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Methodology for Strategic Planning and Agribusiness System Screening

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METHODOLOGY for STRATEGIC PLANNING & AGRIBUSINESS SYSTEM SCREENING

I. METHODOLOGY TO EXAMINE INVESTMENT OPPORTUNITIES IN STABILIZED AGRICULTURAL COOPERATIVES OF HONDURAS

A. Deliverables Identified

The examination of selected agricultural cooperatives has resulted in the determination that the introduction of a process to help identify and screen investment opportunities is needed at this stage of their development. It will help promote accelerated growth that will increase incomes for members, make more efficient use of agricultural resources, and increase export earnings. The process will provide cooperatives with several key deliverables that promote growth and include:

1. A new or updated strategic business plan for UNIOCOOP, DICOMCAFE, and 10 UNIOCOOP affiliates by mid 1992 or earlier, that will help establish or redefine strategy. This number will be expanded over time to new UNIOCOOP and DICOMCAFE affiliates as well as reform sector affiliates.

2. A detailed and elaborated long list of attractive business opportunities for UNIOCOOP, DICOMCAFE and 10 UNIOCOOP affiliates. The long list will be screened to a short list of 1 to 3 priority projects for each cooperative on which feasibility studies will need to be conducted.

3. An important and timely management training experience for cooperative management teams (professional managers and the boards) that will build management competency and confidence to activate programs of expanded growth. It will also help develop closer linkages between the professional management team and the cooperative volunteer board of directors.

4. Final scopes of work that will be used to contract assistance to prepare feasibility studies on selected priority projects. These studies will provide the basis for final project approval by the cooperative board and for negotiating project financing with funding sources.

5. Identification of businesses that should more logically be carried out by the central cooperatives (UNIOCOOP, DICOMCAFE) rather than affiliate cooperatives. These projects would provide direct benefit to the affiliates.

6. Uniformly formatted strategic plans, opportunity identifications, and feasibility studies. These will be prepared as professional documents of a consistent nature that will facilitate review by the cooperative boards. They will help the cooperatives in contcting and negotiating with local and international financing institutions.

7. An information bank of studies on a series of agribusiness projects. These projects

will be kept at UNIOCOOP and be accessible to cooperatives as required to carry out feasibility studies in the future.

B. Recommendations

To help ensure the achievement of these deliverables we recommend the following:

1. To prepare cooperatives to be ready for feasibility study analysis and entry into an agribusiness (value-added) expansion stage, SFOS-I should move ahead as soon as possible with preparation or updating of each cooperative's strategic business plan. One aspect of this planning activity would be the project opportunity screening which would lead to a short list of opportunities ready for feasibility study.

2. To carry out the project opportunity identification and analysis work it is suggested that the financial and/or project analysis capability of UNIOCOOP and FDF be strengthened. To not overburden the current field staff of either organization, the additional capability would require contracting additional technical expertise to support the existing field personnel. It is suggested that three Hondurans trained in financial and/or agribusiness project analysis be hired. This additional personnel should be kept off budget from UNIOCOOP and/or FDF, with some limited measure of cost-sharing from UNIOCOOP and the cooperatives receiving the technical assistance.

3. On completion of the strategic planning and project screening process for DICOMCAFE, UNIOCOOP and UNIOCOOP affiliates, the additional technical support personnel will be capable of undertaking similar assistance for DICOMCAFE affiliates and eventually land reform cooperatives. These technicians may be assimilated at some point into the staff of UNIOCOOP and/or FDF.

4. That the successes of the SFOS-I project and the process for doing opportunity selection will be a model program for cooperative strengthening which should be used to train cooperative management teams in sister projects in Costa Rica, Guatemala and El Salvador. To initiate this cross fertilization, concurrence is sought from USAID Honduras to share lessons learned in this project so that a seminar for Central America can be conducted at no cost to USAID/Honduras, but using Honduran materials.

II. SMALL FARMER ORGANIZATIONS STRENGTHENING PROJECT

A. Setting

The Small Farmer Organizations Strengthening Project (SFOS) began in late 1985 and was scheduled to be completed by September 30, 1993. This target date will probably be accelerated by 12-15 months with funding for technical assistance fully spent by June, 1992 and other expenditures by September of the same year.

B. Project Goal

The goal of the SFOS Project is "to increase the income and improve the quality of life of Honduran small farmers."

C. Project Objective

The objective is "to establish a viable system for delivering the inputs to growers--credit, technology, market services, and management skills--in order to increase agricultural productivity and diversify the production base. This objective will be accomplished by stabilizing and strengthening existing small farmer organizations to make them efficient channels of the required services and inputs."

D. Background

The SFOS Project has allocated a major portion of its resources to strengthen the management capability of agricultural cooperatives and their national organizations. It also provides for assistance in restructuring their finances and the creation of conditions necessary to foster capital formation, recognizing these as indispensable components in the institutional development of competitive agribusinesses. For purposes of this assignment, reference is made only to agricultural cooperatives and the Union of Agricultural Service Cooperatives (UNIOCOOP) and its counterpart organization for coffee cooperatives, DICOMCAFE. The Project, however, has given extensive support to credit unions and their national federation, FACACH.

UNIOCOOP, and its 12 affiliates, have attained a serious level of enterprise recognition and considerable business muscle in the last five years (See Table I). They now are entities which offer their member-farmers a complete line of production inputs, agronomic technical assistance and member training opportunities, processing and marketing services including, when appropriate, export functions. At the local cooperative level there is a growing realization of the importance of cooperative integration and the business justification for owning UNIOCOOP and maximizing use of its services. More and more UNIOCOOP is able to demonstrate to its affiliates that there are very practical economies of scale in centralizing certain supply, processing and marketing functions in the Union and in maintaining a staff of specialists which can backstop the local cooperatives with administrative, financial and business development expertise. These activities are areas which no local cooperative can afford to do well totally on

its own. The Project has supported the start-up and institutionalization of these services through the technical assistance provided by the consortium advisors and occasional short-term consultants.

The Project also is underwriting the costs of the Development Department of UNIOCOOP as a very practical dimension of the AID Mission's support for broadening and strengthening both the affiliate base and the Union's administrative and institutional capacity. The amount of burden sharing by UNIOCOOP and the phasing-in of the Development Department's budget into the ordinary operating budget is carefully linked to projected increases in volume of operations and income to avoid distortions in the Union's budget vs. actual results. This approach enhances operating accountability from UNIOCOOP management and does not mix AID financial support with income from normal business activities.

Similarly, SFOS's contribution to DICOMCAFE is intended to deepen management competence and their ability to rebuild the business services needed by the coffee growers cooperatives. During the early years of the Project, the coffee growers cooperative federation, FEHCOCAL, went into bankruptcy which left a major gap in the services needed by thousands of small and medium coffee growers. The DICOMCAFE complex is part of the Honduran Coffee Growers Assn. (AHPROCAFE), which is a powerful organization with more than 45,000 members and a solid capital structure increased annually by a mandatory assessment on each bag of coffee exported. To date, however, DICOMCAFE has not defined a clear strategy for capitalization based on paid in capital or retained earnings. DICOMCAFE is targeting the affiliation by cooperatives of not less than 30% (15,000) of all coffee growers by 1995.

Finally, the Project also is working with the land reform cooperatives affiliated to the FECORAH and ANACH federations. This group, however, has considerable institutional development work ahead before its affiliates can reach the current levels of the UNIOCOOP and DICOMCAFE systems.

Table I

PROJECT STATUS INDICATORS
(in U.S. dollars)

	UNIOCOOP	DICOMCAFE/AHPROCAFE
Affiliated Cooperatives	12	13
Active Members	5,300	1,520
Total Assets ($000)	$10,054	$8,116
Foreign Exchange Generated ($000)	$2,621.7	$3,565.9
Volume of Exports:		
- Coffee (100 lbs. bags)	25,567	41,952
- Cantaloupes (boxes)	161,274	--
- Cucumbers (boxes)	30,338	--
Fertilizer Distributed ($000)	$3,939	$785

E. Rationale for the Assignment

1. Introduction

The SFOS Project has demonstrated outstanding success in its performance to date. It has stabilized and worked out the finances of five agricultural cooperatives and its national service organization plus a significant number of credit unions. The process is well advanced at five other cooperatives and will soon begin at two others. This is a real accomplishment given the institutional rebuilding that such a task requires. In fact, current activities have already gone beyond stabilization and have started some cooperatives on the road to economic reactivation and growth; this is particularly the case of UNIOCOOP and some of its stronger affiliates.

Since the FDF began operations four years ago, SFOS has been a bright spot in the agricultural sector which offers great promise. Its track record is a model for cooperative stabilization and strengthening, and its initial successes with several coops suggest that the timing is indeed right to examine expansion, cost reduction or value-added investment possibilities. Given these antecedents, the objective of this assignment is to develop a methodology for the identification of new business investment opportunities that can provide cooperatives the chance to increase incomes and employment for their members on a sound and sustainable basis.

2. Relevance to USAID/Honduras Agricultural Sector Strategy

Implementation of the process recommended in this study will help producers accelerate the growth of the agricultural sector and arrest the decline in real agricultural prices by pursuing strategies that are market-led and crops in which the country has a comparative advantage. Applying the concepts of strategic business planning, sound management practices and maximizing economies of scale will lead to dramatic increases in the efficiency of utilization of the resource base. Additionally, cooperatives that engage in value-added agro-industrial processing will be accessing new markets and applying a higher degree of technology, rather than remaining only primary producers.

In summary, moving the SFOS Project toward an agro-industrial, second-stage processing focus should contribute significantly and permanently to USAID/Honduras' three-pronged development strategy for Honduran Agriculture:

- higher real agricultural prices;
- increased efficiency and utilization of resources to obtain higher production
- higher foreign exchange earnings.

In addition, the increase in real income that this development effects will invariably have a positive effect on nutrition levels in rural areas.

3. The UNIOCOOP/DICOMCAFE Challenge

The SFOS Project is providing intensive assistance to these two national support organizations in an effort to create a business capability within the agricultural cooperatives system that will make them competitive with the rest of the private sector. This implies application of Project resources towards attainment of a series of major objectives that in the aggregate will "level the playing field" for the participating farmer organizations. Achieving this is not only the ultimate goal; it is indispensable if USAID wants to see viable, self-sustaining, farmer-owned enterprises successfully and aggressively participating in an efficient, agribusiness market place. In so doing, broad-based growth would be promoted.

The essential objectives, therefore, are:

* competitive economies of scale in all the steps of agricultural production, processing and marketing;

* significant capital formation generated by the reinvestment of operating profits and joint ownership of assets;

* access to financial institutions for working capital and investment credit; and

* influence in the setting of public policies that affect the well-being of farmer members.

To date the SFOS Project has devoted its resources to laying the foundations which would permit undertaking economic activities of greater scale. This task, however, cannot be accomplished efficiently if there isn't a strong, national corporate image -- such as UNIOCOOP and DICOMCAFE -- that will coalesce and integrate the business operations of the local societies, when there is economic justification and potential to do so for the benefit of its members, and to compete in the market place under reasonably equal conditions.

The challenge for UNIOCOOP/DICOMCAFE is to seize the opportunity presented by the process proposed in this study, use it as a leadership tool, and have the breadth of vision to guide and help set the stage for agro-industrial action in those affiliated cooperatives that have the management, member discipline, and resource potential to create wealth, employment and foreign exchange earnings.

The challenge for USAID is to dedicate within the SFOS Project, the resources and priority to strengthening these national organizations -- UNIOCOOP and DICOMCAFE -- so they can earn member support, integrate the cooperative sector, and establish a respected and recognized corporate image through their institutional performance and the integrity and acumen of their management teams.

4. Getting Ready for The Next Stage - Value Added Agro-industrial Opportunities

Honduran agricultural cooperatives need to think in terms of strategic marketing--a range of activities that identifies what consumers need and proceeds to produce, process and market products that satisfy those needs. This constitutes a major policy change from the production-oriented philosophy held dear by farmers. Productivity must continue to improve but cooperatives must put their reliance on processing and marketing which are the fastest growing aspects of global agro-industry.

The methodology proposed in this report to identify, select, analyze and ultimately implement agro-industrial opportunities, coupled with the development of strategic business plans, will put agricultural cooperatives on the threshold of a new, value added development phase. To be ready to take advantage of downstream, value added opportunities, DICOMCAFE, UNIOCOOP and UNIOCOOP affiliates must:

* Have a "can do" attitude;
* Create integrated management teams between directors and co-op employees;
* Proceed to implement the proposed process during 1991;
* Accelerate the integration of business activities which can be performed by cooperatives within the system.

The market coordination suggested here will enhance grower competitiveness and the entire marketing system to their benefit through group initiatives. The structural disparity in size and scope of activities between many producers is balanced by cooperatively owned businesses. Honduran cooperatives, however, must be properly structured, capitalized and managed to take full advantage of their next phase--the agro-industrial, downstream, value-added stage. This approach is the best vehicle for maintaining producer control and influence over the process and maximizing farmer income.

III. METHODOLOGY FOR IDENTIFICATION AND SELECTION OF NEW INVESTMENT OPPORTUNITIES

A. Introduction

Proper analysis of new business investments is extremely important to ensure adequate use of scarce resources of capital, staff and time. Proper evaluation helps to optimize investment decision-making and business profitability. In the Honduras cooperative case, new business investment evaluation should be a means by which management of the agricultural cooperatives can methodically develop a set of credible facts, subject them to critical analysis, and arrive at sound conclusions concerning the wisdom of alternative investment opportunities. It can help dissuade the leadership and management of the businesses from entering activities that will not be profitable or beneficial for members.

To assist the management of stabilized, agricultural cooperatives in developing the capability to identify, prioritize, and select among new business investments, the methodology set out in Figure 1 is suggested. A step-by-step discussion of the methodology follows.

B. Step 1: Prepare or Update Strategic Business Plan

As a part of the SFOS-I project stabilization program several cooperatives have prepared diagnostics and three-to five-year development plans. Thus, the initial step in the identification and selection of new business investments should build from these planning efforts. In cases where a plan has not been developed, preparation would begin from scratch. In either case, whether building on or starting from scratch, each cooperative would develop a current strategic plan. The purpose of the strategic plan is to cause management to think about what kind of cooperative they are and want to be, as well as review what has been accomplished. Future strategy can logically build from this established base. Finally, it provides cooperative management the opportunity to provide a set of broad new business objectives, philosophies, guidelines, and time frames which will drive their businesses into the future.

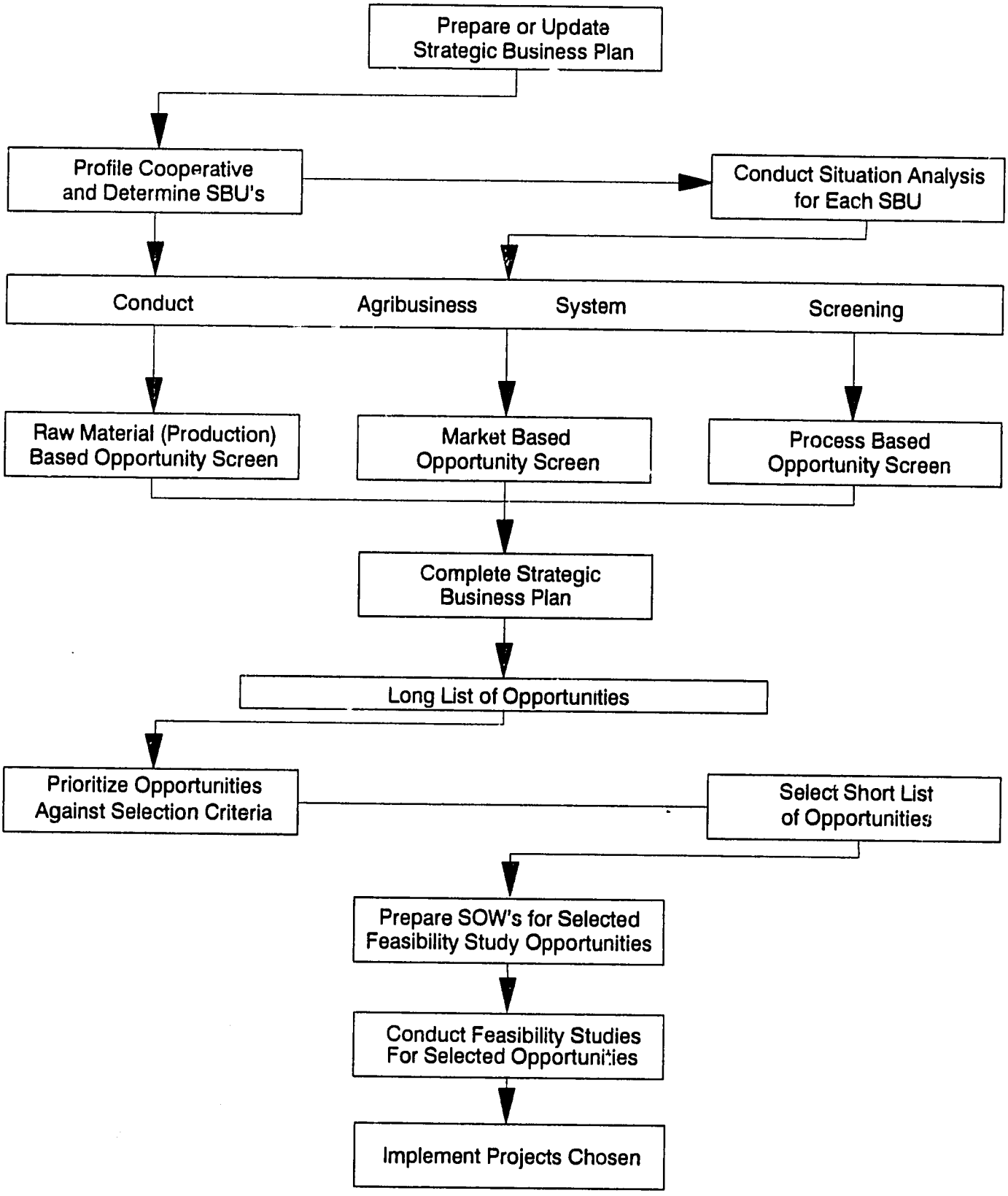
To develop the strategic plan several actions would be carried out.

Action 1. Profile Cooperative and Determine Strategic Business Units (SBU's)

The purpose of this activity is to work with the management team to identify the number of distinct businesses (SBU's) the cooperative is involved in. For example, COHORSIL is involved in coffee, horticultural crops, and input supplies. Each major commodity or activity is a separate SBU and requires a strategic business plan. Each SBU's plan results in the identification of new business investments.

FIGURE 1

SCHEMATIC OF METHODOLOGY FOR IDENTIFICATION AND SELECTION OF NEW INVESTMENT OPPORTUNITIES



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Action 2. Conduct Situation Analysis for each SBU

Once the SBU's have been clearly delineated, a situation analysis for each will be prepared. This analysis is carried out to develop the critical business facts related to each SBU. For example, what is the SBU's production, cost structure, market position, customer base, number of members participating, revenues, past profitability performance, and other facts important to understanding the cooperative's position and dependence on the SBU.

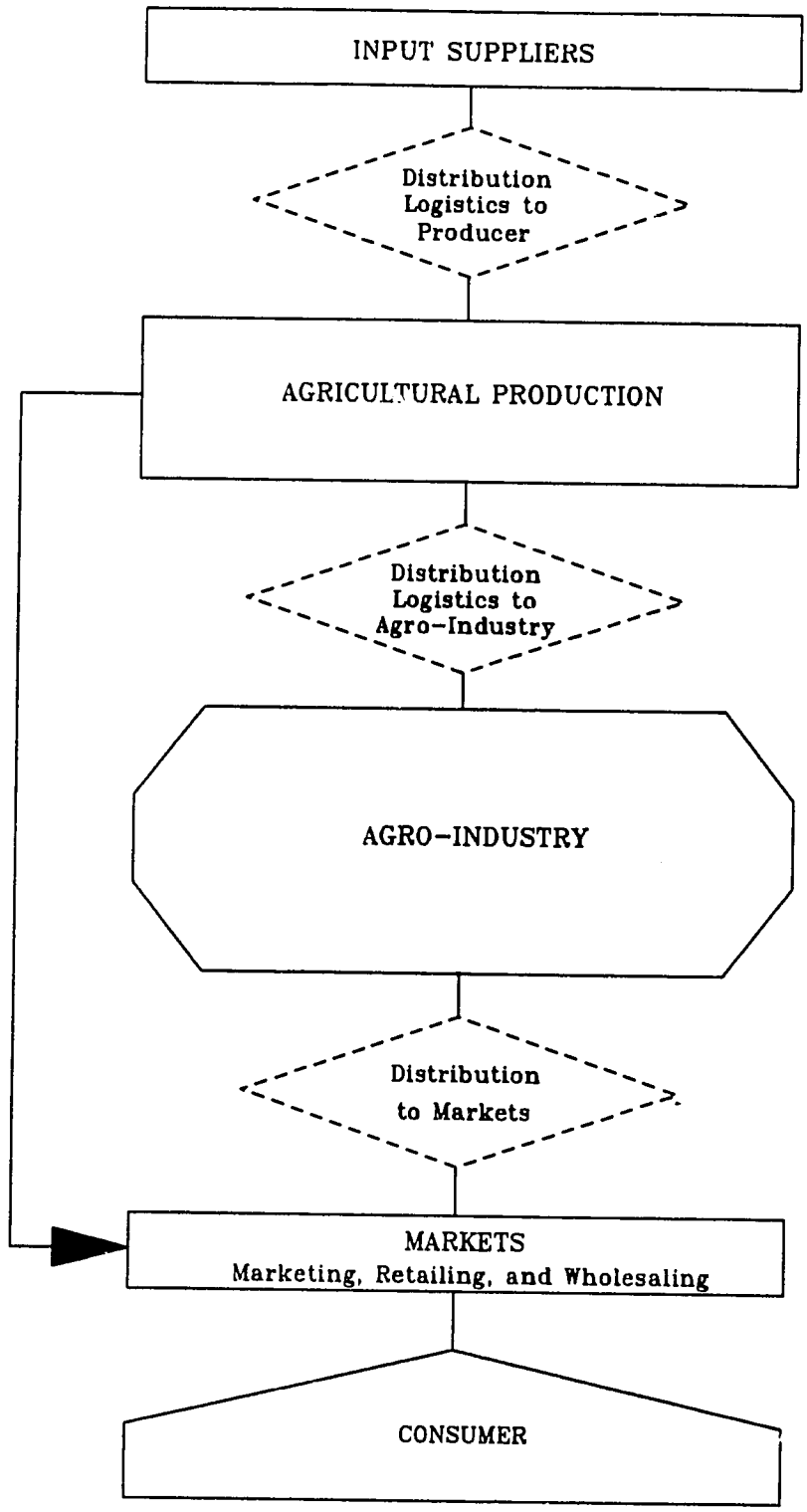
In addition to the critical business facts of a technical or financial nature the updates would take into account changes in government policy or regulations. As this situation analysis is being undertaken each SBU will be subjected to an "agribusiness system screening". This is an important part of the situation analysis because each agribusiness SBU must be analyzed in its fullest context from input supplier to final consumer, (Figure 2). This includes three primary areas -- raw material (production), market, and process (value added) -- from which new business opportunities can be derived.

A screening of the raw material (production) area will identify new raw material based investment opportunities. For example, a cooperative like COHORSIL that is involved in horticultural crops and producing solely for the fresh market is interested in examining the possibility of diversifying into crops that are less perishable such as garlic or onions. These crops have a longer storage life and offer good prospects for future value added processing. The screening of the market area will result in new market-based investment opportunities. For example, CREHSUL suggested the establishment of a cooperative owned produce marketing center in the USA. This would allow for reducing or eliminating dependency on brokers in the US and permit the establishment of direct marketing ties to the ultimate buyers. CREHSUL suggested this, but it might be a more appropriate role for UNIOCOOP as the integrative representative of the affiliated cooperatives, and other cooperatives such as COHORSIL face the same concern.

Finally, the screening of the process area focuses the attention of management on value added activities that would be best for them. For example, CREHSUL is a major melon producer and is seeking ways to utilize melons that do not meet the fresh market quality standard - some 120,000 boxes per year. They are interested in the possibility of producing frozen melon balls as a way to salvage the lower grade melons. Other ideas will arise if the discussion is focused and the best alternatives delineated.

The situation analysis will identify the facts that are necessary to complete the strategic business plan and prepare a long list of opportunities.

Figure 2. Flow Chart of the Agribusiness System



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C. Step 2: Prioritize Opportunities Against Selection Criteria

On completion of the strategic plan a long list of opportunities will have been identified. Obviously, it will not be possible to undertake all opportunities; therefore, each project idea should be subjected to screening against a set of criteria that will help establish a short list of high priority opportunities. Specific selection criteria should incorporate specific, agreed upon parameters against which a new opportunity can be evaluated. Selection criteria which seem important to agricultural cooperatives in Honduras are set out in Figures 3 & 4.

Figure 3 sets forth a list of critical criteria that should be considered for each project at the board level before subjecting it to the full screening process. If the board does not agree on a project at this level it should not move on for further review. If a project passes this review it will be screened against the full set of project criteria.

Figure 4 sets forth a full list of screening criteria against which each project should be judged. These criteria are broken down into five broad areas - raw material, market, technology, financial and macroeconomic. Within each area several criteria are set forth. Each is an important measure to judge a project against to determine whether it will be a major contributor to the cooperative. Certain criteria are more important than others and for this reason each criteria will be weighted as to importance. For example, it is extremely important that the projects entered into by the cooperative be able to pay their way at market interest rates; therefore, the financial criteria relating to return on assets or investment should receive a much higher weight than criteria that relate to building market strength. The weighing process can be done by the practitioner leading the screening process, but it is best done jointly with the cooperative management team and board, so that they develop a sense of ownership of the process.

In addition to weighing the criteria, each project is ranked against each criterion to determine the level of importance that particular criterion has to the project. A rank of 1 indicates a low degree of importance and a rank of 10 indicates a high degree of importance. For each criterion the ranking number is multiplied by the weight assigned to it. This results in a value for each criterion. When values have been assigned to all the criteria they are summed to result in a total for the project. When this value-assigning process is complete for each project, a table can be prepared that compares one project against another. The projects that score the highest end up on the short list.

D. Step 3: Prepare Scopes of Work (SOW's) for Selected Projects

Once the projects have been selected a scope of work will be prepared. The scope of work will set forth what is required in the feasibility study. The scopes of work are used to contract the Short-Term Technical Assistance (STTA) required to help carry out the feasibility studies.

E. Step 4: Conduct Feasibility Studies

For each selected project a feasibility study will be prepared that sets forth the project conceptual design, develops the technical and market facts required, analyses the financial attractiveness of the project, and sets forth an implementation plan. The feasibility study will provide the basis for a board decision to implement the project, and will be used in arranging finances for the project.

Figure 3

PROJECT INVESTMENT SCREENING CRITERIA - COOPERATIVE BOARD LEVEL

CRITERIA	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE
Benefits Coop Members				
Coop Management Support				
Project Timing Is Now				
Project Stoppers Raw Materials Exist				
Markets Exist				

Figure 4

PROJECT INVESTMENT SCREENING CRITERIA, PROJECT LEVEL

WEIGHT	CRITERIA	CRITERIA RANK 1	2	3	4	5	6	7	8	9	10
	Raw Material Based										
	Raw Material Supply										
	Raw Material Quality										
	Raw Material Cost										
	Market Based										
	Market Size										
	- domestic										
	- international										
	Product Differentiates Commodity Business										
	Market Builds Competitive Stability										
	Technology Based										
	Project Scale Competitive										
	Adds Value										
	High skilled labor Requirement										
	Integrative Linkage										
	Infrastructure Support										
	Financially Based										
	Capital Intensive										
	RC[illegible] (maybe ROI/ROE)										
	Macro Economic										
	Foreign Exchange Generation										
	Employment										
	Linkage to other Business Sectors										
	Hierarchical location of project in coop sys.										

IV. MISSION ISSUES

To effectively implement the opportunity screening process, several factors are crucial that help to ensure the process is owned by the Honduran cooperative management teams.

A. Role of Cooperative in the Screening Process

For the screening process to succeed each cooperative management group (professional managers and volunteer board of directors) must play a central role in the process. The cooperative must "own" and be responsible for results of the process and this can not be assured unless they participate directly in the decision making. It is anticipated that each cooperative would assign its manager to work on planning activities and be the liaison between the technical assistance team and the cooperative. The manager would organize the participation of the cooperative management team in required planning sessions as well as help to compile data needed for the cooperative to prepare its strategic business plan, opportunity screen and feasibility studies. To complete the process with each cooperative, several interactive sessions are envisioned. The involvement of the cooperative is indispensable if ownership of the plans and projects developed and transfer of the process to the cooperative are to be ensured.

B. Role of UNIOCOOP in the Screening Process

It appears most appropriate that local Honduran technicians working on the screening process be institutionalized in UNIOCOOP's Development Department, with the full support of UNIOCOOP's general manager and the existing personnel. This team would be the focal point for carrying out strategic planning, project identification and feasibility work for the cooperative system. In addition, the team will need to coordinate fully with the FDF Project Managers assigned to specific cooperatives.

C. Appropriate Role for FDF

FDF project managers and the expatriate technical assistance team members have historically played a key role, and sometimes the lead role in strategic planning in the SFOS cooperatives. Currently the expatriate technical assistance team is almost entirely out of direct involvement in this activity while the project managers remain directly involved. It seems likely that the FDF will also begin to disengage from responsibility for strategic planning technical assistance as the cooperatives are strengthened. This had been encouraged as cooperative managers and UNIOCOOP field analysts develop skills in planning and analysis. At present, however, these developments are in a state of transition. This consultancy supports this transition and encourages the management of FDF and UNIOCOOP to mutually agree on the placement of any new agribusiness analysis personnel.

With the foregoing transitional context in mind, it is understood that the FDF has been

instrumental in successfully working out a financial stabilization plan for the cooperatives which are to benefit from this screening program. The continued role of FDF appears to be necessary and appropriate in the following three ways. First, it could continue to stabilize and graduate cooperatives. Second, it could provide medium and long term credit for selected projects to be implemented. Third, to help in institutionalizing the process in UNIOCOOP, FDF could participate in establishing a fund that would provide support to the cooperatives when they need to conduct feasibility studies. FDF's participation in these areas will help validate its role as a broad based financial institution for cooperatives in Honduras.

D. Training Required to Institutionalize Screening Process

The training required to institutionalize the screening process is of two types -- formal and on-the-job training. The majority of required training will be on-the-job, but some of the key people involved in planning in UNIOCOOP and at the cooperative level may need to obtain competency-based instruction in project analysis. This training program should be developed with specific materials and objectives for use in formal training by the project team and conducted periodically by UNIOCOOP as required.

The on-the-job training will be provided through the participation of STTA advisors contracted to work with UNIOCOOP and the cooperatives as they prepare their strategic plans, conduct opportunity screens, and carry out feasibility studies. To focus on-the-job training it will be necessary to prepare detailed, guideline materials that can be easily understood and completed by the management team at each cooperative. The STTA team will provide direction in using the material, as well as the philosophical purpose for the work.

The combination of on-the-job training and selective formal training should be sufficient to institutionalize the process in UNIOCOOP, which should be responsible for updating the activity. If outside help is required to support the training program UNIOCOOP should arrange for it.

E. Training Requirements Identified in Feasibility Studies

Two training needs could flow from conducting the feasibility studies. The first relates to the level of competence in the cooperative to carry out a feasibility study. The second relates to the technical, market, or managerial competence in the cooperative to implement the project should it be proven feasible. The first training need will be addressed as discussed in section III-C above. To meet the second training requirement it will be necessary to select staff to be sent for specific training in another organization managing a similar project, or provide STTA to the cooperative to help provide on-the-job training as the project is being brought on stream. In some cases it may require both. For example, ACDI can draw on its affiliated cooperatives in the U.S. and network of cooperatives in Latin America to provide Honduran cooperative employees a specific work experience in businesses similar to those they manage in Honduras.

F. Ensuring that the Process is Honduran Owned and Led

This is extremely important as it is key to ensuring the sustainability of the process. The means to ensure that the process is owned and led by Hondurans have been discussed in sections III-A,B,& C. In principle the assurance is to come through the direct involvement of the Hondurans in carrying out the process. If the opportunities and decisions reached are viewed as theirs, the process will more likely be "owned" by them.

G. Sustainability

Implementation and institutionalization of the screening process will be successful if it can be sustained by the Hondurans. The process itself will contribute to its own sustainability because it will help to provide cooperatives with a more professional approach to analyzing and developing project investment opportunities. This will help cooperatives to be better able to negotiate loans with financial institutions and be in a better position to increase income for the cooperative sector.

Annually updating the planning and opportunity screening process for each cooperative would contribute to sustaining UNIOCOOP's project analysis group. Each cooperative would be assessed a fee for the support services received from UNIOCOOP.

Funding for feasibility studies could be sustained by initially establishing a Feasibility Studies Fund. Cooperatives that commission studies would be required to participate in an initial cost-sharing with USAID and/or the Fund. The balance of the study costs would be paid by the cooperative out of project profits if the activity is implemented. Additionally, the planning group in UNIOCOOP should always be alert to mobilizing any available funds that could increase the Feasibility Studies Fund and underwrite specific studies.

ANNEX I

EXAMPLE: PRIORITIZATION OF INVESTMENT OPPORTUNITIES

A. INTRODUCTION

To illustrate the use of the selection criteria indicated in Figures 3 & 4, a hypothetical example based on the CREHSUL case is set out. Until the updated strategic business plan is completed an accurate evaluation can not be made. This illustration is prepared only to clarify how the process is used and is not meant to be a conclusive recommendation.

To illustrate the use of the screening process a set of alternative opportunities must be identified (normally this would be done during the situation analysis associated with updating or preparing the strategic business plan). Some opportunities that CREHSUL said they were considering include:

* Frozen melon balls for export;
* sesame production and dehulling operation;
* assembly, repacking, and distribution center in the U.S. for Honduran fresh fruits and vegetables;
* expansion of input supply and other agricultural services;
* expansion of cooling facilities for melon and other perishable crops produced by CREHSUL.

Using these opportunities, an illustration of the screening process can be carried out.

B. BOARD LEVEL SCREENING

In illustrating the screening process each opportunity is evaluated against the board level screen set out in Figure 3. It is considered that five board members and two management team members vote. In Table A-1 the five opportunities are ranked against the board level criteria. Results of each is summarized in this section.

1. Frozen Melon Balls for Export

The board and management support investigation of this project, but it was close as there were 16 votes for and 12 against. However, it was not felt that this project needed to be undertaken now. Also, there seems to be uncertainty about raw material supplies and markets. These points need to be investigated further. As the project does not need to be done now the board decided to put further investigation of this project off until the next year's planning cycle.

2. Sesame Production and Dehulling Operation

This project is well supported by the board and management as there are 23 votes for and only 5 against. The majority feel the project should be carried out soon; that raw material is available or can be produced, and that a market exists. This project should move to project level screening.

3. Assembly, Repacking, and Distribution Center in the U.S.

This project also received a high score by the board and management (20 for and 8 against). However, as in the case of opportunity one, this project need not be undertaken now. Sufficient raw material and market to support the project is believed to exist. However, as the project does not need to be done now the board decided to put further investigation of this project off until the next year's planning cycle.

4. Expansion of Input Supply and Other Agricultural Services

This project received all 28 votes in its favor. It was felt to be of real benefit to the members because it builds on activities already being carried out. Every member felt the project needed to be undertaken now and could identify no project stoppers. This project will move with priority to project level screening.

5. Expansion of Cooling Facilities for Melon and Other Perishable Crops Produced by CREHSUL.

Twenty four votes favored this project while four were against it. The directors and management both felt it would be good for the members. However, of the seven votes possible 4 felt the project could be delayed until a later date. It was felt that raw material supplies and market size were supportive of the project. Because the project can be delayed until the next planning cycle it will not move forward for project level screening at this time. Therefore, of the five investment opportunities reviewed only two were passed to project level screening by the board and management team.

C. PROJECT LEVEL SCREENING

In illustrating the screening process each opportunity that passes the board level screen is evaluated against the project level screen set out in Figure 4. In Table A-2 two opportunities are ranked against the project level criteria.

The screening resulted in scores of 512 for the sesame project and 479 for the input supply and agricultural services project. This is from a possible score of 850. Therefore, neither of the projects is of highest priority but both are above the 50% mark and score high enough to warrant feasibility analysis.

1. Sesame Production and Dehulling Operation

With respect to raw material supply, and quality, it is important that they be met at the highest level so a weight of 5 is assigned. It is felt that the CREHSUL producers do a good job, not an excellent job, so a rank of 8 has been assigned for each criterion. While raw material cost is important it is assigned a weight of 3 because the market is felt to be sufficiently "niche" in nature to command top prices. Therefore, you do not have to be the lowest cost producer to compete. It was felt that CREHSUL producers should be low cost producers so a rank of 9 is assigned.

With respect to market considerations it is important that there be a good international market. Dependency on the domestic market is less important. Therefore, weights of 5 and 3 have been assigned respectively. Because the domestic market is not a deep market a rank of 5 is assigned to it. Because a good international market exists, a rank of 8 has been assigned. Both "differentiation out of a commodity product" and "enhancing competitive stability" are important but not of highest importance so a weight of 3 is made. Sesame production does not differentiate a commodity presently produced so a rank of 5 is given this criteria. Also, sesame does not help to build CREHSUL's competitive stability in the melon business but it does help build the company's competitive staying power so a rank of 6 is assigned.

For sesame, project scale, value adding, and integrative linkages are the most important technical factors; therefore, a weight of 5 is given to each. It is felt that the project proposed is large enough to gain most economies of scale so a rank of 8 is made. The processing and packing of the sesame is a value adding operation so a rank of 9 is assigned. The sesame project does not link well with other activities of CREHSUL so a rank of 2 is given this criteria. The project does not require highly skilled labor so a weight of 3 is assigned and since labor of the type required is available a rank of 8 is given. To support the project, transportation infrastructure is important, and is assigned a weight of 4. Because the Honduran road system is adequate a rank of 8 has been made for this criteria.

Whether or not the project is capital intensive and yields an attractive return to assets are important; therefore, weights of 4 and 5 respectively have been assigned. The project is not expected to be a major capital user and is consequently ranked 8. The ROA is expected to be high so a rank of 10 is given.

From a macro-economic perspective whether the project generates foreign exchange (FOREX) or produces employment are important. Therefore, they have been assigned a weight of 5 and 4 respectively. It is felt that the sesame project will produce good levels of FOREX so it is given a rank of 9. The project will employ people, but not large numbers so a rank of 6 is made for this criteria. It is felt that building linkages to other sectors of the economy is important but not essential so a weight of 3 is given this criteria. The sesame project is not felt to have strong linkages to other sectors of the economy so a rank of 5 is assigned.

It is felt that the project is better located at the local coop level than at the UNIOCOOP level.

2. Expansion of Input Supply and Other Agricultural Services

With respect to raw material supply, and quality, it is important but not as important as in the case of sesame; therefore, a weight of 4 is assigned to each. It is felt that CREHSUL, with help from UNIOCOOP, can relatively easily obtain inputs of proper quality so a rank of 8 and 7 has been assigned to these criteria respectively. The cost of inputs is important and is assigned a weight of 5. Due to Honduras' location and the difficulty of getting inputs into the country the lowest prices are not obtained; therefore, a rank of 5 is assigned.

A market, whether international or domestic, is extremely important. In this case the domestic market is most important. Therefore, a weight of 5 is assigned to the domestic market criteria and a 4 to the international market criteria. Since the domestic market is not a deep market a rank of 8 is assigned. Since the international market is going to be difficult to serve from Honduras a rank of 2 has been given. Both "differentiation out of a commodity product" and "enhancing competitive stability" are important but not of highest importance so a weight of 4 is made. Providing inputs and agricultural services does not differentiate a commodity presently produced so a rank of 4 is given. Because expanding input and agricultural services does help to build CREHSUL's competitive stability in the service business a rank of 8 is assigned.

For sesame, project scale, value adding, and integrative linkages are the most important technical factors; therefore, a weight of 5 is given to each. It is felt that the project proposed is large enough to achieve most economies of scale so a rank of 8 is made. The service activity does not add much value so a rank of 6 is assigned. The input supply and agricultural service project does link well with other activities of CREHSUL so a rank of 9 is given this criteria. The project does not require highly skilled labor so a weight of 3 is assigned and since the required type of labor is available a rank of 7 is given. Transportation infrastructure is important to the project, and is assigned a weight of 4. Since Honduras road system is adequate except at the farm road level a rank of 7 has been made.

Whether or not the project is capital intensive and yields an attractive return to assets is important; therefore, weights of 4 and 5 respectively have been assigned. The project is not expected to be a major capital user and is consequently ranked 8. The ROA is expected to be adequate so a rank of 8 is given.

From a macro-economic perspective, whether the project generates foreign exchange (FOREX) or produces employment is important. Therefore, each has been assigned a weight of 5 and 4 respectively. It is felt that the input supply and agricultural service project will only produce FOREX indirectly so it is given a rank of 2. The project will employ people, but not large numbers so a rank of 7 is made. It is felt that building linkages to other sectors of the economy is important but not essential so a weight of 3 is given this criteria. The input supply and agricultural services project is felt to have good linkages to other sectors of the economy so a rank of 8 is assigned.

It is felt that the project is better located at the local co-op, than at the UNIOCOOP level.

This illustrative example indicates how the screening criteria will be used to help cooperatives select opportunities of highest priority for investment. In actual practice the weighing and ranking of criteria will be an integrative process with the board and management team. The values ultimately assigned will result from consensus and as such will be much more meaningful than this example.

Table A-1

PROJECT INVESTMENT SCREEN FOR SELECTED CREHSUL OPPORTUNITIES -
COOPERATIVE BOARD LEVEL

CRITERIA	Strongly Agree					Agree					Disagree					Strongly Disagree				
	0,1	0,2	0,3	0,4	0,5	0,1	0,2	0,3	0,4	0,5	0,1	0,2	0,3	0,4	0,5	0,1	0,2	0,3	0,4	0,5
. Benefits Coop. Members	2	1	1	3	2	3	4	3	2	3			1							
. Has Coop. Management Support				1	1	2	2	1	1	1			1							
. Project Timing is Now	1			3		1	5	1	4	3	4	2	5		4	1		1		
. Project Stoppers																				
- Raw Material Exists		1	1	3	4	3	4	6	4	3	4	1					1			
- Market Exists		2	3	3	4	4	4	4	4	3	3	[illegible]								
Summaries:	3	4	5	13	11	13	19	15	15	13	11	4	7	0	4	1	1	1	0	0

Key:

0,1 - Opportunity One, Frozen Melon Balls
0,2 - Opportunity Two, Sesame Production and Dehulling Operation
0,3 - Opportunity Three, Assembly, Repacking and Distribution Center in U.S.
0,4 - Opportunity Four, Expansion of Input Supply and Other Agricultural Services
0,5 - Opportunity Five, Expansion of Cooling Facilities for Perishables

Table A-2:

PROJECT INVESTMENT SCREEN FOR SELECTED CREHSUL OPPORTUNITIES - PROJECT LEVEL.

CRITERIA	OPPORTUNITY TWO			OPPORTUNITY FOUR		
	WEIGHT	RANK	SCORE	WEIGHT	RANK	SCORE
Raw Material Based						
Raw Material Supply	5	8	40	4	8	32
Raw Material Quality	5	8	40	4	7	28
Raw Material Cost	3	9	27	5	5	25
Market Based						
Market Size						
- domestic	3	5	15	5	8	40
- international	5	8	40	4	2	8
Prod. Diff. Comm. Business	3	5	15	4	4	16
Mkt. Builds Comp. Stability	3	6	18	4	8	32
Technology Based						
Proj. Scale Competitive	5	8	40	5	8	40
Add 5 Value	5	9	45	5	6	30
High Skilled Labor Req.	3	8	24	3	7	21
Integrative Linkage	5	2	10	5	9	45
Infrastructure Support	4	8	32	4	7	28
Financially Based						
Capital Intensive	4	8	32	4	8	32
ROA (Maybe ROI/ROE)	5	10	50	5	8	40
Macro Economic						
Forex	5	9	45	5	2	10
Employment	4	6	24	4	7	28
Linkage to Other Sectors	3	5	15	3	8	24
Hierarchical Location	(At Local Coop. Level)			(At Local Coop. Level)		
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Total	70	7.31	512	73	6.56	479

Note: The highest possible score is 850.

Key: Weight: Assigned a value 1-5, five highest.
Rank: Assigned a value 1-10, ten best.