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AN EVALUATION OF THE QUEPOS OIL PALM PROJECT

Prepared for

USAID/Costa Rica

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Introduction

In 1984 the Compañia Bananera de Costa Rica (CBCR), a division of United Brands, sold approximately 1,700 hectares of its oil palm lands on Costa Rica's Pacific coast to a cooperative made up of former employees of CBCR. This cooperative--named Coopecalifornia, R.L.--at present has 84 members.

The purpose of this report is to examine the present status of Coopecalifornia, specifically in respect to the points outlined in the "Terms of Reference" which follow.

Terms of Reference

The issues to be addressed in this report are these:

* Formation of the Cooperative
  - Are the financing arrangements with COFISA and CBCR adequate?
  - Is the labor contract satisfactory?
  - Is the member-selection process adequate, and what are the membership criteria?
  - Are the bylaws adequate, and are they being followed?
* The Organizational-Development Function
  - Is the organizational structure sound, and is it addressing the needs of the cooperative?
  - Is the cooperative's administrative capability developing at a satisfactory pace? What has been done to facilitate this development?
  - Are job descriptions in place? Ar. ey being followed?
  - What kinds of management training efforts have taken place, and what has been the quality and relevance of these efforts?
  - Is there a clear delineation between board and management responsibilities--and does the board understand its role in relation to management?

    What kind of board training has taken place?

    Does the manager submit adequate and timely reports to the board?

- Is staffing adequate--and what kind of staff training has been provided?
- What membership training has taken place--and has it been relevant and sufficient?
- Are written operating policies in place; are they adequate and are they being followed?
- Is the salary structure adequate?
- Are staff, board, and membership meetings held on a regular basis? What is the level of participation, and do procedures followed accord with the bylaws?

* Computerized Accounting and MIS Systems

    - Is the computerized accounting system in place, and is it meeting the cooperative's needs?

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Methodology

The observations presented in this report and the conclusions and recommendations which follow are the result of information obtained by a visit to the cooperative site and through discussions with:

* Paul Kretchmer, Rural Development Officer, USAID/CR
* Eliecer Sanchez Mesen, President, Coopecalifornia
* Jorge Rojas Rojas, member, board of directors, Coopecalifornia.
* David W. McLaughlin, Manager, Quepos Division, United Fruit Company
* Steven Huffstutlar, ACDI Cooperative Development Specialist

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Observations

The topics discussed here are presented in the same order as listed in the Terms of Reference.

Financing arrangements with COFISA and CBCR are adequate but not without a flaw--or miscalculation--which could give rise to a serious fiscal problem less than a year from now.

This potential problem arises from discrepencies or differences between the terms of the loan agreements,Costa Rican law, and the harvest cycle of the oil palm fruit from which the cooperative derives its income. The situation is this:

Young oil palm trees should be planted in April to take advantage of the rainy season which runs from then until October. They then get a good start and are better able to withstand the rigors of the dry season which runs from November to March.

There were two plantings of young trees, each covering about one-half of Coopecalifornia's land. The second planting was done at the proper time of year, April 1985, and now is producing good quality fruit and will do so again in the spring-summer of 1988. No problem here.

The problem lies with the first planting which was done in 1984. This should have commenced in April but was delayed four months until August. This delay occurred because CBCR management was reluctant to proceed with the operation, for no contracts had yet been signed and it was not entirely certain (at least not to CBCR officials) that the transaction would be consummated.

Because of this delayed planting, which commenced in August and was not completed until October, the growth of the young trees was retarded. Unfortunately, the dry season that followed was unusually dry, and this served to further retard the growth of these new trees.

Because this first planting was not made at the proper time, it was late in producing its first crop. And this crop consisted largely of small, inferior, unmarketable fruit. Coopecalifornia will not realize substantial income from this one-half of its cropland until the spring of 1989.

Trouble is, the cooperative is committed to make the first payment on its two loans in April 1988--the loan advanced by USAID and the first mortgage payment to CBCR for the land it transferred to the co-op.*

* The AID operating loan is secured by a first mortgage held by INTERFIN. CBCR holds a second mortgage.

Although the harvest from the second planting will provide a good income in 1988, it is not likely this will be sufficient to meet both loan payments when they fall due.

If the first planting had been made at the proper time, it, too, would be providing good income by 1988. What should have been done, but was not, was to reschedule the first mortgage payment because of the late planting--setting it back six months to a year.

The original contracts between CBCR and INTERFIN (the bank which is managing the trust fund for the four educational organizations which are its beneficiaries) contained a "flexible payment" provision on both of the loans.

The agreement was that after operating costs were deducted from the cooperative's gross income, then 10% of the amount remaining would go to the members of the cooperative and 90% toward payment on the loans. Thus, if the co-op had a bad harvest, loan payments due would be minimal.

This is a sensible and realistic provision and was agreed to by all parties concerned. Then it was discovered that this is in conflict with Costa Rican mortgage law. All mortgages must specify fixed payments of a certain amount. No flexibility is allowed.

So...the "potential problem" mentioned at the beginning of this section simply is that Coopecalifornia may be in default on its mortgage next year. What might be done to resolve this problem is discussed in the final portion of this report, "Conclusions and Recommendations".

There is no "labor contract" in the usual sense of that term--between employer and workers. This is because the members, owners, employers, and workers of the cooperative are all the same persons.

The point for discussion here is whether members receive fair compensation for their work, and is this rate of pay one which the cooperative can afford? The answer to both these questions is yes. The rates of pay for the various tasks involved in oil palm cultivation are quite similar to those the CBCR pays its workers. Cooperative members are paid a certain minimum daily wage in return for a specified amount of work, a "quota" for the day. If they wish to earn more than this, they can work longer hours and then are paid on a "piecework" basis for what they do during these additional hours. Most of the workers work well beyond the minimum required.

As for membership selection, the first 73 members were selected before the cooperative existed, before it obtained its "personeria juridica" under Costa Rican law. This selection process was done by a committee made up of representatives from COFISA, CBCR management, and a worker from each of the CBCR farms. ACDI's Cooperative Development Specialist was a member of this committee.

It appears that appropriate criteria were employed by this committee in its member selection. Since the cooperative became a legal entity in early January 1986 its board of directors has handled the selection of 11 additional members and their families. Perhaps the board employed less formal criteria, but it was more than adequate. As a result of these selection processes the general calibre of membership is excellent--and this is the key to the success of any cooperative.

The cooperative's bylaws are indeed adequate and they are being adhered to closely. A first rough draft or tentative set of bylaws was prepared by ACDI's Cooperative Development Specialist. Members reviewed these and then jointly wrote their own.

The bylaws set forth the rights and obligations of members, the responsibilities of officers, the nature of the cooperative's activity, the legal restrictions it must observe, etc. They also contain specific provisions for a number of exigencies--for example, what happens if a member wishes to withdraw from the cooperative? What happens if a member dies? What rights or protection does his family have?

For the most part the organizational structure is sound--except in one key area. This concerns the relationship between the manager and the board of directors. It is not what it should be. The manager does not work closely enough with the board.

The board does not fully trust the manager, and the manager does not provide the board with sufficient information about the day-to-day operation of the co-op. To a certain extent this may be due to a conflict of personalities, but it goes beyond this.

In an attempt to remedy this situation, a new procedure has just now been put into effect: The president of the board of directors and the manager will henceforth meet every other day, rain or shine, for one hour, to discuss operations, policies, and procedures. This is a requirement that was insisted upon by the accounting firm serving the cooperative, Heraud, Apestegui & Co.

In spite of this present difficulty, Coopecalifornia's administrative ability is developing at a satisfactory pace. In fact, it has developed more rapidly than expected. This is evidenced by the fact that ACDI's Cooperative Development Specialist no longer devotes his full time to the cooperative, providing guidance and supervision. He is available if needed, but the cooperative is now operating on its own.

Job descriptions are adequate and are being followed. For the board of directors and the manager, these descriptions are incorporated in the bylaws and cannot easily be changed. This was done by ACDI's Cooperative Development Specialist.

The manager has written tentative job descriptions for other positions and these are now being reviewed. These other positions include the assistant manager (who is also the production supervisor), the bookkeeper, and four "coordinators". This is the term used in place of "foreman" which carries with it bad connotations from earlier days with United Fruit Company.

A number and variety of training activities have taken place:

* All members took part in a course dealing with organizational relationships. This was presented by a top-flight Costa Rican consulting firm dealing in human relations. It provides similar training programs for the National Bank of Costa Rica and for a number of large Costa Rican business firms.

* In June and July of this year Coopecalifornia's manager was sent to CBCR's "Palm Production Course", an excellent program attended by participants from around the world. Cost: $2,000.

* The cooperative's bookkeeper was sent to be trained by the accounting firm of Heraud, Apestegui & Co. He also was enrolled in a business course in San Jose.

* Two other employees were sent to San Jose for training in computer data processing.

* All board members took part in a two-day course in managerial accounting.

* ACDI's Co-op Development Specialist gave training sessions to all co-op members on the bylaws of their cooperative.

The board of directors does understand the delineation between board and management responsibilities--yet it is within their nature to overstep this boundry. This is not uncommon. In the present instance it happens because the manager does not always follow the board's instructions, and has not been adequately reporting to the board. There is fault on both sides.

In addition to the training described above, board members have also received training from a representative of COFISA on their duties and responsibilities.

Staffing of the cooperative is complete and has been since January of 1986 when it became a legal entity. In addition to the staff training described above, some of the staff have received some vocational training given by government vocational trainers from San Jose.

Written operating policies are in place and are being followed. They are found in an "Administrative Manual" written by the cooperative's accounting firm. It deals with the way the accounting system works, as well as with internal operations and controls.

The salary structure within the cooperative is adequate. Nevertheless, there is the usual membership desire to increase their own incomes and limit that of management. This has been a common tendency among cooperatives everywhere--especially in the earlier days of U.S. agricultural cooperatives. However, in the case of Coopecalifornia, no action has been taken along these lines.

Meetings at all levels are held regularly and on schedule. The board of directors meets weekly. The president and the manager are now meeting every other day. There are bi-monthly general assemblies of all members, with full member participation. And there are Annual Meetings. The first one was held shortly before incorporation; the second tock place a year later in December 1986, and the next one is scheduled for December 1987.

There still are problems with the cooperative's computerized accounting system. This is due to the long delay incurred in obtaining a computer from the U.S.--and when it arrived it had been damaged in transit. Repairs were made--which took more time--but it still is not right. The software, which comes from San Jose, Costa Rica is not running properly. It is not known if the problem lies with it, or with the computer itself which came from the U.S. in damaged condition. The cooperative's accounting firm, Heraud, Apestegui & Co. is now trying to resolve this problem.

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Conclusions and Recommendations

This cooperative has made excellent progress in organization and development. It is ahead of target and is now practically running itself. It no longer requires the full time guidance or assistance of outside specialists.

This commendable progress can be attributed primarily to three factors:

* The quality of the cooperative members themselves. Member-selection was conducted well, resulting in a membership of motivated, articulate, conscientious workers.
* The expert support and guidance provided by ACDI's Cooperative Development Specialist who devoted much time and effort to getting the organization off to a sound start.
* The technical assistance received from CBCR in the planting and cultivation of the oil palm trees.

Because of this favorable state of affairs not many recommendations are called for to help improve future operations. Here are a few:

* It is recommended that all parties to the loan agreements sit down together and sign a formal document by which they state that they favor and agree to flexible loan payments, based on future income and operating expense of the cooperative.

  If this is tested in a court of law, it is not known which will prevail--this document or the Costa Rican legal requirement of fix-sum mortgage payments. But at least this is worth trying, and it may resolve the problem.

  A possible alternative solution is this: Retain the fixed-sum mortgage payments required by Costa Rican law, but reschedule payments so the first does not fall due until 1989 when Coopecalifornia's income should be substantially greater than in 1988.

* The present board-manager difficulty should be resolved as quickly as possible. It is true that the present manager is a hard-working man and skilled in the technical aspects of oil palm operation. At the same time he is stubborn, lacking in administrative abilities and human relations skills.

  The Costa Rican approach is to avoid direct conflict and try to resolve such problems via dialogue. But this can prove to be a time-consuming process, and if this problem continues much longer it could be very detrimental to the cooperative's entire operation.

* More membership training is needed, particularly in cooperative principles and practices--members' rights and obligations, what they can expect from their cooperative and what they cannot. New members admitted to the cooperative most recently have not yet received any orientation of this kind.

* The present difficulties with the computerized accounting system should be resolved soon. If this cannot be done, new equipment should be purchased and put to use.

* Finally, in the farm operations there are several areas that require attention:

    - Better weed control in large areas of the farm, along with the planting of kudzu to control the weeds and supply nitrogen to the soil.

    - An examination of the comparative economic efficiency of tractors vs. draft animals (oxen and burros) in the field.

    - Acquisition or construction of additional carts for the hauling of fruit and other tasks. The present cart shortage results in late deliveries of fruit to the processing plant. This delay causes an increase in the acidity of the fruit and a decrease in its value.

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Caveat:

Although this cooperative has had a sound beginning and is making excellent progress thus far, its long-term financial future is uncertain. This is because of the vagaries of world market prices of palm oil.

When financial calculations were made for this project in 1984, they were based on the previous 10-year average world price of $600 per metric ton of palm oil.

Future annual income of the cooperative was conservatively estimated to average approximately 10% less than this, or $550 per metric ton. If that price prevailed, then the cooperative would be able to repay its loans in 19 years.

As it was, this apparently conservative estimate of palm oil price proved to be too optomistic. Since 1984 the price trend has been generally downward. During the past three months it hit bottom at $190 per metric ton. The long-run world average cost of production of palm oil is $250 per metric ton.

Fortunately, the cooperative is guaranteed to receive either the world price or the domestic price which is set by the government of Costa Rica--whichever is higher. The current government price is 25,000 colones per metric ton, approximately $375 at the present rate of exchange.

This is considerably less than the $550 price originally used in calculating the 19-year loan repayment period. Therefore, ACDI's Cooperative Development Specialist is now drawing up a new loan repayment schedule based on a future price of approximately $350 per metric ton, though what the world price or Costa Rican price of palm oil will be five years hence no one knows.

Fortunately, the loan agreements call for payment in colones, not in dollars. If the colon continues to lose value in relation to the dollar, this will inure to the benefit of the cooperative, for it will be repaying its loans with cheaper money--and vice-versa if the colon appreciates in value.

Thus, the financial future of Coopecalifornia is uncertain. In any case, it does not seem likely that it will be able to repay its loans in the 19 years originally contemplated.