PD-ABL-898

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO COSTA RICA

USAID

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March 30, 1995

Mr. Robert J. Fries
Assistant Vice President
LAC Agricultural Cooperative
Development International (ACDI)
50 F Street, NW Suite 900
Washington, D.C. 20001

Subject: AID Project Grant No. 515-0227
"Cooperative Development Services"

Dear Mr. Fries:

We hereby wish to inform you that, USAID/Costa Rica is officially closing out the subject Project in view of the fact that: i) the expiration date of this Project was reached on June 30, 1989; ii) the funds provided under the same have been fully disbursed; and iii) USAID/Costa Rica has completed its responsibilities as established in the Letter Grant dated August 30, 1985, as amended.

In the event that you or any one in your staff require further information with regard to the subject Project or the content of this letter, please do not hesitate to get in contact with us.

Sincerely,

Stephen C. Wingert
Director

cc: Mr. Steven Huffstutlar
ACDI, San José

PROJECT ASSISTANCE COMPLETION REPORT

A.	Project Title and Number:	Cooperative Development Services 515-0227
B.	Implementing Agency:	Agricultural Cooperative Development International (ACDI)
C.	PACD: Original Revised	11/30/88 06/30/89
D.	Amount Obligated:	$800,000
E.	Total Expenditures:	$800,000
F.	Host Country Contribution:	N/A

II. PROJECT GOAL

The goal of this project was to support the Costa Rican economy in two ways: by sustaining present (1985) levels of coffee exports, and by reducing the need for imported edible oils. To that end, the project was to provide cooperative development services to selected agricultural cooperatives in Costa Rica over a three-year period.

III. PROJECT DESCRIPTION

A. Major Life of Project (LOP) Outputs

The project had two separate focuses within the above goal: 1) to assist in managing a coffee credit project for 7,300 selected coffee farmers belonging to the FEDECOOP system, and 2) to assist in developing a small farmer cooperative for 111 families of former plantation workers to produce oil palm. The coffee project involved a $20 million loan fund provided by USAID, while the second involved $10 million in total financing, $6 million of which was provided by USAID, the rest by the private sector.

B. Final Outputs

ACDI received a grant of $800,000 over three years, which it used to provide each of the two activities with one full-time expatriate advisor, plus various short-term consultants.

Coffee Production Credit Outputs

By 1989 the coffee credit project had placed the entire loan fund with 7,111 individual small farmers, who borrowed for an average of just under one hectare of re-planted coffee per farmer. The loans were administered by the Unidad Ejecutora, a division of FEDECOOP financed with a portion of the loan fund. This office provided the services of field technicians who supervised the loans while giving technical advice in coffee growing methods. The ACDI adviser was responsible for working with these para-technicians while insuring that the loan fund was properly administered, with proper loan procedures, documentation, and loan recovery.

The coffee credit project helped the coffee farmer use new growing methods to help prevent the spread of coffee rust disease, which had threatened the existence of the Costa Rican coffee industry. The project also made loans for diversification into new export products, to help farmers avoid the problems of one-crop dependency, which places them at the mercy of cyclical world commodity price fluctuations. The project made 521 loans to finance 1,287 hectares of new plantings of macadamia, cacao, cardamon, avocado, and soursop. Macadamia was 72 percent of this activity, by area planted.

Partially as the result of the credit project, the farmer membership of FEDECOOP grew from 30,000 farmers to over 44,000 farmers in a five-year period. FEDECOOP sales rose to exceed $100 million per year. However, four of the 33 local cooperatives comprising FEDECOOP went broke during the project, causing the federation to assume their obligation to the trust for production loan repayment. There was no provision in the design of the ACDI role for assisting local cooperatives.

The loan fund of $20 million was the property of a trust set up by USAID and managed by COFISA. The trust was eventually granted to CATIE, a tropical agricultural research institute. CATIE received steady income of 7 percent per year on the trust capital starting in 1985.

A second round of lending of the production loan re-flows was allowed by USAID in the period 1990 to 1993, which was also assisted by ACDI under a subsequent grant. These loans were granted to the local processor cooperatives belonging to FEDECOOP, but through local private banks rather than through FEDECOOP.

Oil Palm Cooperative Outputs

The oil palm cooperative, named Coopecalifornia, R.L., was organized among former workers from oil palm plantations of the Chiquita Brands company in the Quepos area. The ACDI representative trained the former plantation workers to become farmers, to use cooperative principles, and to hire and supervise their own managers. The members elected a board of directors, which chose its management employees with the help of an advisory panel consisting of ACDI, Chiquita, and COFISA (bank) representatives. The advisory panel continued for several years and was an important supervisory and educational tool for the farmer/owner board of directors. Because of the legal costs of creating a subdivision, and due to the technical requirements of the plantation system of growing oil palm, Chiquita advisors discouraged individual plots of farm land for members, and therefore this is a workers' production cooperative without individual parcels.

The cooperative purchased 1700 hectares of land from Chiquita, which provided a long-term, low-interest loan. The USAID loan funds were used for re-planting supplies, internal roads, irrigation, tractors and equipment, member labor, and administrative costs of the operation. Because of weather variations affecting the natural production cycle of oil palm, the cooperative needed 4-to-5 years to break even and begin paying back loans, during which time the USAID loan funds provided operational costs. The project had been planned for a 3-to-4 year break even point, however, and an 18-month extension was granted by the Mission. The cooperative eventually exceeded its loan repayment schedule by year 8, developing substantial financial reserves, which it is now employing to buy adjoining land and build new houses for its expanding membership base.

The membership of the cooperative showed some turnover in the first three years, but then stabilized. The cooperative changed managers about every third year for the first nine years. The cooperative provided every member family with the free use of a house, recreational facilities, and a successful cooperative grocery store. Member income rose with improving harvests and prices. All the product was purchased by the Chiquita company at prices set by the government under laws which were influenced by USAID as a prerequisite for this project. The purpose of the USAID influenced legislation was to loosen government price controls to allow new Costa Rican planters to have the benefit of prices set at the international level.

The loan trust is owned by four Costa Rican educational and charitable institutions, which have used their substantial interest income to fund various socially beneficial activities.

Because of substantial new plantings of oil palm in the Coto/Golfito area, by cooperatives financed by the CDC and BID in the late 1980's, Costa Rica became self-sufficient in oil palm production in about 1990, and now exports on the world market. About 50 percent of the national production is in the hands of Costa Rican farmers and their cooperatives, whereas in 1984 Chiquita Brands was a monopoly in Costa Rica. Processing and marketing of oil products is now a competitive business in Costa Rica, whereas Chiquita also had previously dominated that business. At the same time, with general prosperity in Costa Rica, Costa Rican consumers have greater buying power and more understanding of health concerns, and consumption of U.S.-produced soybean oil has greatly increased.

IV. OVERALL STATUS AND LESSONS LEARNED

The project was successful in providing the projected support to the economy as well as the specific technical services to cooperatives and their farmer members. The cooperatives were strengthened and their membership grew and prospered. The loan funds were preserved, although the less-than-market interest rates hurt their real value, and the trust owners continue to provide additional social and educational benefits to a wide range of Costa Rican citizens.

Coffee rust disease was held at bay, coffee farmers learned to diversify, and the loan fund provided exposure to supervised production credit for farmers and their cooperatives.

In retrospect, the design of the coffee credit activity did not anticipate nor address two kinds of emergencies which unfolded in subsequent years: the need to modernize FEDECOOP's administration and marketing methods, and the collapse of the international coffee cartel, which brought the collapse of coffee prices in the 90's. As a result, FEDECOOP has suffered reversals and is now re-organizing as a much leaner organization. Under these conditions, it did not do FEDECOOP good that it played the role of banker and guarantor of the loan trust fund, distracting it from its main purpose (marketing) and putting strain on its cash flow and relations with member local cooperatives. Nevertheless, the major problems now faced by FEDECOOP are not the result of the credit project, and FEDECOOP would have been worse off without it.

Oil palm imports no longer represent a drain on Costa Rica's scarce foreign exchange, and exports now provide foreign exchange income. The producer and processor/marketer bases for edible oils were greatly democratized. As a worker production cooperative, Coopecalifornia is one of the most successful of its type in Latin America, and its family members continue to prosper while doing all of their own labor. Other cooperatives in the Coto-Golfito area are now copying Coopecalifornia's success.