XD-ABA-441-A

64734

imcc

30 West Mashta Dr., Suite 405
Key Biscayne, Florida 33149
(305) 361-0851
Fax (305) 361-0761

1601 North Kent St., Suite 904
P.O. Box 9964
Arlington, VA 22209
(703) 524-2600 01 02
(703) 524-6564

A Report to

United States Agency for International Development -- Honduras

INTERIM EVALUATION OF THE SMALL FARMER ORGANIZATION STRENGTHENING PROJECT (522-0252)

October 1989

The Interamerican Management Consulting Corporation

IMCC

30 West Mashta Drive, Suite 405

Key Biscayne, Florida 33149

and

1601 North Kent St, Suite 904

Arlington, Virginia 22209

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EXECUTIVE SUMMARY

Introduction

The InterAmerican Management Consulting Corporation (IMCC) was selected by the Agency for International Development (AID) to conduct the interim evaluation of the Small Farmer Organization Strengthening Project (522-0252) in Honduras. The purpose of the evaluation is to assess the effectiveness of the implementation of the institutional development process and to identify the adjustments, changes and corrections that should be made. The statement of work identified three main areas of evaluation:

1. Progress toward meeting output indicators and contributing to action plan objectives;

2. Project implementation, including the Financial Development Fund (FDF), the WOCCU/ACDI/NCBA/COLAC technical assistance team, and selected organizational strengthening activities and issues; and

3. Project design issues, constraints and resources.

The U.S. based evaluation team consisted of Onofre Torres, President of IMCC, Robert Vogel, Executive Director of IMCC, Donald Larson of Ohio State University, Robert Lee of Sparks Commodities, Refugio Rochin of University of California, Davis, and Robert Von der Ohe of Rockford College. This evaluation team was immeasurably assisted by AID staff, Honduran Government officials, the staffs of the various Honduran cooperative institutions participating in the project, and a large number of other Honduran individuals associated with the cooperative sector. The evaluation team approach and procedures began with a review of the relevant documents from AID, FDF, FACACH, UNIOCOOP, FECORAH, ANACH, the technical assistance team, and past studies. In addition, field visits were made to selected agricultural cooperatives and credit unions. Key people were interviewed in all the above organizations, in the Honduran Government and in the private sector.

The following executive summary does not attempt to be exhaustive in summarizing all the aspects of the evaluation but rather to focus on the most important findings and conclusions and the resulting recommendations for adjustments in the project that could significantly increase its effectiveness. In general, the implementation of the project is proceeding very well, especially considering the ambitiousness of the project, the complexities of project design, and the fact that the project attempts to deal with a rather weak set of institutions faced with formidable challenges. Nonetheless, the project's effectiveness could be greatly enhanced by some basic adjustments in its design. The most important of these involve the recognition of the fundamental differences between agricultural service cooperatives, on one hand, and credit

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unions, on the other, and the need to remove the FDF from FACACH to give it the effective independence that it will undoubtedly need in the future. An enhanced role for the Honduran Government's main cooperative institution, IHDECOOP, is now practical given the significant strengthening of IHDECOOP in its ability to carry out its vital functions in support of the project purpose. This would insure the Honduran Government's ongoing involvement in the project -- but without involving IHDECOOP in the channeling of funds to the cooperative sector.

Appropriateness of Project Purpose

Findings and Conclusions - The project purpose is to establish a viable system for delivering inputs to growers (credit, technology, market services, management skills) in order to increase agricultural productivity and diversify the production base. The current statement of project purpose is appropriate for the agricultural service cooperatives (UNIOCOOP, ANACH and FECORAH) but is too restrictive for the credit union sector. These two sectors currently function very differently within the SFOS. Since the main purpose of credit unions is to provide a wide range of financial services, and not just agricultural credit, there may be a conflict between the purpose of the project and the promotion of viable credit unions. Credit unions that lend only for agriculture are likely to have inadequately diversified and hence excessively risky loan portfolios. Credit unions are a viable system for delivering credit and other financial services to farmers but agricultural loans should not be the only type of financial service provided. Stronger credit unions will develop if the project focuses on the promotion of credit unions that provide a range of financial services in rural areas. An important result of this emphasis will be to improve the access of non-agricultural sectors such as housing, small business and small industry to financial sertvices.

Recommendations - The current project purpose should be expanded by adding language to cover the broadening and deepening of financial markets in rural areas through supporting the development of the Honduran credit union system. For the longer term, the Mission should consider developing a specific project to support the development of the credit union sector. As the FACACH system develops, its needs are likely to become increasingly specialized (e.g., assistance with liquidity management to support deposit mobilization). Through the FACACH system the mission can support the development of financial markets in Honduras and especially the provision of financial services for low-income producers.

Progress Toward Meeting Output Indicators

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Findings, Conclusions and Recommendations - Project implementation has recovered from the significant delays experienced during the first 18 months and is on schedule toward achievement of the output indicators. At the halfway point of the eight year project, half or more of the work has been accomplished in several areas such as training, completion of diagnostic studies, development plans, operating plans, signing of institutional support and stabilization agreements, and disbursement of project dollar and Lempira funds.

The set of project indicators is too narrow and needs to be expanded to include basic indicators that measure the financial health of the cooperatives in the project. The selection of new indicators should focus on net worth, profitability, asset quality, liquidity and market development. Information from the baseline study could be used to develop these performance indicators and to provide a basis for comparison.

Design and Management of the Financial Development Fund

Findings and Conclusions - The original agreement with the Honduran Government for the Small Farmer Organization Strengthening Project was signed on September 26, 1985. Project implementation stalled for about 18 months as the Honduran Government and AID negotiated the legal structure of the fund which was to carry out the project. The Honduran Government objected to the formation of the proposed private foundation to administer a project funded in part by government monies and proposed to locate the project in IHDECOOP, a government institution charged with regulation and fiscalization of cooperatives. For policy reasons AID preferred a private sector approach to institutional development, and from a practical point of view IHDECOOP was seen to be extremely weak and severely politicized. In January, 1987, the impasse was broken and the new Financial Development Fund was inserted into FACACH, the credit union federation and one of the designated beneficiaries of the project.

Since this compromise was reached, several problems in the existing structure have emerged. A particularly difficult problem is the parent versus subsidiary conflict in which FACACH owns the FDF while also granting the FDF special powers to administer the FDF as a decentralized unit. FACACH has signed financial agreements with and received funds from the FDF. The FDF monitors these agreements and, in the event of non-compliance, would have to apply sanctions to FACACH. Moreover, under the current structure, the FDF is exposed to financial risk because several analyses have shown FACACH to be in weak financial condition. Any legal action against FACACH would likely seek compensation from the assets of the FDF since these are incorporated in the structure of FACACH. In addition, the association of the FDF with FACACH does not enhance the credibility of the FDF with project beneficiaries. If

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the project purpose is strictly interpreted, FACACH is not an appropriate vehicle to house the entire project because the project purpose is narrower than the objectives of FACACH to assist the credit union sector to develop financial intermediation services. Finally, uncertainty about the future of the FDF is affecting employee morale and will affect project performance if not resolved in the near future.

Recommendation - A rapid determination of the FDF's permanent legal structure is required. Many compelling reasons have been identified which indicate that the FDF should be removed from FACACH; no compelling reasons have been identified to indicate that FACACH is an ideal vehicle to house the project. It is therefore recommended that the FDF be removed from FACACH. The optimum legal structure for the FDF should be quickly determined. As indicated below, an independent FDF is to be preferred -- accompanied by a strengthened IHDECOOP.

Monitoring of Institutioanl Strengthening and Financial Stabilization

Findings, Conclusions and Recommendations - A major challenge for the FDF is the supervision and monitoring of the implementation of the institutional development and financial stabilization activities by the project beneficiaries. Some project beneficiaries notably but not limited to UNIOCOOP and FACACH have not fulfilled all commitments of the signed agreements. Communication, supervision and feedback procedures between FDF and the beneficiaries could be improved through more frequent field visits by the FDF staff. The FDF should give authority and responsibility to the assigned account officer to work collaboratively with the beneficiary on a regular basis such as every two weeks.

The WOCCU/ACDI/NCBA/COLAC Technical Assistance Team

Findings and Conclusions - The overall project scope of work calls for five long-term advisors and 12 person months per year of short-term advisors in specialized areas to the FDF. In addition, a sixth long-term advisor financed and supervised by AID on a personal services contract has provided assistance to the project. The technical assistance contract was signed on March 16, 1987, with a consortium led by WOCCU, and by May 1, 1987, all the members of the team had arrived in Honduras. Their scopes of work are comprehensive and appropriate for the project. The contractors selected a well-qualified team with a good match between the individual scopes of work and the advisors contracted. All team members have excellent Spanish and a great deal of experience and effectiveness working at primary and secondary levels in cooperatives and credit unions.

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The technical assistance team needs to reassert its role as an advisory unit to the FDF, FACACH, UNIOCOOP and the participating cooperatives. A disproportionate amount of time is allocated to implementation that should be done through counterparts. Pressure to meet project deadlines and a shortage of counterparts have been the principal factors contributing to this problem. The Chief of Party and the technical assistance team have established good rapport with each other and with the FDF. However, communication could be improved among team members and between the team and the FDF through more regular staff meetings. Since its arrival in Honduras, the team has accomplished a great deal but has not completed all of the tasks specified in the scopes of work or the institutional development process within the FDF, FACACH, UNIOCOOP and the cooperatives.

Recommendations - The technical assistance team of five resident advisors should be extended through September 30, 1991 with a re-examination of these needs and the PSC advisor in processing and marketing through 1993 at the end of 1990. Some resident technical assistance is advisable throughout the life of the project with a gradual reduction in the number of advisors as the FDF develops a full complement of technical and managerial skills. When (and if) FECORAH and ANACH become important participants in the project, one institutional specialist will be needed to advise these cooperatives. Internal adjustments by the team can be made to serve these needs without adding a person to the long-term team. Improved coordination between the personal services advisor contracted by AID and the technical assistance team would be desirable, possibly through having this advisor report to the Chief of Party. To meet the more specialized needs of cooperatives and credit unions on topics such as computer systems, liquidity management, loan recovery, marketing credit, and agricultural processing and marketing, 34 person months of short-term technical assistance should be added through September 1993.

IHDECOOP's Present and Future Role

Findings and Conclusions - The project as initiated did not include a major role for IHDECOOP, largely because of the poor performance of its predecessor, DIFOCOOP. In the design of the project, there was considerable controversy with the Honduran Government over the possibility that IHDECOOP might be the institution housing the FDF. Locating the FDF within FACACH is not optimal, but was and continues to be preferable to housing the FDF within IHDECOOP or having IHDECOOP carry out its function. Any government institution that is assigned functions like those of the FDF that involve providing funds to private-sector organizations runs too much risk of coming under inappropriate political influence. Moreover, institutional independence for the FDF may be more attractive to the Honduran Government if accompanied by

significant support to strengthen IHDECOOP in its ability to carry out audits and to provide technical assistance.

Support for IHDECOOP funded by the project has focused on IHDECOOP's role in the registry and census of cooperatives, in the establishment of standards for accounting, and in the conduct of audits. With the help of project support, IHDECOOP has created a system for the registry of cooperatives, has completed its move to San Pedro Sula, and has completed the regulations for the application of the new cooperative law. IHDECOOP's audit department has been strengthened, and a number of evaluations have been carried out. IHDECOOP has worked with the FDF in the development of accounting systems for credit unions and for agricultural cooperatives. These have been certified by IHDECOOP, are being introduced to accountants for cooperatives, and will be used in the evaluation of participating cooperatives.

To date the project has disbursed L 800,000 in support of IHDECOOP, and it is expected that, by the end of 1989, IHDECOOP will have spent the last of these monies. IHDECOOP plays and should continue to play several important roles in the project. As regulatory authority, IHDECOOP helps to assure that the project advances in strengthening cooperatives. The authority to approve mergers and liquidations, to act as liquidating agent, and to intervene cooperatives all make IHDECOOP important in the enforcement of stabilization agreements. IHDECOOP also appears willing to participate in the liquidation of 30 moribund credit unions or their mergers into sound credit unions. IHDECOOP's role is crucial for this activity as IHDECOOP has the power to issue and retract credit union charters.

Recommendations - Expansion of support for IHDECOOP should be given high priority in any subsequent adjustments of the project. An in-depth analysis of IHDECOOP should be carried out to pinpoint the types and amounts of support required to achieve the project purpose most effectively. To avoid attracting the rent-seeking behavior that afflicts government agencies involved in providing funds, IHDECOOP should not absorb the FDF or become involved in analogous funding activities. IHDECOOP should nonetheless become a voting member of the FDF's board of directors if and when the FDF becomes a separate legal entity. Moreover, IHDECOOP's powers and responsibilities with respect to the FDF, as well as the cooperatives benefitting from the FDF's institutional strengthening and financial stabilization activities, should be described in detail prior to the chartering of the new FDF.

Design and Management of the Project's Credit Component: Credit Unions

Findings and Conclusions - Credit unions are cooperative institutions whose primary function is to provide a range of

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financial services to members on a sustainable basis. The exclusive focus of the project's credit component on agricultural lending not only encourages inadequate diversification of credit union loan portfolios but also neglects the importance of voluntary savings mobilization for credit union viability. Credit unions will not enhance their viability through participation in the credit component of the project. Directed credit operations of the type envisioned in the project tend to undermine the viability of participating financial institutions. The costs of administering directed credit are inevitably much higher than anticipated because of the monitoring and reporting requirements. Serious loan recovery problems will also emerge because borrowers will not take loan recovery effort seriously, being aware that they are the intended beneficiaries of directed credit. Moreover, the design of the project's credit component with regard to credit unions is typical of directed credit projects that are generally inconsistent with AID policy for financial market development.

Honduran credit unions that have maintained adequate loan recovery performance and overall viability have been characterized by a focus on deposit mobilization in the context of market-oriented rates of interest. Prior studies have shown that the most effective incentive to enhance loan recovery is the assurance of continued access to credit on a timely basis with good service (low transaction costs) if and only if outstanding loans are repaid promptly. Such assurance can best be provided by successful deposit mobilization backed by responsible liquidity management and not by access to external funds channeled through FACACH. Current project design does not provided for adequate attention to either deposit mobilization or liquidity management by credit unions. Because credit unions are situated somewhere between informal financial arrangements and formal financial institutions, they can have a significant comparative advantage in providing financial services to lower income individuals, especially in the Hondurans situation where formal financial intermediaries are severely repressed.

Recommendations - For the credit union sector, additional analytical work should be carried out to refocus the credit component of the project on deposit mobilization and liquidity management that are essential for the longer-run viability of credit unions. Credit unions should be encouraged to provide a full range of financial services for their members and not to focus excessively on lending to agricultural producers. Without such changes, credit unions should not participate in the credit component of the project, and the possibility of an alternative project for them should be analyzed.

Design and Management of the Project's Credit Component: UNIOCOOP's Affiliates

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Findings and Conclusions - UNIOCOOP's affiliates face potential problems with agricultural lending because they are not specialized in providing financial services and hence inevitably have limited expertise in borrower selection and loan recovery. Since their primary activities are selling agricultural inputs and processing and marketing agricultural outputs, lending is at most an adjunct to these activities. Nonetheless, just as other providers of agricultural inputs often sell inputs and other services on time to be competitive, UNIOCOOP's affiliates will be subject to pressures to provide this credit service. Similarly, the provision of cash advances by UNIOCOOP's affiliates may be required to facilitate the processing and marketing of agricultural outputs.

In this regard, important lessons can be learned from the practices of informal marketing agents, with whom UNIOCOOP's affiliates will have to compete in any case. Informal marketing agents typically provide lines of credit to producers in exchange for interest charges (either implicit or explicit) and a commitment from producers to market output through the agent at harvest time. This marketing-credit link offers important informational economies of scope to marketing agents. Since the agent knows the producer through marketing contacts, the costs of establishing the riskiness of the loan (as well as other transaction costs) can be reduced. An established marketing agent with stable clients will have considerable knowledge of their operations -- quality of output, reliability of delivery and especially cash flows -- and therefore be well placed to assess the riskiness of providing credit to any given producer.

Financial stabilization and institutional strengthening for UNIOCOOP's affiliates should enhance their ability to sell inputs on credit and to make cash advances for products to be marketed through the cooperatives. However, the past performance of some of UNIOCOOP's affiliates indicates problems with loan recovery that require special attention. In addition, financial stabilization may present some issues that could become more difficult to resolve over time. In particular, BANADESA may be less willing to compromise on the amounts owed to it by UNIOCOOP's affiliates as it witnesses their overall rehabilitation. Failure to reach agreements with BANADESA could leave most of UNIOCOOP's affiliates insolvent and thus without the crucial discipline and incentives provided by the desire to protect existing equity.

Recommendations - During 1990, a thorough analysis of the loan recovery performance of UNIOCOOP's affiliates should be carried out so that necessary adjustments can be made to emphasize credit administration in the institutional strengthening component of the project.

The Advisability of a Study for a Possible Deposit Guarantee Fund

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Findings and Conclusions - There are two main arguments for creating deposit guarantee funds:

(1) to protect small depositors who do not have the time and expertise to investigate the soundness of financial intermediaries in order to make appropriate decisions about where to place their deposits; and

(2) to avoid "runs" (stemming from the failure of insolvent financial intermediaries) that could lead to the failure of otherwise sound financial intermediaries.

Neither of these conditions is likely to apply to credit unions in Honduras:

(1) the main depositors in credit unions should be credit union members who should be intimately aware of the conditions of their own institutions; and

(2) the failure of a credit union is not likely to cause "runs" on other credit unions or on other types of financial intermediaries.

Moreover, because deposit guarantees reduce incentives for depositor vigilance, deposit guarantee funds should be accompanied by enhanced prudential regulation and supervision of insured institutions. Considering the current state of prudential regulation and supervision of credit unions in Honduras, it is not clear that effective prudential regulation and supervision could be provided or that it would, in reality, be accepted by credit unions. While it is possible that lack of confidence in credit unions is inhibiting deposit mobilization by Honduran credit unions, it is more likely that inadequate interest rates and poor service (high transactions costs) are the main inhibiting factors. Nonetheless, successful deposit mobilization does imply the need for improved liquidity management, which may require training and technical assistance for Honduran credit unions in this area and the establishment of new markets, institutions or linkages that can assist credit unions with their liquidity management.

Recommendations - It is thus recommended that a study of deposit mobilization by Honduran credit unions be carried out that would focus on identifying and correcting the key factors inhibiting deposit mobilization and on analyzing alternatives for improved liquidity management by credit unions.

Impact of the Current Macroeconomic Situation and Policies

Findings and Conclusions - Honduras currently suffers from the same kinds of macroeconomic imbalances and policy problems that

plague many other Latin American countries. The most important of these are a highly overvalued exchange rate, an excessive fiscal deficit and a variety of measures that repress the financial sector, including especially controls over interest rates and over the allocation of credit. These macroeconomic imbalances present a variety of problems for the project and its intended beneficiaries, small-scale agricultural producers. Among the main problems are:

(1) the overvalued exchange rate together with a structure of protection that favors industry reduces the relative prices of agricultural goods thereby making agricultural activities less profitable;

(2) access to foreign exchange at the highly overvalued official exchange rate is rationed and rationed inequitably for the importation of agricultural inputs (see the following discussion of UNIOCOOP'S fertilizer imports);

(3) efforts to curb the government's fiscal deficit through ceilings on expenditures may inequitably impact the project (see the following discussion of the impact of ESF disbursement ceilings on the project's stabilization activities);

(4) financial repression, primarily through controls over interest rates and credit allocation, has reduced access to formal credit for the project's intended beneficiaries, but at the same time has opened greater opportunities for the provision of financial services by cooperatives in general and credit unions in particular.

Recommendations - AID (in coordination with other international donor agencies) should continue its policy dialogue with the Honduran Government toward basic macroeconomic policy reforms. Interventions that attempt to counteract the effects of macroeconomic imbalances through introducing additional distortions should be avoided. Under the project, the potential problem area in this respect is the provision of credit to the project's intended beneficiaries in ways that will reduce the viability of the institutions providing this credit and thereby reduce the availability of financial services for the project's intended beneficiaries in the longer run. Instead, a greater focus should be given to strengthening the ability of cooperatives in general and credit unions in particular to provide financial services on a sustained basis, some portion of which will flow to the project's intended beneficiaries.

The Effects of Limited Access to Foreign Exchange

Findings and Conclusions - Once the foreign currency allocations from AID under the project are exhausted, limitations on the

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access to foreign exchange for UNIOCOOP and other project participants that want to make imports are likely to cause problems. UNIOCOOP was unable to obtain foreign exchange at the official rate and requested it from the FDF. The importation of fertilizer by UNIOCOOP under the project was highly profitable not so much because of greater efficiency but because UNIOCOOP had access to foreign exchange from AID while potential importers did not have access to foreign exchange at the highly overvalued official exchange rate. Once the foreign currency allocations from AID are exhausted, UNIOCOOP and the other project participants are likely to see profit margins on fertilizer and other imported inputs reduced to normal levels. Foreign exchange could be purchased in the parallel market to make imports of fertilizer and other agricultural inputs, but such imports will not be profitable if other importers are allowed to obtain foreign exchange at the highly overvalued official exchange rates. To be competitive, UNIOCOOP and other project participants will thus depend on the government's policy with respect to the availability of foreign exchange at the official exchange rate for imports of agricultural inputs. If the government does not give the cooperative sector priority in the allocation of foreign exchange at the official exchange rate, the importation of fertilizer and other agricultural inputs will no longer be a highly profitable undertaking for UNIOCOOP and other project participants.

Recommendations - Privileged access to foreign exchange at the highly overvalued official exchange rate should not be given to any particular group. All potential importers of fertilizer and other agricultural inputs should have access to foreign exchange on the same basis -- ideally a market-determined exchange rate that reflects an equilibrium balance of payments situation and hence the true opportunity cost of foreign exchange. AID should try to deal with this issue through policy dialogue rather than through special allocations of foreign currency to UNIOCOOP or other intended beneficiaries. If the policy dialogue fails to achieve the appropriate exchange rate adjustment, and if UNIOCOOP is unable to obtain foreign exchange at the same rate as other fertilizer importers, then the use of credit resources from the project for fertilizer imports is recommended.

The Effects of ESF Disbursement Ceilings

Findings, Conclusions and Recommendations - ESF counterpart lempira funds are to be used in the process of financial stabilization and institutional strengthening. Stabilization and strengthening activities have not been delayed because of ESF disbursement ceilings due to measures taken by project management. These ceilings could constitute a constraint that can undermine the participation of cooperatives in the project. Moreover, time of project staff devoted to dealing with ESF disbursement ceilings could better be devoted to project activities. However, the use

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of non-monitized forms of disbursement such as bonds has permitted strengthened controls on the financial stabilization contracts.

Project Design and Management for UNIOCOOP and its Affiliates

Findings and Conclusions - UNIOCOOP and its affiliates have received substantial financial assistance from previous projects, as well as the current SFOS project, in attempts to strengthen institutional development, provide financial stabilization and promote credit for farmers. Fertilizer sales were selected by the FDF and UNIOCOOP as a means to achieve financial stabilization. With a dollar credit line from the FDF, UNIOCOOP was able to import bulk fertilizer, bag and sell in the local market about 10,000 tons in 1988. Through these fertilizer sales, UNIOCOOP has become a supplier of a high quality product at competitive prices, improved its image and strengthened its network of member cooperatives. These fertilizer sales must be viewed as a major accomplishment of the project. However, UNIOCOOP can compete in the fertilizer market only as long as other importers do not face a more favorable exchange rate for imports. Moreover, the goal of financial stabilization was not achieved because the profits from the fertilizer sales were used to cover operating losses rather than being capitalized by UNIOCOOP.

The small number and limited training of UNIOCOOP's Development Division staff inhibits their ability to provide analysis, technical assistance and training to member cooperatives. The Division needs more and better trained staff to provide these services. The coffee marketing division provides members with support services to produce, process and market good quality coffee in domestic and export markets. The project strategy to focus on coffee quality, coffee processing and market information services is appropriate in view of the low quality product and marketing problems of coffee cooperatives.

Recommendations - To eliminate the problems of preferential access to foreign exchange, the Honduran Government should shift all fertilizer imports to the parallel market exchange rate so that all importers compete equally in the fertilizer market. Project support for coffee marketing (pricing, quality, and processing) and related training of members should be strengthened. UNIOCOOP should increase participation by member cooperatives in leadership positions and increase the rotation of members on its board and committees. UNIOCOOP should increase its efforts to develop and implement annual operating plans. UNIOCOOP's membership base needs to be expanded from eight to about 20 and better services to members need to be provided. Better integration of the coffee cooperatives into UNIOCOOP's services and governing bodies is needed. UNIOCOOP should develop a system of cost accounting and pricing of services to improve financial management and then assist the member cooperatives with a similar system. UNIOCOOP must also

improve the collection of payments from members for services rendered. UNIOCOOP's management must work to develop the respect, trust and confidence of the FDF Board and Administration.

Training Needs for UNIOCOOP and Its Affiliates

Findings, Conclusions and Recommendations - As discussed above the employees of agricultural service cooperatives and UNIOCOOP need a great deal of training (including some graduate degree training) to improve the quality of expertise among the personnel at all levels of the organizations. Some of this training is needed in management, finance, accounting, agricultural credit, and cooperative development strategies and much training is needed in the more technical agricultural areas such as seeds, fertilizer, and chemical marketing, processing of coffee and fruits and vegetables, grading of coffee and other products, and export marketing. An agricultural service cooperative training needs assessment is recommended to determine specifically what type of training is needed, to identify the institutions that should conduct the training, to design the curriculum and to develop the materials to conduct the training.

Agribusiness System Impacts Resulting From SFOS-Project

Findings and Conclusions - Successful implementation of the project resulting in strengthened and financially stabilized cooperatives will have a positive impact on production, employment and foreign exchange during a five-year period ending 1992/93 as follows:

(1) Total production - US $115.4 million
Due to the project -US $49.8 million

(2) Total additional employment - 51,500 person years
Due to the project - 28,100 person years

(3) Total foreign exchange - US $12.5 million
Due to the project - US $7.28 million

Some important factors are to be taken into consideration for achieving results:

(1) Marketing capabilities of cooperatives should be strengthened to assure effective participation in international markets, for example, coffee and melons. This involves training programs locally and perhaps internationally such as the quality training program already underway in integral coffee marketing and fertilizer marketing.

(2) Processing and marketing facilities should be brought up to international standards to produce adequate quality products on a profitable basis.

(3) Definition of technical assistance package according to the needs of cooperatives to be sure it is implementable.

(4) Once qualified, the cooperative should receive resources without delay. You want to keep cooperative management committed.

(5) Once cooperatives and their members have been determined to be fully credit worthy, credit should be made available to cooperatives on a timely basis in sufficient quantity by FDF and from cooperatives to members.

(6) Sufficient support must be provided to cooperatives. Better managers to improve management capability.

(7) UNIOCOOP's development department should carry out a program to affiliate two (2) cooperatives per year

(8) Individual cooperatives should continue to affiliate more members.

The Role of Women in Honduran Cooperatives

Findings and Conclusions - The eight cooperatives affiliated with UNIOCOOP and 25 out of the 83 credit unions affiliated with FACACH were interviewed. Of the 25 FACACH credit unions studied, seven have greater than 50 percent female membership. The percentage of women in staff positions is quite high in all the credit unions, and sixteen have more than 50 percent women employees. A closer look, however, reveals that the majority are support staff and not in management positions. UNIOCOOP has a minimal participation of women; seven have less than 1 percent women membership. Socio-cultural and economic factors appear to contribute to this variation of female participation in the two federations. UNIOCOOP is composed only of agricultural groups, while 49 percent of FACACH membership is non-agricultural. In addition, FACACH members generally enjoy a higher standard of living than UNIOCOOP members. Women do not enjoy a full measure of participation in the credit unions and in the agricultural service cooperatives.

Recommendations - The credit unions and particularly the agricultural service cooperatives should increase the number of women members and increase the participation of women in management and board of director positions.

Future Project Funding Requirements

Recommendations - The SFOS will need additional resources to accomplish the institutional stabilization process envisioned in the project paper by September of 1993. The additional resources for the project can be justified by the following items: (1) the entrance of FECORAH and ANACH into the project; (2) the 8 additional agricultural service cooperatives projected in the impact study to join UNIOCOOP; (3) the reorientation of the work with FACACH and its affiliated credit unions; and (4) the evaluations and studies needed to add appropriate performance indicators for the cooperatives themselves, to develop a liquidity management facility for credit unions to enhance their deposit mobilization capabilities, and to strengthen loan recovery through a better understanding of loan repayment patterns, especially for the project's agricultural cooperatives. In addition, the project was funded initially for only four years of an eight year period, so that the SFOS will need additional resources by October, 1990, just to continue with its current activities.

The recommended additional amount is US $19 million, with US $11 million from AID funds and US $8 million from Honduran Government funds. The AID funds are projected to be used for project administration, long-term and short-term technical assistance, commodities, additional in-country training and short-term travel for project participants, credit for the importation of fertilizer, and the additional studies and evaluations noted above. The Honduran Government funds include US $3.5 million for institutional support to UNIOCOOP and its affiliated agricultural cooperatives, FECORAH AND ANACH and their affiliates, and FACACH and its affiliated credit unions, as well as US $2 million for IHDECOOP to strengthen its technical assistance and especially its supervisory role in auditing and accounting. The financial stabilization component includes an additional US $2.5 million for the agricultural cooperatives that are expected to need these resources during the next four years of the project.

REPORT TO AID HONDURAS ON THE INTERIM EVALUATION OF THE SMALL FARMER ORGANIZATION STRENGTHENING PROJECT (522-0252)

INTRODUCTION

The Interamerican Management Consulting Corporation (IMCC) was selected by the Agency for International Development to conduct the interim evaluation of the Small Farmer Organization Strengthening Project (522-0252) in Honduras. The purpose of the evaluation is to assess the effectiveness of the implementation to date, of the institutional development process, and to identify the adjustments, changes and corrections that should be made. The statement of work (the complete statement of work is found in Appendix A) identified three main areas of evaluation:

1. Progress toward meeting output indicators and contributing to action plan objectives.

2. Project implementation

   a. Financial Development Fund (FDF)

   b. WOCCU/ACDI/NCBA/COLAC technical assistance team

   c. Selected organizational strengthening activities and issues

3. Project design issues, constraints and resources

The U.S. based evaluation team consisted of Onofre Torres, President of IMCC, Robert Vogel, Executive Director of IMCC, Donald Larson of Ohio State University, Robert Lee of Sparks Commodities, Refugio Rochin of University of California, Davis, and Robert Von der Ohe of Rockford College.

The evaluation team approach and procedures began with a review of the relevant documents from AID, FDF, FACACH, UNIOCOOP, FECORAH, ANACH, T.A. Team, and past studies. Field visits were also made to selected agricultural cooperatives and credit unions. Key people were interviewed in all the above organizations, in the Honduran Government and in the private sector.

The evaluation team organized for the evaluation in the following way:

Larson/Torres/Vogel - Team leaders

Torres - FDF

Rochin/Larson - UNIOCOOP/ Ag. Cooperatives

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Von der Ohe - FACACH/ Credit Unions and Impact Study

Larson/Rochin - Technical Assistance

Lee - Update impact study

Vogel - Macro-economic policy and foreign exchange

Vogel - Deposit insurance

Vogel/Larson - Agricultural credit

San Martin - Women in Cooperatives

Project Components and Funding Level by Activity

1. Strengthen four (originally five with FEHCOCAL later the CCC) second-level organizations (FACACH, UNIOCOOP, FECORAH and ANACH), US $14.6 million with US $6.7 million for institutional support and US $7.9 million for project administration.

2. Financial stabilization of participant organizations, US $12.6 million.

3. Provide credit to farmers, US $8.5 million.

Project Life and Total Funds

1. Eight years from Sept. 26, 1985, to Sept. 30, 1993.

2. Four years funding at US $35.8 million.

3. AID loan of US $3 million and grant of US $13 million. Originally the loan amount was US $8.5 million and the grant amount was US $7.5 million.

4. Honduran Government contribution of US $19.8 million in ESF local currency

5. Ministry of Economy as counterpart agency and Financial Development Fund as implementing agency.

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APPROPRIATENESS OF THE PROJECT PURPOSE FOR STRENGTHENING CREDIT UNIONS

Project Goal

To increase the incomes and improve the quality of life of Honduran small farmers.

Project Purpose

To establish a viable system for delivering inputs to growers (credit, technology, market services, management skills) in order to increase agricultural productivity and diversify the production base.

The current project purpose is appropriate for the agricultural service cooperatives; however, the purpose is too restrictive to be sound for the credit union sector. Since the main purpose of credit unions is to provide a wide range of financial services, and not just agricultural credit, there may be a conflict between the purpose of the project and the promotion of viable credit unions. In particular, credit unions that lend only for agriculture are likely to have inadequately diversified and hence excessively risky loan portfolios. One of the specific purposes of the project is to provide "a minimum of 2,000 production credit loans, totalling US $8.5 million dollars, disbursed to small scale growers." This focus on agricultural lending not only tends to encourage inadequate diversification of credit union loan portfolios but also neglects the importance of voluntary savings mobilization for credit union viability and the fact that the availability of attractive opportunities for liquid savings can be as important for the welfare of small scale agricultural producers as access to credit. Moreover, this type of purpose is typical of directed credit projects that are generally not consistent with the new AID policy for financial markets development. Credit directed in this way almost always leads to serious loan recovery problems as the recipients of credit become aware that they are receiving loans not because they are creditworthy but because they have been selected as worthy of special support in the form of credit.

Recommendation

In addition to the current project purpose, a second project purpose should be added that addresses the role of credit unions in the project. This purpose could be to promote the broadening and deepening of financial markets in rural and urban areas by supporting the development of the Honduran credit union system.

Accomplishing the project purpose by September 30, 1993, may be difficult because institution building is normally a long term process requiring many years. More than four years of project funding is typically needed when starting with weak institutions, low levels of training of employees and with an agricultural sector needing modernization. The late entrance of FECORAH and ANACH to the SFOS project is an important reason justifying additional time and funding to accomplish the project purpose. In addition, the difficult macro-economic conditions of Honduras at the present time may slow but not prevent the institution building process.

OUTPUT INDICATORS

Progress Toward Meeting Output Indicators

The SFOS is a large and complex project that changed substantially in the first 18 months of the project causing significant delays in the early stages of implementation. The project seems to have recovered from these changes and delays and is on schedule toward achievement of output indicators. On September 26, 1989, the project will have completed four of the planned 8 years. In several areas such as training, completion of diagnostic studies, development plans, operating plans and signing of institutional support and stabilization agreements, half or more of the work has been accomplished (Table 1). The lempira disbursements resulting from these agreements have fallen behind schedule because the diagnostic studies and support and stabilization agreements had to be completed, negotiated and signed before disbursements could be made. The signing of these agreements took some time because the beneficiary institutions frequently had to meet several conditions as part of the agreement. Since most of these agreements have been signed since late 1988 and early 1989, the disbursement of Honduran Government funds can proceed more quickly. The implementation rate is ahead of schedule if the FDF starting date of June 1, 1987, is used.

The output indicators selected for the project appear to be valid measures for achieving the project purpose; however, the set of indicators is too narrow and needs to be expanded to a more comprehensive set. This would include several of the business performance indicators identified in Table 2. These indicators are useful because they will provide comprehensive and timely information on the economic health of the primary and secondary cooperatives that will complement the initial set of indicators. An expanded set is needed to evaluate more rigorously the project purpose of establishing a viable system for delivering inputs to growers (credit, technology, market services, management skills) in order to increase agricultural productivity and diversify the production base. The FDF has plans to collect these business indicators from the participating organizations so that no

Table 1: Output Indicators for Small Farmer Organization Strengthening Project: Planned For Life of Project and Accomplished by September 30, 1989

Output Indicators	Planned LOP	Accomplished
TRAINING		
Co-op. Personnel Trained	30	17
Design FDF	1	1
Organizations with Computer Technology	2	0
Cooperative Administration	100	In Progress
Fertilizer Marketing	-	38
Savings Mobilization	-	52
Credit union insurance	-	43
Credit union administration	-	56
INSTITUTIONAL SUPPORT		
1. Second Level Organizations		
Diagnosis of Institution	5	4
Development Plans	5	3
Institutional Support Agreements	5	4
Disbursements begun	5	4
2. Affiliate Level Organizations		
Diagnosis of Institution	55	32
Development Plans	55	29
Institutional Support Agreements	55	21
Annual Operating Plans Approved	55	22
Disbursement begun	55	19
3. Institutional Support Agreement Disbursements (millions of Lempiras)	L13.4	5.8
FINANCIAL STABILIZATION		
1. Second Level Organizations		
Disbursements begun	5	2
2. Affiliate Level Organizations		
Disbursements begun	55	4

Table 1. Cont'd

Output Indicators	Planned LOP	Accomplished
3. Financial Stabilization Disbursements (millions of Lempiras)	Lps25.2	Lps8.6
CREDIT FUNDS		
No. of Credits Disbursed	2,000	4
Amount of Credit (millions of dollars)	$8.5	$5.0
Fertilizer		$5.0
No. of Credits Disbursed from Lempira reflows		3
Amount of Credit disbursed from Lempira reflows (millions)		Lps1.7
No. of Farmers Benefited	20,000	2,000

Table 2: Business Performance Indicators for FDF Supervision and Monitoring Systems

1. Credit Union Indicators

a) Net Worth
Financial dependence
Member share capital

b) Asset Quality
Past due loan index
Loan protection index
Affected loans
Interest liquidity

c) Profitability
Financial margin
Profits relative to income
Profits relative to assets
Profits relative to share capital
Self-sufficiency
Operating cost relative to income

d) Liquidity
Solvency
Reserves

e) Market Development
Growth in members
Growth in savings
Growth in shares
Growth in loans

2. Agricultural Service Cooperatives

a) Operations
Working capital
Solvency
Inventory rotation
Accounts receivable rotation

b) Profitability
Gross profit margin
Net profit to sales
Self-sufficiency

c) Indebtedness
Total liabilities to capital
Short term liabilities to capital

d) Net Worth
Owner share capital
Financial dependence

e) Market Development
Growth in members
Growth in shares
Direct loan growth
Indirect loan growth

revisions in the implementation plan will be needed to adopt these as valid measures of targets for achieving the project. However, for purposes of monitoring progress it will be necessary to re-examine the financial statements produced for the baseline study. The FDF should report progress on these indicators for each beneficiary receiving project resources.

THE LEGAL STRUCTURE OF THE FDF AND ITS RELATIONSHIP TO FACACH

Background

The original agreement between AID and the Honduran Government was signed on September 26, 1985. For the next year and one-half, project implementation stalled as the Honduran Government and AID negotiated the legal structure of the fund which was to carry out the project. On the one hand, the Honduran Government objected to the formation of yet one more private foundation (three others had been founded during that immediate time frame). Moreover, it understandably disturbed Honduran Government policymakers that private foundations were being proposed by AID and other international organizations to administer projects, essentially funded by government monies, where Honduran Government participation on the boards of these institutions, and in management was non-existent, or negligible at best. On the other hand, given the objectives of the project, the logical, existing organization to house the FDF was IHDECOOP, a government institution charged with inspection, examination, regulation and fiscalization of all of the Honduran cooperatives.

From AID's point of view, whereas technically IHDECOOP may have been the logical choice for a home for the project, from a practical point of view, IHDECOOP was extremely weak, severely politicized by virtue of its being a government entity, and further compromised by the existence of labor problems and political activism promoted by its existing labor union. AID was reluctant to give birth to a new project into an environment where it was apparent it would have problems exerting any influence over its destiny. Additionally, for policy reasons, AID preferred to follow a private sector approach to institutional development.

Finally, in January 1987, the impasse was broken and a compromise was found by inserting the new FDF into FACACH, the credit union federation and one of the designated beneficiaries, or clients, for the new FDF. FACACH was acceptable to the Honduran Government because it already existed, and it was agreed that the board of directors of the FDF would have the representation of both the Ministry of Finance and Public Credit and the Ministry of Economy. AID went along with this solution in the interest of getting the stalled project off the ground and because it was a private sector entity where it was felt they could have some control over the

destiny of the FDF. Additionally, it was contemplated, at the time, that FACACH might someday absorb the functions of the FDF if it could someday rehabilitate itself through the FDF programs to be developed. FACACH went along with the plan because it had little to lose from this arrangement, and potentially a lot to gain in terms of prestige, and hopefully, financial benefit somewhere in its future.

Problems Inherent in the Existing Structure

Against this backdrop, since January of 1987, the FDF has carried out its organizational activities and moved forward with project implementation. On June 18, 1989, an Organizational Development and Team-building Retreat was carried out under the guidance of Training Resources Group (TRG) of Alexandria, Virginia. The workshop yielded many important results, among which was the clarification of a mission statement for the FDF - a crucial step in the development of a strategic plan for the fund. However, a common theme which became evident as discussions progressed during the retreat was the issue of the confusion that exists among the FDF staff as to the legal structure of the FDF. "Most of those interviewed felt that the arrangement with the Government of Honduras and AID to place the FDF as an organization under the umbrella of a client cooperative (FACACH), whose purposes were much narrower (limited to savings and loans) was wrong. The consequences were confusion of identity, uncertainty about the future and a potential embarrassment, should the FDF ever have to refuse a loan to their own parent organization. All felt the FDF needed an identity of its own that would allow it to be perceived as independent and neutral, identified as an independent force for cooperative financial development in the country."[1]

Parent versus subsidiary conflict - There is no doubt that confusion does, in fact, exist as to the legal status of the FDF. This confusion has motivated FDF management to seek at least two separate legal opinions in order to clarify its understanding of the FDF's legal standing. As a result of these legal opinions, it is clear that FDF's status is that of a subsidiary of FACACH; in fact, FACACH owns FDF. However, on June 13, 1987, FACACH issued to Mr. Hugo Rodriguez, General manager of the FDF, a Power of Attorney granting him special powers to administer the FDF as a decentralized unit of FACACH in order to carry out FDF programs.

Following the granting of this power of attorney, FACACH entered into both an Institutional Support Agreement and a Financial Stabilization Agreement with the FDF. This has put the FDF in the

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[1]Edwards, Daniel B., "Organizational Development and Teambuilding Retreat, Fondo de Desarrollo Financiero of Honduras, El Valle de Los Angeles," June 18, 1989.

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situation of nursing its parent back to health, of establishing goals for its parent and monitoring its progress against the agreements, and finally, if necessary, of applying the sanctions called for in the agreements. In spite of the existing legal opinions, the above scenario lends itself to potential conflict between parent and subsidiary which could result in legal actions by FACACH, albeit, possibly spurious.

Additionally, in amendment No. 1 to the Project Agreement signed by AID and the Honduran Government on September 16, 1986, the FDF is referred to as a transitory unit of implementation of the project, indicating that the FDF shall exist during the initial phase of the project until FACACH shall meet all the necessary requirements to take over the project. This provision has probably served to undermine the FDF's position as an enforcer of the agreements signed with FACACH. In fact, having recently entered into two agreements with FDF, and before any track record of agreement compliance has been established, FACACH is already lobbying AID and others to the effect that FACACH has been, in fact, rehabilitated and is therefore ready to take over FDF. It is clear that FACACH's appetite to acquire FDF and its assets has been whetted. There is little doubt that conflicts will arise between FACACH and FDF if future flows of funds to FACACH are curtailed by the FDF due to FACACH non-compliance.

Potential financial risk to FDF - Several financial analyses of FACACH have shown this federation to be in very weak financial condition. The Diagnostic Analysis performed by the FDF determined that the losses which needed to be booked and charged to the capital of FDF amounted to Lps 7.1 million which would have left the federation in a state of technical bankruptcy. In addition, other indices of financial health, such as liquidity and profitability indicators, demonstrate FACACH to be in a perilous situation. However, as a result of the parent-subsidiary relationship which exists, FACACH's auditors, KPMG-Peat, Marwick, have determined that the FDF's financial statements must be consolidated into the financial statements of FACACH. It appears likely that any legal action against FACACH would probably find the suing party going after the assets of the FDF. It is probable that an adequate defense could be made by an FDF lawyer, but the risk of legal entanglement is real, especially given FACACH's poor financial situation.

The prestige factor - FACACH's management has an established record of being able to lose money and yet remain in the good graces of its member cooperative associations. As problems have developed at FACACH, management has been able to find programs to provide for either funding or some other form of financial support for its member cooperatives. The fact that it now has the well-heeled FDF tucked into its organization reduces the pressure FACACH management feels to require its cooperatives to adopt appropriate administrative practices. It is, therefore, obvious why FACACH is

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so anxious to preserve its role as the sole provider of FDF resources to its cooperatives. The sheer magnitude of the FDF fund provides FACACH with a great amount of prestige in the eyes of its member cooperatives, but this prestige is really not yet earned inasmuch as FACACH has not as yet really had an opportunity to prove that it can live up to the goals set in the Institutional Support and Financial Stabilization Agreements it has signed with the FDF. By the same token, since FACACH is in such poor financial shape the association of FDF with FACACH does not enhance the FDF's image as an institution that must demand the respect of the cooperatives it undertakes to rehabilitate. The conclusion here is that the FDF's ability to assert itself and provide a credible leadership role in the strengthening of the system is liable to be affected by its peculiar arrangement with FACACH. In turn, FACACH management may be in a position to influence member cooperatives with the enticement of future benefits to flow from FACACH.

Uncertainty about the Future - There appears to be a pervasive feeling within the FDF that the present arrangement with FACACH, because of its peculiarity, will have to be modified in the near future, or, at least, as soon as any conflicts with FACACH materialize. Because of this uncertainty, many management decisions, particularly in the area of fixed asset acquisition and/or long-term lease arrangements, are being postponed, to the detriment of the FDF program.

Project purpose and the role of FACACH - The purpose of the Small Farmer Organizational Strengthening Project is to "create a viable system for the delivery of productive inputs to farmers." From a quick reference to the objectives of FACACH one can observe that their principal objective is the solicitation and channeling of national and international economic resources to the credit union sector in general. Closer observation of the composition of the credit union system in Honduras reveals that, at best, approximately 20,000 cooperative members, out of a total membership of 63,346 on June 30, 1989, represent farmers. This represents a ratio of approximately 32 percent. Clearly, if the project purpose is to be strictly interpreted, FACACH is not an appropriate vehicle in which to house the entire program.

To a certain extent, an attempt has been made to prevent the resources which will flow from the FDF through FACACH from going to the urban centers by excluding Tegucigalpa and San Pedro Sula cooperatives from benefitting from FDF programs. Fungibility of money will prevent any such restrictions from having any noticeable effect on the flow of FACACH resources to these urban centers. Clearly, if there is demand from the urban centers FACACH will reallocate resources internally in order to accommodate the demand. There is really no way to track FDF monies versus other FACACH resources.

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On the other hand, increased financial intermediation activity in rural areas, in and of itself, has been shown to have an important developmental effect for rural areas and, consequently, directly and indirectly for the farmers. For this reason, it is felt that even though FACACH may not be the appropriate vehicle to house the FDF project, it is still an appropriate vehicle for financial intermediation in rural areas. This topic will be developed further in another section of this report.

Recommendation

From the above analysis, it is evident that a rapid determination of the FDF's permanent legal structure is required. Many compelling reasons have been identified which indicate that the FDF should be removed from FACACH, and no compelling reasons have been identified to indicate that FACACH is an ideal vehicle to house the project. It is, therefore, recommended that the FDF be removed from FACACH. Further analysis will be required to determine what optimum legal framework should be crafted to solidify the FDF's legal status.

FINANCIAL STABILIZATION

Financial Stabilization Strategies

FDF Policy versus AID Policy - The FDF has prepared a policy manual to govern the technical assistance, financial stabilization and credit components of its program. Upon review of the policies related to financial stabilization it appears that the policy framework in place is generally compatible with the philosophy set forth in the AID Policy Paper on Financial Markets Development, dated August, 1988. However, there is one area of potential conflict with AID policy.

The thrust of the financial stabilization effort is focused on nursing financially moribund entities back to health through a combination of positive incentives and stringent monitoring programs. Many of the beneficiaries of the stabilization programs are in such bad shape that they require significant subsidies in order to have a chance at reversing their negative trend. In reality, therefore, financial stabilization and institutional strengthening are inexorably intertwined. The financial stabilization component provides a financial crutch during a period of time while the institutional strengthening effort goes to work to develop improved managerial and technical skills. The presumed logic is that with improved managerial and technical skills it will at least be feasible that the beneficiary be prepared to go forth and eventually achieve financial self-sufficiency. Unfortunately, for the financial crutch to function effectively over the medium

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term a significant subsidy has been required in the form of a reduced interest rate of 4 percent on the financial stabilization loans granted to the beneficiaries. While this is an apparent violation of the policy requirements as set forth in the above-mentioned AID policy paper, it needs to pointed out that without the subsidy it is probable that most attempts at turning around financially failing cooperatives would not have much chance of success.

It can be argued, however, that the subsidy in the interest rate to the beneficiary cooperative is an institution building activity, in which case AID and the FDF should clearly recognize that there is a tacit grant component in each financial stabilization loan that is disbursed. Comparative analyses of financial stabilization packages at four percent and twelve percent can identify clearly the amount of the grant component.

The FDF "Umbrella" Strategy - In keeping with the guidelines set forth in the project paper, the FDF has concentrated its efforts on rehabilitating the cooperative umbrella organizations first with the hope that strengthened umbrella organizations could then leverage the FDF effort and provide for magnified and quicker results. Initially, the FDF surveyed the existing umbrella organizations and correctly determined that it should concentrate its efforts on FACACH and UNIOCOOP, the two umbrella organizations exhibiting more highly developed organizational structure and less radical behavior. Unfortunately, both organizations have suffered from poor managerial and financial health and, therefore, serve as less than adequate role models for the cooperative organizations they serve.

Clearly the FDF could not wait for rehabilitation of the umbrellas before proceeding with its program to rehabilitate other cooperative organizations. Consequently, the FDF has gone forth to negotiate institutional support and financial stabilization programs directly with agricultural cooperatives which are members of the UNIOCOOP system. (Recently some work has also been initiated with FECORAH cooperatives). Because many of the credit unions which are members of the FACACH organization are perceived to be already self-sufficient and generally in better financial health, and because there are so many FACACH affiliated credit unions, the FDF has wisely determined it can most effectively address credit unions through the Federation.

Factors Constraining Implementation of Strategies and Policies

The Lack of FDF Regulatory Power - In the FDF policy manual, on page 9, paragraph 7, it is set forth as FDF policy that any institution not meeting its self-sufficiency goals will be intervened until its disequilibrium has been corrected. While this policy makes good sense on the surface, it is clear that the FDF really does not have the power to intervene without declaring its

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loans in default and going through a cumbersome legal action to be named as receiver by the judicial system. In effect, the FDF does not have a means of policing its stabilization plans short of aborting them altogether.

This is a key issue for the FDF and for the project in general. In reality, the project itself is very ambitious. It may not be clearly understood by all of the AID, Honduran Government and FDF participants in the project that the most difficult task to be achieved for the project to be successful is to modify and overcome existing corrupting practices that have a long history in many of the beneficiary cooperative organizations and in some of the umbrella organizations. While it is relatively easy to get a cooperative organization's management support in effecting financial reorganization and in upgrading managerial and technical skills in their organization, particularly when the cooperative organization is a candidate to receive significant financial aid, it may be very difficult to eliminate existing situations of patronage, favoritism and other forms of financial abuse within the organization unless the FDF can develop more forceful means of policing its financial stabilization programs.

Because of the above, the single most important threat to the project is AID pressure on the FDF to disburse funds. The beneficiaries have years of experience at milking international organizations for patronage and personal benefit. Moreover, the FDF is faced with the very real problem that, if it demands too much too quickly, the cooperative organization will simply turn to another eager international donor who is less demanding. It is clear that progress in achieving change will come slowly and rewards must be withheld from those that do not change their ways.

The "Umbrella" Dilemma - Because of the FDF's lack of clout in enforcing its financial stabilization programs, it must rely on withholding rewards form those that do not comply as its principal enforcement tool. This creates a major problem with regard to the policy of working through umbrella organizations. Whereas the FDF may have liked to effect certain management changes at administrative and board levels in these organizations in order to avoid some of the excesses of the past (both umbrella organizations still retain much of the same management that led them to failure in the past), the policy of working through the umbrellas has placed the FDF in the position of either capitulating or working around the umbrellas. As seen earlier, in the case of the UNIOCOOP umbrella, the FDF opted to work around UNIOCOOP and does, indeed, work directly with cooperatives that are satellites of the UNIOCOOP system. It is not as clear how the FDF plans to manage its dilemma in the case of FACACH. For the moment, FACACH sees itself as the sole funnel for all benefits to its affiliates flowing from the FDF. In particular, FACACH is interested in becoming the sole provider to its member credit unions for the credit component of the project.

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Recommendations for Changes and Adjustments

Adequacy of the Conceptual Framework of the Three Components of the Project - By and large, the conceptual framework of the project appears to be well thought out. As mentioned earlier, the Institutional Support component and the Financial Stabilization component are so closely intertwined that their implementation is necessarily carried out almost concurrently. However, the two components seek to accomplish two very different objectives and therefore must be implemented separately. Care should, and appears to, always be taken to coordinate the two programs carefully as they are implemented for each beneficiary. The credit component has correctly been identified by the FDF as a second stage component, that is, beneficiaries should not generally have access to the credit component until the other two components have been implemented and are operating successfully. As discussed in another section of this evaluation, it is questionable whether some aspects of the credit component should even be activated at all. Moreover, because of delays in getting the project started and the fact many of the institutional support and financial stabilization agreements have only recently been signed, actual credit programs under the project to reach small farmers have yet to be implemented.

Because of the sequential nature of the credit component in relation to the other two components, it is recommended that the FDF reorganize its operations such that each beneficiary cooperative has only one contact at the FDF. This person should be in full control of the entire relationship with the beneficiary and responsible to management for all aspects of the relationship with the beneficiary. Additionally, the FDF should assign the collection of all data for monitoring under the three component programs to an administrative unit which will prepare information for management and the relationship manager. This will provide several advantages:

- It will free the relationship manager from a cumbersome administrative duty so that he can spend more time in the field with his clients and in negotiating remedial action programs with them.

- It will ensure that a systematic data collection and management system will uniformly process benchmark information and thus improve the quality of information processed.

- Management will be informed on a timely basis, by an impartial third party, regarding the accomplishments of the relationship manager with his beneficiary cooperatives.

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Strengthening the Negotiation and Policing Efforts of the FDF - It is apparent that the FDF must be prepared to withhold rewards, on an indefinite basis, from all of those beneficiaries that refuse to make the structural and administrative changes required by the FDF. The FDF should work with any cooperative from the target group willing to implement the requirements of the FDF. By the same token, AID pressure to disburse should be minimized. To the extent possible within AID, measurement of success of the program should be through criteria other than the volume of funds disbursed.

A major challenge for the FDF is the supervision and monitoring of the implementation of the institutional development and financial stabilization activities by the project beneficiaries. Some project beneficiaries notably but not only FACACH and UNIOCOOP have not fulfilled all commitments of the signed agreements. Communication, supervision and feedback procedures between FDF and the beneficiaries could be improved through more frequent field visits by the FDF staff. The FDF should give authority and responsibility to the assigned account officer to work collaboratively with the beneficiary on a regular basis such as every two weeks.

The FDF could benefit greatly from a closer relationship with IHDECOOP. While merger with IHDECOOP is not recommended, it is likely that a contractual relationship between the FDF and IHDECOOP would benefit both parties in that technology and financial support could be transferred to IHDECOOP in exchange for assistance in providing the clout necessary to force the required changes called for in FDF agreements with beneficiary cooperatives. As a condition for receiving project support, IHDECOOP would emphasize audit and enforcement with cooperatives which have qualified for project support, especially in assuring the fulfillment of changes agreed to by the cooperatives in the financial stabilization and institutional support agreements.

EFFECTIVENESS AND EFFICIENCY OF THE FDF

Purpose and Objectives

As mentioned earlier, the project purpose is to create a viable system for the delivery of productive inputs (credit, technology, market services, management skills) to farmers. During project design, it was envisioned that the main thrust of the effort would be to create an organization (a fund) capable of delivering both technical assistance and financial resources in order to rehabilitate the existing, weakened cooperative federations. It was anticipated that strengthened federations would thereby be in a position to pass on both technical assistance and financial resources to their member cooperatives and, finally, through

Table 3: Second Level Organizations: Dates of Approval and Amounts Approved for Institutional Strengthening and Stabilization Agreements, Financial Development Fund, Honduras, June 1989

Organization	Strengthening Agreement Signed	Stabilization Agreement Signed	Funds Requested Strengthening	Funds Approved Strengthening	Funds Requested Stabilization	Funds Approved Stabilization
			- - - - - - - - - - - - - - Lempiras	- - - - - - - - - - - - - -		
F.A.C.A.C.H.	Feb. 26, 1988 March 30, 1989	March 29, 1989	1,657,000 1,051,224	1,657,000[a] 1,051,224	0	7,100,000
UNIOCOOP	March 30, 1989		1,822,057	1,822,057	0	
FECORAH	Jan. 27, 1989		60,500	60,500		
ANACH						

Note: Strengthening to FECORAH is an agreement between IHDECCOP and FECORAH that includes a Marketing Research and Financial Statement Revision.

[a] FACACH expended Lps. 1,270,000 during FY 1988. The remaining Lps. 378,000 was included in funds approved for FY 1989.

rehabilitation of the member cooperatives, deliver productive inputs to the farmer. It was anticipated that this could be accomplished within a period of eight years from the date of the signing of the agreement on September 26, 1985.

As explained earlier, the first year and a half of the project's life was wasted in wrangling between the Honduran Government and AID over the legal vehicle to be established for the implementation of the project. By January of 1987, when activities under the project actually commenced, the project time frame had been reduced to less than seven years. The objectives of the project were not modified and pressure within AID to meet the original disbursement schedule was still being felt.

During 1987, in accordance with the AID/GOH compromise, the FDF was organized within FACACH. Personnel was hired and a five-person technical assistance team was brought in to advise on the organization of the FDF and to provide an on-the-job training environment for the local personnel hired by the FDF. By early 1989, the FDF had developed into a cohesive unit within FACACH. The first Institutional Support Agreement, resulting from a comprehensive diagnostic and planning process, was signed between the FDF and FACACH in February of 1988 (Table 3). The Financial Stabilization Agreement between the FDF and FACACH was signed in March of 1989. At the same time, agreements were signed between the FDF and UNIOCOOP, the umbrella federation for the agricultural service cooperatives. By July of 1989, at the time of this evaluation, the FDF had completed several additional diagnostic studies and operational plans for agricultural cooperatives and credit unions and is beginning to implement the respective Institutional Support and Financial Support Agreements (Table 4).

Finally, on August 17, 1988, a disbursement of US $3 million was approved under the "Credit" component of the project for the purpose of enabling UNIOCOOP to import and market fertilizers, through its cooperative members, to the rural farmers. By July of 1989, at the time of this evaluation, a subsequent disbursement of US $2 million had been approved. Reflows from this fertilizer marketing activity are being fully recovered and accumulated at the Central Bank. This pool of monies accumulating at the Central Bank will constitute a loan fund from which it is contemplated that commercial banks and the FDF will be able to fund loans to cooperatives so that these cooperatives can, in turn, provide credit to their member farmers.

In the original project design, it was envisioned that the credit component of the project would be disbursed throughout the life of the project. In reality, no credit from the project has actually reached directly any of the farmer members of the cooperatives although the cooperatives are disbursing credit from other sources. As will be shown later in this report, the disbursements of US $5 million described earlier as disbursed under the credit component

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Table 4: Financial Development Fund, Detail of All Financial Assistance Approved for Project Beneficiaries, Honduras, June 1989

Item	1987	1988	1989	TOTAL
	(Lempiras)			
I. FACACH				
1. Institutional Support				
Promissory note, December[a]	200,000			200,000
Promissory note, January[a]		170,000		170,000
Promissory note, January[a]		190,000		190,000
Institutional support, February		1,657,000		1,657,000
Institutional support, March			1,051,224	1,051,224
2. Financial Stabilization				
Stabilization agreement, March			7,100,000	7,100,000
II. UNIOCOOP				
1. Institutional Support				
Promissory note, March[a]		70,000		70,000
Promissory note, November[a]		308,300		308,300
Support agreement, March			1,822,057	1,822,057
2. Credit				
October loan contract		6,000,000		6,000,000
June loan contract				6,675,000
III. COFFEE COOPERATIVES				
1. Institutional support				
Promissory note, March[a]		156,000		156,000
IV. CREHSUL				
1. Institutional Support				
Support agreement, November		110,000		110,000
2. Financial Stabilization				
Stabilization agreement, November		500,000		500,000
3. Credit				
Loan Contract, November		328,000		328,000

Table 4. cont'd.

Item	1987	1988	1989	TOTAL
	(Lempiras)			
V. COHORSIL				
1. Credit				
Loan contract, June			270,000	270,000
VI. Credit Unions				
1. Institutional support				
Two agreements, June			80,000	80,000
VII. FECORAH				
1. Institutional support				
Service contract, January			60,500	60,500
TOTAL	200,000	9,489,300	10,033,781	26,748,081

[a] Promissory notes were repaid as part of subsequent institutional support agreements.

should, perhaps, be more properly classified as part of the Financial Stabilization component of the project. In fact, the funds were provided by the FDF with financial stabilization of UNIOCOOP as the objective. The rehabilitation process has proven, in practice, that it is not really feasible to distribute project credit through the existing network of cooperatives until such a time as the diagnostic studies have been completed, Institutional Support and Financial Stabilization Agreements have been signed, monies have been disbursed under the agreements and, finally, a track record of compliance with the agreements has been established. Rehabilitation of sick cooperatives requires that methodical procedures be employed to monitor progress in technical as well as financial areas to insure that funds disbursed to the cooperatives, either as grants (Institutional Support) or as subsidized term credit to build up deteriorated net worth (Financial Stabilization) are, in fact, going to be efficiently utilized. FDF management has recognized the sequential nature of this process and, to its credit, has not disbursed a large amount of credit from the Special Credit Fund in the Central Bank.

Analysis of Fertilizer Sales

During August of 1988, it became evident that there was a shortage of fertilizers in the country. While a lack of fertilizer may have been observed in the marketplace, the real shortage was that of hard currency in the Central Bank. The FDF saw a window of opportunity to utilize the Balance of Payments support portion of the credit component of the project to devise, and carry out, a one-time financial stabilization and institutional support scheme for UNIOCOOP and its member agricultural service cooperatives that would accomplish the following short-term objectives:

1. Provide the Honduran Government with the hard currency it lacked to support its Balance of Payments needs.

2. Take advantage of the near monopoly power inherent in possession of hard currency to carry out a profitable commercial transaction which would provide a windfall profit to UNIOCOOP and the member cooperatives. In effect, the windfall amounted to a once-and-for-all wealth transfer to the beneficiaries of the scheme and would have the same effect as the institutional support grants available through the traditional FDF programs. However, the FDF would require that, from a bookkeeping perspective, the profits be carried to a capital reserve account, thereby converting the expected windfall profit into something resembling an FDF financial stabilization scheme rather than an institutional support scheme. In any event, inasmuch as little project credit was given to farmers, it is not appropriate to interpret that the credit component of the project

is actually in use at this time. As pointed out earlier, this is happily so inasmuch as none of the participating cooperatives have qualified to use credit resources for the purpose of making credit available to their member farmers.

3. Transfer to the cooperatives participating in the scheme the necessary skills in input marketing, inventory control and financial control of a marketing project.

In evaluating the results of the scheme, it is apparent that the Balance of Payments objective was easily met. The Honduran Government was benefitted by an injection of hard currency to offset the demands upon it for imports. The results of the Financial Stabilization component are mixed. On the one hand, the FDF, AID, UNIOCOOP and the participating cooperatives appear to have done an excellent job at establishing and maintaining financial control of the operation from beginning to end. At this point, most of the fertilizer has been sold. The reflows of funds under the scheme have been recovered and have been accumulated in the account at the Central Bank. Those repayments fund the credit component of the FDF program. Windfall profits in the amount of Lps.500,000 did, in fact, accrue to UNIOCOOP, and the member cooperatives also benefitted. However, because of the non-existence of a signed agreement with UNIOCOOP for Financial Stabilization and Institutional Support, UNIOCOOP continued to hemorrhage expenses during the period and these, in fact, exceeded the gain from the fertilizer scheme. Consequently, UNIOCOOP ran the fertilizer earnings through their profit and loss statement as income to offset current expenses (akin to Institutional Support) rather than crediting these fertilizer earnings to a capital reserve account (akin to Financial Stabilization). From an economic point of view, the effect on capital is the same; cosmetically, the FDF's efforts to support UNIOCOOP are buried in a net loss figure which, had the scheme not have been implemented, would have shown the true level of lack of financial self-sufficiency of UNIOCOOP. It is felt that the real failure here was not the FDF's inability to control how UNIOCOOP presented its financial statements, but rather in not tying the windfall gain made possible through the scheme to a commitment on the part of UNIOCOOP to bring its hemorrhaging expenses under control. Finally, the level of achievement of the marketing technology transfer objectives of the programs is in doubt also. Whereas, initially, it was apparent that a great learning process had taken place within UNIOCOOP and its affiliates, much of that may have been lost recently as internal UNIOCOOP politics have led them to fire a key technician who was judged to be capable of managing successfully subsequent input distribution programs.

THE WOCCU/ACDI/NCBA/COLAC TECHNICAL ASSISTANCE TEAM

Findings and Conclusions

According to the project paper, the purpose of the technical assistance team is to provide technical assistance to the FDF, an autonomous entity under FACACH, in support of the institutional processes designed to strengthen farmer associations to permit them to serve as channels through which productive resources could be provided to small farmers throughout the country.

The general scope of work calls for five long-term advisors and 12 person/months per year of short-term advisors in specialized areas to the FDF in support of the institutional strengthening process. Two of the long-term advisors are specialists in financial operations, two are agricultural cooperative institutional development specialists, and one is a specialist in management and administration. The technical assistance contract was signed on March 16, 1987, with a consortium led by the World Council of Credit Unions (WOCCU) who provides the Chief of Party and one other advisor. The other consortium members, consisting of National Cooperative Business Association (NCBA), the Agricultural Cooperative Development International (ACDI) and the Latin American Confederation of Credit Unions (COLAC), each provide one resident advisor. By May 1, 1987, the members of the technical assistance team had arrived in Honduras. Due to personal problems, one member of the team had to be terminated after a couple of months in Honduras. Some adjustments were made to the job description of the position, and a replacement was hired about four months later. The individuals on the technical assistance team, arrival date, area of project activity, and assigned counterparts are identified in Table 5. Members of the evaluation team conducted personal interviews with all members of the T.A. team during July, 1989. The evaluation also consisted of reviews of project documents and reports prepared by the T.A. team.

A review of the individual scopes of work indicates that they are comprehensive and appropriate for the project. A good match has been achieved between the scopes of work and the advisors contracted for the project. The contractors have selected a well qualified team to provide the technical assistance to the FDF. The T.A. team has excellent Spanish that is more than adequate for any written or oral communication skills required on the project. Team members also have a great deal of experience and effectiveness in working at the primary and secondary levels of the cooperatives and credit unions.

The Chief of Party and the T.A. team have established good rapport and working relationships with each other and with the FDF. However, communication could be improved among the team members and between the team and FDF through regular meetings to address

Table 5: Foreign Technical Assistance Team and Honduran Counterparts for Small Farmer Organization Strengthening Project Honduras, 1989

Technical Assistant	Date of Arrival	Project Area of Expertise	Counterpart Assigned	Counterpart Activity Dates
Rocael Garcia	Apr. 1987	Chief of Party Financial Management Advisor	Hugo E. Rodriguez	June/87
Raúl Sanchez	Apr. 1987	Credit Unions	Juan Pablo Cruz Hernan E. Pineda Mario Paz Puerto	July/87 Feb/88 Mar/89
Jerry Deese	Dec. 1987	Computer Information Systems	Juan Pablo Cruz Roberto Melendez	Dec/87 Aug/88
Guillermo Alvarado Greenwood	May 1987	Agricultural Cooperatives	German Mejía	Aug/87
Federico Varela	Apr. 1987	Coffee Cooperatives	Herbert Hernandez	Aug/87
Frank Bendana	Dec. 1986	Fertilizer	Personal Services Contractwith AID. Hugo E. Rodriguez	

several new problems of the project. Some of the problems discussed include the policies of the FDF with UNIOCOOP and FACACH. Should the T.A. team do more direct training and service to the secondary cooperatives, etc.? The recommendation here concurs with a recommendation of the Training Resource Workshop conducted for the FDF that communication among all staff members needs to be improved through a variety of means including regular meetings.

The T.A. team has sometimes lacked a complete complement of counterparts, either within the FDF or within UNIOCOOP and FACACH. Within the FDF, members of the T.A. team have gone as long as six months without a counterpart. In order to accomplish the institutional development process within the FDF, more stable and permanent counterpart relationships must be developed for all of the team. The relatively high turnover among counterparts seems to be due to organizational changes within the FDF rather than to a loss of employees because of more attractive alternatives in the labor market. More attractive salaries would very likely increase the stability, but salaries have not been mentioned frequently as a major problem.

Adding staff and a slight change in the composition of skills among the Honduran professionals in the FDF appears desirable to address many of the technical agricultural problems emerging with UNIOCOOP and the local affiliates. Among the 16 employees of the FDF, seven have university degrees in economics or business administration and only one has a degree in agronomy. Either the FDF or UNIOCOOP needs more professionals with skills in agricultural production, farm management, agribusiness management and international marketing of fresh perishable produce, coffee and other products to service the growing needs in this area.

The T.A. team needs to reassert its role as an advisory unit to the FDF, FACACH, UNIOCOOP and the cooperative members. A disproportionate amount of time is allocated to implementation that should be done through counterparts. Pressure to meet project deadlines and a shortage of counterparts have been the principal factors contributing to their active role as staff rather than as advisory to the FDF.

The T.A. team and the FDF are on schedule with the cooperative affiliates of UNIOCOOP and FACACH and with FACACH and UNIOCOOP in completing a series of important tasks. The diagnoses, the development plans (with mission statements), and the annual operating plans have been completed for over half of those planned for the life of the project.

The FDF and the T.A. team are facing problems in qualifying cooperatives for financial stabilization support under the project. A major obstacle has been trying to reduce the cooperative indebtedness to BANADESA in the trust fund account. As cooperatives strengthen their financial status through the project,

there is some danger that BANADESA may be less apt to write off the debt of the cooperative. The T.A. team is working closely with the FDF/BANADESA representatives to resolve this issue.

The T.A. team seems to be behind schedule installing computers with accounting systems in the primary and secondary level cooperatives. Within the FDF, the T.A. team and the Honduran staff have made significant progress toward the use of computers and word processors for all project activities. The difficulty of identifying suitable software in Spanish for the cooperatives, difficulty in specifying hardware requirements, and AID procurement approvals caused added delays. The manual accounting system currently used in the cooperatives and credit unions has many problems that also need to be corrected before a computer system will work. This will also cause more delays. In addition, the employees are starting at a very low level of familiarity with micro-computers because it is a new technology to most of them. A plan of action is needed for strengthening the computer accounting system in these cooperatives.

Recommendation

In slightly over two years since arrival in Honduras, the T.A. team has accomplished a great deal but has not completed all of the tasks specified in the scopes of work or the institutional development within the FDF. The T.A. team should be extended through September 30, 1991, with a re-examination of the T.A. needs through 1993 at the end of 1990. Some T.A. seems advisable throughout the life of the project with a gradual reduction of resident T.A. as the FDF develops a full complement of technical and managerial skills.

The composition of the long term T. A. team members should continue with the current positions for the near future. If FECORAH AND ANACH become important participants in the project in the future, one institutional specialist may be needed to attend to the needs of this group. At this time the evaluation team believes that internal adjustments can be made to serve these needs without adding a person to the long term team. An additional person is not recommended as long as the personal services contract from AID continues to be a part of the project technical assistance team. The evaluation team believes that short term technical assistance can be used to meet the more specialized needs of the FDF, IHDECOOP, FACACH, UNIOCOOP agricultural cooperatives and credit unions on topics such as financial management, cooperative accounting and auditing, liquidity management, savings mobilization, agricultural credit, seed processing and marketing, fertilizer mixing plant, agrochemical distribution and coffee processing. Most of these topics require very specialized skills that would be difficult to find in a limited number of long term

positions. The long term and short term technical assistance recommendations can be seen in Table 6.

IHDECOOP'S PRESENT AND FUTURE ROLE

Following the passage of the new Honduran cooperative law in 1987, the Directorate of Cooperative Development (DIFOCOOP) was granted additional powers and responsibilities, was moved to San Pedro Sula, and became the Honduran Cooperative Institute (IHDECOOP). IHDECOOP's powers and responsibilities include granting and retracting cooperatives charters, approval of cooperative bylaws, auditing, and the application of laws in general. IHDECOOP operates as a semiautonomous entity with a board of directors that has both government and cooperative institutions represented, with the board chairman being the representative of the Ministry of Economy.

The project as initiated did not include a major role for IHDECOOP, largely because of the poor performance of its predecessor, DIFOCOOP. In the design of the project, there was considerable controversy with the Honduran Government over the possibility that IHDECOOP might be the institution housing the FDF or might itself carry out directly the functions to be assigned to the FDF. As discussed in detail elsewhere in this report, the result of this controversy was the location of the FDF within FACACH, a less than optimal solution, but one that was and continues to be preferable to housing the FDF within IHDECOOP or having IHDECOOP carry out its function. Any government institution that is assigned functions like those of the FDF that involve providing funds to private-sector organizations (e.g., funds for cooperatives for financial stabilization and credit) runs a serious risk of being drawn into situations of political influence and even outright corruption. Consequently, to avoid attracting the rent-seeking behavior that so commonly afflicts government agencies providing funds, IHDECOOP should not absorb the FDF or become involved in analogous funding activities.

The activities that were subsequently included in the project for IHDECOOP have focused on IHDECOOP's role in the registry and census of cooperatives, in the establishment of standards for accounting, and in the conduct of audits. Partly as a result of the support provided through the project, IHDECOOP has created a system for the registry of cooperatives, has completed its move to San Pedro, and has completed the regulations for the application of the new cooperative law. In addition, IHDECOOP's audit department has been restructured and strengthened, and a number of audits have been carried out for which a significant portion of the cost has been covered by fees paid by the cooperatives themselves. Such fees are important not only as a source of revenues that can help to assure IHDECOOP's viability but also because they indicate

Table 6: Estimated Long and Short Term Technical Assistance Needs For Small Farmer Organization Strengthening Project, October, 1990 to September, 1993

TOPIC	LONG TERM ASSISTANCE	SHORT TERM ASSISTANCE
Institutional Development and Stabilization, FDF	36 p/m	2 p/m
Credit Administration and Savings Mobilization in Credit Unions	36 p/m	1 p/m
Institutional Development Agrarian Reform Cooperatives	36 p/m	2 p/m
Institutional Development UNIOCOOP and Agri. Co-ops	36 p/m	1 p/m
Marketing and Sales in Agri. Cooperatives	36 p/m	3 p/m
Computer Information Systems	24 p/m	6 p/m
Training Needs in Credit Unions and Agri. Cooperatives	-	2 p/m
Deposit Guarantee Credit Unions	-	6 p/m
Agricultural Credit in Agricultural Cooperatives	-	4 p/m
Development Strategies Agri. Cooperatives	-	3 p/m
Seeds, Chemicals and Feeds in UNIOCOOP	-	3 p/m
Processing of Agricultural Products	-	1 p/m
Perishable Export Business Practice and Market Opportunities	-	1 p/m

Persons months of assistance is abbreviated to p/m

that the auditing services provided by IHDECOOP are of sufficient quality to be valued by the cooperatives audited. IHDECOOP has also worked together with the FDF in the development of accounting systems for credit unions and for agricultural cooperatives. These systems have been certified by IHDECOOP, and accountants for cooperatives are being introduced to the new accounting systems. In the future, cooperatives participating in the project will be audited on the extent to which they have applied the new accounting system.

To date the project has disbursed Lps.800,000 in support of IHDECOOP, and it is expected that, by the end of 1989, IHDECOOP will have spent the last of these monies. The project's support of IHDECOOP has been significant in enabling IHDECOOP to make such substantial progress in the brief period since its creation as the successor to DIFOCOOP, and continuation or expansion of this support should be given high priority in any subsequent adjustment of the project. IHDECOOP plays several important roles in the project. As the regulatory authority, IHDECOOP can help to assure that the project advances in its strengthening of cooperatives. The authority to approve mergers and liquidations, as well as to act as the liquidating agent or to intervene cooperatives, all make IHDECOOP a key player in the enforcement of stabilization agreements. In addition to continuing its current activities, IHDECOOP appears willing to participate in the liquidation of 30 moribund credit unions or their mergers into sound credit unions. IHDECOOP's role is crucial for this activity as IHDECOOP has the power to issue and retract credit union charters.

The following problems may face IHDECOOP during the remaining years of the project and should be taken into account in the level and type of support that the project provides to IHDECOOP in the future. First, technical assistance to cooperatives to assist them to improve their accounting capabilities may be incompatible with IHDECOOP's auditing functions, as IHDECOOP may ultimately find it difficult to discipline cooperatives to which it provided substantial assistance of this type. Thus, these two functions may eventually need to be assigned to separate institutions. Second, although it is argued elsewhere in this report that deposit insurance is unlikely to be appropriate for Honduran credit unions, implicit deposit insurance may be created if IHDECOOP's audits are seen by creditors and members of credit unions as providing an implicit guarantee that the audited credit unions are in good condition. The potential for serious problems can be reduced if IHDECOOP's audits are thorough, are readily available to members and creditors, and specifically state that IHDECOOP does not guarantee the solvency of the audited credit unions. Third, skilled accountants and auditors are scarce in Honduras, and IHDECOOP's position as a government institution is likely to limit its ability to pay adequate compensation, so that it may lose some of its best-trained accountants and auditors. However, if it loses these employees to cooperatives, then IHDECOOP's investment in

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their training may nonetheless be an important contribution to cooperative sector development.

Although IHDECOOP should not absorb the FDF or become involved in funding activities for client cooperatives, IHDECOOP should nonetheless become a voting member of the FDF's board of directors if and when the FDF becomes a separate legal entity. Moreover, IHDECOOP's powers and responsibilities with respect to the FDF, as well as the cooperatives benefitting from the FDF's institutional strengthening and financial stabilization activities, should be described in detail prior to the chartering of the new FDF. Institutional independence for the FDF may appear much more attractive to the Honduran Government if it is accompanied by significant additional support to strengthen IHDECOOP further in its ability to carry out audits and to provide technical assistance to cooperatives.

FACACH AND ITS AFFILIATED CREDIT UNIONS

It has been well documented that FACACH has suffered from a series of significant managerial and financial problems in the past, problems which at times have placed the organization in serious jeopardy. Throughout the 1970s and early 1980s these problems served to undermine the confidence of member credit unions in FACACH as an organization, causing management to move further from meeting the needs of its member/owners and toward seeking external resources to maintain short-term viability. The project sought to stabilize FACACH and set in motion events that would enhance the image of member credit unions in FACACH and allow them to reassert their control over the operation of the organization.

Events of the last twelve months have seen reasonable progress toward resolving several key problem areas. Major positive events have included:

1. Completion of the Diagnostic Analysis and Development Plan for FACACH.

2. Personnel changes have been made at all managerial levels except the general manager. Individuals have been hired whose skills are more in line with those required by FACACH and for project success.

3. Steps are being taken to divest the PRODAIF project -- a project which had diverted significant resources and management time away from programs designed to meet the needs of the broad base of FACACH membership.

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4. Significant participation by credit unions in the FACACH stabilization program represents a more positive attitude on the part of credit unions toward FACACH.

5. An improvement in the capital and deposit structure of FACACH's balance sheet is further evidence of the increased trust of credit unions in FACACH. Credit unions now have L. 3.5 million of share capital.

6. Educational efforts have been renewed with 22 conferences held during 1988 with approximately 600 participants. An analysis of future training goals will be discussed below.

7. The internal controls of the insurance operation have improved as witnessed by the accounting for the division becoming an independent cost center.

FACACH has taken a strong first step on the road to self-sufficiency. However, there still are areas for concern. The primary concern continues to be the attitude of FACACH management toward a superficial rehabilitation using external resources. The compromise between the Honduran Government and AID that placed the FDF under the FACACH umbrella was inappropriate. There were a series of controls and covenants in the agreements that gave the FDF a necessary autonomous role. However, FACACH management directed a letter to AID on July 11, 1989, which stated:

> Como va la preparacion de FACACH para que el FDF se convierta en una subsidiaria bajo el control directo de FACACH

This appears to be yet another direct effort (and beyond the bounds of any reasonable interpretation of project documents) by FACACH to gain control over external resources instead of focusing on achieving the goals laid out in the development plan.

Additionally, the goals in the development plan are weighted heavily toward simply "holding, meeting and attending," particularly in the Junta Directiva and Gerencia General sections of the plan. This format does not facilitate measurement of the impact of such events on project success. There also appears to be a strong emphasis on achieving results in the short run to demonstrate immediate success rather than recognizing the long term interrelationships among all aspects of the project. These shortcomings could be offset by focusing principally on key financial indicators.

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Recommendations:

1. Special care should be taken that a strong, competent individual be hired to fill the position of comptroller of FACACH, with a direct counterpart relationship between this individual and a member of the FDF technical assistance team.

2. The "Metas Plan Operativo" should be: (a) prioritized, and (b) formulated in a manner which connects achievement of the goal with meeting objectives.

3. Required reserves for credit union deposits should be replaced with approaches to liquidity management that can properly serve FACACH's market.

Credit Union Training Needs

Information presented in Table 7 details the education and training programs offered by FACACH and the FDF during 1988-89. Recognizing the importance of this function to the on-going success of the project, a study was contracted to develop a Training Development Strategy for Honduran credit unions. This study was conducted by Glenn Hoyle of the Credit Union National Association (CUNA) in April, 1989. Of primary importance to this evaluation is the fourth objective of that consultancy:

> develop a strategy for self-funding and development of human resource activities in Honduras for credit unions.

The specific recommendations, based upon a set of underlying assumptions, included:

1. Develop an overall training matrix with courses and modules for volunteers, managers and staff. These modules will be skill-based and functional with a structured and progressive format.

2. Develop a core of Honduran credit union "experts" to serve as conference leaders, writers and instructors.

3. Develop a set of basic, technical and on-going training materials to support the training and development program overall.

4. Adapt other credit union materials -- such as CUNA's STAR and VAP programs and materials of WOCCU and COLAC -- for credit unions in Honduras.

Table 7: Study Travel and Short Term Training Completed Under the Small Farmer Organization Strengthening Project, Honduras, 1987 TO 1989

Year	Number of Training Sessions	Persons Trained
A. Financial Development Fund		
1987-89	Permanent and Continual	FDF Counterparts of T.A.Team
1987	One week in Colombia FECOLAC on Financial Analysis in Inflation	Juan Pablo Cruz
1988	One week in Costa Rica,INCAE Credit Union Administration	Hernan E. Pineda
	One week in Costa Rica, INCAE Computer Financial Projections	Herbert Hernandez
	One week in Perú, FECOLAC Planning	Germán Mejía
1989	One week in Costa Rica, INCAE Credit Union Administration	Mario Paz
	160 hours in Honduras, UNITEC Cooperative Administration	6
B. FACACH and Affiliates		
1988	One week in Costa Rica, INCAE FACACH	9
	UNIOCOOP	2
1988	One week in Puerto Rico Study Travel, FACACH	4
	Two weeks in U.S. Study Travel, FACACH	4
	Two weeks in Colombia and Costa Rica Study Travel, FACACH and Cooperatives	15
	Two days in San Pedro Sula Management by Objectives	38
	Three days in Tegucigalpa Management by Objectives	24
	Three days in San Pedro Sula Financial Administration	56
	Three days in El Zamorano Financial Analysis	21
	Three days in Tegucigalpa Financial Administration	22

Year	Number of Training Sessions	Persons Trained
	Two days in San Pedro Sula Cooperative Insurance	43
	Five days in El Zamorano Personnel Administration	10
	Two days in Tegucigalpa Cooperative Insurance	29
	One day in Tegucigalpa Evaluation of Growth Strategies of the Credit Union System in Central America	N.A.
	Two days in Tegucigalpa National Computer Seminar	24
	Two days in San Pedro Sula Cooperative Legislation	39
	Two days in Siguatepeque Cooperative Situation and Cooperative Education	28
	Three days in San Pedro Sula Savings Mobilization	52
	Two days in San Pedro Sula Computerized Accounting Demonstration	28
	Ten days in Alaj. Costa Rica Financial Administration of Credit Unions	7
	Fourteen days in C.R. Colom. Finance Convention and Study Travel	14
	Two days in San Pedro Sula Credit Administration	54
	Two days in San Marcos de Colón Technical Orientation and Method of Cooperative Education	24
	Two days in San Pedro Sula Computer Seminar	20
	Tegucigalpa Productive Credit	19
	Two days in Tegucigalpa Cooperative Legislation	39
	Two days in Tegucigalpa Credit Administration	N.A.
1989	One week in Costa Rica, INCAE Credit Union Administration, FACACH	12
	Four days in Guatemala Computerized Auditing, FACACH	2
	Sixteen days in Canadá and U.S. Study Travel FACACH	2
	Cooperative Administration 160 hours in Honduras, UNITEC	90

Year	Number of Training Sessions	Persons Trained
1989	Two day Seminar in Honduras, FDF Cooperative Credit Administration	42
	Two day Seminar in Honduras, FDF Savings Mobilization and Reserves	52
	Two days in Tegucigalpa Orientation to New Cooperative Law	43
	Two days in Choluteca Legislative Workshop	57
	Two days in Progreso Legislative Workshop	52
	One day in Tegucigalpa Cooperative Insurance Seminar	35
	One day in San Pedro Sula Cooperative Insurance Seminar	53

Year	Number of Training Sessions	Persons Trained
C. UNIOCOOP and Affiliates		
1987	Five days in Costa Rica Visited Fertilizer Plants and Development Institutions	10
1987	Three days in Guatemala Visit Fertilizer Plant and Cooperative	15
1988	Fertilizer Marketing Seminars	373
	Methodology of Diagnostic Studies FDF	3
	Results of Diagnostic Studies	98
	Methodology of Development Plans	144
	Institutional Development for Cooperative Members and Employees	112
1989	Analyze Input distribution System of one Cooperative	1
1989	Three days in U.S. Attend American Gourmet Coffee Trade Show	1

Year	Number of Training Sessions	Persons Trained
1989	One week in U.S. Visit Fertilizer Plants and International Fertilizer Institute	10
1989	One week in U.S. Visit Fertilizer Plants	1
1989	Forty hours in Honduras, UNITEC Coffee Credit	37
	Thirty hours in Honduras, UNITEC, UNIOCOOP Coffee Quality	44
	Twenty hours in Honduras UNIOCOOP Coffee Pricing	39
	Twenty hours in Honduras UNIOCOOP Coffee Inventory Control	25
	Twenty hours in Honduras UNIOCOOP Training the Trainers on Coffee Quality	11

5. Develop a Train-the-Trainer School to teach the principles and skills of adult education and training for credit unions.

6. Continue to develop and use national and international exchange programs.

This report is exceedingly comprehensive, providing an outline for meeting the full range of credit union training needs for the life of the project and beyond. In fact, it is unlikely that the entire proposed program could be fully implemented within the remaining life of the project even if sufficient monetary resources were available. This type of program should be included if, as recommended elsewhere, there is a separate credit union strengthening project.

The report was written in an idealized format and did not have to consider the constraints of budget, personnel and size of the market. Its real world application will require integrating the recommendations into the FACACH planning process to set priorities in terms of the amount of resources to be committed to the project as well as develop a time line for project implementation to ensure internal consistency between the training effort and other phases of the development plan for FACACH.

Recommendations - Analysis of the project suggests that all areas detailed in the report are important. However, looking at key potential bottlenecks which could inhibit project success, the following priorities are recommended:

1. the need for continued training in asset/liability management skills, particularly in terms of understanding the need for and impact of increasing loan interest rates;

2. emphasis on techniques for enhancing savings mobilization, coupled with programs demonstrating methods for managing the funds acquired by such efforts (this must be coupled with improved funds management skills at FACACH to expand the capabilities of the current liquidity management program);

3. installation of and training for the use of computer hardware and software to facilitate implementation of new and relatively technical asset/liability techniques.

Findings and Conclusions - There is no doubt that a comprehensive training program for board, management and staff is necessary. However, it would appear that in the short run, management training is a key factor for the success of the project, with board training in terms of understanding the importance of economic viability, and the fact that practices which ensure

viability are not inconsistent with the tenets of credit union philosophy as a necessary complement.

Recommendation - Priority should be placed on management training skills.

Findings and Conclusions - Another area of emphasis in the report is the need to develop "country specific" materials. it is obvious that there are different laws, customs, currencies, etc. among the countries in Latin America. However, while key topic areas are not generic in the trivial sense of the word, there are many areas of training that must be common across all countries at similar stages of development.

Recommendation - COLAC or WOCCU or, alternatively, individuals or organizations with greater expertise in training related to specific banking skills, should be used to develop (possibly through this project) training materials in Spanish in a format that would be readily transferable among countries -- perhaps using nothing more complex than desktop publishing software to provide the minimum level of necessary customization. In the short run, however, the FDF or FACACH needs staff to translate materials for specific program needs.

The report further suggests that "separate training experiences be developed for the three training audiences" and that there is a need to "prioritize and rank subject matter content in terms of its level of difficulty ... and add the element of 'learning tracks'. Making choices between "cost effective" and "learning effective" strategies is again necessary in a world of scarce resources. The positive gain from market segmentation must be matched against the cost of dealing with ever smaller potential markets. AID should thus consider a regional program to have an audience beyond the scale available in an individual small country.

The report also points to an area of weakness in the Honduran cooperative law, i.e., volunteers can only serve for a two-year term. The report then indicates that this leads to "pressure to conduct a great number of short and concise training programs." An additional recommendation would be to attempt to modify the law to allow volunteers to serve for a total of four to six years to allow for greater continuity on boards and committees.

The report also suggests that "proposed training programs must be designed so they are not radically different from what people are used to" and then in the same section, "Honduras at this time does not have a well developed infrastructure for support of highly sophisticated training methodologies." These sophisticated training methodologies have proven highly effective in terms of supporting adult education, and, in the true sense, are not radically different from more traditional forms of training. Again, however, the size of the potential market in Honduras is not

large enough to support much beyond the development of simple materials.

DESIGN AND MANAGEMENT OF THE PROJECT'S CREDIT COMPONENT

Credit Unions

Credit unions are cooperative institutions whose primary function is to provide a range of financial services to members on a sustainable basis. Thus, participation in the lending to small-scale agricultural producers envisioned under the project could be consistent with their primary function. Moreover, the components of the project that focus on financial stabilization and institutional strengthening should make credit unions more able to carry out this and other functions on an efficient and sustainable basis. Stronger credit unions would improve the access of the non-agricultural sectors such as housing, small business, and small industry to financial services. (Progress under the project in implementing financial stabilization programs for credit unions and providing them with technical assistance are discussed in other sections of this report.) To this point, however, credit unions have not yet participated actively in the credit component of the project. Since the credit component is inconsistent with the further strengthening of credit unions, this delay has in fact been beneficial in providing time to re-assess the credit component of the project in general and the role for credit unions in particular.

Credit unions that focus excessively on agricultural lending are likely to have inadequately diversified loan portfolios and hence to incur excessive risks. Moreover, the exclusive focus of project's credit component on agricultural lending not only tends to encourage inadequate diversification of credit union loan portfolios but also neglects the importance of voluntary savings mobilization for credit union viability -- together with the fact that the availability of attractive opportunities for liquid savings can be as important for the welfare of small-scale agricultural producers as access to credit. In addition, the design of the project's credit component is typical of directed credit projects that are generally not consistent with AID policy for financial market development. Directed credit not only distorts financial markets in general but also leads to serious loan recovery problems for participating financial institutions as the recipients of credit are inevitably aware that they are receiving loans not because they are creditworthy but because they have been selected as worthy of special support in the form of credit.

Credit unions will not enhance their viability through participation in the credit component of the project. Directed

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credit operations of the type envisioned in the project have everywhere tended to undermine the viability of participating financial institutions. The costs to participating financial intermediaries of administering directed credit are inevitably much higher than anticipated because of the monitoring and reporting requirements imposed in attempting to assure compliance in reaching the intended beneficiaries of the project and with the intended use of the credit (which in any case is largely impossible because of fungibility).

Serious loan recovery problems can also be expected to emerge. The financial stabilization and institutional strengthening components of the project will undoubtedly strengthen the incentives and the ability of participating credit unions to improve borrower selection criteria and loan recovery techniques. However, borrowers are unlikely to take loan recovery effort seriously because, as indicated above, they will be aware that they are the intended beneficiaries of directed credit.

The Honduran experience with credit union participation in directed agricultural credit projects strongly re-enforces this conclusion. Honduran credit unions that have in the past maintained adequate loan recovery performance and overall viability have been characterized by a focus on deposit mobilization in the context of market-oriented rates of interest. Prior studies have shown that the most effective incentive to enhance loan recovery is the assurance of continued access to credit on a timely basis with good service (low transaction costs) if and only if outstanding loans are repaid promptly. Such assurance has been provided in part by successful deposit mobilization backed by responsible liquidity management -- but not by access to external funds channeled through FACACH. It should also be noted that required capitalizations of portions of loans are not an effective substitute for successful voluntary deposit mobilization. Capitalization requirements do not demonstrate the confidence of depositors nor the competence of the institution nor do they provide additional funds for lending but rather simply raise effective interest rates (which may be appropriate but should be done directly).

Current project design does not provide for adequate attention to either deposit mobilization or liquidity management by credit unions. Additional analytical work should be carried out so that the credit component of the project can effectively be refocused on these two activities that are essential for the longer-run viability of credit unions. (See the discussion elsewhere in this report of the possible study for a deposit guarantee fund.) Credit unions should be encouraged to provide a full range of financial services for their members and not to focus excessively on lending to agricultural producers. Because credit unions are situated somewhere between informal financial arrangements and formal financial institutions, they are likely to have a significant

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comparative advantage in providing financial services to lower income individual in rural areas, especially in a situation such as Honduras where formal financial intermediaries are severely repressed, as discussed elsewhere in this report. Financial stabilization and institutional strengthening to improve borrower selection and loan recovery will only bear fruit for credit unions if the credit component of the project is refocused in this way. Otherwise, credit unions would be ill-advised to participate in the credit component of the project, and an alternative project should be considered for them that would embody these features.

UNIOCOOP's Affiliates

Some of UNIOCOOP's affiliates have had problems with agricultural lending because they are not specialized in providing financial services and inevitably had limited expertise in borrower selection and loan recovery. Since they are not financial intermediaries, UNIOCOOP's affiliates will not (and should not) provide a full range of financial services, so that voluntary deposit mobilization that has been so crucial for the long-run viability of credit unions will not be one of their activities. Instead, their primary activities are selling agricultural inputs and processing and marketing agricultural outputs. Consequently, lending by UNIOCOOP's affiliates should be seen as an adjunct to these activities. Just as other providers of agricultural inputs and services often sell these inputs and services on time to be competitive, UNIOCOOP's affiliates will be subject to the same pressures to provide this credit service.

Similarly, the provision of cash loans by UNIOCOOP's affiliates should be limited to facilitating their other primary activity: the processing and marketing of agricultural outputs. In this regard, important lessons can be learned from the practices of informal marketing agents -- with whom UNIOCOOP's affiliates will have to compete in any case. Informal marketing agents often provide lines of credit to farmers in exchange for interest charges and a commitment from the farmer to market his output through the agent at harvest time. The farmer may be charged an explicit interest rate or he may pay indirectly through the price received for his crop. The marketing-credit link offers informational economies of scope that can be important to marketing agents in their lending activities. Since the agent knows the farmer through marketing contacts, the costs of establishing the riskiness of the loan (as well as other transaction costs) can be reduced. An established marketing agent with stable clients will have considerable knowledge of their operations -- quality of output, reliability of delivery and especially cash flows -- and is therefore well placed to assess the riskiness of providing credit to any given farmer.

There is, however, an alternative view that marketing and credit are linked because such linking can allow informal marketing agents

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(often known as "coyotes" in Honduras) to exploit monopoly positions in two markets simultaneously and thereby exploit small-scale producers more effectively. Even if this pessimistic view of linking is correct, the appropriate approach is to reduce monopolies in both marketing and credit through reducing barriers to entry. Unfortunately, however, the Honduran Government seems to view informal marketing agents not only as monopolists but also as high-cost providers of essentially unproductive services who should therefore be restricted as much as possible from access to formal credit -- which, of course, provides an important barrier to entry against potential competitors. Improved credit access for existing and potential marketing agents, especially through the removal of government-imposed impediments to credit for marketing agents, may thus improve credit access for small-scale producers and thereby reduce the pressure on UNIOCOOP and its affiliates to channel credit to small-scale producers.

Financial stabilization and institutional strengthening for UNIOCOOP's affiliates should enhance their ability to carry out lending through the sale of inputs on credit and cash advances against the production of crops to be processed and marketed through the cooperatives. However, the past performance of some of these cooperatives indicates problems with loan recovery, so that training and technical assistance under the institutional strengthening component of the project will undoubtedly need to be focused in this area. Moreover, during 1990, as a safeguard, an analysis should be carried out of the loan recovery performance of UNIOCOOP's affiliates, so that a re-assessment can be made before substantial amounts have been disbursed under the credit component of the project. In addition, the financial stabilization of UNIOCOOP's affiliates may present some issues that could become more difficult to resolve over time. In particular, BANADESA may be less willing to compromise on the amounts owed to it by UNIOCOOP's affiliates as it witnesses their overall rehabilitation. Failure to reach agreements with BANADESA will leave several of UNIOCOOP's affiliates insolvent and thus without the crucial discipline and incentives provided by the desire to protect existing equity.

ADVISABILITY OF CONDUCTING A STUDY FOR A POSSIBLE DEPOSIT GUARANTEE FUND

A deposit guarantee fund could be useful to enhance deposit mobilization by credit unions if an unreasonable lack of depositor confidence is inhibiting deposit mobilization. Successful deposit mobilization is indeed important, not only to provide a valuable financial service for credit union members but also to promote the viability of the credit unions themselves. However, before a deposit guarantee fund is considered, it is first necessary to ascertain that the lack of depositor confidence, rather than other

factors such as inadequate rates of interest or poor service for depositors, is the major impediment to successful credit union deposit mobilization and that this lack of depositor confidence is, in fact, unjustified (i.e., the credit union may, in fact, not be worthy of depositor confidence).

Deposit guarantee funds or deposit insurance systems are typically created by governments that fear that the inability of even relatively insignificant financial intermediaries to meet depositor demands for withdrawals could undermine the entire financial system by causing depositor "runs" against otherwise sound financial intermediaries. In addition, it is argued that depositors, especially small depositors, are unlikely to have the expertise and information to be able to judge accurately the soundness of financial intermediaries where they might place their deposits. Such reasons for creating deposit guarantee funds or deposit insurance systems may often be justified, but in the case of credit unions in Honduras they are not necessarily persuasive. It is unlikely (though not impossible) that the failure to meet depositor demands for withdrawals at one credit union would spread to other credit unions or to other types of financial intermediaries, but in any case credit union members (who are likely to be the main, and possibly the only, depositors at a credit union) should certainly be aware of the condition of their credit union.

To the extent that deposit guarantee funds and deposit insurance systems protect depositors from possible losses, they also insure that depositors will not be concerned about the condition of the financial intermediary where they make their deposits. As a consequence, the regulation and supervision of financial intermediaries must be strengthened to offset the fact that depositors can no longer be expected to exercise necessary vigilance. In particular, financial intermediaries may undertake investments and make loans that are excessively risky, especially if regulation and supervision do not assure that owners have adequate equity capital in the financial intermediary so that they will be subject to significant losses if they undertake excessive risks. In addition to regulation and supervision that carefully monitor the value of assets and contingent liabilities of financial intermediaries, deposit guarantee funds and deposit insurance systems must have the power to impose and enforce penalties on financial intermediaries that fail to meet appropriate standards. This should include the appointment of the deposit guarantee fund or deposit insurance system as conservator, receiver and liquidator of insured institutions that fail to meet appropriate standards. In the case of Honduras, it is unclear if credit unions would accept this kind of regulation and supervision and if it could be effectively enforced.

An adequate study of a possible deposit guarantee fund or deposit insurance system for credit unions in Honduras should take

the foregoing considerations into account, and it is clearly possible that the creation of a deposit guarantee fund or deposit insurance system would be rejected for credit unions in Honduras. This does not mean, however, that credit unions in Honduras do not face certain difficulties if they successfully mobilize deposits. In particular, they must manage their liquidity to assure that they can meet depositor withdrawals. This may not be so simple if financial markets and institutions do not exist that can enable Honduran credit unions to invest excess funds profitably in liquid form and, and other times, to obtain funds quickly and at reasonable cost when they are pressed for liquidity. (An example of such an arrangement would be a correspondent banking relationship in which a credit union maintains a deposit and a line of credit with a commercial bank.) Barriers impeding arrangements of this type should be analyzed in the study of a proposed deposit guarantee fund or deposit insurance system, and recommendations made with respect to required changes in policies and practices to eliminate these barriers if such arrangements appear to be able to meet the liquidity requirement of credit unions on a sustainable basis.

Another approach to facilitating liquidity management by credit unions is for credit unions to join together to create an institution to provide them with a profitable outlet for excess funds and a source of funds at reasonable cost in times of liquidity shortages. An institution in fact already exists that might be appropriate to carry out this function -- FACACH, the federation of credit unions for the development of credit unions in Honduras. A proposed study should thus evaluate the costs and benefits of creating a new institution or of using FACACH to provide improved liquidity management services for credit unions in Honduras. Some characteristics of such an institution can already be indicated. It would have to charge borrowing credit unions enough for funds to cover its operating costs and risks (e.g., of nonrepayment) and to pay depositing credit unions a competitive rate of interest. It would also have to have regulatory and supervisory power over credit unions in order to ascertain that requests for liquidity support derived from unanticipated depositor withdrawals and not from other problems that might be affecting the solvency of the credit union.

IMPACT OF THE CURRENT MACROECONOMIC SITUATION AND POLICIES

Honduras currently suffers from the same kinds of macroeconomic imbalances and policy problems that plague many other Latin American countries. In general, and for the project in particular, the most important macroeconomic features of the Honduran economy are a highly overvalued exchange rate, an excessive fiscal deficit and a variety of measures that repress the financial sector, including especially controls over interest rates and over the

allocation of credit. For the small-scale agricultural producers whom the project is designed primarily to benefit, this situation present some specific problems.

In particular, the overvalued exchange rate means that the relative prices of agricultural products are too low because almost all agricultural products are tradeable goods. This is reflected in the difficulty of exporting, in competing with imports and in the low profitability of agriculture in general. For agriculture, such problems are further accentuated by the structure of trade protection that strongly favors agriculture over industry. In addition, the overvalued exchange rate has led to the rationing of foreign exchange, and such rationing tends to favor high priority industrial activities over providing rationed foreign exchange for the importation of agricultural inputs. Furthermore, such rationing systems are readily influenced by political favoritism, and even outright corruption, both of which are likely to benefit other groups relative to small-scale agricultural producers. The issue of access to foreign exchange under a regime with a highly overvalued official exchange rate has been particularly important for UNIOCOOP and is discussed below in greater detail.

The large fiscal deficit of the Honduran Government, some of which is financed domestically, leaves less formal credit available for the Honduran private sector. Moreover, marginal borrowers such as small-scale agricultural producers are undoubtedly among those who suffer the greatest reduction in access to formal credit. Honduran Government policies that repress the formal financial sector, controls over interest rates in particular, further reduce the amount of credit available for the private sector because such repressive policies reduce the amount of funds that formal financial markets and institutions can mobilize. Interest rates controlled at below-market level together with required allocations of credit to priority sectors, including concessionary rediscount lines and trust fund mechanisms, may succeed in subsidizing credit for certain groups of borrowers. In the aggregate, however, the amount of credit available to private-sector borrowers is inevitably reduced, and the cost of credit is increased for non-priority borrowers, especially those who are rationed entirely out of formal credit.

These fiscal and financial distortions have two main implications for the potential beneficiaries of the project and for the operation of the project itself. First, in an effort to deal with the Honduran Government's fiscal deficit, ceilings are placed on certain categories of expenditures and credit and, as discussed below, included among these ceilings are certain restrictions on disbursements of ESF counterpart lempira funds -- some of which have been designated for the project and its beneficiaries. Second, the repression of formal financial markets and institutions not only reduces the quantity and quality of financial services provided by these formal markets and

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institutions but also opens a greater range of opportunities for unregulated informal financial arrangements to compete successfully in the provision of financial services.

This is particularly important for the project and its beneficiaries for two reasons. First, small-scale agricultural producers are likely -- even in a totally unregulated, perfectly competitive environment -- to look to informal financial arrangements for a significant portion of their financial services. Second, credit unions and other forms of cooperatives fall more within the informal financial sector than the formal due to their relative lack of inclusion under formal banking regulations. Repression of the formal financial sector can thus give a significant advantage to cooperatives, and especially to credit unions (cooperatives specializing in the provision of financial services), in their competition with formal financial institutions that are subject to serious repression. The implications of financial repression for the potential role of credit unions in the project is discussed in greater detail in another section of this report, as is the focus on agricultural credit as one of the main elements of the project.

The Effects of Limited Access to Foreign Exchange on the Importation of Inputs by UNIOCOOP and other Project Participants

Limitations on access to foreign exchange may cause particular problems for UNIOCOOP and other project participants that want to make imports once the foreign currency allocations from AID under the project are exhausted. The importation of fertilizer by UNIOCOOP under the project was highly profitable not so much because of any great efficiencies involved but because UNIOCOOP had access to foreign exchange from AID while potential importers did not have access to foreign exchange at the highly overvalued official exchange rate. However, once the foreign currency allocations from AID are exhausted, and if the balance of payments disequilibrium continues uncorrected, UNIOCOOP and the other project participants may not make such substantial profits on fertilizer and other imported inputs.

Foreign exchange could be purchased in the parallel market to make imports of fertilizer and other agricultural inputs, but such imports will not be profitable if other importers are allowed to obtain foreign exchange at the highly overvalued official exchange rates. To be competitive, UNIOCOOP and other project participants will thus depend on the government's policy with respect to the availability of foreign exchange at the official exchange rate for imports of agricultural inputs. If the cooperative sector is not given equal access by the government in the allocation of foreign exchange at the highly overvalued official exchange rate, the importation of fertilizer and other agricultural inputs will no longer be a highly profitable undertaking for UNIOCOOP and other

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project participants. However, the best solution is not to give privileged access to foreign exchange at the highly overvalued official exchange rate to any particular group but rather to give all potential importers of fertilizer and other agricultural inputs access to foreign exchange on the same basis -- ideally a market-determined exchange rate that reflects an equilibrium balance of payments situation and hence the true opportunity cost of foreign exchange.

The Effects of ESF Disbursement Ceilings

ESF counterpart lempira funds are to be used in the process of financial stabilization and institutional strengthening. To the extent that stabilization and strengthening activities are delayed because of ESF disbursement ceilings, these ceilings constitute a constraint that can undermine the participation of cooperatives in the project and should thus be removed. Moreover, time of project staff devoted to dealing with ESF disbursement ceilings could better be devoted to project activities.

UNIOCOOP AND ITS AFFILIATED COOPERATIVES

Strengthening Agricultural Service Cooperatives

This section examines the work of the FDF in assisting UNIOCOOP and affiliated cooperatives in achieving institutional development, financial stabilization and agricultural credit. The original project paper called for strengthening five second level intermediary organizations, including FACACH (credit unions) UNIOCOOP, FEHCOCAL (coffee), FECORAH and ANACH. Within the first year of the project, FEHCOCAL was dissolved and was omitted from the project by AID Implementation Letter No. 29 (March 29, 1989). In addition, FEHCOCAL's successor organization, the CCC, was assimilated into UNIOCOOP when the marketing division of UNIOCOOP was created.

In November 1988, a detailed baseline study on "Cooperatives in Honduras" identified striking financial and economic differences between the members of FACACH and UNIOCOOP (including cooperatives of the CCC) on one hand and the rest of the cooperatives on the other hand (Tables 8-12). FECORAH and ANACH were considered to require a more long term, intensive commitment within the FDF organization. Given the unique differences of FECORAH and ANACH, the FDF board, administrators and technical assistants focused their energies and resources on the strengthening of FACACH and UNIOCOOP. At the time of this review, FECORAH and ANACH were in the initial stages of receiving technical assistance under the project. Both federations were thus excluded from this evaluation.

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Table 8: Baseline Socio-Economic Profile of Credit Union and Cooperative Members, HONDURAS, 1988

Social Characteristics	Federation			
	FACACH	UNIOCOOP	CCC	ANACH
Number Interviewed	51	41	21	43
Average Number Persons/Household	6.5	6.3	7.7	6.7
Average age of Respondents	44.7	40.5	43.1	44.1
Average Years Living in Village	19.1	23.2	22.1	17.2
Percent Able to Read and Write	90.2	80.5	95.2	60.5
Average Years Primary School	4.3	3.2	3.5	2.2
Average Years Secondary School	2.1	1.3	1.0	.0
Main Occupation:				
Percent in Ag/Ranching	51.0	100.0	95.2	95.3
Overall Net Ag. Income (Lps.)	3,685	4,426	4,038	2,124
Total Average Income(Lp)	5,135	6,946	5,475	2,561
Percent in Possession of:				
Radio	92.2	82.9	90.5	65.1
Sewing Machine	56.9	46.3	42.4	14.0
Refrigerator	54.9	34.1	33.3	4.7
T.V.	56.9	34.1	57.1	18.6
Bathroom	94.1	75.6	95.2	72.1
Lighting	72.5	39.0	76.2	20.9
Indoor Water	86.3	90.2	90.5	51.2

Table 9: Baseline Housing and Land Tenure Profile of Credit Union and Cooperative Members, By Federation, HONDURAS, 1988

ITEM	FACACH	UNIOCOOP	CCC	ANACH
HOUSING	(n=51)	(n=41)	(n=21)	(n=43)
Percent with tile roof	70.6	56.1	38.1	44.2
Percent with brick walls	31.4	22.0	23.8	2.3
Percent with ground floor	19.6	26.8	19.0	69.8
Percent with one room house	5.9	17.1	0.0	41.9
FARM LAND				
Average years of possession	11.7	11.4	12.7	11.4
Percent with document of possession	66.7	75.0	57.0	34.9
Percent with registered deed	40.0	34.5	8.3	0.0
Percent with INA title average total (Mz.)	6.7	27.6	8.3	41.2
Land possessed	29.5	41.9	28.1	16.7
Average land in use	23.1	29.7	21.4	16.2
Average value of land	L18,096.90	L29,578.40	L24,500.00	L6,573.70
Percent renting land	21.6	29.3	0.0	11.6

Table 9 cont'd.

ITEM	FACACH	UNIOCOOP	CCC	ANACH
CAPITAL INPUTS				
Percent with pumped well water	2.6	12.2	4.8	11.6
Percent with warehouse	28.9	34.1	38.1	16.3
Percent using oxen	63.2	80.5	90.5	69.8
Percent using tractor	65.8	70.7	95.2	55.8
Percent using improved seeds	73.7	80.5	76.2	67.4
Percent using fertilizers	84.2	97.6	100.0	95.3
Percent using herbicides	65.8	90.2	81.0	93.0
Percent using insecticides	81.6	90.2	95.2	90.7

Table 10: Baseline Crop and Livestock Profile of Credit Union and Cooperative Members, by Federation, HONDURAS, 1988

ITEM		FACACH (N=51)	UNIOCOOP (N=41)	CCC (N=21)	ANACH (N=43)
Major Crops: Average Area in Manzanas[a]					
1. Corn	(104)	2.0 (25)	5.8 (30)	3.0 (12)	2.9 (37)
2. Coffee	(56)	3.4 (19)	5.0 (12)	8.2 (21)	2.2 (4)
3. Pasture (grass)	(45)	32.5 (13)	27.0 (15)	33.8 (6)	5.8 (11)
4. Beans	(45)	4.0 (7)	1.8 (12)	0.8 (8)	1.4 (18)
5. Rice	(32)	5.0 (6)	1.3 (2)	1.0 (3)	0.9 (21)
6. Vegetables	(20)	0.8 (20)	3.1 (12)	0.3 (1)	0.8 (2)
11.Banana		1.8 (2)	0.5 (1)	0.5 (2)	5.5 (6)
Number of Farm Animals					
1. Bullocks	(68)	4.6 (16)	4.2 (22)	2.9 (11)	2.3 (19)
2. Poultry	(64)	16.7 (20)	23.2 (20)	26.0 (6)	18.4 (18)
3. Dairy Cattle	(61)	14.4 (17)	20.3 (24)	14.6 (5)	6.5 (15)
4. Hogs	(20)	4.6 (8)	15.8 (5)	30.0 (1)	3.3 (6)
5. Beef Cattle	(10)	10.8 (6)	27.3 (4)	0 (0)	0 (0)

[a] Average only for the number of producers shown in parenthesis ( ). Crops and livestock ranked according to total number of producers shown in each row.

Table 11: Baseline Credit Profile of Credit Union and Cooperative Members, by Federation, HONDURAS, 1988

	FACACH (N=51)	UNIOCOOP (N=41)	CCC (N=21)	ANACH (N=43)
Loans of Last Two Years				
Percent Receiving Loan	68.6	82.9	81.0	53.5
Percent Receiving Loan From:				
Banadesa	15.7	26.8	14.3	9.3
Another Bank	25.5	17.1	52.4	0.0
IHCAFE	3.9	0.0	9.5	0.0
Merchant	2.0	0.0	0.0	0.0
Relative/Friends	3.9	0.0	0.0	2.3
Other	17.6	39.0	4.8	41.9
Percent Credit Advances For:				
Crop Sales	2.0	0.0	4.8	9.3
Animal Sales	5.9	22.0	9.5	18.6
Average Loan Amounts (L)				
Perc Crop	1,857.3(35)	8,117.7(33)	4,205.5(17)	28,275.6(23)
From Banadesa	13,600 (8)	30,082 (11)	4,067 (3)	69,117.5(4)
Other Banks	9,923 (13)	11,000 (7)	5,727 (11)	0 (0)
IHCAFE	4,500 (2)	4,000 (2)	0 0	0 0
Form of redit (Percent)				
Cash	91.4	5.9	41.2	17.4
Inputs	.0	32.4	5.9	21.7
Both	8.6	61.8	52.9	60.9
From Banadesa:				
Cash	100.00	90.9	100.0	100.0
Both	0.0	9.1	0.0	0.0

Table 11, cont'd

	FACACH	UNIOCOOP	CCC	ANACH
Loan Collateral (Percent)				
Land Titles	0.0	6.1	0.0	0.0
Land Deeds	11.4	36.4		22.7
Other Land	0.0	3.0		0.0
Machinery	2.9	0.0		0.0
House	5.7	6.1		
Buildings	0.0	3.0		0.0
Co-Signer	71.4	18.2		4.5
Harvest	8.6	27.3	100.0	72.7
Total	100.00			
Indebtedness (1988)				
Average (Lempiras)	7,956.00	12,357.00	6,194.00	1,993.00

Table 12: Baseline Financial Status of FACACH, UNIOCOOP and CCC, HONDURAS

Accounting Item	FACACH (12/87)	UNIOCOOP (7/88)	CCC (6/88)
Liquidity			
Working Capital (L)	2,369,245	409,498	(5,525)
Current Assets/Cur. Liabilities	1.40	1.35	0.91
(Cur. Assets-Inventory)/C. Liab.	1.40	1.03	0.91
Leverage			
Total Debts/Total Assets (Percent)	88.0	73.4	55.1
Total Debts/Net Worth (Percent)	7.30	2.76	1.22
Solvency: Net Worth (L)	2,144,893	446,267	50,877
Profitability			
Net Income/Net Worth (Percent)	56.64	(30.60)	11.12
Operating Costs/Total Income	(63.38)	41.63	66.38
Assets on Current Account[a]	46.10	93.11	50.24
Fixed Assets[a]	3.03	6.89	6.91
Liabilities on Current Account[a]	32.84	68.71	55.11
Capital and Reserves[a]	12.00	26.56	44.89
Total Operating Expenses[a]	29.75	41.63	66.38
Net Operating Income[a]	(46.50)	(20.31)	3.92

[a] In "common-size" percentages

Membership and Organization

UNIOCOOP was formed in 1985, four years after the establishment of the first "model cooperatives" under the AID sponsored Program for Regional Cooperatives and Agricultural Services. UNIOCOOP was formally created as an integrative structure to give support to the AID (ACDI) "Model Cooperatives":

Cooperativa Fruta del Sol - Comayagua, Comayagua

Cooperative "20 de Marzo" - Morazan, Yoro

Cooperativa Maya Occidental - La Entrada, Copan

Cooperativa Crehsul - Choluteca, Choluteca

Cooperativa Cohorsil - Siguatepeque, Comayagua

Cohorsil (not one of the four ACDI model cooperatives) was organized in 1980 and joined UNIOCOOP in 1985 after the other four cooperatives chartered UNIOCOOP. In 1988, UNIOCOOP added three coffee cooperatives:

Cooperativa Cafetalera Lago de Yojoa - Pena Blanca Cortes

Cooperativa Cafetalera Candelaria - Santa Maria del Real, Olancho

Cooperativa Cafetalera Olancho, Catacamas, Olancho

The original cooperatives provided UNIOCOOP with about 2,400 members in 1985 and 2,200 in 1987. With the three new coffee cooperatives, UNIOCOOP covered 2,657 members in 1988.

In 1988, UNIOCOOP had three broad categories of services for its affiliates: marketing assistance (acquisitions and/or sales of agricultural inputs and limited assistance in locating markets for outputs), technical assistance (agricultural planning, feasibility studies, computer services), and financial assistance (support for and negotiation of cooperative credit from, e.g., BANADESA). Structurally, UNIOCOOP was under the control of a manager, who directed three departments: Operations, Finances, and Development. Also, in 1987-88, there were only nine regular staff employees to carry out some 21 administrative functions in servicing the five cooperative affiliates. Internal control and accounting were carried out in a financial division. One year later, UNIOCOOP had a staff of 28 regular employees, a new organizational chart and additional services for affiliates. As of January, 1989, UNIOCOOP had expanded to four divisions: (1) Sales and Operations, (2) Administration and Accounts, (3) Development and Training, and (4) Marketing.

Financial Condition of UNIOCOOP

UNIOCOOP and its affiliates have received funds for administration and equipment from two prior AID/Honduras projects, the ACDI/Cooperative Models "Operational Program Grant" and PL480 - Titles I/III. From July, 1985, to August, 1987, UNIOCOOP received about Lps.932,466 from PL-480 to cover administrative expenses for providing technical assistance to the four ACDI cooperatives: 20 de Marzo, Maya Occidental, Fruta del Sol and Crehsul. Of this amount, Lps.322,500 was to be administered by UNIOCOOP to help with the administrative expenses of the affiliates. UNIOCOOP received another Lps.15,000 from an AID "Operational Program Grant" to cover training. UNIOCOOP received another sum of Lps.300,000 in May, 1987, as bridge financing with the understanding that it would be repaid within 30 days of being qualified by the FDF for institutional support funds.

The Diagnostic Study (prepared by the FDF and UNIOCOOP staff) notes that, at the end of 1987, there were some problems with the administration of AID funds by UNIOCOOP:

1. UNIOCOOP did not comply with reporting requirements by sending IHDECOOP (previously DIFOCOOP) copies of its expenses.

2. Likewise, the affiliates of UNIOCOOP did not submit regular expense reports as required for UNIOCOOP administered loans.

3. The Management of UNIOCOOP did not enforce the regulations with its affiliates.

4. The absence of reports and controls made it impossible to evaluate the effect of the subsidies to UNIOCOOP and the cooperatives.

5. In addition, the Baseline Study noted financial problems of UNIOCOOP, such as consistently high operating costs, that result in large operational losses, deterioration in inventory turnover and increases in accounts receivable.

UNIOCOOP's current funding from the FDF consists of institutional support and credit (See Table 4 above). The credit has gone towards fertilizer purchases and sales (discussed below). The institutional support component has a considerable allocation for 1989 that the FDF has released since July, 1989.

UNIOCCOP's Sales and Operations Division

Sales for 1987-88 totaled Lps.5,283,500 with 96 percent (or Lps.5,072,160) of the sales from fertilizers alone. Fertilizer is

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imported, transported and distributed to producers via UNIOCOOP's network of affiliates. In 1988, UNIOCOOP's Sales Division initiated a program to sell improved corn and rice seed, with seed grown by members of "Fruta del Sol" and "20 de Marzo". Other production inputs from UNIOCOOP include pesticides, insecticides and fungicides which are imported in bulk and distributed through cooperative stores.

Project Support for Financial Stabilization

Fertilizer sales were selected by the FDF and UNIOCOOP as a means to achieve financial stabilization. Fertilizer sales have increased greatly (marketing 1,000 tons in 1985, 4,000 in 1986, 7,000 in 1987, and some 10,000 in 1988) to member and non-member farmers through affiliated regional cooperatives and their 17 outlets. Sale of 12,300 tons is projected for 1989.

The FDF diagnostic study identified the sale of inputs as appropriate for UNIOCOOP. Given the country's critical shortage of fertilizer in 1988 and that UNIOCOOP was having difficulty accessing foreign exchange through its established credit line with BANADESA, UNIOCOOP was given a credit line with the FDF for US $3 million (in dollars) to import up to 15,000 metric tons of fertilizers. UNIOCOOP also received a loan approval for BANADESA credit of Lps.1.2 million for in-country costs of duties, handling and distribution of fertilizer.

UNIOCOOP agreed to capitalize all anticipated profits, in order to achieve the goal of financial stabilization. UNIOCOOP was to repay the FDF loan in local currency to the FDF which in turn was to deposit it in the Special Credit Fund of 522-0252 in the Central Bank. The Special Credit Fund is thereby capitalized for lending in Lempiras to project participants.

Fertilizer Sales

UNIOCOOP has successfully carried out operations of bagging (contracted to a third party), handling and selling the imported bulk fertilizer for 1988. Of all the services provided by UNIOCOOP, fertilizer is by far the most profitable and prominent. The fertilizer acquisition, distribution and sales must be viewed as major accomplishment of the strengthening project. An Impact Analysis of the Project completed by Dr. Robert Lee in September, 1989, analyzed the projected impact of fertilizer imports. The analysis shows the incremental production returns due to fertilizer rise from US $2.5 million in the base year to US $10.1 million in the final year of the project (1993).

Through these fertilizer sales, UNIOCOOP has strengthened the network of member cooperatives and their farm supply outlets.

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UNIOCOOP has strengthened its image with farmers and creditability with the regional cooperatives. During field visits, several cooperative managers commented favorably on the higher quality fertilizer (granular instead of coarse or standard) delivered by UNIOCOOP compared to the competition. UNIOCOOP has had a timely presence in the market and stabilized fertilizer prices. Price competition is complicated in the fertilizer market because of donated fertilizer from Japan that is sold by BANADESA and Canadian financed fertilizer imports sold by FERTICA. These imports have also entered Honduras at the official exchange rate. Timely and equal access to foreign exchange at the official rate for all fertilizer imports is the major issue for the fertilizer industry. A preferable alternative would be to shift all fertilizer imports to the parallel market rate so all imports would compete equally.

UNIOCOOP should be in a much better position to capitalize its operations as a result of the project. UNIOCOOP, however, had excessive overhead expenses which have kept it from being profitable and fulfilling the commitment to increase its equity and reserves. Instead, UNIOCOOP has used the proceeds to cover large operating costs and other activities. While the fertilizer operation has been properly handled, general administration and financial accounting of the project have not been carried out in accord with the FDF's expectations and UNIOCOOP's commitment. UNIOCOOP's management has apparently shown some negligence in handling finances and in meeting obligations with the FDF. There has not been a clear cut effort by UNIOCOOP's management and governing bodies to acknowledge its commitment to the FDF. The FDF needs to develop an effective strategy to ensure compliance. Furthermore, it has not yet been determined if UNIOCOOP's financial position has been strengthened with the Ministry of Finance as a credible importer of fertilizer and, in turn, as an agency which can move to the head of the line in receiving foreign exchange from the Honduran Government.

UNIOCOOP's Development Division

This Division was evaluated to determine if it has effectively supported the integration of the strategies of UNIOCOOP's affiliates for providing inputs, technological advice, credit, and processing and marketing services to members. The main functions are training, analysis, planning and technical assistance to membership. The main activities on the project have been assistance on the diagnostic studies, development plans and operating plans of affiliates. During 1987-88, the Division assisted FDF with diagnostic studies of "Fruta del Sol", "Cohorsil", "Maya Occidental", "20 de Marzo" and "Crehsul". In addition, the Division's annual report listed 18 different workshops and training sessions which were conducted in conjunction with the CHC, AID, FDF, CCC and affiliates.

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This Division has only five employees with very limited training and experience. The Division Head completed an M.S. degree in agricultural economics at New Mexico State University in 1985. There is one economist with a university degree. Other employees include an agronomist, an accountant and a trainer, each with the equivalent of a high school degree. The Division plans to work on the following: (1) an accounting program for affiliates; (2) a sesame processing facility for Crehsul; (3) a rice milling machine; and (4) a fertilizer mixer.

Given the very limited number of employees, the limited educational background of the Division's staff, and the complexity of the task for a strong Development Division, the Division appears to be articulating rather ambitious aims. It is doubtful that the present composition and resources of the Division are capable of carrying out these tasks. The Division needs to exercise strong leadership on all of its main functions and strengthen its human resources to perform these functions. The Division needs to hire 3 to 4 M.S. level employees in the technical agricultural areas and in economics and finance to perform effectively the development functions and services to members that are needed for a strong Development Division.

UNIOCOOP's Coffee Marketing Division

The Coffee Division assists affiliates in the selling of a relatively good coffee product in the domestic market and assists in sales to private exporters. The Division assisted in marketing 58,000 quintales of coffee of affiliates in the 1988/89 coffee year. Coffee sales were largest from Lago de Yojoa (38 percent), Olancho (21 percent) and Maya Occidental (21 percent). Interestingly, UNIOCOOP assisted in marketing considerable quantities of coffee of one former FEHCOCAL cooperative (not affiliated with UNIOCOOP), 635 quintales of Elias Villegas R.'s cooperative and one private producer, and 473 quintales from Carlos H. Rodriguez.

With this performance and relatively good sales to local coffee buyers, UNIOCOOP plans to build a coffee dry milling facility and has aspirations to sell coffee in the international market. The export objective appears to be rather ambitious at this time given the breakdown of the international coffee agreement. The dry milling facility should not be considered unless UNIOCOOP has a proven volume to mill and if custom milling is unavailable or too expensive.

The strategic mission selected by the UNIOCOOP coffee marketing division is to provide the cooperative system with efficient support services to produce, process and market good quality coffee so as to improve the incomes of coffee cooperative members. The support services to be provided focus on coffee quality, coffee

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processing and market information services. The development of grades and standards with a system of price differences based on quality is very appropriate in view of the fact that Honduran coffee sells for a price that is US $8.00 to $9.00 per 100 pounds below the price of other Central American coffees on the world market. Coffee quality can also be improved with modern processing equipment that is being acquired through the project. These improvements in quality are projected to add US $2.00 per 100 pounds to the price of Honduran coffee in world markets.

The most significant change of focus is the proposal for the cooperatives to market coffee for members as a commission agent or broker rather than assume the risk of price changes through purchases and sales. Coffee ownership and price risk will be with the producer rather than the cooperative. The producer will receive part of the value of the coffee crop upon delivery to the cooperative and the rest of the payment after the coffee has been sold. The advance to the farmer is secured by the coffee delivered to the cooperative. This strategy is very sound for the cooperatives because of their past failures when attempting to speculate on coffee prices. The bankruptcy of FEHCOCAL is the most recent example of the risks of taking ownership of coffee. Market information services and communication services at the local cooperatives will be provided by the project to help the producer in his coffee marketing decisions. UNITEC (and most recently UNIOCOOP) are training cooperative employees who will subsequently train coffee producers on coffee quality, coffee processing and coffee marketing.

Conclusions on Strengthening and Stabilization of UNIOCOOP

UNIOCOOP has shown successes with fertilizer, coffee and some training sessions. UNIOCOOP has prepared a Diagnostic Study, has clarified its purpose with a Mission Statement, and has cooperated in the preparation of Diagnostic Studies for affiliates. There are several shortcomings evident, however, in UNIOCOOP at this date.

It appears that something is amiss in UNIOCOOP's fertilizer marketing. While UNIOCOOP is delivering a competitive product in price and quality, the Division is absorbing too much general overhead. Hence, the fertilizer operation is not building reserves. Margins at present of 16 to 20 percent are not sufficient to pay all general overhead.

UNIOCOOP has traditionally been dependent on foreign generated support to cover administrative expenses. Although the number of affiliates has expanded from five to eight, UNIOCOOP has not generated a large enough base of affiliates to be self-sufficient in its services and appears reluctant to expand membership. A base of twenty affiliates would be much more desirable in terms of economic viability. Moreover, UNIOCOOP has not developed a

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management and accounting system to determine the cost of services and potential benefits to the affiliates. This problem is also evident among each of the affiliated cooperatives, i.e., there is little idea of what to charge for services because the true cost of services has been subsidized.

UNIOCOOP's accounting system is not suitable for establishing programs for cost-recovery with its affiliates. Also, UNIOCOOP's management is generally unsuccessful in collecting annual dues of Lps.10,000 from its affiliates. Only about half of the fees have been paid by its eight members. In like manner, UNIOCOOP charges Lps.1.00 per 100 pounds for assistance on coffee marketing and has had difficulty collecting this fee from the cooperatives.

Recommendations

UNIOCOOP must strengthen the relationship and services with its affiliates. There is a need to develop the membership of affiliates as well. Better integration of the coffee cooperatives into UNIOCOOP services and governing bodies is needed. In practice, the federation has not made a strong effort to build a sound development program consistent with the principles of cooperation. Moreover, UNIOCOOP appears to be interested in expanding commercial ventures without a cohesive development strategy.

UNIOCOOP's management must work to develop the respect, trust and confidence of the FDF board and administration and vice-versa. Part of the current stress appears to be related to UNIOCOOP's board which has supported UNIOCOOP's management despite serious charges from the FDF that UNIOCOOP's staff shows incompetence and conflicts of interest.

To strengthen operations, UNIOCOOP will need to consider several specific actions at one time:

1. Develop more mechanisms to increase participation by members in leadership positions and increase the rotation of members on boards and committees.

2. Pursue a serious effort to develop and implement annual operating plans.

3. Devote more time and resources to the complementary process of integrating more cooperatives horizontally into the union. The current tendency toward integration has been principally vertical.

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4. Create better services for the cooperatives to promote their own capitalization, to extend and improve their services to the member producers and to charge the full cost for services rendered.

5. The strategy selected by the UNIOCOOP coffee marketing division is appropriate and the SFOS activities in the area of coffee marketing (pricing, quality and processing) and training should be strengthened.

Training Needs for UNIOCOOP and Its Affiliates

As discussed above the agricultural service cooperatives and UNIOCOOP need a great deal of training (including some graduate degree training) to improve the quality of expertise among the personnel at all levels of the organizations. Some of this training is needed in management, finance, accounting, agricultural credit, cooperative development strategies, and much training is needed in the more technical agriculture areas such as seeds, fertilizer, chemicals, processing of coffee and fruits and vegetables, grading of coffee and other products, and export marketing. An agricultural service cooperative training needs assessment is recommended to determine specifically what type of training is needed, to identify the institutions that should conduct the training, to design the curriculum and to develop the materials to conduct the training.

Strengthening and Stabilization of UNIOCOOP's Affiliates

UNIOCOOP's affiliates include eight multipurpose/input supply/marketing cooperatives with a wide diversity of features (Table 13). The oldest is Olancho dating back to 1969, and the newest cooperatives were started by ACDI in 1982-83. The members produce several different crops such as coffee, vegetables and rice and have different interests in cooperation. Fruta del Sol was formed in 1983 as a vegetable and fruit production and marketing cooperative. Fruta del Sol is basically insolvent and has been in serious financial condition since the export failures in the 1984-85 seasons. According to the FDF Diagnostic Report, Fruta del Sol has not come close to meeting its production goals for tomatoes, onions, bell pepper, rice, corn, melon, cucumber, and beans. The membership is short of the number needed to sustain a profitable cooperative. This is a high risk cooperative which would require some drastic measures to improve its net worth. For this season, the operating plan has not yet been approved. A fundamental re-organization and re-orientation is required.

Crehsul is also a fruit and vegetable exporting cooperative facing severe financial difficulties. Crehsul also experienced extraordinarily large losses in 1985 that pushed it near

Table 13: Selected Characteristics of UNIOCOOP Affiliates, HONDURAS, 1989

Cooperatives Affiliated w/ UNIOCOOP	Start Date	Number of Members [a]	Number of G.L.A. [b]	Land Area per Cooperative Manzanas	Major Crop of Members	Major Function of Cooperative
Maya Occidental	1982	700	40	2,130	Coffee	1st.Stage Processing and sale of Coffee
20 de Marzo	1982	693	26	4,290	Rice	Drying Milling and sale of Rice
Fruta del Sol	1983	246	7	696	Cucumber	Packing and exporting Cucumber
CREHSUL	1978	686	8	1,796	Cantaloupe	Packing and exporting Cantaloupe
COHORSIL	1980	218	15	* 3,510[c]	Cabbage	Sales of Farm Supplies
Yojoa	1971	252	0	1,300	Coffee	1st.Stage Processing and sale of Coffee
Olancho	1969	107	0	900	Coffee	1st.Stage Processing and sale of Coffee
Candelaria	1973	87	0	400	Coffee	1st.Stage Processing and sale of Coffee

[a] Approximately September 1989
[b] G.L.A. Grupo Local de Asociados
[c] Area owned and farmed by 200 members; Data for leased land unavailable Feb. 1989.

insolvency. That crisis is attributed to poor transportation and marketing of melons to the United States. Moreover, Crehsul's experience in 1986/87 with sesame was also reported as a loss. Crehsul, however, can be considered one of the bright prospects of the Project. Since the cooperative has worked closely with members of the FDF staff and Technical Assistance team, Crehsul has developed a specific mission statement to concentrate on international sales of melons and to focus its marketing strategy with two select brokers in Florida. For the two year period covering 1987/88 through 1988/89, Crehsul has nearly tripled its exports of cantaloupes (Table 14). The number of manzanas harvested has also increased. Equally impressive is the increased yield in boxes per manzana from 244 in 1987/88 to 286 in 1988/89. Crehsul has also doubled its sales of farm supplies.

"20 de Marzo," a grain cooperative specializing in rice and sales of farm supplies is in an acceptable financial condition for support by the project. The main problem in the past has been an insufficient sales volume to cover all the fixed costs of its operation. Its management has, however, improved the sales of its community stores, nearly doubling in gross sales from Lps.611,917 in 1987 to Lps.1,128,562 (Table 14). Furthermore, 20 de Marzo has achieved a remarkable ten-fold increase in its sales of rice since 1987. Its success can be attributed partially to good management and technical assistance from the FDF. The rice processing facility, however, is severely constrained from handling a much larger volume and needs to be increased in size, to dry, mill and package rice.

Cohorsil is a unique cooperative in the project that did not receive assistance from AID/ACDI in the past nor was it a member of the CCC, although it is in a coffee growing area. Cohorsil specializes in input supplies for horticultural producers and technical assistance. It has marketed snow peas and other vegetables. Cohorsil's main mission is to help increase the productivity and economic returns of its members. Since 1986, Cohorsil has nearly tripled farm supply sales from Lps.650,113 in 1986 to Lps.1,749,214 in 1988 (Table 14). Its financial situation for credit and institutional support is very good.

For the coffee cooperatives, the volume of coffee marketed has increased from 55 thousand hundredweight in 1986-87 to over 70 thousand in 1989-90. In addition, input sales have increased from Lps. 1 million at Maya Occidental in 1986-87 to 1.6 million in 1988-89, and from 0.36 million to 1.64 million at Olancho in this same period. Input sales are stable at Lago de Yojoa, and inputs are not sold at Candelaria at the present time.

UNIOCOOP and CCC (now transformed into the Marketing Division), along with the FDF, developed two study teams for the following reports on the targeted cooperatives:

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1. Diagnostic Study: A comprehensive report on the history, membership, organization, administration, production, marketing, services, training, finances, and current situation of the cooperative.

2. Development Plan: An important document that contains a carefully defined "mission statement" and set of objectives related to the strategies, policies, and plans for reducing debts, enhancing capitalization, marketing and extension.

3. Annual Operation Plan: A report of the current situation of the cooperative and an overview of the cooperative's organization and operations. This provides a detailed analysis of finances (balance sheet, capital, financial statement, etc.) and breakdown of both human and capital resources. Timelines are included for all projected resources and activities. The 1989 report is completed.

These reports required a considerable input of time, calling for interviews with managers, boards of directors, members and several visits to each cooperative for detailed data gathering. The quality of the reports is good. The reports are well-organized, uniform in format and presentation and loaded with valuable information with regard to each cooperative's needs for institutional development, financial stabilization and credit.

Findings and Conclusions:

The diagnostic teams have completed nearly all of the reporting requirements necessary for financial support from the FDF. The teams are to be commended for the manner in which these reports were developed. We found copies of these reports in the offices of the cooperatives visited (Table 15). Moreover, our questions to the managers were frequently answered with references to the reports. There also appeared to be considerable pride in having a cooperative mission statement and development plan. Furthermore, the planning process appears to have strengthened the ability of cooperative managers to identify specific objectives and narrow their operations to a few profitable activities. CREHSUL, for example, has decided to specialize in cantaloupe; 20 de Marzo in rice (first stages of processing) and input sales and coffee.

Financial Status of Affiliates

The current financial obligations of each of the cooperatives of UNIOCOOP indicates that about half of them have serious problems (Table 16). Crehsul has the highest indebtedness (Lps.7,244,200), next is Fruta del Sol (Lps.6,843,000), then 20 de Marzo (L.3,768,900). Over 50 percent of the outstanding debt is with BANADESA. About 30 percent of the debt is for unpaid interest and

Table 14: Selected Data Demonstrating the Impact of FDF Financing on Selected Agricultural Cooperatives, HONDURAS, June 1989

Cooperative		1987/88	1988/89
CREHSUL	Gross Sales[a] Cantaloupe	$ 781,324.00	$1,726,911
	No. of Boxes Exported Cantaloupe	57,102 Bx.	151,931 Bx
	Area Harvested of Member producers	250 Mz.	617.5 Mz.
	Ave. Yield/Manzana	244 Bx/Mz.	286 Bx/Mz.
	No. Automated Packing Sheds	1	3
	Gross Sales Farm Supplies[b]	L. 665,000.00	L.1,244,979.

[a] Gross sales in the U.S.A.

[b] 1988/87 sales are are for 12 month period May-April.

Cooperative		1986	1987	1988
20 de Marzo	Gross Sales of Rice	$ 156,846.	$ 127,552.	$ 1,608,542
	Gross Sales of Farm Supplies	L. 559,065.	L. 611,917.	L.1,128,562
COHORSIL	Gross Sales of Farm Supplies	L. 650,113.	L.1,034,080	L.1,749,214

Table 15: Dates of Completed Reports and Dates and Amounts Approved by Cooperative for Institutional Support, Stabilization, and Credit, Honduras, 1989

DATE OF COMPLETED REPORTS

Cooperative	Diagnosis	Development Plan	Operating Plan
COHORSIL	Dec. 20, 1988	Dec. 20, 1988	May 2, 1989
20 Marzo	Feb. 2, 1989	Feb. 2, 1989	Feb. 22, 1989
CREHSUL	Nov. 17,18,22'88	Nov. 17,18,22'88	Nov. 17,18,22'88
OLANCHO	Jan. 17, 1989	Jan. 17, 1989	April 4, 1989
CANDELARIA	Jan. 17, 1989	Jan. 17, 1989	April 4, 1989
LAGO YOJOA	Jan. 17, 1989	Jan. 17, 1989	April 4, 1989
MAYA OCCID.	Jan. 17, 1989	Feb. 6, 1989	Feb. 22, 1989
FRUTA DEL SOL	Dec. 20, 19888	Dec. 20, 1988	

DATE OF FUNDS APPROVED F.D.F.

Cooperative	Support	Stabilization	Credit
COHORSIL	May 2, 1989		May 2, 1989
20 Marzo	June 22, 1989		June 22, 1989
CREHSUL	Nov. 17,18,22,'88	Nov. 17,18,22'88	Nov. 17,18,22'88
OLANCHO	April 4, 1989	April 4, 1989	July 4, 1989
CANDELARIA	April 4, 1989	April 4, 1989	July 4, 1989
LAGO YOJOA	April 4, 1989	April 4, 1989	July 4, 1989
MAYA OCCID.	June 22, 19889		June 22,July 7'89
FRUTA DEL SOL			

AMOUNTS REQUESTED BY COOPERATIVE

Cooperative	Support	Stabilization	Credit
		- - - - - LPS - - - - -	
COHORSIL	104,200	270,000	0
20 Marzo	112,850	0	2,899.070
CREHSUL	110,275	0	328,075
OLANCHO	104,227	500,000	1,075,093
CANDELARIA	79,170	144,000	431,585
LAGO YOJOA	108,595	513,200	2,144,763
MAYA OCCID.	236,321	0	2,029,536
FRUTA DEL SOL	93,500	500,000	270,000

Table 15. cont'd

AMOUNTS APPROVED FDF

Cooperative	Support	Stabilization	Credit
	- - - - - LPS - - - - -		
COHORSIL	104,200		270,000
20 Marzo	122,850	0	0
CREHSUL	110,275	500,000	328,000
OLANCHO	104,227	351,900	78,350
CANDELARIA	79,170	144,000	4,000
LAGO YOJOA	108,595	513,200	324,000
MAYA OCCID.	167,200		378,400
FRUTA DEL SOL	0		

DATE OF FUNDS APPROVED AID

Cooperative	Support	Stabilization	Credit
COHORSIL	June 21, 1989	June 21, 1989	
20 Marzo	October 18, 1989	Not Approved	
CREHSUL	June 21, 1989	June 21, 1989	
OLANCHO	June 21, 1989	June 21, 1989	
CANDELARIA	June 21, 1989	June 21, 1989	
LAGO YOJOA	June 21, 1989	June 21, 1989	
MAYA OCCID.	October 18, 1989	Not Approved	
FRUTA DEL SOL	Not Approved	Not Approved	

AMOUNTS APPROVED AID

Cooperative	Support	Stabilization	Credit
	- - - - - LPS - - - - -		
COHORSIL	83,200		
20 Marzo	122,850		
CREHSUL	159,300	500,000	
OLANCHO	88,227	331,900	
CANDELARIA	63,170	144,000	
LAGO YOJOA	92,595	513,200	
MAYA OCCID.	167,200		
FRUTA DEL SOL	0		

Table 16: Financial Obligations of UNIOCOOP Cooperatives, Honduras, 1988, 1989

(Thousands of Lempiras)

DATE	Cooperative	BANADESA	SOGERIN	BANHCAFE	BAMER	BANCO OCC.	F.D.F.	OTHER[a]	TOTAL
31-12-88	20 de Marzo	2,000.0	556.2	-	-	-		1,212.7	3,768.9
28-02-89	Maya Occidental	1,308.7	647.0	-	-	-	-	801.5	2,757.2
30-12-88	COHORSIL	480.0	-	-	-	-	-	46.1	526.1
31-3-89	CREHSUL	4,194.8	-	-	-	-	492.0	2,555.4	7,244.2
31-03-89	FRUTA DEL SOL	4,588.1	200.0	-	163.5	-	-	1,891.4	6,843.0
31-12-88	LAGO DE YOJOA[b]	-	-	400.0	-	905.9		738.2	2,044.1
31-01-89	OLANCHO[c]	-	80.0	464.0	-	-	-	192.5	736.5
31-10-88	CANDELARIA	-	-	99.5	-	-	-	4.4	103.9
	TOTAL	12,571.6	1,483.2	963.5	163.5	905.9	492.0	7,442.2	24,021.9

[a] Other includes short and long term loans to pay as well as interest to be paid on financial obligations that are overdue and accounts payable to members and individuals.

[b] Information taken from the balance sheet of Cooperative Yojoa on December 31, 1988.

[c] OLANCHO balance sheet of January 31, 1989.

"unpayable" accounts. Reducing this entire debt through purchase with the financial stabilization resources of the FDF is currently being negotiated. Analysis of this portfolio estimates that 30 to 40 percent is recoverable. About half of the loss is due to operating losses of the cooperatives and to the disastrous 1984-85 season. The other half of the debt is owed by individual producers. Working capital is currently negative for Crehsul and Fruta del Sol (Table 17). The current asset to current liability ratios are highest for Cohorsil (1.53), Lago de Yojoa (1.51), and Candelaria (1.36). Crehsul and Fruta del Sol have ratios lower than one which financial stabilization should resolve if the cooperatives are to be viable.

The amounts approved by the FDF for each cooperative for institutional support, stabilization and credit are shown in Table 15. One should note that only credit above Lps.500,000 must be approved by AID. No credit has been approved for affiliated cooperatives by the FDF for more than this amount.

About half of the eight agricultural service cooperatives are in reasonable financial condition and the other half are in financially poor condition. Of the cooperatives visited by the evaluation team, all four seemed to have young, well trained, ambitious managers who clearly understand cooperative principles of development. Many of the project training and financial assistance activities are beginning to show results that should pay-off with viable institutions in the future. No doubt there will be disappointments and possibly failures in some of the cooperatives, but half or more of them should become viable institutions by the end of the project. All of these cooperatives will need additional technical and financial support from the project if they are going to become financially viable institutions for delivering inputs and other services to the agricultural cooperative members.

AGRIBUSINESS SYSTEM IMPACTS RESULTING FROM SFOS PROJECT

The estimated effects on production, foreign exchange and employment due to participation by Honduran cooperatives in the SFOS can be measured at several levels of the agribusiness system. These include the levels of input supply, agricultural production, first stage processing, second stage processing and marketing to wholesalers or retailers. The project impacts were first estimated in January, 1989, and then updated in September, 1989, as part of the project evaluation.

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Table 17: Working Capital of Agricultural Cooperatives, HONDURAS, 1989

(Thousand of Lempiras)

Cooperative	Current Assets	Current Liabilities	Working Capital	Date	Current Assets to Current Liabilities
1. 20 de Marzo	2,771.3	2,499.4	271.9	31/12/88	1.12
2. Maya Occidental	2,212.2	2,065.3	146.9	28/02/89	1.07
3. COHORSIL	805.3	526.2	279.1	31/12/88	1.53
4. CREHSUL	2,873.2	4,421.4	(1,548.2)	31/03/89	0.65
5. Fruta del Sol	2,512.2	3,276.1	(763.9)	31/03/89	0.77
6. Lago de Yojoa	2,082.7	1,379.2	703.5	31/12/88	1.51
7. Olancho	732.7	656.5	76.2	31/01/89	1.12
8. Candelaria	89.7	65.9	23.8	31/10/88	1.36

Methodology

The methodology employed in assessing the impact is based on a comparison of what each of the eight present cooperatives of the UNIOCOOP federation intends to do between now and 1993 and what they actually did in the 1987/88 baseline period. The baseline period represents what each cooperative would achieve had the SFOS not assisted. The resulting incremental differential between the baseline and the expected achievements each year is an outcome which can be totally or partially assigned to the project. Some cooperatives would have achieved substantial growth and expansion without the project, so that the TA team of the FDF worked with the impact study team to develop an assumption as regards the percentage of benefit that could be assigned to the project. It is also based on discussions with cooperative managers.

Several basic assumptions have been made and include:

* 1987/88 as the base year for each cooperative.
* Utilization of UNIOCOOP and affiliated cooperative development plans for the crop seasons 1988/89 to 1992/93. Discussions with coop managers also helped clarify plans.
* Cooperatives are in the process of being stabilized and are ready or becoming prepared to receive expanded resource inputs.
* Analysis based on the six most important crops -- coffee, corn, rice, beans, melons and cucumbers -- produced under influence of cooperatives. This represents 88 percent of total production in base year.
* First stage processing activities for coffee, rice, melons and cucumbers.
* Present and future crop yield estimates.
* Present and estimated prices received.
* Present and future quality objectives considered.
* Present and estimated production and processing costs.
* Present and estimated labor requirements.
* Export and Import substitution effects.

The specific assumptions made, the specific equations of the model set out on a Lotus 123 spreadsheet analysis and the key tables of the analysis are found in Appendix C to this report.

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Estimated Production Impact

Successful implementation of the project will impact positively the agricultural and first stage processing sectors. For a five-year period ending 1992/93 when the program is completed, the production returns are projected to be:

Total production returns - US $115.4 million
Due to the project - US $49.8 million

The production impact with UNIOCOOP's eight present affiliated agricultural cooperatives will be as follows:

Total production and processing benefits - US $50.3 million
Benefits attributed to the project - US $23.8 million

With two more cooperatives intended to be incorporated into the program each year, for a total of UNIOCOOP's 10 agricultural cooperatives, the impact on production will be:

Total returns - US $67.5 million
Due to the project - US $30.0 million

Viewed from the perspective of the impact of fertilizer alone, US $47.9 million of the total US $115.4 million of increased production is estimated to be due to fertilizer usage. Of this, a conservative, yet arbitrary, judgment was made that the project can take credit for US $11.3 million of the US $47.9 impact generated by the use of fertilizer. When complete, the groups affiliated with the project will have in place a production capability to continue to produce returns of US $35.5 million each year. Of this, US $20.6 million will be due to the project. This represents a six fold increase over the returns realized in the base year.

Estimated Employment Impact

The employment impact resulting from the SFOS is expected to be highly positive. In 1987/88, the participating cooperatives and farmers served by UNIOCOOP employed about 6,300 man years. In 1992/93, five years into the project, it is expected that participating cooperatives and farmers served by UNIOCOOP will employ 20,000 man years of labor. This represents an increase in annual employment equal to 13,700 man years. Over the next five years, the cooperatives and farmers participating will employ 51,500 more man years than would have been the case had the cooperatives and farmers continued to employ people at the base year rate. Twenty-eight thousand one hundred (28,100) of the additional jobs are expected to result directly from the project.

Employment will be added at the production, processing and distribution levels. It will be added at the white collar, blue collar, and laboring class levels. Nearly 95 percent of the additional employment (49,000 man years) will be at the laboring class level. Of this additional employment, most (55 percent) will be in coffee plantations. Furthermore, most of the employment increase will be seasonal so that it will impact nearly twice as many people.

Estimated Foreign Exchange Impact

The SFOS will generate a positive foreign exchange impact of about US $12.5 million. That is, it will generate US $12.5 million more in foreign exchange earnings or savings than is spent for the required inputs of fertilizer and pesticides. $7.28 million is attributed to the project. In the final year (1992/93) there will be US $8.7 million more generated than is spent. In the base year, expenditures versus inflows were slightly negative. Much of the impact is generated through earnings, but import substitution is also important.

Estimated Fertilizer Impact

In the above results, the impacts for the overall package of inputs -- fertilizer, pesticides, improved seed, improved processing facilities, better production practices and more intense technical assistance have been estimated.

A summary of the fertilizer analysis shows the production returns to rise from US $2.5 million in the base year to US $10.1 million in the final year of the project. A large part of the increase results from an expanded area but it is also due to a 33 percent increase in yield resulting from the better use and application of fertilizer. This is consistent with the findings of other studies where it has been shown that fertilizer can have a 30 to 40 percent impact on productivity. It is estimated that the fertilizer program alone will add 8,800 man years of employment and US $40.55 million in production over the five year period. In the final year of the project, 3,300 man years would be employed as a result of expanded production, processing and distribution due to the fertilizer program.

ROLE OF WOMEN IN HONDURAN COOPERATIVES

Information in this section is derived from surveys conducted by telephone since there is virtually no documentation on the participation of women in cooperatives. Twenty-five out of a total of 83 FACACH cooperatives were interviewed. The survey includes only those that could be contacted by telephone. In addition, the eight cooperatives affiliated with UNIOCOOP were interviewed.

TABLE 18: Percentage of Women Participating in Cooperatives and Credit Unions of Small Farmer Organization Strengthening Project, Honduras, 1989

FACACH

North West Area

Credit Unions	ELECTED LEADERS		EMPLOYEES		MEMBERS	
	NUM.	PER.	NUM.	PER.	NUM.	PER.
Ceibeña	7	1.4	6	8.3	1,169	1.2
San Antonio María Claret	11	36	3	33	170	95
Independencia Económica	11	27.2	4	75	906	46
Nueva Vida	14	28	4	25	823	48
La Unión	11	9	3	33	606	23
Alianza Comunal Obrera	15	26	6	50	1,640	40
Leyde	9	33	1	100	330	7.8
21 de Noviembre	14	7.1	6	16	438	41
USULA	13	7.6	4	25	1,117	30
Central Area						
Taulabé	13	23	8	87	1,327	42
Yuscarán	17	23	2	50	329	45
Comunidades Rurales	14	14.2	1	100	108	22.2
21 de Septiembre	11	18.1	5	40	735	20
Campamento	13	76	3	66	276	60
C.A.C.I.H.S.S.	18	38	6	50	1,141	63
IHMA	11	27	1	100	101	38
Prosperidad	16	62.5	2	100	578	36.6
Cacemel	17	52.9	2	100	515	69

Credit Unions	ELECTED LEADERS NUM.	PER.	EMPLOYEES NUM.	PER.	MEMBERS NUM.	PER.
San Juancito	8	12.5	1	0	103	15.5
Mandofer	13	38.4	3	66	270	50.7
Emisoras Unidas	16	12.5	1	100	90	5.5
Southern Area						
La Guadalupe	13	46	6	66	1,772	55
El Esfuerzo	15	20	2	100	572	46
San Marqueña	*		7	28	2,228	51.9
San Andrés	18	16	5	60	1,765	43.5
UNIOCOOP COOPERATIVES						
CREHSUL	15	6	17	27	686	2
COHORSIL	13	0	13	23	218	0.4
Maya Occidental	14	0	19	26	638	*
Fruta del Sol	14	0	15	13	200	2
20 de Marzo	8	0	22	18	578	*
Lago de Yojoa	12	0	7	14	252	2
Candelaria	7	0	4	25	73	10
Olancho	13	0	8	28.5	180	11

*Information not available

Of the 25 FACACH cooperatives studied, seven have greater than 50 percent female membership (Table 18). In three of these cooperatives, women outnumber men. The percentage of women in staff positions is quite high in all the cooperatives; sixteen have more than 50 percent women employees. A closer look, however, reveals that the majority are support staff and not in management positions. In addition, FACACH affiliates from central Honduras have a higher percentage of women members than the northwestern region of the country. UNIOCOOP has a minimal participation of women; seven have less than 1 percent women membership. It is hypothesized that socio-cultural and economic factors contribute to this variance of female participation in the two federations. For instance, UNIOCOOP is composed only of agricultural groups while 49 percent of FACACH membership is non-agricultural. Furthermore, FACACH members generally enjoy a higher standard of living than UNIOCOOP members.

Conclusions and Recommendations - Women do not enjoy a full measure of participation in the credit unions and especially in the agricultural service cooperatives. The integration of women into the cooperative movement does not correspond to the degree of development of their capabilities nor to their numbers as part of the population. The cooperatives should increase the number of women participating in management and board of director positions.

FUTURE PROJECT FUNDING REQUIREMENTS

The SFOS will need additional resources to accomplish the institutional stabilization process envisioned in the project paper by September of 1993. The additional resources for the project can be justified by the following items: (1) the entrance of FECORAH and ANACH into the project; (2) the 8 additional agricultural service cooperatives projected in the impact study to join UNIOCOOP; (3) the reorientation of the work with FACACH and its affiliated credit unions; and (4) the evaluations and studies needed to add appropriate performance indicators for the cooperatives themselves, to develop a liquidity management facility for credit unions to enhance their deposit mobilization capabilities, and to strengthen loan recovery through a better understanding of loan repayment patterns, especially for the project's agricultural cooperatives. In addition, the project was funded initially for only four years of an eight year period, so that the SFOS will need additional resources by October, 1990, just to continue with its current activities.

The recommended additional amount is US $19 million, with US $11 million from AID funds and US $8 million from Honduran Government funds (Table 19). The AID funds are projected to be used for project administration, the long-term and short-term technical assistance as outlined in Table 6 of the technical assistance

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Table 19: Estimated Additional Resource Needs by Project Component for Small Farmer Organization Strengthening Project, October, 1990 to September, 1993

COMPONENT	AID FUNDS	GOH FUNDS	TOTAL
		(U.S. $000)	
Project Administration and Technical Assistance	5,000		5,000
Commodities, Training and Studies	2,000		2,000
Institutional Support		5,500	5,500
Financial Stabilization		2,500	2,500
Credit	4,000		4,000
Total	11,000	8,000	19,000

section, commodities, additional in-country training and short-term travel for project participants, credit for the importation of fertilizer, and the additional studies and evaluations noted above. The Honduran Government funds include US $3.5 million for institutional support to UNIOCOOP and its affiliated agricultural cooperatives, FECORAH AND ANACH and their affiliates, and FACACH and its affiliated credit unions, as well as US $2 million for IHDECOOP to strengthen its technical assistance and especially its supervisory role in auditing and accounting. The financial stabilization component includes an additional US $2.5 million for the agricultural cooperatives that are expected to need these resources during the next four years of the project.

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APPENDIX A

Statement of Work

Interim Evaluation of the Small Farmer Organization Strengthening Project

5220252

I. PROJECT TO BE EVALUATED

The purpose of the project is to create a viable system for the delivery of productive inputs to farmers (credit, technology, market services, management skills). The evaluation will assess the effectiveness of the institutional development process which is the focus of that system. Emphasis should be on the effectiveness and efficiency of the FDF as the implementing entity. The project was signed on September 26, 1985 with a major project amendment signed on September 16, 1986. The planned life of project funding currently totals $16,000,000 and the equivalent of $19,804,000 in ESF counterpart contribution.

II. PURPOSE OF THE EVALUATION

USAID/Honduras and the Board of the Fondo de Desarrollo Financiero (FDF) which includes representatives of the two counterpart Ministries, the Ministerio de Economia and the Ministerio de Hacienda y Crédito Público, have provided input for the interim evaluation of the project scheduled in the Project Agreement. The purpose of the evaluation is to assess the effectiveness of implementation to date and identify adjustments, changes, and corrections that should be made. As stated in the project Paper Amendment of September 9, 1986, "the amended project will last a total of eight years, including the initial year of FY86. It will be funded for a four-year period and at a cost of $35.8 million."

The results of the evaluation will be used by the following entities:

- The GOH, especially by the counterpart in the Ministry of Economy and the representatives on the Board of Directors as they guide the development of the organizational structure of the FDF, its strategy and policies;

- the management of the FDF, as guidance in carrying out the overall institutional development process;

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- AID, especially in relation to funding and administration activities of the project.

The annual Evaluation Plan of the Mission includes the midterm evaluation of this project in the FY 1989 schedule.

III. BACKGROUND

This Background Section review principal events in the evolution of the project and a description of the project and its implementing agency. The Project Paper was signed on September 24, 1985. The original ProAg was signed on September 26, 1985. The ensuing year was spent in detailed negotiation with the GOH with the principal points of negotiation being 1) whether the FDF was to be created as a legally established "Foundation". 2) the structuring of the FDF within FACACH with a full delegation of authority from FACACH to the FDF; 3) the representation on the Board of Directors of the FDF; 4) the mechanisms of financial stabilization; and 5) the restructuring of the Model Coops Trust Fund in BANADESA. Major amendments to the Project Paper, and the Project Agreement were signed in September of 1986 resulting in a project of $35.8 million to carry out the organizational strengthening purpose through the three project components: Organizational Support, Financial Stabilization and Credit.

The project manager arrived on September 29, 1986 and implementation began. In late November, 1986 a review of the project was held with the new Mission Director, John Sanbrailo. His principal concerns were:

- that AID give up its voting position on the Board of Directors and become only an observer prior to any disbursements;

- that the Delegation of Authority by FACACH to the FDF be reviewed by the Regional Legal Advisor as well as the delegation of authority to implement the project;

- that the Manager of the FDF not be selected by A.I.D. but rather by the Board of the FDF following a competitive hiring process.

The FDF Board members at the outset were Hernán Hernandez of the Ministry of Finance, Jorge Flores Vallecillo of the Ministry of Economy, Arnaldo Castillo Guiza of FACACH, and Richard Peters of AID. The first meeting of the Board of the FDF was held on january 23, 1987. AID advised it was leaving

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the Board in PIL No. 9 on May 8, 1987. The first large task for the Board was to establish the process for hiring the manager of the FD and then to do so. Following a competitive selection process, interviews highest ranking candidate, Hugo Rodriguez in May 1987. He began work on June 1, 1987 and then began hiring additional staff. He also serves on the Board of the FDF and is the Secretary of the Board.

The Technical Assistance team provides advice to the FDF via the counterpart relationship between the manager of the FDF and the Chief of Party of the T.A. team. The technical assistance contract was signed on march 16, 1987 with a consortium of Cooperative Development Organizations (CDO's) led by the World Council of Credit Unions (WOCCU) who provided two resident advisors. Other members of the consortium are the National Cooperative Business Association (NCBA), the Agricultural Cooperative Development International (ACDI), and the Latin American Confederation of Credit Unions (COLAC), each of which provided one resident advisor. By May 1, 1987 the members of the T.A. team had arrived in country.

The project's three components of Organizational Development, Financial Stabilization and Credit are designed to be implemented in a controlled expansion to a limited number of participants beginning with the second level organizations if possible. The applications of FACACH and UNIOCOOP for participation in the project were made on July 3, 1987 and on July 29, 1987, respectively, and the process of institutional analysis began. Formal qualification of FACACH for institutional support was approved on September 22, 1987 and for UNIOCOOP on December 15, 1987. Institutional Support Contracts were signed with them on February 26, 1988 and on November 29, 1988, respectively. The institutional strengthening process for these two second level organizations continued through 1988. FACACH and UNIOCOOP in turn began the institutional analyses of selected affiliates under the direction of the FDF.

The first Credit component action of the project, the importation of $3.0 million of fertilizer for UNIOCOOP, was approved by PIL No. 21 on August 17, 1988. Institutional analyses, development plans and annual operating plans approved by the FDF are expected to have been completed for 15 credit unions and 8 agricultural cooperatives by May 15, 1989. AID approved L7.1 million financing for the first, and most likely the largest, financial stabilization action of the project, for FACACH, in PIL No. 26, on February 7, 1989. FDF expects to sign the Financial Stabilization Agreement with FACACH if FACACH is able to meet the conditions for the agreement by late April 1989. It can be said that full implementation of all components and activities of the project are underway as of the second quarter of FY 1989.

A baseline study was completed in January 1989 by the University of Pittsburgh and the Florida International University. A study of the impact of the project on Mission objectives of increasing production, employment and foreign exchange and the efficiency of rural financial markets was completed in February 1989.

IV. STATEMENT OF WORK

The evaluation team will review the Amended Project Paper, the Project Agreement and Amendment and two PILs which reissued Annex I to the Project Agreement. Policies, procedures, and documentation of implementation activities are available in the FDF.

There are three areas of the evaluation:

A. Progress toward meeting Output Indicators and Contributing to Action Plan Objectives;

B. Project Implementation

1. The Financial Development Fund (FDF);
2. The WOCU/ACDI/NCBA/COLAC T.A. team;
3. Selected organizational strengthening activities and issues;

C. Project design issues, constraints and resources.

A. Output Indicators and Action Plan Objectives

1. Assess progress toward achievement of the outputs as stated in the Project Agreement, Annex I;

2. Assess output indicators as valid measures of targets for achieving the project purpose and make recommendations regarding revisions in objectives and the implementation plan;

3. Update the estimate made by Drs. VonderOhe and Lee in the Impact Study completed in February 1989 of the economic impact of the project on agricultural production, exports, employment and the efficiency of rural financial markets.

4. Although the project is directed to farmers and the agricultural sector assess whether it has improved the access of non-agricultural sectors such as housing, small business and small industry to financial services by strengthening credit unions;

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5. Assess the impact of the project on women as members, leaders or employees of cooperatives noting the degree of contribution by women to project success.

B. **Project Implementation**:

1. The FDF

The legal structure of the FDF and its relationship to FACACH, and the management, by the FDF, of the three project components to achieve the project purpose are the central issues for this mid-term evaluation of the project.

a. Study the structure of the FDF and determine whether this hinders or promotes the achievement of project objectives. Recommend whether the FDF should be constituted as separate legal entity addressing its possible division into a credit union stabilization fund and a financial development fund for agricultural cooperatives.

b. Assess the efficiency and effectiveness of the FDF in managing the overall institutional development process using the three principal components of the project, Organizational Development, Financial Stabilization and Credit to develop organizations which are viable systems for delivering productive inputs to farmers.

In support of this general question address the following questions:

- Does the FDF have an appropriate strategy and appropriate policies for achieving the project purpose and guiding the detailed operational planning of the FDF and the project beneficiaries?

- Is the timeliness of actions of the FDF satisfactory?
- Is the level of expertise and number of staff of the FDF adequate or optimal?

- Are the monitoring and supervision activities by the FDF of beneficiaries during the institutional development and financial stabilization process adequate?

- Are these actions resulting in self-sufficient beneficiary organizations capable of delivering productive inputs to farmer-members on a sustainable basis?

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c. Evaluate the effectiveness of the financial stabilization strategies used by the FDF, the factors constraining their application, and make recommendations for changes and adjustments.

The evaluators should address which strategies are more appropriate for the credit union federation, the credit unions, and the agricultural cooperatives.

d. Evaluate the strategy of a FDF with a limited number of personnel which relies largely on the personnel of the second level organizations to apply the organizational strengthening tools to the development of affiliated cooperatives.

2. <u>The WOCCU/ACDI/NCBA/COLAC T.A. team</u>

Review the structure and relationship of the T.A. team to FDF and the project beneficiaries focusing on the following questions:

- Have the Scopes of Work of each advisor been carried out?
- Are the Scopes of Work appropriate?
- Is the T.A. team effectively led and coordinated by the Chief of Party?
- If the T.A. team effective in its relationships with participant organizations? ARe each of the individuals?
- Does the T.A. team coordinate effectively with the FDF? Do each of the individuals?
- T.A. needed for the 1990-1993 period will be addressed under Part C, "Project Design Issues, Constraints and Resources."

3. <u>Selected Organizational Strengthening Issues and Activities of the Project</u>

In addition to the three principal components of the project evaluated in Part B, the FDF, evaluate the following specific organizational strengthening activities of the FDF:

a. Financing of fertilizer, agri-chemical and seed supply by UNIOCOOP as ways of achieving the project purpose of the institutional development of UNIOCOOP and its affiliated cooperatives as part of a viable system for the delivery of productive inputs to farmer members. Comment on the relative priority of the distribution of fertilizer, agro-chemicals and seeds versus other product or service opportunities for UNIOCOOP and its

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affiliated cooperatives. Consider the need for and the effectiveness of the assigned PSC specialist.

b. Evaluate the focus of the coffee marketing division of UNIOCOOP and its importance in developing UNIOCOOP and the coffee co-ops as a viable system for providing access to marketing services to farmers. Make recommendations about the appropriateness of continuing or expanding activities in the area of coffee marketing -- milling, pricing structure, quality control, and training in coffee quality.

c. Evaluate whether the strategy of UNIOCOOP's affiliates for providing services to members is appropriate for cooperative businesses. Evaluate whether the Development Division of UNIOCOOP effectively supports the integration of the strategies of UNICOOP's affiliates for providing inputs, technological advice, credit and processing and marketing services to members. Make recommendations for improvements.

d. Identify the need for an in-depth study of training needs reviewing briefly:

- the accomplishments and plans of the FDF to address training needs including study travel, the program for training cooperative management carried out by the Technological University of Central America (UNITEC) and on-the-job training and courses offered by the FDF, the T.A. team and Dr. Bendaña. An estimate should be made of the number of trainees to date, by sex.

- needs that should be addressed in the 1990-1993 period. The analysis should be divided into three categories: the credit union system, the agricultural co-ops affiliated to UNIOCOOP, and "reform sector" cooperatives affiliated to ANACH and FECORAH (two prominent peasant organizations).

e. Recommend whether it is advisable to conduct a study of a deposit guarantee fund.

f. Is the role of IHDECOOP properly conceived in the Project Agreement in support of the project purpose?

Consider the activity carried out to date in addressing the desirability of further support to the development of IHDECOOP.

C. <u>Project Design Issues, Constraints and Resources</u>

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1. Appropriateness of the Project Purpose to capture the effects of strengthening the credit union system.

2. Design and management of the Credit component

   - evaluate the structuring and management of the Credit component of the project in light of the AID policy guidance on Financial markets. In particular, examine the designed credit delivery system from the project's Special Credit Fund through the private banking system and the FDF.

3. Consider the appropriateness of the September 30, 1993 PACD and address the question of whether the PACD should be extended.

4. Assess the effects of ESF disbursement ceilings on the implementation of the project.

5. As charged in the Project Paper Amendment, evaluate the needs for additional resources, by component in the project budget -- institutional support, financial stabilization, credit -- from 1990 to the PACD.

6. Assess the impact of limited access to foreign exchange for the importation of fertilizer, pesticides, and equipment on UNIOCOOP and the agricultural service cooperatives as a delivery system for productive inputs to farmers. Make recommendations concerning alternative actions for addressing the constraint.

7. Recommend the type and length of T.A. needed for the period 1990-1993 considering resident and short-term specialists in the following areas:

   a. credit administration for the principal parts of the portfolio of the credit union system
   b. training in credit unions and ag cooperatives
   c. savings mobilization in credit unions
   d. deposit guarantee and examination and audit for credit unions
   e. ag credit for the UNIOCOOP affiliates
   f. strategies, programs, and methods for ag co-ops to provide technical assistance to member
   g. processing, marketing and sales in ag co-ops
   h. institutional development specialists, especially for the agrarian reform cooperatives.
   i. institutional development and financial stabilization specialist to advise the FDF
   j. Should the T.A. Team be divided into two separate groups, one for credit unions, the other for agricultural cooperatives? How should it be designed

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and administered? Recommendation should be made under two formats -- a five-member resident team and a seven-member resident team.

k. Rank the relative priority of the various T.A. specialists. Are the other skills not listed above needed?

V. METHOD AND PROCEDURES

The primary sources of information to be used by the evaluation team are:

- From AID

  - the Project Agreement of September 1985 and the Project Agreement Amendment of September 1986;
  - The Project Paper Amendment;
  - Annex I of the Project Agreement as re-issued in PIL No. 9 and PIL No. 29;
  - Semi-Annual Reports;
  - The Baseline Study and the study of project Impact;

- From the records of the FDF

  - The policies for institutional support, financial stabilization and credit;
  - The documentation of the approval actions for institutional support, financial stabilization, and credit;
  - Board minutes;
  - Annual Operating Plans including Timeline projections, and quarterly and annual reports;
  - The lone-term plans and annual operating plans of the beneficiary organizations;

- From the technical assistance team

  - Quarterly and annual reports.
  - Technical documents
  - The baseline study.
  - The impact study

Prior to arrival in country the evaluation team will receive selected material from AID. The remainder can be reviewed in the Office of Rural Development or the FDF upon arrival in country.

The review of documents will be supplemented with interviews with the Management and staff of the FDF, selected management and elected leaders of beneficiary organizations, the technical assistance team, GOH members of the Board of the

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FDF, the Project Manager and Assistant Manager, other AID officials, and others, as necessary.

Once all members of the Evaluation team have arrived in country, a planning meeting will be held. Within a week a draft work plan will be developed and discussed with the Project Manager. Appropriate changes will be made prior to the initiation of field work.

The team will analyze each of the points in the detailed Statement of Work, the allocation of tasks to individual team members and the methodology to be used will be determined by the team leaders. As each section of the Statement of Work is competed, Conclusions and Recommendations will be specifically listed.

The contractors will be expected to work a six-day week. The Evaluation team will be expected to bring laptop computers with them, if needed, as well as making arrangements for vehicles and secretarial support and report preparation.

VI. COMPOSITION OF THE EVALUATION TEAM

The team shall be made up of the following specialists:

1. Team Leader and Specialist in the Development of Financial markets and Institutions and Financial Stabilization.
2. Specialist in Rural Financial Markets and Policy
3. Credit Union Specialist
4. Agricultural Cooperative Specialist
5. Agricultural Credit and Marketing Specialist
6. Agribusiness System Specialist

A. Specialist in Financial Institutions and Financial Stabilization

This person will function as the evaluation team leader. The individual should have a minimum of ten years of experience in development projects, preferably in Latin America. The appropriate experience would have been in the design, development, and management of financial organizations, and experience with the financial stabilization (workout) of businesses. Spanish language capability at the S-3+, R-3+ level is required. The team leader will be responsible for initial evaluation planning and for the preparation of the final report. It is essential that this person have the conceptual breadth to recognize that although the implementation of the project takes place through a financial institution, the FDF, and that actions must be consistent with the financial markets context in which the project is carried out, the purpose of the project is to create a viable system for the

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delivery of productive inputs to farmers. The inputs provided to farmers include physical inputs, technical advice, marketing services, management skills and credit. Formal training is required in business administration, economics, agricultural economics, or finance at the undergraduate level or preferably at level of master of doctorate. Educational qualifications are secondary, however, to the experience qualifications.

B. Specialist in Rural Financial markets and Policy

This person should have extensive experience in the analysis of rural financial markets and financial policy especially in latin America. Training at the doctoral level in economics, ag economics, or business administration with emphasis in finance is required because of the policy issues which must be addressed. Such elements as interest rate structures and savings mobilization and deposit guarantee should be strengths. Spanish at the FSI S-3, R-3 level is required.

C. Credit Union Specialist

This person should have a minimum of ten years working with credit unions, much of it preferably in latin America. The minimum of Academic training required is an undergraduate degree in finance, economics or agricultural economics, although a master's or even a doctoral degree is recommended. The required level of proficiency in Spanish is S-3+, R-3+. The person must be capable of evaluating such topics as deposit mobilization, credit administration, organizational development of credit unions and their second level organizations, credit union financial stabilization strategies, key financial performance indicators for credit unions, and training needs.

D. Agricultural Cooperative Specialist

This person should have a minimum of seven years experience working with agricultural cooperative organizations. The minimum academic training required is an undergraduate degree in agricultural economics, business administration, or finance, although advanced study is desirable. The required level of proficiency in Spanish is S-3+, R-3+. The person must be capable of evaluating the overall organizational development issues of agricultural cooperatives.

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E. Agricultural Credit and Marketing Specialist

This person should have a minimum of ten years experience with agricultural credit and marketing in developing countries. The minimum academic training in economics, ag economics, rural sociology, or business administration is at the master's level although the doctoral level is preferred. The preferred level os proficiency in Spanish is a minimum of S-2, R-2. The person should be familiar with or become familiar with the AID Policy Paper on Financial Markets Development.

F. Agribusiness System Specialist

This person should have a minimum of ten years experience with agribusiness system analysis and management. The minimum academic training is at the master's level in agricultural economics or business administration, although the doctoral level is preferred. The preferred level of proficiency in Spanish is at a minimum of S-2, R-2.

Prior to the arrival of the team in country, all members should have been approved by the Project Officer.

'II. REPORTING REQUIREMENTS

1. Report Format:

The contractor will be responsible for the preparation of a written report containing the following sections:

a) Executive Summary. This should not exceed ten single spaced, typed pages and should incorporate a clear, concise summary of the most critical elements of the report. The summary should include the following elements:

i. the purpose of the activity evaluated, including existing constraints and what is being done to address them;

ii. the purpose of the evaluation and the analytical method used, including the types and sources of evidence used to assess the effectiveness and impact of the activity;

iii. a discussion of the major findings and conclusions related to the specific questions in the Statement of Work;

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iv. a summary of the recommendations made in response to the specific questions posed in the Statement of Work.

b) Table of Contents

c) Body of the Report (approximately 30-40 pages) incorporating other information.

This should include a clear statement of each of the issues and provide supporting analysis for the conclusions reached. Incorporation by reference of supporting documentation is acceptable for lengthy pieces of analysis. This is in the interest of keeping the body of the report as short as reasonable.

d) Conclusions and Recommendations

While the body of the report may include the conclusions and recommendations related to each issue, a full statement of the conclusions and recommendations should be included at the end of the report.

e) The report will include, at a minimum, the following appendices:

i. The Evaluation Scope of Work;
ii. The Project Agreement's Statement of Output Indicators;
iii. An estimate of the impact of the project on Mission Objectives;
iv. A listing of documents and people consulted.

2. Submission of Report: The contractor will be responsible for providing the Agriculture and Rural Development Office,-USAID/Honduras, with ten copies of the Final Report (five in English and five in Spanish) no later than August 31, 1989.

A draft report in English is required before the team leaves the country on or about August 10, 1989.

3. The Evaluation Team will be responsible for debriefing the FDF Board of Directors and Management regarding their findings, conclusions and recommendations prior to departure. The Team Leader will structure this debriefing. The Team Leader will also be responsible for debriefing USAID/staff and GOH counterparts in Tegucigalpa prior to departure.

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APPENDIX B

PERSONS INTERVIEWED AND DOCUMENTS CONSULTED

Persons Interviewed

F. Lee Arbuckle
Project Officer
AID/Honduras

German Mejia G.
Analista Institucional
Fondo de Desarrollo Financiero

William Alvarado-Greenwood
Asesor para del Desarrollo de Cooperativas Agricolas
ACDI

Juan Pablo Cruz
Jefe de Operaciones
Fondo de Desarrollo Financiero

Hugo E. Rodriguez
Gerente General
Fondo de Desarrollo Financiero

Francisco Alvarenga A.
Gerente
Cooperativa Regional de Servicios
Agropecuarios "Fruta del Sol" Ltda.

Lynne Ann Gilliland
Asistente del Representante
Catholic Relief Services - USCC

Rocael Garcia A.
Asesor de Administracion Financiera
Director de Equipo
Consejo Mundial de Cooperativas de Ahorro y Credito (WOCCV)

Rene Chinchilla Rossell
Director Ejecutivo
Instituto Hondureno de Cooperativas

Alcides A. Andrade C.
Jefe de Division Desarrollo Cooperativo
Instituto Hondereno de Cooperativas

Mario Roberto Pagoaga
Jefe Division de Comercializacion
Union de Cooperativas de Servicios Agropecuarios, Ltda.

Raul Sanchez
Asesor para el Desarrollo de Cooperativas de Ahorro y Credito (COLAC)
Confederacion LatinoAmerica de Cooperativas de Ahorro y Credito

Jorge Flores Vallecillo
Asesor del Ministerio de Economia y Comercio
Presidente de la Junta Directiva, FDF

Hernan Hernandez
Asesor del Ministerio de Hacienda y Credito Publico

Rafael Rodezno
Gerente, UNIOCOOP

Ramon Nunez
Accountant, UNIOCOOP Administrative Division

Javier Castejon
Head, Development Division, UNIOCOOP

Victor Barahona
Manager, COHORSIL Cooperative

Guillermo Maradiaga
Manager, CREHSUL Cooperative

Rosalio Urqiudia
Manager, 20 de Marzo Cooperative

Arnaldo Castillo Guiza
Manager, FACACH

Cesar Carranza
Director de Credito Publico
Ministerio de Hacienda y Credito Publico

Herman Edas Pineda
Head, Development Finance Department of FDF

Federico Varela Herrera
Technical Assistant of NCBA in FDF

Jerry Deese
Technical Assistant of WOCCU in FDF

Carlos Villela
Economic Advisor in Ministry of Economy

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Samuel Tenorio
Ministry of Economy

Ernesto Paz
Ministry of Economy

David Schaer
Head of Rural Development Office, AID

John A. Sanbrailo
Director of AID/Honduras

Roger Norton
Sigma One Corporation
Agricultural Sector Policy Project in Honduras

Frank Bendana
Personal Services Contract with AID/Honduras

Melissa Stephens
Resource Development Office, AID/Honduras

APPENDIX C

Agribusiness System Impacts Resulting from SFOSP Project

Report to:

IMCC

Prepared by:

Sparks Commodities, Inc.

September 11, 1989

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Agribusiness System Impacts Resulting from SFOSP Project

A. Introduction

The estimated effects on production, foreign exchange and employment, due to participation by Honduran cooperatives in the SFOSP, can be measured at several levels of the Agribusiness System. These include the levels of input supply, agricultural production, first stage processing, second stage processing and marketing to wholesalers or retailers (See Figure 1). In the case of Honduran cooperatives very little is being done at the second stage processing level and it was not considered in this analysis.

In addition to these direct and measurable impacts a stronger cooperative movement can bring other social and commercial benefits to the communities and people they represent. The SFOSP has been aware of these impacts and has worked hard to strengthen the cooperatives to be ready to accept more resources in the next several years. While difficult to measure, these impacts are an important result of this project and are discussed.

B. Methodology

The methodology employed in assessing the impact is based on a comparison of what each of the eight present cooperatives of the UNIOCOOP federation intends to do between now and 1993 and what they actually did in the 1987/88 baseline period. The baseline period represents what each cooperative would achieve had the SFOSP not assisted. The resulting incremental differential between the baseline and the expected achievements each year is an outcome which can be totally or partially assigned to the project. Some cooperatives would have achieved substantial growth and expansion without the project; therefore, the TA team of FDF worked with our team to develop an assumption as regards the percentage of benefit that can be assigned to the project. It is also based on discussion with cooperative managers.

Several basic assumptions have been made and include:

* 1987/88 as the base year for each cooperative.

* Utilization of UNIOCOOP and affiliated cooperative development plans for the crop seasons 1988/89 to 1992/93. Discussions with coop managers also helped clarify plans.

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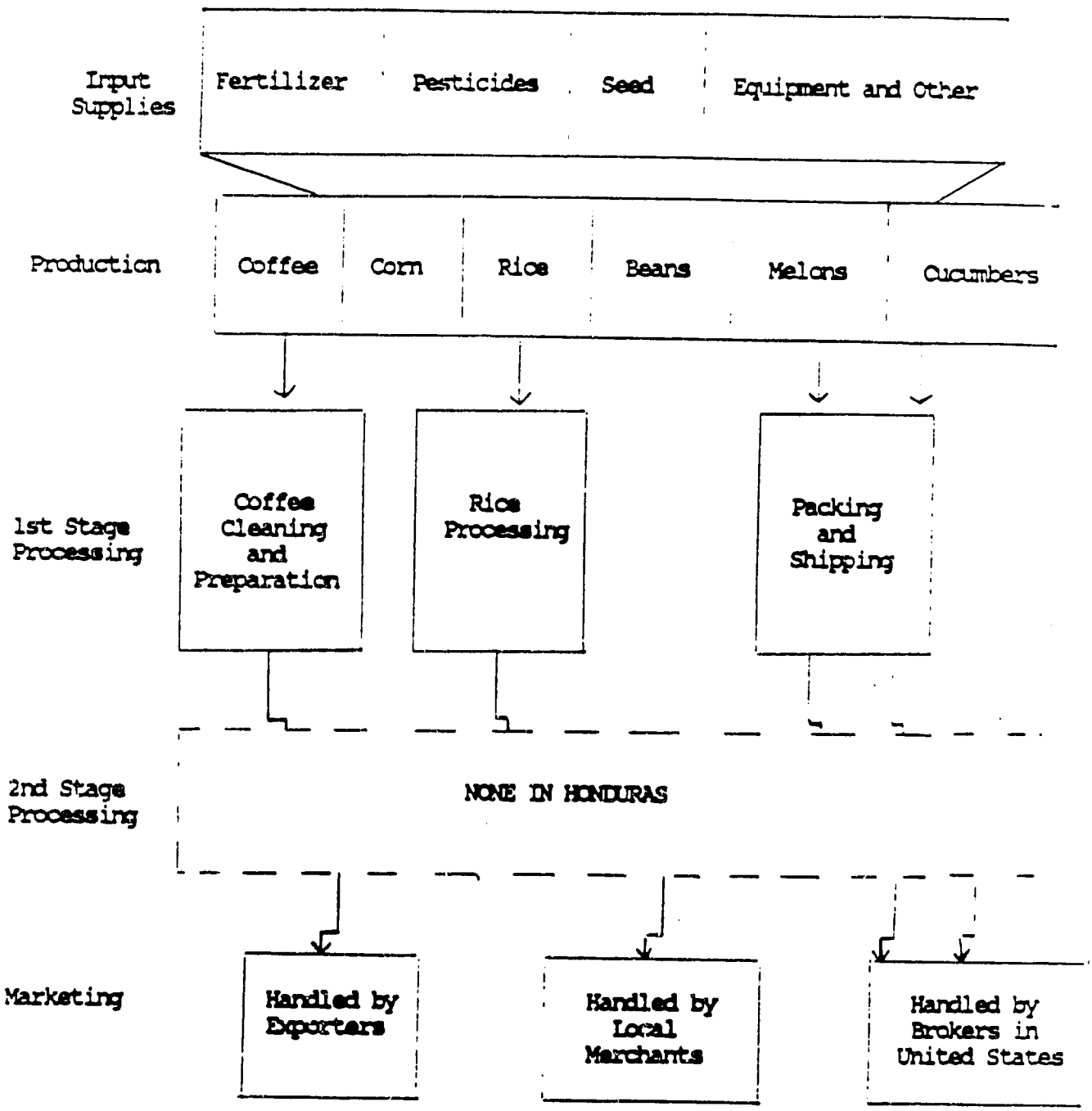
Figure 1.

Agribusiness System Considered in Honduras Analysis



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* Cooperatives are in the process of being stabilized and are ready or becoming prepared to receive expanded resource inputs.

* Analysis based on the six most important crops--coffee, corn, rice, beans, melons and cucumbers--produced under influence of cooperatives. This represents 88% of total production in base year.

* First stage processing activities for coffee, rice, melons and cucumbers.

* Present and future crop yield estimates

* Present and estimated prices received

* Present and future quality objectives considered

* Present and estimated production and processing costs

* Present and estimated labor requirements

* Export and Import substitution effects.

The specific assumptions are set out in Annex A. The specific equations of the model are set out on a Lotus 123 spreadsheet analysis. The key tables of the analysis are set out in Annex B.

C. Impact Summary

1. Estimated Production Effects

Successful implementation of the project will impact positively the agricultural and first stage processing sectors. When the planned five year program is complete it will have produced returns of $US 115.40 million (Table 1). Of this total, US $49.8 million is due to the project. The eight present coops affiliated with the program will contribute production and processing benefits of US $50.3 million of which US $23.8 million can be attributed to the project.

During the five year project it is intended that two more cooperatives will be incorporated into the program each year. When the program is completed the 16 affiliated coops will contribute to total project production and processing benefits of US $67.50 million and US $30.1 million of these benefits can be attributed to the project. The remainder of the total US $115.40 production and processing benefit (US $47.9 million) is contributed through the fertilizer program conducted by UNIOCOOP. The project can take credit for US$11.3 million of the US $47.9 million.

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Table 1. Estimated Agricultural/Ag. Processing Impacts due to UNIOCOOP/Affiliated Coops and SFOSP Institutional Development Program, 1987/88 to 1992/93

ITEM	RETURNS BASE YEAR 1987/88	RETURNS 1992/93 TOTAL	RETURNS 1992/93 DUE PROJECT	RETURNS ACCUMULATED FOR PROJECT'S (5 YEAR) TOTAL	RETURNS ACCUMULATED FOR PROJECT'S (5 YEAR) DUE PROJECT
	MILLION US$				
A. Production & Processing (1)					
Present 8 Co-ops					
Production	1.68	11.10	7.62	35.17	17.35
Processing & Marketing	0.74	4.40	2.30	15.04	6.41
Sub Total	2.42	15.50	9.92	50.21	23.76
With 8 added Co-ops (16 total)					
Production	1.68	16.70	10.10	47.00	21.70
Processing	0.74	6.90	3.30	20.50	8.40
Sub Total	2.42	21.90	13.40	67.50	30.10
Total Area Served by Uniocoop					
Production Sub Total	5.10	28.61	17.35	94.90	41.40
Total Production & Processing	5.90	35.51	20.65	115.40	49.80
B. Foreign Exchange Gain/Loss					
Present 8 Co-ops	-0.17	3.07	2.31	5.41	4.06
With 8 added Co-ops (16 total)	0.00	4.36	3.28	7.68	5.76
Total Area Served by Uniocoop	-0.36	8.71	6.70	12.55	7.28
C. Employment (Man years (000))					
Present 8 Co-ops	2.16	7.08	3.84	28.06	9.91
With 8 added Co-ops (16 total)	0.00	10.05	5.45	39.84	14.07
Total Area Served by Uniocoop	6.29	20.02	10.49	82.99	28.10

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When complete the groups affiliated with the project will have in place a production capability to continue to produce returns of $US 35.5 million each year (Table 1). Of this US$20.6 million will be due to the project. This represents a six fold increase over the returns realized in the base year.

If the project area set out in tables A B 4 & 5 can receive the full "tech pack" support of the project production benefits are as follows. In the base year (1987/88) the crops and process facilities influenced by the agricultural cooperatives served by UNIOCOOP produced annual net returns of $US 6.0 million. They generated total annual revenues of $US 24.8 million, and expenditures on fertilizer, pesticides, packaging materials, production labor and other operating items of $US 19.2 million. Of the crops under the influence of the cooperatives coffee and corn were by far the largest contributors. They contributed nearly 64 percent of total returns. Becoming more important are the non-traditional crops like melons and cucumbers; but, they are still small at 6-8 percent of the total.

In the fifth year of the plan (1992/93) as projected by the cooperatives and the FDF TA team, the crops influenced by the agricultural cooperatives served by UNIOCOOP will produce annual net returns of $US 35.5 million. They will generate total annual revenues of $US 105 million and expenditures on fertilizer, pesticides, packaging materials, production labor and other operating items of $US 71 million (Table AB 4 & 5). In the final year coffee remains the dominant crop under the influence of the cooperatives and accounts for about 42 percent of the production impact. Non-traditional crops increased in importance; but traditional crops of corn, rice and beans remained more important.

The growth in production is derived from two primary drivers. First, increased membership and influence with non-members that expanded the area under cultivation from 32,600 manzanas to 75,600 manzanas. Second, improved production practices and use of technological know how and inputs that expands yields. For example, coffee yields go from an average of 18 hundred weights per manzana in the base year to 33 hundred weights per manzana in the final year.

Increased net returns is also effected by an improvement in the quality of coffee. Presently coffee is discounted by $US 2-4 per hundred weight due to inferior quality. Participation in the project will improve the quality of Honduran coffee. It is expected that quality improvements will result in a premium for cooperative coffee. These improvements will result in increased annual returns of 4 to 6%.

Non traditional crops are presently meeting standards of quality required. If they didn't, the market would not accept the product. Traditional crops like corn, rice and beans have been assumed to experience a modest quality improvement. No price

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adjustments have been used to reflect improved quality for these crops.

The major strategic implication for production relates to the emphasis given one crop over another. One set of crops (coffee, melons, cucumbers) are export oriented and another set (corn, rice, beans) are basic staples required by the local consumer. As the production of basic staple crops increase to the point of self sufficiency the emphasis should shift to expanding exports and the earning of foreign exchange. Thus the strategic thrust should be to promote and support crops that add inflows of foreign exchange.

2. Employment

The employment impact resulting from the SFOSP is expected to be highly positive. In 1987/88 the participating cooperatives and farmers served by UNIOCOOP employed about 6,300 man years. In 1992/93, after five years into the project, it is expected that participating cooperatives and farmers served by UNIOCOOP will employ 20,000 man years of labor. This represents an increase in annual employment equal to 13,700 man years (Table 1). Over the next five years the cooperatives and farmers participating will employ 51,500 more man years than would have been the case had the cooperatives and farmers continued to employ people at the base year rate. Twenty-eight thousand one hundred (28,100) of the additional jobs are expected to result directly from the project.

Employment will be added at the production, processing and distribution levels. It will be added at the white collar, blue collar, and laboring class levels. Nearly ninety-five percent of the additional employment (49,000 man years) will be at the laboring class level. Of this additional employment most (55%) will be in coffee plantations. Further, most of the employment increase will be seasonal; therefore, it will impact nearly twice as many people.

3. Foreign Exchange

The SFOSP will generate a positive foreign exchange impact of about $US 12.5 million (Table 1). That is, it will generate $US 12.5 million more in foreign exchange earnings or savings than is spent for the required inputs of fertilizer and pesticides. In the final year, (1992/93) there will be $US 8.7 million more generated than is spent (Table 1). In the base year, expenditures vs. inflows were slightly negative. Much of the impact is generated through earnings but import substitution is important.

While positive, the level of the impact may require further refinement. The foreign exchange out flow accounts for the major imports of fertilizer and pesticides. The minor inputs like seed, packaging material and selected equipment items and spare parts have been discounted from the impact by lowering total impact 25%. As more precise data becomes available these estimates can be more correctly made. Strategically, as the balance of foreign exchange

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moves from a positive to negative position the SFOSP managers should work to focus resources on the export and import substitution crops.

D. Fertilizer Impacts

Above, Section C-1, the impacts for the overall package of inputs--fertilizer, pesticides, improved seed, improved process facilities, better production practices and more intense TA -- has been assessed. The primary difference between the above analysis and an assessment of fertilizers impact is a reduced use of inputs other than fertilizer.

A summary of the fertilizer analysis is set out at the bottom of table 2. The data shows the production returns to rise from $US 2.5 million in the base year to $US 10.1 million in the final year of project. A large part of the increase results from an expanded area; but, it is also due to a 33 percent increase in yield resulting from the better use and application of fertilizer. It is felt that of the increase 42 percent is attributed to the SFOSP. It is consistent with the findings of other studies where it has been shown that fertilizer can have a 30 to 40% impact on productivity. It is estimated that the fertilizer program alone will add 8,700 man years of employment and $US 2.4 million in foreign exchange over the five year period. In the final year of the project 3,000 man years would be employed as a result of expanded production, processing and, distribution due the fertilizer program.

E. Other Observations

The SFOSP has several impacts which are difficult to measure; but the benefits are extremely important and tangible. Two important observations involve stabilization and preparation of cooperatives and technical assistance support.

1. Stabilization and Preparation of Cooperatives

When the SFOSP was initiated the agricultural cooperatives to be recipients of the project were not ready to receive and absorb the assistance. Therefore, the project TA team has worked hard and diligently to prepare the cooperatives to receive assistance.

The TA team has reviewed the cooperatives financial situation and discussed the actions required to improve their financial stability and performance. They have worked with management to build realistic cooperative objectives and development plans. Most cooperatives have completed their plans. They have worked with the Managers and boards in thinking through the staffing situation and other management requirements of the organizations.

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TABLE 2. AGRIBUSINESS SYSTEM IMPACTS DUE UNIOCOOP/AFFILIATED COOPS AND SFCSP AGRICULTURAL STABILIZATION PROGRAM 1987/88 TO 1992/93

ESTIMATED IMPACTS	BASE YEAR	1988/89	1989/90	1990/91	1991/9	1992/93	ACCUMULATED 5 YEARS
	MILLION US $						
A. PRODUCTION IMPACT							
1. DUE PRODUCTION:							
Total Return	5.1	10.6	13.5	18.2	25.6	33.6	106.6
Increment Over Base	0.0	5.5	8.4	13.1	20.5	28.6	76.0
Increment Due Project	0.0	2.2	4.1	8.3	14.9	23.1	52.6
2. DUE PROCESSING & MARKETING:							
Total Return	0.74	1.5	2.0	2.8	3.6	4.4	15.0
Increment Over Base	0.0	0.8	1.3	2.1	2.9	3.7	10.6
Increment Due Project	0.0	0.4	0.8	1.1	1.8	2.3	6.4
B. FOREX IMPACT							
Forex Spent (Fert. & Pest)	1.9	3.7	4.8	5.4	6.0	6.7	28.5
Forex Received (Total)	1.4	2.7	2.6	4.8	8.8	13.2	33.5
Import Substitution	0.0	1.0	2.1	2.7	2.8	2.8	11.4
FOREX GAIN/LOSS	(0.5)	0.0	(0.1)	2.1	5.6	9.3	16.4
Increment Over Base	0.0	0.5	0.4	2.6	6.1	9.8	19.4
Percent Due Project	75%	75%	75%	75%	75%	75%	75%
Increment Due Project	(0.4)	0.0	(0.1)	1.6	4.2	7.0	12.30

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TABLE 2. CONT.

ESTIMATED IMPACTS	BASE YEAR	1988/89	1989/90	1990/91	1991/92	1992/93	ACCUMULATED 5 YEARS
	MAN YEAR (1) (000)						
C. EMPLOYMENT IMPACT							
1. PRODUCTION LABOR							
Total Employed	6.15	10.50	12.20	14.30	17.00	20.40	80.6
Increment Over Base	0.0	4.35	6.05	8.15	10.85	14.25	43.6
Increment Due Project	0.0	1.72	3.00	5.00	7.80	11.10	28.6
2. PROCESSING/MARKETING LABOR							
Total Employed	0.09	0.15	0.20	0.24	0.27	0.30	1.25
Increment Over Base	0.00	0.06	0.11	0.15	0.18	0.21	0.73
Increment due Project		0.02	0.06	0.09	0.13	0.17	0.47
3. DISTRIBUTION LABOR							
Total Employed	0.09	0.10	0.11	0.12	0.13	0.14	0.69
Increment Over Base		0.01	0.02	0.03	0.04	0.05	0.15
Increment due Project		0.00	0.01	0.02	0.03	0.04	0.10
D. FERTILIZER IMPACT	MILLION US $						
Production total Return	2.5	5.3	6.3	7.6	8.7	10.1	40.55
Due Project		1.1	1.8	3.2	4.5	6.20	16.79
Forex Due Project	0.0	(0.5)	(0.9)	(0.1)	2.3	5.9	6.74
	MAN YEAR (1) (000)						
Employment Due Project	0.00	0.50	1.0	1.60	2.40	3.30	8.8

In visits to the cooperatives one senses a good rapport between TA team members and the cooperative management. TA team members have established a rapport that permits them to interact with management and boards to influence decisions. One also senses that the cooperatives have a confidence and stability of management that will permit them to utilize the resource assistance programs positively.

Working to build stronger more prepared cooperatives is a vital like in realizing full potential of the project. Without this base the impacts expected from the project would be difficult if not impossible to realize. Patience with the strengthening and preparation process is important to the effective placement of resources and a successful project result.

2. Technical Assistance Support

As mentioned above the TA team has been working effectively to influence stabilization and managerial strengthening of the cooperatives. However, as resources are released to the cooperatives three additional focuses for TA will be required.

First, the cooperatives will need expanded technical and extension assistance, particularly as they work to introduce new crops and or process activities. UNIOCCOP should be aware of these needs as they arise and help the cooperatives find the assistance. It may be advisable to get a production/process industry person on the tA team in the next year.

Second, the cooperatives will be expanding production and the need for better representation in markets. They will need improved market information and assistance. Capability should be established that will allow each cooperative expanded access to market information and intelligence. This can be accomplished by establishing TA capabilities within UNIOCCOP. It may be provided by helping cooperatives identify and utilize information already being developed by such groups as FEDPROEXA.

Thirdly, as the cooperatives grow they will need support in evaluating new business opportunities. This could be accomplished via a business analysis and planning group established centrally within UNIOCCOP. It would work with the management teams of each cooperative to assist in plan preparation work and analyses of new ventures. It could be the redefinition and expansion of the scope which is now being carried out by FDF.

Annex A

Description of Basic Assumptions

Several basic assumptions have been made and include:

* 1987/88 as the base year for each cooperative.

  This was chosen as the base year because it tended to represent a year of reasonable stability for each cooperative. Further, it represented a time when each cooperative was clearer as to the production strategy on which future growth would occur.

* Utilization of UNIOCOOP and affiliated cooperative development plans for the crop seasons 1988/89 to 1992/93. Discussions with coop managers also helped clarify plans.

  These plans lay out intentions as regard the number of manzanas (1.7 acres to the manzana) each cooperative intends to influence. It also spells out the type of commodity they intend to produce. These plans are the fundamental basis for the impact analysis. It is believed that the plans are achievable and realistic as they have been developed jointly from the ground up by the cooperative managers and the FDF TA advisors. Two more cooperatives are intended to be added each year.

* Cooperatives are in the process of being stabilized and are becoming prepared to receive expanded resource inputs.

  Each cooperative included has been or is being screened and assisted through a stabilization program. They are being prepared to receive additional resources and are or will be in a position to utilize them more effectively as they implement their plan.

* The Analysis has been based on six -- coffee, corn, rice, beans, melons and cucumbers -- major crops produced under the influence of the cooperatives.

  The six crops chosen were selected because they represent 88% of the total crop production under the influence of the cooperatives during the next five years. Thus, they account for most of the impact of the project and serve as a proxy for the 12% not covered by them.

  The production comes from existing and new areas. It comes from member and non-member producers. It consists of export oriented crops--coffee, melons, cucumbers--and basic staple crops--corn, rice, beans. All in all, the crop selection is a good representation of what is happening on the ground.

* First stage processing activities are only relevant for coffee, melons, cucumbers and rice.

  Impacts attributed to project resulting from first stage processing include coffee beneficiating, melon and cucumber packing and rice beneficiating.

* Present and future crop yield estimates.

  For base year calculations present yields have been assumed. It has been assumed that these yields will improve over the next five years as the project TA team has a chance to influence productivity. This influence will come through use of better production practices and more adequate use of fertilizer, pesticides and other production inputs. The yield assumptions are set out in Annex B Tables 2 and 4.

* Present and estimated prices received.

  Prices received by farmers, processors, marketers form a critical base to the analysis. The prices used were those provided by FDF's TA team. They were prices used by the team and cooperatives in preparing their plans. Due to uncertainty that has been brought about by the international coffee agreement breakdown, we have adjusted prices down for coffee. We expect that Honduras will experience less impact on prices than other countries as they produce mild coffee and if of good quality it will command a higher price.

  The prices were held constant over the five year period. For many crops prices fluctuate widely from one year to the next; therefore, an average was assumed to smooth results. As prices are a critical variable it may be necessary to run several sensitivity analyses to establish a greater degree of confidence.

* Present and future quality objectives.

  For coffee, the major commodity produced by cooperative members, it was assumed that quality would improve over the next five years. Presently, coffee growers and benefactors receive a discounted price on the international market because the market perceives the coffee to be of low quality. During the five year time line of this analysis it is expected that coffee quality will improve. The analysis takes this into consideration through price improvements over the years.

* Present and Estimated Production and Processing Costs.

Costs of production and processing are assumed to be as experienced by the growers and processors. Many of the present costs are high due to poor production practice. It has been assumed that production practices would improve as the project goes forward and assistance is provided. This would result in improved yields and lower costs per unit. This improvement has been accounted for in the analysis through lowering of costs each year on crops where gains were expected.

* Present and Estimated Labor Requirements.

Labor utilization assumptions were based on production experience for each crop and/or process facility. For example, it is known that it requires a certain number of man days to prune, fertilize, pest and weed control, harvest, etc. a manzana of coffee plantation. These known experiences adjusted to reflect the level of technology employed from the basis of our labor utilization assumptions.

Estimates used for beneficiating coffee and rice were obtained from the managers of the operations. This was also the case for cucumber and melon packing. Detailed man day or man year assumptions are spelled out in Annex B Table 5.

* Export/Import Substitution Effects.

Among the mix of commodities included in our evaluation coffee, melons and cucumbers are export oriented crops. The export history of each crop was examined and the opinion of managers was used in arriving at the assumption concerning the amount of production that goes to export. See Annex B Table 4 page 3 for the assumption used.

Corn, rice and beans, the other crops used in the evaluation, are commodities generally imported and seldom exported. Beans are generally produced in sufficient quantity to provide self sufficiency; but, in the past year some were imported. Corn and rice imports occur nearly every year; but, vary according to national production success. The assumption used was based on average imports of corn and rice over the past five years.

ANNEX B

Analytic tables related to production, processing, marketing and fertilizer effects of UNIOCCOP, affiliated coops and SFOSP.

1. Annex B, Table 1 - Agricultural Input Plan of UNIOCOOP, 1987/88 to 1992/93.

This table summarizes only the fertilizer portion of the plan and modified to 27,500 MT in 1992/93 from 25,000 MT.

2. Annex B, Table 2 - Production and Forex Import by Major Crop due to UNIOCOOP/Affiliated Coops and SFOSP Fertilizer Program, 1987/88 to 1992/93.

This table forms the basis for numbers used in preparing the fertilizer impact estimates shown in Table 2 of text.

3. Annex B, Table 3 - Employment Impact of major crop due UNIOCOOP/Affiliated Coops and SFOSP Fertilizer Program, 1987/88 to 1992/93.

This table forms the basis for numbers used in preparing the employment impact used in Table 1 due to fertilizer. The estimate in Table 1 is based on a 40% share of the total employment shown in this table. This is because many factors other than fertilizer come into play when fertilizer is used. A 40% attribution of the effect to fertilizer should be reasonable.

4. Annex B, Table 4 - Production and Labor Impact by Crop due to UNIOCOOP, Affiliated Coops and SFOSP, 1987/88 to 1992/93.

This table forms the basis of the production labor and foreign exchange impact summarized into Table 1 and 2 of text.

5. Annex B, Table 5 - Processing and Marketing Impact on Major Commodities due to UNIOCOOP, Affiliated Coops and SFOSP, 1987/88 to 1992/93.

This table forms the basis for the data summarized into Table 1 and 2 of text.

6. Annex B, Table 6 - Foreign Exchange Impact.

This table is based on others in the analysis. The outcomes form the basis for the conclusion in Table 1 and 2 of text.

ANNEX [illegible] AGRICULTURAL INPUT PLAN OF UNIOCOOP, 1987/88 TO 1992/93

	1987/1988			1988/1989			1989/90		
	QUANTITY (MT)	IMP/VALUE (US$000)	VALUE (US$000)	QUANTITY (MT)	IMP/VALUE (US$000)	VALUE (US$000)	QUANTITY (MT)	IMP/VALUE (US$000)	VALUE (US$000)
UNIOCOOP IMPORTS									
FERTILIZER	8,000	1,664	2,656	15,000	3,120	5,100	20,000	4,160	6,800
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
DISTRIBUTION TO COOPS									
CLANCHO									
FERTILIZER	491	102	163	920	191	313	1,227	255	[illegible]
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
CANDELARIA									
FERTILIZER	227	47	75	425	88	145	567	118	193
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
LAGO DE YOJOA									
FERTILIZER	931	194	309	1,745	363	593	2,327	484	791
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
MAYA OCCIDENTAL									
FERTILIZER	1,092	227	363	2,048	426	696	2,729	568	928
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
FRUTA DEL SOL									
FERTILIZER	108	22	36	202	42	69	272	57	92
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
CRENSUL									
FERTILIZER	458	95	152	860	179	292	1,145	238	389
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
CONORSIL									
FERTILIZER	86	18	29	161	33	55	216	45	73
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
20 DE MARZO									
FERTILIZER	422	88	140	792	165	269	1,057	220	359
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
OTHER CENTERS									
FERTILIZER	4,185	870	1,389	7,847	1,632	2,668	10,460	2,176	3,556
PESTICIDES									
OTHER INPUTS									
SUB TOTAL									
TOTAL	8,000	1,664	2,656	15,000	3,120	5,100	20,000	4,160	6,800

Annex B. Table 1. AGRICULTURAL INPUT PLAN OF UNIOCOOP, 1987/88 TO 1992/93

	1990/1991			1991/1992			1992/1993		
	QUANTITY (MT)	IMP/VALUE (US$000)	VALUE (US$000)	QUANTITY (MT)	IMP/VALUE (US$000)	VALUE (US$000)	QUANTITY (MT)	IMP/VALUE (US$000)	VALUE (US$000)
UNIOCOOP IMPORTS									
FERTILIZER	22,500	4,680	7,650	25,000	5,200	8,500	27,500	5,720	9,350
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
DISTRIBUTION TO COOPS									
OLANCHO									
FERTILIZER	1,380	287	469	1,533	319	521	1,686	351	573
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
CANDELARIA									
FERTILIZER	638	133	217	709	147	241	779	162	265
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
LAGO DE YOJOA									
FERTILIZER	2,617	544	890	2,908	605	989	3,199	665	1,088
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
MAYA OCCIDENTAL									
FERTILIZER	3,069	638	1,043	3,410	709	1,159	3,751	780	1,275
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
FRUTA DEL SOL									
FERTILIZER	305	63	104	339	71	115	372	77	126
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
CRENSUL									
FERTILIZER	1,286	267	437	1,429	297	486	1,572	327	534
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
CONORSIL									
FERTILIZER	241	50	82	268	56	91	295	61	100
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
20 DE MARZO									
FERTILIZER	1,188	247	404	1,320	275	449	1,453	302	494
PESTICIDES									
OTHERS INPUTS									
SUB TOTAL									
OTHER CENTERS									
FERTILIZER	11,776	2,449	4,004	13,086	2,721	4,449	14,393	2,994	4,894
PESTICIDES									
OTHER INPUTS									
SUB TOTAL									
TOTAL	22,500	4,680	7,650	25,000	5,200	8,500	27,500	5,720	9,350

AND CROP FERTILIZER PROGRAM, 1987/88 TO 1992/93.

MAJOR CROPS	YEARS	APPLICAT. OF FERT. (qq/MZ)	APPLICAT. PESTICID. (qq/MZ)	YIELD (qq)/Boxes	AREA (MZ)	PRODUCTION (000) qq	PRICE (Lps/qq) (Lps/Box)	VALUE (000) Lps	COST/MZ (Lps/qq) (Lps/Box)	TOTAL COST (000 Lps)	RETURN (000) Lps
COFFEE											
*	1987/1988	12.00	0.0100	18.00	7,480	135	110.00	14,810	90.00	12,118	2,693
	1988/1989	18.00	0.0140	22.00	11,713	258	110.00	28,345	90.00	23,192	5,154
	1989/1990	15.00	0.0140	25.00	12,783	320	100.00	31,958	85.00	27,164	4,794
	1990/1991	15.00	0.0150	25.00	14,470	362	100.00	36,175	85.00	30,749	5,426
	1991/1992	15.00	0.0160	25.00	16,343	409	100.00	40,858	85.00	34,729	6,129
	1992/1993	15.00	0.0180	25.00	18,256	456	100.00	45,640	85.00	38,794	6,846
CORN											
*	1987/1988	2.00	0.0150	30.00	17,514	525	17.00	8,932	10.00	5,254	3,678
	1988/1989	3.00	0.0030	42.00	27,406	1,151	17.00	19,568	10.00	11,511	8,057
	1989/1990	4.00	0.0030	47.00	30,147	1,417	17.00	24,087	9.00	12,752	11,335
	1990/1991	5.00	0.0030	52.00	33,161	1,724	17.00	29,314	9.00	15,519	13,795
	1991/1992	6.00	0.0030	56.00	36,477	2,043	17.00	34,726	9.00	18,384	16,342
	1992/1993	7.00	0.0030	60.00	40,124	2,407	17.00	40,926	9.00	21,667	19,260
RICE											
*	1987/1988	4.00	0.0040	50.00	1,240	62	20.00	1,240	14.00	868	372
	1988/1989	6.00	0.0050	60.00	1,948	117	20.00	2,338	13.00	1,519	818
	1989/1990	6.00	0.0050	60.00	2,143	129	20.00	2,572	13.00	1,672	900
	1990/1991	7.00	0.0050	62.00	2,357	146	20.00	2,923	13.00	1,900	1,023
	1991/1992	7.00	0.0050	63.00	2,592	163	20.00	3,266	13.00	2,123	[illegible]
	1992/1993	7.00	0.0050	65.00	2,852	185	20.00	3,708	13.00	2,410	1,298
BEANS											
*	1987/1988	2.00	0.0010	16.00	5,838	93	80.00	7,473	60.00	5,604	1,868
	1988/1989	3.00	0.0015	18.00	9,011	162	80.00	12,976	56.00	9,083	3,893
	1989/1990	3.00	0.0015	18.00	9,912	178	80.00	14,273	56.00	9,991	4,282
	1990/1991	4.00	0.0015	20.00	10,903	218	80.00	17,445	55.00	11,993	5,452
	1991/1992	4.00	0.0015	20.00	11,993	240	80.00	19,189	55.00	13,192	5,997
	1992/1993	4.00	0.0015	20.00	13,193	264	80.00	21,109	55.00	14,512	6,597
				BOXES			BOXES		BOXES		
MELONS											
*	1987/1988	4.00	0.0050	225.00	500	113	10.50	1,181	7.60	855	326
	1988/1989	5.00	0.0050	275.00	720	198	10.50	2,079	7.20	1,426	653
	1989/1990	5.00	0.0050	275.00	792	218	10.50	2,287	7.20	1,568	719
	1990/1991	6.00	0.0050	284.00	871	247	10.50	2,597	7.0	1,732	866
	1991/1992	6.00	0.0050	284.00	958	272	10.50	2,857	7.0	1,905	952
	1992/1993	7.00	0.0050	320.00	1,054	337	10.50	3,541	6.80	2,294	1,248
CUCUMBERS											
*	1987/1988	8.00	0.0100	700.00	40	28	8.00	224	7.20	202	22
	1988/1989	9.00	0.0120	725.00	49	36	8.00	284	7.0	249	36
	1989/1990	10.00	0.0120	775.00	72	56	8.00	446	6.60	368	78
	1990/1991	10.00	0.0120	775.00	86	67	8.00	533	6.60	440	93
	1991/1992	11.00	0.0120	825.00	100	83	8.00	660	6.30	520	140
	1992/1993	12.00	0.0120	850.00	114	97	8.00	775	6.20	601	174
TOTALS (000, Lps)								481,315		338,858	142,457
(000,US $)								240,658		169,429	$ 71,229

[illegible] AND SFOSP FERTILIZER PROGRAM, 1987/88 TO 1992/93. (CONT.)

MAJOR CROPS	YEARS	RETURN/MZ (LPS)	INCREM. RETURN (000 Lps)	INCREM. RETURN/Mz Lps	% BENEFIT ATTRIBUT. TO PROJE	BENEFIT DUE PROJECT (000 Lps)	% EXPORTED	EXPORT RETURN (000 Lps)	IMPORT SUBS. (000 Lps)
COFFEE									
*	1987/1988	360.00	0	0	0.00%	0	91.00%	2,450	
	1988/1989	440.00	2,461	210	40.00%	984	91.00%	[illegible]	
	1989/1990	375.00	2,101	164	50.00%	1,050	91.00%	4,362	
	1990/1991	375.00	2,733	189	60.00%	1,640	91.00%	[illegible],938	
	1991/1992	375.00	3,436	210	70.00%	2,405	91.00%	5,577	
	1992/1993	375.00	4,153	227	75.00%	3,115	91.00%	6,230	
CORN									
*	1987/1988	210.00	0	0	0.00%	0		0	[illegible]
	1988/1989	294.00	4,379	160	40.00%	1,752		0	[illegible]
	1989/1990	376.00	7,657	254	50.00%	3,829		0	[illegible]
	1990/1991	416.00	10,117	305	65.00%	6,576		1,476	[illegible]
	1991/1992	448.00	12,664	347	75.00%	9,498		4,398	[illegible]
	1992/1993	480.00	15,582	388	85.00%	13,244		8,[illegible]44	[illegible]
RICE									
*	1987/1988	300.00	0	0	0.00%	0		0	[illegible]
	1988/1989	420.00	446	229	40.00%	178		0	[illegible]
	1989/1990	420.00	528	246	50.00%	264		0	[illegible]
	1990/1991	434.00	651	276	65.00%	423		0	[illegible]
	1991/1992	441.00	771	297	75.00%	578		0	[illegible]
	1992/1993	455.00	926	325	85.00%	787		[illegible]	[illegible]
BEANS									
*	1987/1988	320.00	0	0	0.00%	0		0	
	1988/1989	432.00	2,025	225	40.00%	810		0	
	1989/1990	432.00	2,414	244	50.00%	1,207		0	
	1990/1991	500.00	3,583	329	65.00%	2,329		0	
	1991/1992	500.00	4,128	344	75.00%	3,096		0	
	1992/1993	500.00	4,728	358	85.00%	4,019		0	
MELONS									
*	1987/1988	652.50	0	0	0.00%	0	100.00%	326	
	1988/1989	907.50	327	454	30.00%	98	100.00%	653	
	1989/1990	907.50	392	496	40.00%	157	100.00%	719	
	1990/1991	994.00	540	619	45.00%	243	100.00%	866	
	1991/1992	994.00	626	653	45.00%	282	100.00%	952	
	1992/1993	1184.00	922	874	50.00%	461	100.00%	1,248	
CUCUMBERS									
*	1987/1988	560.00	0	0	0.00%	0	100.00%	22	
	1988/1989	725.00	13	268	10.00%	1	100.00%	36	
	1989/1990	1085.00	56	774	20.00%	11	100.00%	78	
	1990/1991	1085.00	71	825	25.00%	18	100.00%	93	
	1991/1992	1403	118	1179	35.00%	41	100.00%	140	
	1992/1993	1530.00	152	1334	40.00%	61	100.00%	174	
TOTALS (000, Lps)			88,700			59,158		47,821	[illegible]
(000,US $)			$ 44,350			$ 29,579		$ 23,910	[illegible]

Annex B Table 3. EMPLOYMENT IMPACT BY MAJOR CROPS DUE UNIOCOOP/AFFILIATED AND SFOSP FERTILIZER PROGRAM, 1987/88 TO 1992/93.

MAJOR CROP	YEARS	AREA (MZ)	LABOR/MZ	LABOR EMP MAN DAYS (000)	INCREM.LABOR MAN DAYS (000)
COFFEE					
*	1987/1988	7,480	125.00	935	0
	1988/1989	11,713	138.00	1,616	681
	1989/1990	12,783	148.00	1,892	957
	1990/1991	14,470	143.00	2,069	1,134
	1991/1992	16,343	143.00	2,337	1,402
	1992/1993	18,256	149.00	2,720	1,785
CORN					
*					
	1987/1988	17,514	20.00	350	0
	1988/1989	27,406	22.00	603	253
	1989/1990	30,147	22.00	663	313
	1990/1991	33,161	24.00	796	446
	1991/1992	36,477	25.00	912	562
	1992/1993	40,124	25.00	1,003	653
RICE					
*	1987/1988	1,240	84.00	104	0
	1988/1989	1,948	100.00	195	91
	1989/1990	2,143	100.00	214	110
	1990/1991	2,357	104.00	245	141
	1991/1992	2,592	106.00	275	171
	1992/1993	2,852	108.00	308	204
BEANS					
*	1987/1988	5,838	70.00	409	0
	1988/1989	9,011	73.00	658	249
	1989/1990	9,912	73.00	724	315
	1990/1991	10,903	75.00	818	409
	1991/1992	11,993	75.00	899	491
	1992/1993	13,193	75.00	989	581
MELONS					
*	1987/1988	500	66.00	33	0
	1988/1989	720	74.00	53	20
	1989/1990	792	68.00	54	21
	1990/1991	871	75.00	65	32
	1991/1992	958	75.00	72	39
	1992/1993	1,054	83.00	87	54
CUCUMBERS					
*	1987/1988	40	381.00	15	0
	1988/1989	49	388.00	19	4
	1989/1990	72	402.00	29	14
	1990/1991	86	402.00	35	19
	1991/1992	100	410.00	41	26
	1992/1993	114	420.00	48	33
TOTALS (man days)				22,286	11,208
(man years)				74.3	37.4

Annex B TABLE 4.-PRODUCTION AND LABOR IMPACT BY CROP DUE TO UNIOCOOP/AFFILIATED COOPS AND SFOSP, 1987/88 TO 1992/93. PAGE

MAJOR CROPS		YIELD (qq/MZ)	AREA (MZ)	PRODUCT. (000 qq)	PRICE (LPS/qq)	VALUE (000 Lps)	COST (Lps/qq)	TOTAL COST (000 Lps)
COFFEE:								
*	1987/88	18.00	7,480	135	110.00	14,810	90.00	12,118
	1988/89	22.00	11,713	258	110.00	28,345	90.00	23,192
	1989/90	25.00	12,783	320	100.00	31,958	85.00	27,164
	1990/91	28.00	14,470	405	100.00	40,516	81.00	32,818
	1991/92	30.00	16,343	490	100.00	49,029	74.00	36,281
	1992/93	33.00	18,256	602	100.00	60,245	71.00	42,774
CORN:								
*	1987/88	30.00	17,514	525	17.00	8,932	10.00	5,254
	1988/89	42.00	27,406	1,151	17.00	19,568	10.00	11,511
	1989/90	50.00	30,147	1,507	17.00	25,625	9.00	13,566
	1990/91	60.00	33,161	1,990	17.00	33,824	9.00	17,907
	1991/92	70.00	36,477	2,553	17.00	43,408	8.50	21,704
	1992/93	80.00	40,124	3,210	17.00	54,569	8.00	25,679
RICE:								
*	1987/88	50.00	1,240	62	20.00	1,240	14.00	868
	1988/89	60.00	1,948	117	20.00	2,338	13.00	1,519
	1989/90	65.00	2,143	139	20.00	2,786	13.00	1,811
	1990/91	70.00	2,357	165	20.00	3,300	12.50	2,062
	1991/92	75.00	2,592	194	20.00	3,888	12.00	2,333
	1992/93	80.00	2,852	228	20.00	4,563	12.00	2,738
BEANS:								
*	1987/88	16.00	5,838	93	80.00	7,473	60.00	5,604
	1988/89	18.00	9,011	162	80.00	12,976	56.00	9,083
	1989/90	20.00	9,912	198	80.00	15,859	55.00	10,903
	1990/91	22.00	10,903	240	80.00	19,189	55.00	13,193
	1991/92	24.00	11,993	288	80.00	23,027	54.00	15,543
	1992/93	25.00	13,193	330	80.00	26,386	53.00	17,481
		BOXES		BOXES				
MELONS								
*	1987/88	225.00	500	113	10.50	1,181	7.60	855
	1988/89	275.00	720	198	10.50	2,079	7.20	1,426
	1989/90	300.00	792	238	10.50	2,495	7.00	1,663
	1990/91	325.00	871	283	10.50	2,972	6.80	1,925
	1991/92	350.00	958	335	10.50	3,521	6.40	2,146
	1992/93	400.00	1,054	422	10.50	4,427	6.00	2,530
CUCUMBERS								
*	1987/88	700.00	40	28	8.00	224	7.20	202
	1988/89	837.00	49	41	8.00	328	6.80	279
	1989/90	871.00	72	63	8.00	502	6.50	408
	1990/91	889.00	86	76	8.00	612	6.20	474
	1991/92	906.00	100	91	8.00	725	6.00	544
	1992/93	906.00	114	103	8.00	826	5.80	599
TOTAL (000, Lps)						553,744		366,155
(000,US $)						276,872		183,077
(000, man days)								

* BASE YEAR

Annex B TABLE 4.-PRODUCTION AND LABOR IMPACT BY CROP DUE TO UNIOCOOP/AFFILIATED COOPS AND SFOSP, 1987/88 TO 1992/93. (PAGE 2

MAJOR CROPS		RETURN (000 Lps)	RETURN/MZ (LPS)	INCREMENT RETURN (000 Lps)	INCREMENT RETURN/MZ Lps	% ATTRIBUTED TO PROJECT	BENEFIT DUE PROJECT (000 Lps)
COFFEE:							
*	1987/88	2,693	360	0	0	0.00%	0
	1988/89	5,154	440	2,461	210	40.00%	984
	1989/90	4,794	375	2,101	164	50.00%	1,050
	1990/91	7,698	532	5,005	346	60.00%	3,003
	1991/92	12,748	780	10,055	615	70.00%	7,038
	1992/93	17,471	957	14,778	809	75.00%	11,084
CORN:							
*	1987/88	3,678	210	0	0	0.00%	0
	1988/89	8,057	294	4,379	160	40.00%	1,752
	1989/90	12,059	400	8,381	278	50.00%	4,190
	1990/91	15,917	480	12,239	369	65.00%	7,956
	1991/92	21,704	595	18,026	494	75.00%	13,519
	1992/93	28,889	720	25,211	628	85.00%	21,430
RICE:							
*	1987/88	372	300	0	0	0.00%	0
	1988/89	818	420	446	229	40.00%	178
	1989/90	975	455	603	281	50.00%	302
	1990/91	1,237	525	865	367	65.00%	563
	1991/92	1,555	600	1,183	456	75.00%	887
	1992/93	1,825	640	1,453	510	85.00%	1,235
BEANS:							
*	1987/88	1,868	320	0	0	0.00%	0
	1988/89	3,893	432	2,025	225	40.00%	810
	1989/90	4,956	500	3,088	312	50.00%	1,544
	1990/91	5,997	550	4,128	379	65.00%	2,684
	1991/92	7,484	624	5,615	468	75.00%	4,212
	1992/93	8,905	675	7,037	533	85.00%	5,982
MELONS							
*	1987/88	326	653	0	0	0.00%	0
	1988/89	653	907	327	454	30.00%	98
	1989/90	832	1,050	505	638	40.00%	202
	1990/91	1,047	1,203	721	828	45.00%	325
	1991/92	1,375	1,435	1,048	1,094	45.00%	472
	1992/93	1,897	1,800	1,571	1,490	50.00%	785
CUCUMBERS *	1987/88	22	560	0	0	0.00%	0
	1988/89	49	1,004	27	547	10.00%	3
	1989/90	94	1,307	72	995	20.00%	14
	1990/91	138	1,600	115	1,340	25.00%	29
	1991/92	181	1,812	159	1,588	35.00%	56
	1992/93	227	1,993	205	1,797	40.00%	82
TOTAL (000, Lps)		187,589		133,832			92,468
(000,US $)		93,795		66,916			46,234
(000, man days)							

* BASE YEAR

Annex B TABLE 4.-PRODUCTION AND LABOR IMPACT BY CROP DUE TO UNIOCOOP/AFFILIATED COOPS AND SFOSP, 1987/88 TO 1992/93. (PAGE 3.)

MAJOR CROPS		LABOR/Mz Man-Days	LABOR EMP MAN/DAYS (000)	INCREMENTAL LABOR M/DAYS (000)	LABOR/BEN PROJECT (000 M/D)	% EXPORTED	TOTAL EXPORT/RTN (000 Lps)
COFFEE:							
*	1987/88	125	935	0	0	91.00%	2,450
	1988/89	138	1,616	681	273	91.00%	4,690
	1989/90	148	1,892	957	478	91.00%	6,362
	1990/91	155	2,243	1,308	785	91.00%	7,205
	1991/92	165	2,697	1,762	1,233	91.00%	11,600
	1992/93	180	3,286	2,351	1,763	91.00%	15,899
CORN:							
*	1987/88	20	350	0	0		
	1988/89	22	603	253	101		
	1989/90	23	693	343	172		
	1990/91	25	829	479	311		
	1991/92	28	1,021	671	503		
	1992/93	30	1,204	853	725		
RICE:							
*	1987/88	84	104	0	0		
	1988/89	100	195	91	36		
	1989/90	108	231	127	64		
	1990/91	115	271	167	108		
	1991/92	122	316	212	159		
	1992/93	130	371	267	227		
BEANS:							
*	1987/88	70	409	0	0		
	1988/89	73	658	249	100		
	1989/90	75	743	335	167		
	1990/91	77	840	431	280		
	1991/92	80	959	551	413		
	1992/93	82	1,082	673	572		
MELONS							
*	1987/88	66	33	0	0	100.00%	326
	1988/89	74	53	20	6	100.00%	653
	1989/90	78	62	29	12	100.00%	832
	1990/91	85	74	41	18	100.00%	1,047
	1991/92	92	88	55	25	100.00%	1,375
	1992/93	104	110	77	38	100.00%	1,897
CUCUMBERS							
*	1987/88	381	15	0	0	100.00%	22
	1988/89	404	20	5	0	100.00%	49
	1989/90	427	31	16	3	100.00%	94
	1990/91	450	39	23	6	100.00%	138
	1991/92	473	47	32	11	100.00%	181
	1992/93	500	57	42	17	100.00%	227
TOTAL (000, Lps)							52,849
(000,US $)							26,424
(000, man days)			24,177	13,099	8,608		

* BASE YEAR

Annex B TABLE 5.-PROCESSING AND MARKETING IMPACT ON MAJOR COMMODITIES DUE TO UNIOCOOP/AFFILIATED COOPS AND SFOSP, 1987/88 TO 1992/93.

UNIOCOOP AFFILIATED COOPERATIVES	YEARS	QUANTITY RECEIVED FOR PRO-CESSING/ PACKING (qq/Boxes)	YIELD ORO (qq)	TOTAL REVENUE (000 Lps)	COST Lps/qq	TOTAL COST (000 Lps)	RETURNS (000 Lps)	INCREMENT RETURNS (000 Lps)	PROC/MKT % ATTRIBUTE TO PROJEC	INCR/BENF ATTRIBUTE PROJECT (000 Lps)	TOTAL LABOR USED MAN/YEARS	% ATTRIBUT TO PROJEC	EMPL/INCR ATTRIBUT PROJECT MAN/YEARS
OLANCHO													
*	1987/88	12,000	9,600	1,440	133	1,277	163	0	0.00%	0	8	0.00%	0
	1988/89	24,000	19,200	2,895	128	2,458	437	274	50.00%	137	13	27.00%	4
	1989/90	25,000	20,000	2,832	117	2,340	492	329	65.00%	214	13	30.00%	4
	1990/91	30,000	24,000	3,421	116	2,784	637	474	70.00%	332	13	38.00%	5
	1991/92	36,000	28,800	4,162	114	3,283	878	716	80.00%	573	15	43.00%	6
	1992/93	36,000	28,800	4,196	113	3,254	942	779	85.00%	662	15	47.00%	7
CANDELARIA													
*	1987/88	1,800	1,440	216	133	192	24	0	0.00%	0	3	0.00%	0
	1988/89	7,000	5,600	844	128	717	127	103	50.00%	52	8	57.00%	5
	1989/90	7,250	5,800	821	117	679	143	118	65.00%	77	8	60.00%	5
	1990/91	9,750	7,800	1,112	116	905	207	183	70.00%	128	10	70.00%	7
	1991/92	13,250	10,600	1,532	114	1,208	323	299	80.00%	239	11	73.00%	8
	1992/93	14,250	11,400	1,661	113	1,288	373	348	85.00%	296	12	75.00%	9
LAGO DE YOJOA													
*	1987/88	25,000	20,000	2,997	133	2,660	337	0	0.00%	0	17	0.00%	0
	1988/89	25,000	20,000	3,014	128	2,560	454	117	50.00%	58	21	15.00%	3
	1989/90	30,000	24,000	3,396	117	2,808	588	251	65.00%	163	22	23.00%	5
	1990/91	45,000	36,000	5,128	116	4,176	952	615	70.00%	430	22	25.00%	6
	1991/92	50,000	40,000	5,772	114	4,560	1,212	875	80.00%	700	24	31.00%	7
	1992/93	60,000	48,000	6,977	113	5,424	1,553	1,216	85.00%	1,033	25	34.00%	9
MAYA OCCIDENTAL (COFFEE)													
*	1987/88	10,000	8,000	1,200	133	1,064	136	0	0.00%	0	14	0.00%	0
	1988/89	14,000	11,200	1,689	128	1,434	255	119	50.00%	60	18	18.00%	3
	1989/90	20,000	16,000	2,265	117	1,872	393	258	65.00%	168	17	21.00%	4
	1990/91	25,000	20,000	2,851	116	2,320	531	395	70.00%	277	18	23.00%	4
	1991/92	35,000	28,000	4,046	114	3,192	854	718	80.00%	575	18	25.00%	5
	1992/93	40,000	32,000	4,662	113	3,616	1,046	911	85.00%	774	18	25.00%	5
TOTALS (qq)			476,240										
(000, Lps)				69,127		56,070	13,057	9,099		6,948			
(000, US $)				$ 34,564		28,035	6,529	4,549		3,474			
(man years)											359		108

* BASE YEAR

Annex [illegible] TABLE [illegible]: PROCESSING AND MARKETING INCREMENTS ON MAJOR COMMODITIES
DUE TO UNIOCOOP/AFFILIATED COOPS AND SFOSP, 1987/88 TO 1992/93.

(cont.)

UNIOCOOP AFFILIATED COOPERATIVES / YEARS	QUANTITY RECEIVED FOR PROCESSING/ PACKING (qq/Boxes)	YIELD ORO (qq)	TOTAL REVENUE (000 Lps)	COST (LPS/qq)	TOTAL COST (000 Lps)	RETURNS (000 Lps)	INCREMENT RETURNS (000 Lps)	PROC/MKT % ATTRIBUTE TO PROJEC	INCR/BENF ATTRIBUTE PROJECT (000 Lps)	TOTAL LABOR USED MAN/YEARS	EMPL/INCR ATTRIBUT PROJECT MAN/YEARS
CREHSUL (MELONS)		BOXES									
* 1987/88		57,000	969	15.0	855	114	0	0.00%	0	23	0
1988/89		150,000	2,550	13.7	2,055	495	381	100.00%	381	60	37
1989/90		227,000	3,859	13.4	3,042	817	703	75.00%	527	90	67
1990/91		280,000	4,760	13.2	3,696	1,064	950	50.00%	475	112	89
1991/92		324,000	5,508	13.0	4,212	1,296	1,182	50.00%	591	130	107
1992/93		370,000	6,290	12.6	4,662	1,628	1,514	50.00%	757	148	125
FRUTA DEL SOL (CUCUMBERS)											
* 1987/88		28,000	896	26.0	728	168	0	0.00%	0	17	0
1988/89		40,000	1,280	22.0	880	400	232	10.00%	23	24	7
1989/90		62,500	2,000	21.6	1,350	650	482	20.00%	96	38	21
1990/91		76,500	2,448	21.6	1,650	798	630	25.00%	157	46	29
1991/92		91,000	2,912	20.5	1,866	1,047	879	35.00%	307	54	37
1992/93		104,000	3,328	20.3	2,111	1,217	1,049	40.00%	420	61	44
MAYA OCCIDENTAL (RICE)											
* 1987/88	20,000	11,236	652	40.00	449	202	0	50.00%	0	0	0
1988/89	29,000	16,292	945	40.00	652	293	91	50.00%	46	5	5
1989/90	46,000	25,843	1,499	40.00	1,034	465	263	50.00%	131	7	7
1990/91	51,600	28,989	1,681	40.00	1,160	522	320	50.00%	160	10	10
1991/92	57,000	32,022	1,857	40.00	1,281	576	374	50.00%	187	10	10
1992/93	57,000	32,022	1,857	40.00	1,281	576	374	50.00%	187	10	10
20 DE MARZO (RICE)											
* 1987/88	36,000	20,225	1,173	40.00	809	364	0	50.00%	0	5	0
1988/89	50,000	28,090	1,629	40.00	1,124	506	142	50.00%	71	7	2
1989/90	70,000	39,326	2,281	40.00	1,573	708	344	50.00%	172	10	5
1990/91	85,000	47,753	2,770	40.00	1,910	860	496	50.00%	248	10	5
1991/92	110,000	61,798	3,584	40.00	2,472	1,112	748	50.00%	374	10	5
1992/93	140,000	78,652	4,562	40.00	3,146	1,416	1,052	50.00%	526	10	5
TOTALS											
(000, Lps)			61,290		43,996	17,294	12,204		5,837		
(000, US $)			30,645		21,998	8,647	6,102		2,918		
(man years)										897	627

* BASE YEAR

Annex B TABLE 6 -FOREIGN EXCHANGE IMPACT

	1987/88	1988/89			1989/90			1990/91			1991/92			1992/93			TOTAL INCREMENT FOREX GAIN/LOSS (000 lps)
	(000 lps)	TOTAL FOREX (lps)	(000)	INCREMENT FOREX GAIN/LOSS (lps)	TOTAL FOREX (lps)	(000)	INCREMENT FOREX GAIN/LOSS (lps)	TOTAL FOREX (lps)	(000)	INCREMENT FOREX GAIN/LOSS (lps)	TOTAL FOREX (lps)	(000)	INCREMENT FOREX GAIN/LOSS (lps)	TOTAL FOREX (lps)	(000)	INCREMENT FOREX GAIN/LOSS (lps)	
INPUTS COSTING FOREIGN EXCHANGE																	
FERTILIZER	3,328	6,240			8,360			9,360			10,400			11,440			
PESTICIDES	462	1,101			1,206			1,407			1,640			1,970			
BAGS																	
SPARE PARTS																	
EQUIPMENT																	
OTHER																	
SUB TOTAL	3,790	7,341			9,566			10,767			12,040			13,410			
FOREIGN EXCHANGE GENERATED																	
COFFEE EXPORTS AND OTHERS	2,799	5,393			5,288			9,666			17,554			26,414			
IMPORT SUBSTITUTION CONTRIB.	0	1,930			4,093			5,523			5,640			5,640			
SUB TOTAL	2,799	7,322			9,381			15,189			23,194			32,054			
FOREIGN EXCHANGE GAIN OR LOSS.....	(991)	(19)		972	(185)		805	4,422		5,413	11,154		12,145	18,644		19,635	38,971
% FOREIGN BENEFIT DUE TO SFOSP.	75.00%	75.00%			75.00%			75.00%			75.00%			75.00%			
YEARLY BENEFITS DUE TO SFOSP	(743)	(14)			(139)			3,317			8,366			13,983			
TOTAL BENEFIT DUE TO SFOSP																lps	24,769
																US$	12,384

APPENDIX D

Impact of the SFOS Project on FACACH and its Affiliated Credit Unions

I. FACACH

It has been well documented that FACACH has suffered from a series of significant managerial and financial problems in the past, problems which at times have placed the organization in serious jeopardy. Throughout the 1980s and early 1980s these problems served to undermine the confidence of member credit unions in FACACH as an organization causing management to move further from meeting the needs of their member/owners toward seeking external resources to maintain their short-term viability.

One of the goals of the project was to attempt to create the conditions whereby it would be feasible to stabilize FACACH and set in motion events which would enhance the image of member credit unions in FACACH and allow them to reassert their control over the operation of the organization.

Events of the last twelve months have seen reasonable progress being made toward resolving several key problem areas. Major positive events have included:

1. Completion of the Diagnostic Analysis and a Development Plan for FACACH. The Development Plan was used to create an operational plan for FACACH with a series of goals for the eight functional areas within FACACH. During the first three months of 1989,FACACH completed 74.5 percent of the goals (ranging from a high of 92.6 percent for Gerencia General to a low of 56.3 percent for Seguros y Fianzas). The completion rate climbed to 80.4 percent in the second quarter of the year (ranging from a high of 95 percent for the Junta Directiva to a low of 70.1 percent in Operaciones Financieras).

2. There has been an orderly change of personnel in several management positions (most recently the position of controller) within FACACH which has created a management team with skills more in line with those required to meet project goals.

3. Plans for the divestiture of PRODAIF assets are proceeding. This project has been a symbol of FACACH's dependence on external funding, funding which caused significant resources and management time to be directed toward serving a narrow base from among FACACH's membership to the detriment of their traditional "association" functions for credit unions.

4. A change in the operating position of FACACH which saw them move from the position with a loss of L. 197.3 thousand in 1988 to a net gain of L. 24.6 thousand in the first six months of 1989, with the accumulated deficit of the organization reduced by nearly L. 600 thousand during the same period.

5. Significant participation by credit unions in the FACACH stabilization program. Given the prevailing credit union toward FACACH attitude (and FACACH management) found during the evaluation in January, 1989 this support represents a significant turn around. However, this success must be somewhat tempered by the fact that the structure of the stabilization program which minimizes the risk to participating credit unions.

6. Increased credit union savings and deposits in FACACH. Depositos al Plazo/Corriente stood at L. 4.9 million as of June 30, 1989 as compared to L. 1.2 million one year earlier. Aportaciones increased from L. 3.2 million to L. 3.5 million during the same period.

7. An expanded educational effort with 22 conferences being held during 1988 with approximately 600 participants. This effort is one key factor leading to enhance the ability to achieve project goals. An analysis of future training goals will be discussed below.

8. Growing acceptance of FACACH by the government as evidenced, for example, by FACACH's acceptance for participation in the Central Bank mortgage discount program and by a closer working relationship with IHDOCOOP. In addition, the government ministries are gaining greater insight into FACACH's operation by serving on the board of FDF,

9. Imposition of a series of controls in the Seguros y Fianzas area of FACACH which had been an area of significant concern in terms of accounting procedures concerning expenses and reserve adequacy. In addition, there have been serious discussions with CUNA Mutual concerning reinsurance and expanding services.

FACACH has taken a strong first step on the road to self-sufficiency. However, there still are areas for concern. The primary concern continues to be the attitude of FACACH management toward a "quick fix" using external resources. negotiations as the project began led to a series of compromises on structure (primarily as a matter of expediency) which placed FDF under the FACACH umbrella. There were a series of controls and covenants in the agreements which gave FDF a necessary autonomous role.

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FACACH management directed a letter to AID on 11/07/89 which stated:

> Como va la preparacion de FACACH para que el for se convierta en una subsidiaria bajo el control directo
> de FACACH

This appears to be yet another direct effort (and beyond the bounds or any reasonable interpretation of project documents) by FACACH to gain control over external resources at the expense of a more focused concern on achieving the goals laid out in their development plan.

Additionally, the goals in the development plan are weighted heavily toward simply "holding, meeting and attending", particularly in the Junta Directiva and Genencia General sections of the plan. This approach does not facilitate measurement of the impact of such events on project success. In addition, conversations with the FDF technical assistance (TA) team indicates that FACACH regularly checks to inquire "how did I/we do" in terms of percentage completion of specific goals, suggesting an inordinate concern with being able to demonstrate short term success rather than being concerned with what is needed for long-term success of the entire project.

RECOMMENDATIONS:

1. That the new Controller of FACACH have a direct counterpart relationship with a member of the FDF TA team.
2. That special attention be paid to maintaining a full component of FDF/FACACH counterparts to speed the pace of idea/technology transfer and free the FDF team to focus on the next phase of project development - the FDF team is a "very scarce resource" that must be allocated carefully.
3. That the "Metas Plan Operativo" be (a) prioritized, and (b) formulated in a manner which connects achievement of the goal with meeting project objectives.
4. A report "La Capatacion de Ahorros y Depositos en 11 Cooperativas Afiliadas" indicates that these credit unions hold 18 percent of their surplus funds on deposit with FACACH (71 percent of funds were held at commercial banks). We recommend that FACACH set a goal to capture an increased market share of credit union surplus funds (e.g., 50 percent by the end of 1990) and devise and implement a plan to achieve the goal.
5. That FDF and AID carefully monitor the PRODAIF negotiations to ensure that FACACH follows through with the planned divestiture in a timely manner.

II. CREDIT UNIONS

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A. Credit Union Aggregates

The growth of credit union aggregates has remained strong, and within the range of the conservative growth projections found in the earlier impact analysis. As of the end of June, 1989 credit union savings were estimated at L. 92.2 million, deposits at L 16.1 million, and loans outstanding at L. 102.9 million. In addition, the figures indicate that credit union membership had increased to over 63 thousand.

The data found in Table 3 indicate that the pattern of growth has not been consistent during the past eighteen months. We find that deposit growth has fluctuated from a high of 37.8 percent in 1988 to an annualized rate of decline of 21.8 percent in the second quarter of 1989. Loan growth has fluctuated from a high of an annualized 36.7 percent in the second quarter of 1989 following a low of 13.0 percent in the preceding quarter

The nominal data found in Table 1 provides the base for recasting the projections of credit union growth found in the January impact analysis. The method used in deriving the figures comes from the conservative forecast used in the earlier analysis (see Chart A) and the updated numbers are found in Table 4. These figures were then used to revise the projections of the impact of the project on credit union members following the methodology found in Appendix F of the earlier analysis (see Chart B). The results of this analysis which is found in Table 5 estimates that the total benefit to credit union members deriving from receiving lower loan rates; receiving higher rates on savings; and the availability of insurance is L. 24.96 million for the five year

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TABLE 1: CREDIT UNION AGGREGATES-1986-1989 (L.millions- nominal)

	1986	1987	1988	3-1989	6-1989
Members	42.2	49.3	57.2	63.3	63.3
Savings	54.3	70.0	82.6	86.0	92.2
Deposits	10.3	11.9	16.4	16.9	16.1
Loans Outstanding	63.0	77.7	95.8	95.1	102.9

TABLE 2: CREDIT UNION AGGREGATES-1986-1989 (L. millions - real)

	1986	1987	1988	3-1989	6-1989
Savings	54.3	68.3	77.1	78.7	82.6
Deposits	10.3	11.6	15.3	15.5	14.4
Loans Outstanding	63.0	75.8	89.5	87.0	92.2
Price Index*	100.0	102.5	107.1	109.3	111.6

*Source: Indicadores economicos de Honduras
**Estimated

TABLE 3: GROWTH RATES FOR CREDIT UNION AGGREGATES-1970-1989 (nominal)

	Avg. 70-86	86-87	87-88	12/88-6/89	12/88-3/89	3/89-6/89
Members	3.8%	16.6%	16.2%	17.0%	22.0%	27.3%
Savings	12.4%	29.0%	18.0%	17.5%	24.5%	31.9%
Deposits	18.2%	15.1%	37.8%	13.4%	-3.6%	-21.8%
Loans Outstanding	12.5%	23.3%	23.3%	-3.0%	15.2%	36.7%

TABLE 4: PROJECTION OF CREDIT UNION AGGREGATES-1988-1993

	6/88*	6/89*	6/90	6/91	6/92	6/93
Members		63.3	72.8	83.7	96.3	110.7
Savings	76.4	92.2	115.2	144.0	180.0	225.1
Deposits	12.9	16.1	20.1	25.2	31.5	39.3
Loans Outstanding	91.3	102.7	128.6	160.8	201.0	251.2

*actual figures

TABLE 5: ESTIMATED PROJECT IMPACTS, 1988-1983 (L. millions)

	6/89	6/90	6/91	6/92	6/93
Loans	-	0.688	2.254	3.108	7.280
Savings & Deposits	0.198	0.818	1.691	2.847	4.436
Insurance	0.018	0.114	0.264	0.474	0.760
TOTAL:	0.216	1.620	4.209	6.429	12.476

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CHART A

PROJECTIONS OF CREDIT UNION AGGREGATES
(Impact Analysis)

Optimistic*	Baseline	Conservative
1. Members	3.8%	15%25%
2. Savings	12.4	2540
3. Deposits	18.2	2540
4. Loans	12.5	2535

* The optimistic forecast was based upon the assumption of the existence of a Fondo de Garantía beginning in 6/90.

CHART B

PROJECTION METHODOLOGY FOR CREDIT UNION MEMBER BENEFITS*

Assumptions:

I. General

1. Actual data for 6/30/89 will be used as the base for future forecast.
2. Conservative estimates for growth found in Chart A for each of the variables will be used to forecast aggregate growth.
3. Benefits will be discounted at a 12% discount rate (USAID/H).

II. Loans

1. 25% of credit union loans could have been made in the formal market (Baseline Study, p. 44).
2. Credit union loan rate is 18% (project goal).
3. The interest cost of bank loans is 15.6% to 16.4% (Baseline Study, p. 49; OSU paper, p. 24).
4. The total cost of member borrowing in informal markets is 30%.
5. Growth of loans outstanding in excess of the growth found using the baseline growth rate found in Chart A are attributable to the project.

III. Savings/Deposits

1. Interest at both banks and credit unions is 7% on savings and 10% on deposits.
2. 25% of credit union members could have a savings account at a bank, and therefore, receive no opportunity cost interest income as the result of savings (Implicit from Baseline/OCU).
3. Growth of savings and deposits in excess of growth found by using the baseline growth rate found in Chart A are attributable to the project.

* See Appendix F of the Impact Analysis for a detailed discussion of the calculation process.

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period ending June 30, 1989. When discounted to present value at a 12 percent discount rate, the benefit is L. 15.65 million.

The relatively unsettled economic conditions in Honduras have had an impact on the growth of credit union aggregates and also pose a potential threat to the rate at which project success might be achieved. The probability of devaluation is very high and this suggests that the Central Bank of Honduras (CBH) will continue recent policies which have raised interest rates and limited the ability of the banking sector to make loans.

The devaluation would have its most direct impact on the cooperative portion of the project and its impact on credit unions would come indirectly through monetary and fiscal policy actions designed to mitigate the impact of the devaluation on the Honduran economy.

Higher interest rates on deposits have two potential impacts on credit unions. If they choose to compete in the market for deposits there is a probability of attracting more funds (data found in Table 2 indicates they were not competitive during the second quarter of 1989) - but only by increasing their average cost of funds and adversely impacting earnings. Given their relatively weak earnings position, many credit unions are effectively constrained from competing for funds at this time.

At the same time, the CBH actions designed to limit bank lending provides credit unions with an opportunity to expand their loan portfolios. This positive factor is limited by the ability of the credit union to attract funds and lend them at rates high enough to maintain economic viability. One major constraint on the ability of credit unions to lend in a period of uncertainty is the legal interest rate ceiling. Also, credit unions are not willing to attempt to evade the ceilings (using fees, charges et al.) in the manner which commercial banks do in Honduras.

There is a primary need to coordinate the activity on both sides of the balance sheet. The project is designed to provide union managers with the skills necessary to manage their portfolios. It is clear, however, that most managers do not currently have all the necessary skill and few have the backup support (e.g., computer software, etc.) necessary to fully implement them.
It is important to note that the fact that credit unions are not under direct control of the CBH provides them with a competitive advantage vis-a-vis commercial banks. The freedom to expand credit (subject to the availability of funds) at the same time the CBH is attempting to slow the pace of economic activity points to an area of potential future conflict between the credit union movement and governmental monetary and fiscal policies. If credit unions were

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required to reserve in the same manner as commercial banks, it would severely inhibit long term growth.

RECOMMENDATIONS:

1. That continued emphasis in the training program be placed on issues relating to the interrelationship between loan interest rates and savings mobilization in periods of economic uncertainty.
2. That a concerted effort be made to determine the service needs of the 10 plus credit unions who have been deemed to be economically viable and not to need stabilization assistance.
3. That efforts be made to develop a seasonally adjusted data base to allow for more accurate projections of growth of aggregates.
4. That FACACH/FDF take a proactive role in attempting to create a more favorable legislative regulatory environment for credit unions in Honduras, and actively monitor any governmental actions which might have an adverse effect on credit union's ability to provide services to their members.
5. That FACACH actively support the removal of interest rate ceilings for credit union loans if the economy begins to experience a prolonged period of higher inflation and/or interest rates.

B. Project Intangibles

Project success requires a significant level of behavioral change in a relatively short period of time. It will require a near total restructuring of the credit union movement, including a significant re-education in philosophical principles, within a period of five years.

One factor which has inhibited credit union growth worldwide has been the confusion between operating principles and credit union philosophy, particularly as it relates to the need to operate cooperative organizations using sound business principles designed to ensure economic viability. What often occurs is not so much "resistance to change" as the holding of an invalid belief system which suggests that the desired necessary changes are inimical to the mission of the organization. It is usually during periods of crisis and/or change such as, for example, deregulation in the United States and the changes envisioned by the project for Honduras that these conflicts surface.

In addition, the project recognizes the need for the introduction of new technology (primarily computers using word processing, spread sheets, and data base management systems for financial institutions) to allow credit unions to effectively implement the new techniques. This introduces another area where the pace of change tends to be slow and requires sensitivity on the

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part of TA staff to "manage change". It is imperative that this phase of the project be coordinated with other project components and that FACACH and credit unions are provided with adequate hardware, software and maintenance and technical support.

The nature of the changes envisioned by the project suggest that there are a number of "intangibles" which are just as important to the project as achieving projected growth targets or meeting many of the goals set forth in the Development Plan. One of the primary functions is building the human resource infrastructure necessary for other project components to be successfully implemented.

One key problem with intangibles is the inability to quantify. However, discussions with credit union personnel (managers, board members, and staff), as well as staff from FDF and FACACH during visits in January and August, has uncovered several areas which complement and strengthen the positive factors mentioned above. Major areas include:

a) a pride in accomplishment - particularly in terms of having participated in training programs and an understanding of the need to reassert control over FACACH;
b) a degree of humility - a growing recognition of the magnitude of the changes necessary to make credit unions economically viable institutions, and an understanding that a great deal of additional training will be required to gain the necessary skills; and
c) increased trust - as seen in the willingness of credit unions to participate in the FACACH stabilization program.

It would appear that primary credit for these successes should go to the FDF TA team, with FACACH being the primary beneficiary of the efforts.

III. STABILIZATION

Stabilization assistance is defined as funds provided to allow an institution the opportunity to regain solvency and to provide an extended period of time over which to amortize earlier losses. Such assistance is generally provided to institutions which are not credit to allow market confidence in the institution to be rebuilt.

The issues facing USAID/H at the inception of the project included:

1. the fact that the new cooperative law required all first-tier organizations be affiliated with a second-tier organization;
2. the law prohibited FDF from directly providing stabilization funds to FACACH;

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3. the efficient financial market considerations required that the funds not be provided in the form of donations or grants; and
4. there was a need for credit unions to regain control over the operations of FACACH.

The result was that a compromise solution was developed to provide stabilization at the national level. Analysis indicted that it was economically more feasible to stabilize rather than liquidate FACACH and create a new organization. In essence, it was recognized that it was management and policies (or the lack thereof), not the organization itself, which had created the current problems.

The solution was to have FDF make loans to credit unions who in turn would make loans to FACACH to provide the funds needed for stabilization. This solution had the advantages of:

1. solving the problem of how to provide FACACH with stabilization funds;
2. providing credit unions with an incentive to participate in the stabilization efforts in order to increase the chances of recovering the full value of their current L. 7.1 million capitalization deposits in FACACH; and
3. involving credit unions in discussions which allowed them to understand the degree of mismanagement at FACACH which had led to the current level of problems.

In addition, there was a further decision to hold credit unions harmless for repayment of this loan if FACACH were to fail within a given period of time, further reducing the risks of participation.

The level of stabilization assistance at both the FACACH and credit union level was to be determined by a diagnostic analysis of each organization. Original estimates of the amount needed for stabilization at the credit union level were based on allowing credit unions with "uncollectible loans" from FACACH not to be forced to repay these loans. Discussions concerning the potential gain, both in requiring maintenance of discipline and making the process more closely follow the dictates of efficient markets, indicated the need to incorporate loan repayment as part of the stabilization effort even though it would increase the level of stabilization assistance required at the credit union level.

The work of the FDF TA team has been instrumental in getting significant credit union approval to participate in the FACACH stabilization effort - with efforts still continuing to get additional participation. The TA team has also completed a diagnostic analysis of 13 credit unions and worked with them to also complete development plans. However, even though this work

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has been completed, there have been no stabilization funds disbursed to credit unions.

RECOMMENDATIONS:

1. That priority be given to disbursing stabilization funds who have completed development funds and are making significant progress toward achieving the goals set forth in their plans.
2. That any stabilization assistance provided to credit unions be provided in a manner that places the funds directly on the credit union's books and requires periodic timely payments of principle and interest be made directly from credit union funds. Additionally, all funds flow from the FACACH stabilization effort also should pass through the credit union accounts in a real (not simply accounting) manner.
3. That credit unions be required to repay current outstanding loans from FACACH (on a negotiated schedule) as part of the stabilization program as a means to further emphasize the integrity of meeting past commitments and instilling discipline.
4. That efforts be made to complete the diagnostic analysis of and development plans for the next group of credit unions desiring to participate in the program.

IV. CREDIT UNION TRAINING NEEDS

Information presented elsewhere in this report details the education/training programs offered by FACACH/FDF during 1988-89. Recognizing the importance of this function to the on-going success of the project, UOCCU contracted for a study to develop a Training Development Strategy for Honduran credit unions.

This study was conducted by Glenn Hoyle of CUNA and was completed in April, 1989. Of primary importance to this evaluation is the fourth objective of that consultancy:

> Develop a strategy for self-funding and development of human resource activities in Honduras for credit unions.

The specific recommendations, based upon a set of underlying assumptions, included:

1. Development of an overall training matrix with courses, modules for volunteers, managers and staff. These modules will be skill-based and functional with a structured and progressive format.
2. Develop a core of Honduran credit union "experts" to serve as conference leaders, writers and instructors.
3. Develop a set of basic, technical and on-going training materials to support the training and development program overall.

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4. Adapt other credit union materials -- such as CUNAs STAR and VAP programs, materials of WOCCU, and COLAC for credit unions in Honduras.
5. Develop a Train the Trainer School to teach the principles and skills of adult education and training for credit unions.
6. Continue to develop and use national and international exchange programs.

The report is exceedingly comprehensive, providing an outline for meeting the full range of credit union training needs for the life of the project and beyond; in fact, it is unlikely that the entire proposed program could be fully implemented within the remaining life of the project, even if sufficient monetary resources were available.

The report appears to be presented in an idealized format which did not consider the constraints of budget, personnel or size of the market. This is not to fault the report, but to recognize that its real world application will require careful integration of the recommendations into the FACACH/FDF planning process to set priorities in terms of the amount of resources to be committed to the various training segments, as well as develop a time line for implementation which will ensure internal consistency between the training efforts and other phases of the project.

All areas covered in the report are important, however, the analysis presented elsewhere in this report uncovers several key areas essential for progress success. The analysis leads us to suggest that the short-term priorities for the training program should be:

1. continued training in asset/liability management skills, particularly in terms of understanding the need for and impact of increasing loan interest rates;
2. emphasis on techniques for enhancing savings mobilization, coupled with programs demonstrating methods for managing the funds acquired by such efforts (this effort must be coupled with improving the funds management skills at FACACH to expand the capabilities of the current encaje program);
3. installation of and training for the use of computer hardware/software to facilitate implementation of new and relatively technical asset/ liability management techniques.

There is no doubt that a comprehensive training program for board, management and staff is necessary. However, following in line with the suggestions above, it is clear that in the short run upgrading management skills is of primary importance to the success of the project. At the same time, however, board training in terms of understanding the concept of economic viability, and the fact

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that practices which ensure viability are not inconsistent with the tenets of credit union philosophy, is a necessary complement.

Another area of emphasis in the report is the need to develop "country specific" materials. It is obvious that there are different laws, customs, currencies, etc. among and between the various countries in latin America. However, while key topic areas are not generic in the trivial sense of the word, there are many areas of training that are common across all countries at similar stages of development.

It would appear that having resources available in this project represents a unique opportunity to develop training materials in Spanish in a format that would be readily transferrable between countries - perhaps using nothing more complex than desktop publishing software to provide the minimum level of necessary customization. In the very short run, however, FDF needs resources to translate material for specific program needs.

The report further suggests that "separate training experiences be developed for the three training audiences" and that there is a need to "prioritize and rank subject matter content in terms of the level of difficulty ... and add the element of 'learning tracks'. We are again faced with the need to make choices between cost-effective and learning-effective strategies in a world of scarce resources. The positive gain from market segmentation must be weighed against the cost of dealing with ever smaller markets. This is a second factor pointing to the need to develop resources which will have an audience beyond the scale available in an individual small country.

The report points to an area of weakness in the current Honduran cooperative law, i.e., volunteers can only serve a two-year term. The report indicates that this leads to "pressure to conduct a great number of short and concise training programs." An additional recommendation would be to attempt to modify the existing law to allow volunteers to serve for a total of 4 - 6 years to allow for greater continuity on boards and committees.

The report also suggests that "proposed training programs must be designed so they are not radically different than what people are used to" and then in the same section, "Honduras at this time does not have the infrastructure necessary for support of highly sophisticated training methodologies."

These sophisticated training methodologies have proven highly effective in terms of supporting adult education, and in the true sense, are not radically different from more traditional forms of training. Again, however, the size of the potential market in Honduras alone is not large enough to support much beyond the development of simple visual materials.

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RECOMMENDATIONS:

1. That project resources be used to develop training materials which would be readily adaptable to other projects in Latin America.
2. That the 1990 FACACH operating plan include a section integrating training efforts directly with other goals.
3. That training focus on continued development of management financial management skills.
4. That board training focus on the concept of economic viability and its relationship to credit union philosophy.
5. That an attempt be made to change the credit union law to allow volunteers to serve 4 - 6 year terms.