <u>4/</u> (Contracted)	5,508	3,823				
Expected Income <u>5/</u> from Service Charges to coops		421	893	1,640	2,460	3,618
Total Sources	6,860	6,737	4,443	6,107	7,990	9,878
<u>Uses</u>						
Interest Payable <u>6/</u>	835	720	617	507	938	1,132
Operating Costs (Non-Personnel)	3,300	2,659	2,958	2,965	3,171	3,417
Personnel Costs	4,005	4,201	4,464	4,687	4,920	5,168
Total Uses	8,140	7,580	8,039	8,159	9,029	9,717
Deficit (Annual)	1,280	843	3,596	2,052	1,039	
Deficit (Cumulative)	1,280	2,123	5,719	7,771	8,810	6,649

Total Budget Shortfall: C\$6.649 million (US\$665,000)
(Non-inflated)

- 1/ This does not take into account existing net capital as of the end of 1979 of C\$8.9 million, some of which may be used for lending.
- 2/ Based on the same lending assumptions as for Table VII E.
- 3/ One percent of outstanding sub-loan balances.
- 4/ IAF, PACT, and ATI and AID (CFER) budget support combined.
- 5/ Calculated on the basis of increasing percentage of direct personnel costs.
- 6/ Assumes new borrowing of C\$3.2 million each in both 1984 and 1985. Portfolio increases between 1980 and 1983 are expected to be grant financed.

definition, and some of the assumption₁ can be challenged. 1/

Costs, for example, are based on the maintenance of existing staff levels in accordance with the consolidation strategy, although personnel will have to increase modestly to exploit existing potential as highlighted in Chapter V. This is expected to be offset to some extent, however, by much higher levels of lending and interest income than those actually shown for the period commencing in 1981.

Despite the magnitude of the projected budgetary gap of C\$6.6 million over the period, it should be noted that by 1985 interest income will be covering 63% of projected costs. Actual annual required inputs from donor agencies should decline from a high of C\$680,000 in 1980 to near zero in 1985.

It should also be taken into account that FUNDE management has faced such situations in the past and has consistently raised the required resources not only to cover projected deficits, but also to sustain substantial expansion of the program. FUNDE is a foundation. It has operated all along on the basis of a continuing need to cover operating expenses with contributions from a variety of sources.

Finally, it has only really been in the post-war period that it has become clear (due to the decline of other private sector options for the cooperatives), that the only developmentally sound course for FUNDE to pursue was to maintain and expand direct credit and service relationships with its cooperatives. There is little other choice under the circumstances. FUNDE is thus faced with a greater need than ever before to assure the financial soundness of its own future. Table VII F provides some idea of the magnitude of that task.

c) Conclusion

Under present conditions and known (contracted) resources, commencing in the last half of 1980 FUNDE will face a very serious capital and operational liquidity constraint.

1/ There is a major need in FUNDE for an improved, preferably automated, system for the production of financial projection. Sensitivity analysis, for example, requires a prohibitive amount of time under present conditions. This will be one of the areas studied and improved under the proposed AID project.

If new resources on both counts cannot be secured to provide the necessary support, both credit and service operations will have to be severely curtailed in order to preserve organizational solvency. Cuts of the magnitude necessary, moreover, would do grave damage to current growth and diversification trends, and would create conditions under which both the foundation and its system would be highly vulnerable to unforeseen events and eventual stagnation through over-extension and decapitalization.

d) Recommendation

The required budget and capital support should be provided, as described in the following Chapter.

CHAPTER VIII

OPTIONS FOR SUPPORT TO THE FUNDE SYSTEM

This chapter is based on the assumption that by this time the reader is convinced of the need and justification for the provision of substantial international donor agency support to the FUNDE system. Also, as a follow-on task to this evaluation is the development of a project proposal for AID, the details of support recommended in terms of specific activities and outputs are left to that exercise. The focus here will be on basic approach and design.

A. Alternatives.

The scope of work for this evaluation called for the development of alternative levels and their implications for program operations. On the basis of institutional and financial analysis, however, the type and relative magnitude of support required are clear. Substantially lower levels would result in varying degrees of stagnation and/or decline.^{1/} It would be one thing if alternative sources of financing were abundant. They are not, however, in post-war Nicaragua. They are especially restricted in the case of the FUNDE system and within the private sector in general.

^{1/} Another reason for the absence of alternatives is the lack of automatic data processing capability in FUNDE. As mentioned, sensitivity analysis, given the complexity of the financial condition of the system, is virtually impossible without a totally prohibitive amount of time devoted to manual calculations.

At one time FUNDE's basic approach was to attempt to form and prepare cooperatives in such a way that they would be able to sustain operations and expansion through tapping private capital markets and other sources of resources in their own right. This may be possible at some point in the future, but given evolving GRN policy (Chapter VI) the nationalization of the private banking system, and the general shortage of liquidity in the countryside, of necessity, this option must be very long term in nature. At the present, given existing and foreseeable conditions and circumstances, there is little choice but to call on FUNDE's existing sources of international support to provide the needed capital, budget and technical assistance.

In summary, this study could propose alternative funding levels for AID and other donors, but it would be a highly arbitrary exercise at this point, and lacking in foundation. Rather, what is proposed here is based on financial and technical analysis of needs of the system and the best estimate currently available of projected growth and diversification. This can and will be refined in the months to come, as FUNDE's analytical capability improves.^{1/}

B. The Preferred Option

1. The Consortium Approach.

From the preceding chapters, it can be seen that FUNDE has three basic support needs, capital, budget, and technical. Based on experience and known AID policy and preferences, it is proposed that AID provide the majority of the required capital and technical support while other donors continue to provide the necessary budget support in those areas where they are presently involved. A consortium approach is recommended, therefore, along the lines proposed in FUNDE's 1979 strategy paper referenced earlier^{2/}, although some of the sources shown in that paper have since been eliminated or seriously restricted (such as national banks and the FED).

^{1/} Financial and other analytical capability will be strengthened through the proposed AID project.

^{2/} "Programa de Fortalecimiento y Diversificación", prepared in early 1979.

At the present time, given existing relationships and interests, the basic support structure would break down as shown in Figure VIII A below.^{1/}

FIGURE VIII A

THE CONSORTIUM APPROACH

<u>Donor</u> AID	<u>Capital</u> Lending Resources Vehicles and Equipment	<u>Technical</u> TA in data collection and processing, plan- ning, systems and methods.	<u>Budget</u> <u>2/</u>
IAF			The basic coop program. Centers for TA, CECOOP, and Audit. Support to new commercialization program (under consideration).
PACT			Housing Center staff, operating costs, and TA
FCH		TA to Housing Program (financed by PACT)	
PADF		TA in community organiza- tion. Financed by PACT (Related to Housing)	
ATI			Research and Development staff and operating costs
SOLIDARIOS	Lending Resources (Limited source)		
IDB	Unknown additional loan resources for cooperatives		

^{1/} See relevant portions of Chapters IV and V for description of existing support from consortium organizations indicated.

^{2/} AID (together with the IAF) is currently providing budget support to the CFER program which will extend to February 1982. Prior to that time, additional required support should be negotiated between FUNDE and the two donors.

With respect to levels, further analysis is necessary to determine a more realistic quantification of need in each of the areas as program plans are developed. On the basis of analysis and financial projections thus far for this evaluation however, estimated relative orders of magnitude of necessary additional support are shown in Table VIII A below. These do not include those amounts already committed in existing agreements. Budget support estimates are based roughly on existing relative percentage shares of total grant budget contributions in 1980.

TABLE VIII A

SUGGESTED LEVELS OF SUPPORT
THE CONSORTIUM APPROACH
(\$000)

	<u>1980</u>	<u>1981-1982</u>	<u>1983-1985</u>	<u>Total</u>
AID	1,500	3,000	5,000	9,500
AID-CFER	21	75	18	114
SOLIDARIOS		1,000	2,000	3,000
IAF (Coops)	69	240	56	365
IAF (CFER)	8	27	6	41
PACT	18	62	15	95
ATI	12	40	9	61
Totals				
Capital	1,500	4,000	7,000	12,500
Budget	128	444	104	676

It should be stressed once again that the above numbers are illustrative only, although they do reflect a relatively sound picture of the general dimensions of the need. It is also important to note that these figures are non-inflated and will have to be increased accordingly, once a more precise base has been established to work from.

2. The Proposed AID Project.

Proposed AID financing would cover the first two phases of what is hoped will be a three-phase project totalling five to six years. The rationale behind the phasing has to do with the number of variables and unknown factors currently facing FUNDE as well as the country as a whole. It also relates with the lack of medium and long range planning discussed in Chapter V. There is a need for flexibility and an implementation mode that will allow for experimentation and program changes as new factors, methods and models evolve. Major characteristics and elements of the project are proposed as follows:

a) Goal Structure of Project.

AID Program Goal: Improved social and economic conditions for the rural poor.

Project Goal: Improved social and economic impact of FUNDE's cooperative system within rural communities of Nicaragua.^{1/}

Project Purpose: Strengthened, expanded, and diversified system for responding to social and economic needs of current and potential system membership.

b) Conditions Expected to be Achieved by the Project.

The three key adjectives from the purpose statement (strengthened, expanded and diversified) can be utilized to classify the principal objectives and activities of the project as a whole. They also serve to indicate the nature of FUNDE's present strategy as it has evolved over the past five years. Below are brief summary statements of these three main project areas:

•Strengthening of the System.

This area includes the two main subcategories of finance and organization. In the case of finance, the thrust will be

^{1/} The term rural here is intended to apply to all areas outside of the Managua metropolitan area.

to obtain a high degree of solvency and financial security for both FUNDE and its cooperatives. It may be that by the end of overall project period (1985) the system will not be completely viable. In fact, as long as new units are being formed and a significant element of the program is experimental, there will almost certainly be a continuing need for some form of external support, especially in the form of capital financing for the credit program.^{1/} Nevertheless, the long-term operational solvency of the program should be secured as operating costs will be covered from the margin on lending and service charges, and dependence on the international donor community for survival will have been essentially eliminated. In the case of the cooperatives themselves, all but a handful of the present 58 active units should be completely viable with substantial surpluses that can be devoted to improved service and additional benefits to members.

On the organizational side, the emphasis will be on the development of stronger management and planning systems. One of the most important achievements will be the development of sound medium and long range integrated plans and planning capability. Innovations also will be introduced that will provide for significant economies of scale in credit management and processing, and cooperative level leadership and management should improve substantially through training and experience. Finally, the institutional role of FUNDE and its system in the future should be assured both through strengthened organization and improved ties with government and other systems, both in the capital and in the countryside.

•Expansion of the System.

This refers to the area of membership and cooperative growth. For the next two years FUNDE will focus primarily on a consolidation strategy; that is, the strengthening of the existing cooperative network. Membership will continue to grow at an accelerated pace, however, if post-war experience has any validity.^{2/} In addi-

^{1/} By 1985, between SOLIDARIOS, European Sources, the IDB, and possibly the World Bank, the system should be able to secure necessary financing for continued development of the credit program.

^{2/} The demand is there, the principal constraint being on the supply side.

tion, a number of new cooperative branches will be formed to accommodate neighboring communities and allow for further economies in the administration of credit and other services in the field. Commencing in 1983, a period of major new expansion should be initiated in terms of activities, cooperatives and areas covered (the analytical organizational and financial base for this having been developed during the first two and one half years through project provided resources and technical assistance).

-Diversification of the System.

Diversification has been a FUNDE watchword now for at least three years, as described in earlier chapters. Under the project, this trend will be continued and expanded. The general thrust will be to further develop the "multi-service" model, building on the base of the primary credit cooperative mechanism. At the FUNDE level, technical capacity will be strengthened across the board.

The first priority will be in agricultural financing and services. Agricultural investment and improved productivity will be stressed. Extension services will be strengthened including the development of cooperative technical capacity in this area.^{1/} Linkages at the FUNDE level with continuing sources of new technology will be developed and a farm management data collection and research program established. Cooperative supply, marketing, and processing (agro-industry) services and enterprises will be promoted and financed as well as production itself (collective production on cooperative owned land). To the extent possible, such activities will be linked to growing activity on the small industry and commerce side of the system. Opportunities for inter-cooperative trade and the eventual development of a system-wide network will be pursued.

In the small commerce and industry area, a variety of technical improvements and innovations will be carried out including

^{1/} Jatapa already has its own full-time agronomist, for example.

a major expansion of the commercial center (wholesaling) distribution program just now getting underway. Inter-cooperative exchanges of technical expertise will be promoted and facilitated. Small industrial cooperative production schemes will be tested, developed, and financed.

In housing, research and experimentation will be conducted across a broad front including a variety of community action initiatives as described earlier. Cooperative construction and supervisory skills will be developed.

The list of diversified and experimental activity could continue. Options are almost endless given the existing diversity of needs and skills to work with. A whole other area, for example, includes social promotion and education. The CFER program offers a number of intriguing possibilities related to integration of non-formal adult education with cooperative production schemes.

The biggest problem will be in deciding priorities and where to draw the line in relation to technical staff and "span of control" constraints. This, however, will be treated by the heavy focus of the AID project on the development of data collection, analysis, and planning capability under the above category of general organizational strengthening.

c) Implementation: Project Planning and Activity.

(1) Phase I: Short Term: Last half of 1980.

Under the proposed implementation plan this phase would consist of an initial traunch of lending capital to meet a major portion of the projected 1980 shortfall in addition to the provision of specialized short-term technical assistance to set up data collection processing and planning mechanisms. Also, the need and feasibility for an automatic data processing facility relative to both research and administrative requirements will be studied for possible incorporation in Phase II. Finally a medium term planning exercise will be carried out in collaboration with the current Research and Development program which will provide the basis for detailed programming of Phase II.^{1/}

^{1/} This will also meet AID planning and costing (611 a) criteria for Phase II obligations.

(2) Phase II: Medium-Term: (1981 and 1982).

This phase basically will consist of the strengthening of current operations in line with the consolidation strategy, although membership is expected to continue to grow rapidly. At the same time, the data collection, research and planning functions will explore alternatives for expansion of the system via new cooperatives, new activities, new technologies, etc. Through these efforts the technical and analytical foundation (including the meeting of AID program criteria) will be developed for a major expansion and broader diversification in Phase III. A medium to long-term integrated development plan will be developed. A thorough evaluation would be carried out by AID in mid-1982 and would help to set the stage for AID and other international donor financing of Phase III.

(3) Phase III: Long-Term: (1983-1985)

This phase will be dedicated to a major expansion and diversification along the lines developed in Phase II planning exercises and will include new cooperatives, new technology, system innovations, and further diversification. Funding (to be based on Phase II analysis) will hopefully draw from a broader spectrum of international and multinational donors and lenders.

d) Conclusion.

Further details of the proposed AID project are left to design exercises and elaboration of the project paper to follow this evaluation. The FUNDE staff is now engaged in initial project planning in terms of financial projections, the establishment of targets in all significant areas and the defining of lines of activity over the period.

Essentially what the proposed project does is support what has become a de facto FUNDE strategy of growth and diversification, a strategy that has been found sound relative to the system itself, the government, and the international donor community. To tamper overly with the scheme at this point is felt to be inviting trouble. Basically what is needed is support for what FUNDE has been doing all along with the addition of sound long-range analytical and planning functions. The idea is to take advantage of an existing success model and to assure its survival and further development. As stressed in the

evaluation of prior AID/IAF assistance (Chapter IV) the cost is felt to be very low relative to the potential social and economic benefits to be realized in rural communities throughout Nicaragua.

ANNEX A
SCOPE OF WORK

- A. Prepare an evaluation report covering the effectiveness, capacity, and efficiency of the Nicaraguan Development Foundation (FUNDE) and FUNDE's cooperative program, and appraise the future role of FUNDE and its affiliated cooperatives in the cooperative movement of Nicaragua.
- B. Prepare an evaluation report concerning the effectiveness of past AID assistance to FUNDE and the need for and potential impact of additional AID assistance.

Tasks:

1. Appraise the technical, management and financial and institutional capabilities of FUNDE.
2. Appraise the managerial and financial capability of FUNDE's affiliated cooperatives and estimate their economic and social development impact on their members and on the community where located.
3. Review and quantify, to the extent possible, the cost of FUNDE's providing credit to poor individuals and groups.
4. Estimate all resources available to FUNDE and its affiliated cooperatives present and planned over the next three years.
5. Taking into full consideration FUNDE's capabilities, the present stage of the cooperative movement in Nicaragua, and the existence of other institutions working in the cooperative field, make an appraisal of FUNDE's and its affiliated cooperatives potential role and effectiveness in the development of the private cooperative movement in Nicaragua over the next five years.

6. Examine the feasibility of utilizing FUNDE's cooperative system as an experimental vehicle or means for cooperative development in rural housing, small industry development and agricultural production and marketing. Determine those functions deemed most productive in order of priority.
7. Based on the above, estimate the financial and human resources FUNDE and its present affiliated cooperatives can effectively utilize over the next three years. Develop and discuss several alternative funding levels and their implications for program operations. The projections should reflect an analysis of resources needed to develop new cooperatives over a similar time period versus those that already exist.

If the contractor determines an expansion of FUNDE and its affiliated cooperatives is in order, he will outline those next steps he deems appropriate to mobilize those resources.

ANNEX B
COOPERATIVES VISITED

1. Siete de Septiembre, León
2. La Candelaria, Chichigalpa
3. La Confianza, Chinandega
4. Los Avances, Santo Tomás de Chontales
5. Juigalpa, Juigalpa
6. Esquipulas, Esquipulas
7. San Dionisio, San Dionisio
8. La Hermandad, Sébaco
9. La Unión, Matagalpa
10. Cacpic, Jinotega
11. Yali, Yali
12. Tipitapa, Tipitapa
13. Coyotepe, Masaya (A pre-cooperative housing project).